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A Deregulated Postal Sector Offers Two Possibilities: You Can Lose; Or If You Want To Win, You Can Change.

Life in the postal services industry has become increasingly complex, resulting from a changing competitive landscape. Many of these changes are led by the European Commission's goal of achieving full market liberalisation, while maintaining high-quality postal services for customers. But what does this mean for new and existing postal service providers?

Market Liberalisation

The Postal Services Act 2000 established an independent regulator for the postal market – the Postal Services Commission or Postcomm. In 2003, Postcomm opened the UK bulk mail services market to competition, followed by a full mail market opening at the beginning of 2006. As Postcomm explain, this did not result in the 'big bang' that many anticipated, as many of the 18 licensed operators in the UK already had their licenses and were conducting a mail business before the full market opening. In fact, nearly all of these companies were already involved in an existing mail or parcels/express business in the UK. Despite the establishment of Postcomm to foster greater competition, Royal Mail still currently dominates postal services, with a postal market share of more than 90%, with 97% market share in the regulated addressed letters market.

The European Commission has proposed that member states should open their postal markets fully to competition by 2009. The Internal Market Commissioner, Charlie McGreavy states that, "the smart operator, the smart country, sees it as an opportunity". However, as of June 2007, only Finland, Sweden and the UK have so far liberalised their postal markets, opening them to full competition.

This opening of the UK postal sector is likely to lead to a substantial increase in the level of competition and an ever-increasing number of services being offered, affecting the competitive landscape of the sector, and the way companies operate.

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Operating in a Changing Competitive Environment

The EU postal industry is facing a huge transformation, which – with the greater introduction of market liberalisation – will result in new challenges, forcing the evolution of unique business models. An example of this is provided by the Universal Postal Union, which explains, "large European postal operators are expanding internationally through acquisition of package distribution, express and logistics services providers. Partnerships are being formed to improve both services and access to international markets". Additionally, today's market for postal services is no longer homogenous. Taking a closer look at the communications business model, features increasingly include separation of the 'first mile' (branch network) and the 'last mile' (delivery), changing the way companies choose to operate in this market.

A significant area of growth for competitors to Royal Mail has emerged in the form of access agreements, enabling alternative operators to compete with Royal Mail's upstream operations, such as collection, sortation and trunking, and then utilising Royal Mail's network for the final delivery of their mail. Alternatively, some postal operators may utilise Royal Mail's upstream services, competing in the downstream arena by carrying mail items themselves. These two areas have been growing in recent years, as explained by Postcomm: "Of the 20.3 billion addressed mail items sent last year, 1.2 billion items were carried by competitors under access agreements, compared with 87m in 2004/2005, representing an area of significant growth for new operators. Downstream access accounted for 5.7% of addressed mail volumes. Both types of access grew in the year [2005/2006], with a corresponding decrease in Royal Mail's end-to-end volumes of 6.5%". Despite this, successful end-to-end competition from alternative providers, so far, has been slow to develop, which many attribute to the economies of scale experienced by Royal Mail's well-established operations. However, if alternative providers are able to develop tailored end-to-end offerings and value propositions to meet specific customer needs, building brand reputation and loyalty, this is likely to change. Already, Postcomm (2006) reports that "twice as many businesses have switched to Royal Mail's top three competitors compared to 2005, while the proportion of businesses using other competitors was four times higher than last year (6.7% compared with 1.4%)".

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The International Herald Tribune published an article in June 2007 explaining that new entrants to the European mail sector are most likely to target business customers, offering new, lower-priced services. Given that 90% of European mail is sent by businesses, the entrance of new players is likely to have a significant impact on those companies currently involved in this market. To attract and retain current business customers, both existing and new players will have to differentiate themselves – such as by the development of new service offerings – to remain in the game and prevent cost-based competition, which would lead to ever-decreasing margins.

Three key factors have been identified for companies to achieve sustainable success in the changing postal sector in Europe – flexibility (to react to changing market conditions and customer needs), quality of service (key for customer retention) and innovation (to foster differentiation and thus competitive advantage). These factors are of greater importance to the postal sectors in countries which have already achieved market liberalisation – such as the UK.

Developments in the UK Postal Sector

According to CSC, global leaders in information technology, "the UK postal industry is at a turning point. Along with its European peers, public and private sector companies are gearing up to claim and protect their market share as a wave of competition and privatisation sweeps across Europe". BBC News explains that the UK's postal service employs over 250,000 people and delivers 80 million letters and packages a day, however has lost £1.1bn over the past year (2006).

Aside from the opening of the market to competition, a number of other developments have changed the operating environment of the UK postal sector, as a result of the changing composition of the market itself.

