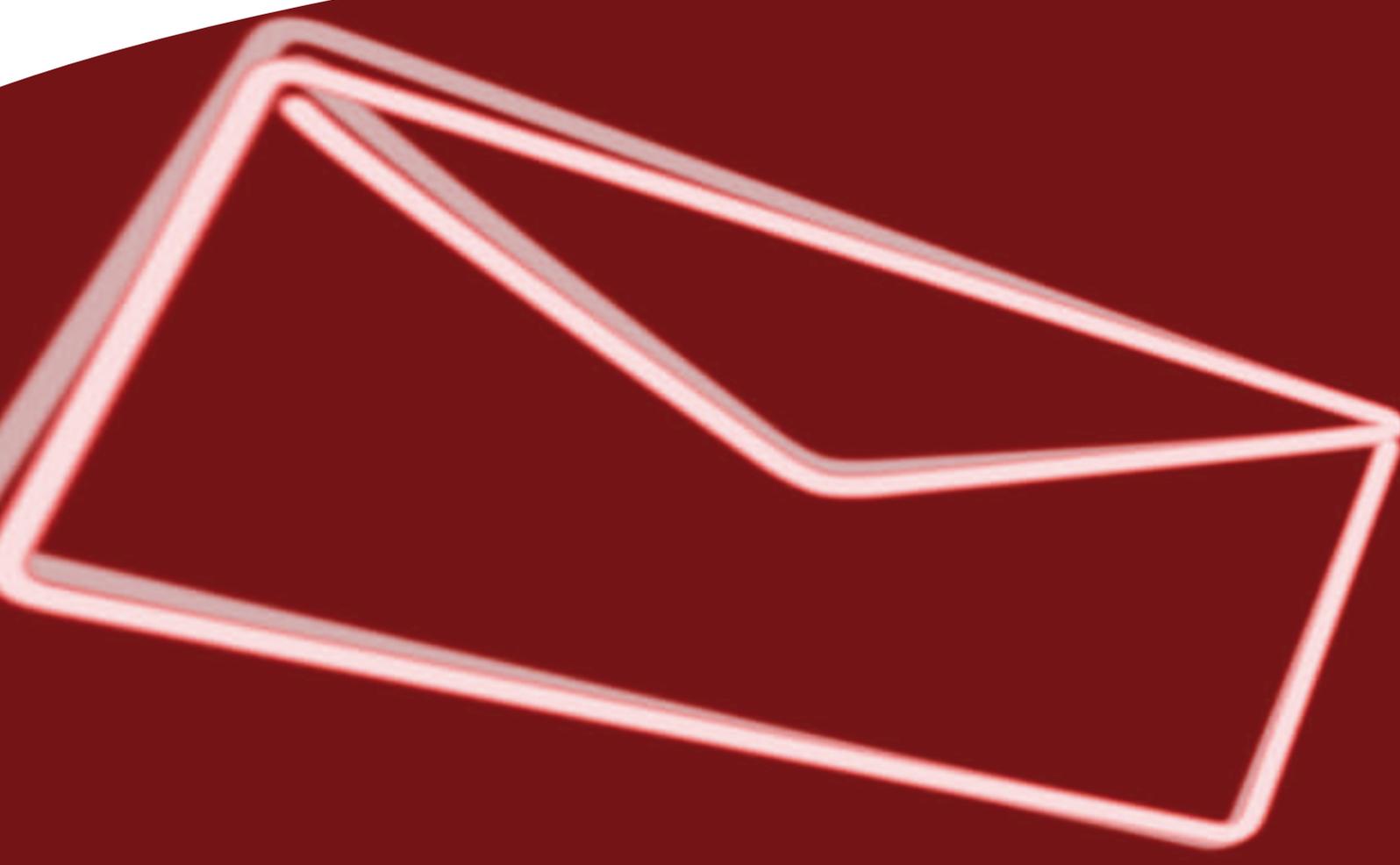


Innovation Management in the Postal Industry – the Key for Business Transformation

Capgemini queries postal operators for first-ever
Postal Innovation Study results



Innovations are not a matter of delegation but rather of organization - from thought to finish, delivered with one team

According to a recent Universal Postal Union report¹, postal operators worldwide are dealing with 4% to 6% negative growth. While much of this is directly related to the economic downturn, some have argued that there are other causes, like the rise in popularity of email as a preferred mode of communication and a perceived lack of real innovation by postal operators. In actuality, these operators have launched more than 3,000 innovations over the past ten years – an impressive figure but one hardly known to the public.

Our research for the Postal Innovation Study points up a possible reason why this might be: 75% of the innovations initiated by postal operators are targeted at internal functionalities, mainly service and process optimization, with only the remaining 25% focused on new products or business modes. And almost two thirds of the operators have no or only a partially-implemented overall innovation process in place. Organizationally, representation at the board level for innovation management is generally quite low as well.

Also interesting is that among those operators who consider themselves innovative, their stated innovation objectives are focused on image, perception and service extensions. Further analysis of their innovation processes reveals that most have defined, separate budgets, teams, and decision-making processes in place. They also identify the most likely time for failure to occur during the innovation project process as when the project is handed off to marketing and/or sales.

There is definitely an innovative spirit alive and well in postal organizations. But to take innovations from their infancy to something that will well serve both the operators and their customers requires a shift in corporate culture. Postal operators will need to embrace responsible end-to-end process ownership for innovation management starting at the board level, encourage an entrepreneurial culture that allows innovation to grow and flourish and promote a company-wide enthusiasm for all that innovation entails.

For this first Postal Innovation Study, we gathered information from three distinct sources (Figure 1):

- **Award Analysis:** We reviewed 233 applications for the Innovation Award category of the World Mail Awards, covering the period from 2001 to 2009. The award event is organized annually by Triangle Management Services Ltd. For the purposes of our research we looked at the applicants' structure, innovation area, type of postal service and supply chain allocation.
- **Empirical Analysis:** We conducted interviews with 45 interview partners from 28 countries worldwide (from February to May 2010), using a 33-question survey.

Figure 1: Scope of the 2010 Capgemini Postal Innovation Study



¹ Universal Postal Union (2009): The global economic and financial crisis - Initial insights into its impact on the postal sector

There are a lot of good ideas resting in the minds of operators' employees but without innovation management and high-level encouragement those ideas will never see the light of day