Postcomm's 2006 competitive market review explains that, after experiencing growth for several years, in 2005/2006 there was a slight fall in addressed mail volumes to 20.3 billion items – down 1.1% from 2004/2005 levels.

Transactional mail – regular bulk mail such as bank statements and bills – makes up a large proportion of total regulated addressed mail volumes, and, according to Postcomm, is an attractive target for new entrants as it is scheduled, predicable and regular. However, Triangle Management Services forecasts a gradual, but steady, decline in transactional mail, of around 3% per year.

There is a fear that the UK's direct mail volumes appear to be echoing that of many other mature European economies, where direct mail has consistently declined. Postcomm explain, "until recently, direct mail has been a growth area in the mail market, with year-on-year volume increases driving growth in mail volumes overall. The last two years have seen a decrease in direct mail, and in the 12 months to June 2006 spend is down 6%... volumes have also seen a drop of 7%".

Such changes have led to, according to data published by Royal Mail, a situation of falling postal expenditure.

The 'Digital Age'

The rise of technology has been cited by many as a threat to future postal volumes. The Royal Mail suggests the increased use of electronic communication has negatively impacted the UK postal sector, publishing the following figures to demonstrate the decline in industry performance in 2006:

- Expenditure dropped by 2.1%
- B2C direct mail volume decreased by 1.6%
- B2B volume decreased 3.6%
- Overall the postal service has experienced a 4.6% decrease in mail volume

According to the Organisation for Economic Co-operation and Development (OECD), electronic communication in all its forms (such as fax, internet, electronic mail, and electronic payment) are undermining the core of postal business. Unfortunately for the UK postal sector, according to Post Office Chairman Allan Leighton (2006), "this is a trend that won't go away". Electronic mail provides an easy, fast, convenient and – hastened by the rise of inexpensive broadband internet connections – cheap alternative to post.

A 2006 Business Customer Survey, commissioned by Postcomm, explains, "respondents reported greater levels of switching to other media this year compared to 2005, with 52% reporting switching compared to 39% in 2005. Most of these customers had switched to email". This potentially represents a challenge to mail service providers as the utilisation of email can replace many of the types of correspondence traditionally conveyed by post.

However, although the use of the internet may be seen to threaten the UK postal market (through the growth of email), this 'digital age' could actually prove to be a positive development for postal service providers, if exploited effectively by fostering greater innovation. "Although the UK is a world leader in terms of broadband penetration and internet advertising it is behind many other countries in terms of innovation which can exploit these valuable attributes of mail in a digital world" (Postcomm 2007).

One example of a potential opportunity for the UK mail sector is derived from the growth in online sales. Postcomm explains, "fulfilment traffic is expected to drive market innovation, as customers demand new services and 'e-tailers' provide tailored delivery services". UK postal service providers may have the opportunity to enable internet shopping companies to differentiate their offering through tailored delivery services, and in the process, differentiate their own offerings from that of other postal providers, achieving competitive advantage.

So what is the key factor determining sustainable success in the UK postal services market?

Customer Satisfaction

Competition in the UK postal market is becoming more intense, highlighting the need for postal service providers to increase customer satisfaction to retain these valuable sources of revenue. The rise of competition in the UK postal market, combined with the fall in postal expenditure means that an increasing number of players are competing for a share in a shrinking market.

Despite this, there are numerous opportunities to excel in the changing landscape of the UK postal sector. As competition increases, the attainment and retention of customers will be the key driving force towards sustainable profitability. In the context of an industry such as postal services (which may be considered unstable due to changes resulting from regulation and the growth of alternative operators), it is key for postal services to understand their markets, and anticipate changing customer demands to develop a tailored offering before their competitors, thereby achieving real differentiation. The Universal Postal Union explains, "providers of service to companies are challenged to account company specificities (such as size, industry…) and create 'true' value to its clients", through the development of offerings including integrated solutions, ad-hoc online tools and more.

Figures published by the Royal Mail in March 2007 showed that postal expenditure had dropped by 2.1%, and business-to-consumer direct mail volume was down 1.6%. Business-to-business volume was down 3.6%. The decreasing expenditure on postal services, combined with the increasing number of players entering the postal services market, mean that the level of competition, and the importance of attracting and attaining customers is increasing. The key to surviving in this increasingly competitive landscape is to remain abreast of changing customer needs – and determining how to fulfil these precisely, and before your competitors.

Attracting new customers does not guarantee sustainable success – it is also retaining the old customers which is now the vital challenge. For business customers, propensity to switch mail providers is high. A survey of business customers' views (Postcomm: 2006) showed that 54% of respondents were willing to switch some or all of their mail to other providers.

This presents both an opportunity and a threat for postal service providers, as over half of all UK mail business customers are open to utilising a new mail provider. This may be a key source of revenue as, Postcomm (2006) states, "contrary to actual mail trends, business customers expect growth in mail volumes over the next five years".

According to the results of Postcomm's 2006 survey of business customers, the main barrier for business customers (which account for around 87% of licensed mail) to switching mail providers is trust, and lack of awareness: "Businesses also seem to have greater concerns about confidence in operators. A higher proportion of respondents this year perceived the existence of non-cash barriers to switching. The most often cited non-cash barrier was reliance/trust... There appear to be broad concerns about trust and a lack of awareness of alternative operators rather than concerns about service quality". This suggests that, contrary to expectations, the economies of scale achieved by Royal Mail may not be the key barrier to entry for alternative operators.

The Importance of Small Businesses

The results of Postcomm's 2006 survey of business customers suggested that smaller mailers are less aware of alternative mailing opportunities than larger mail users, suggesting that potentially these may be the ones to first target - offering clear value propositions devised specifically to meet the needs of those customers - to enable alternative providers to build brand awareness and confidence, before targeting the larger business customers.

According to Clive Davenport, Trade and Industry Chairman of the Federation of Small Businesses, small businesses are almost totally reliant on the Royal Mail. He explains, "other mail providers do not offer an alternative to small firms because of their size".

This is changing, however, as alternative mail providers increasingly seek to attain smaller business customers, gaining economies of scale by consolidating post from a number of small business customers.

Graham Cooper, founder of ONEPOST, a postal services consultancy, explains, "there are thousands of small and medium-sized businesses that could benefit from choosing to use an alternative operator or even a combination of the different postal services now on offer. However, alongside opportunity and choice inevitably comes confusion and doubt". This suggests that, for alternative operators to penetrate the small to medium business customer market, the value proposition from alternative service providers must clearly demonstrate the competitive advantage to be gained from utilising their services.

Changing Sectoral Needs

In an industry such as the UK postal sector, characterised by increasing levels of competition, it is key to stay abreast of changing sectoral needs.

The UK mail market is primarily (87% according to Postcomm) generated by businesses, with financial services institutions making up a large proportion of that in both transactional and direct mail. However, the volume of mail from financial institutions is now declining, threatening to reduce overall mail volumes in the UK. Postcomm explains, "there is evidence of declining mail volumes in financial services because of electronic substitution, such as email, and smaller, more targeted direct marketing campaigns".

In contrast, several other industries have increased their use of direct mail. For example, in the last quarter of 2006, building societies increased their use of direct mail by 18.8%. DM News explains that the charity sector also showed strong growth, with a volume increased of 9.1% to 132.27 million mail pieces. This suggests that, to achieve and retain success in the UK mail industry, it is not enough to simply understand the UK mail market – but also the market drivers and issues impacting the customers, to be able to anticipate and effectively meet their needs.

For example, Postcomm (2006) expects that the government sector (which makes up around 10% of the UK mail market) will, in a bid to increase efficiency, increase its drive to explore competitive postal offerings, providing an opportunity for alternative operators to demonstrate efficiency gains and service levels, and prove their capabilities in the context of a well-known organisation, building on their brand reputation.

Additionally, Postcomm explains that the publishing sector is a potential growth market, "with subscription growth to increase, along with distribution in business-to-consumer publications". This could provide alternative operators with an opportunity to gain relatively predictable, scheduled contracts, providing a stable source of revenue.

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There are numerous opportunities to excel in the changing landscape of the UK postal sector. As competition increases, customer retention and understanding changes in customers needs will be key for the already-established operators, such as Royal Mail, driving sustainable profitability.

The key for the newer, less established alternative providers is to exploit the opportunities within the sector in such a way that - as well as evidencing economic value added for the shareholders – they will create a strong brand reputation, aligned with achieving consumer confidence and trust, to enable them to continue to successfully exploit opportunities in the future, and reduce exposure to upcoming sectoral challenges.

What Challenges are Facing the UK Postal Sector?

The UK postal sector is facing a number of challenges, some of which are defined below:

- The liberalisation of the market is forecasted to result in increasingly cost-based competition, eroding margins unless companies can successfully differentiate themselves by other means.
- Increasing levels of competition mean customer retention will be of the utmost importance if an organisation is to remain profitable. Companies will be required to improve upon current levels of customer satisfaction to succeed, as the propensity of business customers to switch some or all of their mail to other providers remains high, at 54%.
- Financial institutions (whose mail accounts for a large proportion of both transactional and direct mail) are decreasing their use of mail, due to more specifically targeted campaigns and the use of e-mail, meaning some companies may experience reduced business from their main customers.
- Total transactional mail volumes are forecasted to decline by 3% per year, meaning that an increasing number of competitors (due to market liberalisation) will be competing for less business, emphasising the importance of customer retention.

- The volume of B2B mail has decreased, partly due to the increased popularity of alternative delivery methods (such as email). This trend is set to continue, threatening overall mail volumes.

- Due to a lack of innovation, the UK postal sector is failing to exploit the opportunities generated by the digital age.

- Postal expenditure in general has fallen, and there is a fear that the UK's direct mail volumes appear to be echoing that of many other mature European economies, where direct mail has consistently declined.

- The new competitive landscape will require a rethink in business models and overall business strategy.

These challenges all point in one direction: to remain successful in the face of the changing UK postal sector, companies will have to learn to effectively differentiate themselves from their competitors by generating value propositions designed around specific customer needs, to drive customer retention and avoid eroding their margins by competing solely on price.

So What Can ICDL Offer?

ICDL creates High Performance Organisations, sensitive and responsive to the smallest changes in market demand patterns. ICDL calls these organisations 'Outside-In'.

So how can you become an 'Outside-In' organisation? You deliver the right offerings to the right people in the customer, in a way which is appropriate for them, by identifying what is truly important to your customers; and building offerings to meet these real requirements.

Sounds tricky... is there an alternative?

The alternative is being what ICDL calls an 'Inside-Out' organisation. Most organisations invest in the wrong activities, identify inappropriate information and build their futures on what they think is important, not what the customer thinks is important.

'Inside-Out' organisations sit in their offices, analyse their offering and invest time, energy and resource in trying to identify how they can 'beat the competition', and where they can sell more of their products or services. They do not invest in understanding the customer's needs and continuously adjusting their offering to achieve best fit. The result is generally seen as follows:

- Unreliable Sales Forecasts
- Poor Customer Service
- Focus on Cost Cutting
- Highly Competitive
- Blame Culture
- Take No Risks

The UK postal industry is at a turning point. ICDL's approach is unique for organisations operating in complex or changing markets, enabling them to build their own clear differentiation and competitive advantage strategies.

Despite falling expenditure in the UK postal sector, the opportunities are there for companies that know how to exploit them. Falling postal expenditure, combined with growing competition, increases the importance of not only attracting but retaining customers. This makes it key for organisations to understand the markets in which they are operating – anticipating changing customer needs before their competitors and demonstrating how they can add real value to their customer – thereby achieving differentiation and competitive advantage.

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Achieving Differentiation With ICDL

Business differentiation from ICDL focuses on adding Value, emphasising the importance of meeting the customer's needs and wants. The Universal Postal Union confirms the importance of this in the postal sector: "providers of service to companies are challenged to account company specificities (such as size, industry…) and create 'true' value to its clients". Working with ICDL can not only enable you to add value to your customer offerings, but increase your chances of sales success by helping you determine where to focus your resources to generate maximum return and which customer or market areas are most likely to achieve the best results for your business.

ICDL creates 'Outside-In' organisations; Organisations which go out and stand in the shoes of their ultimate end users, look back at them and their competition and ask themselves, "standing here, looking back, what do I need to do to make my organisations, our offering and our partners seem more valuable to this end user than our competitors?"

This thinking drives remarkable change throughout the organisation, and through this, changes the perception of the end user. The results are clear:

- Take 'Customer' Risks
- Reliable Sales Forecasts
- Focus on Customer Needs
- Everyone Focused on 'Customer'
- Strong Orientation on 'Value-Adding Partnership'

With over half of business customers (Postcomm survey 2006) willing to change some or all of their mail to other providers, there has never been a better time to become a High Performance Organisation.

Not all organisations, nor all sales teams are ready for change of this magnitude, nor are they all capable of implementing it. Those that can and do, however, will be the winners.

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ICDL exists to enable our customers to have this choice by giving you the unique differentiator... knowledge! Real knowledge of real ways you can really help your customers. With ICDL you have overwhelming competitive advantage, right from the first meeting.

Postcomm (June 2007) explains that, "thus far competition has been too much about price and too little about innovation to add value to mail as a communications medium". If companies continue to compete on price, they risk facing ever-decreasing margins and fickle customers – willing to switch as soon as a cheaper offer is discovered. Instead, utilising ICDL's proven methods, companies can change this by fulfilling specific customer needs, increasing customer loyalty and achieving competitive advantage and real differentiation.

For more information on how ICDL can help you, call us today on +44 (0)118 979 8433 or e-mail enquires@thebusinessaccelerators.com

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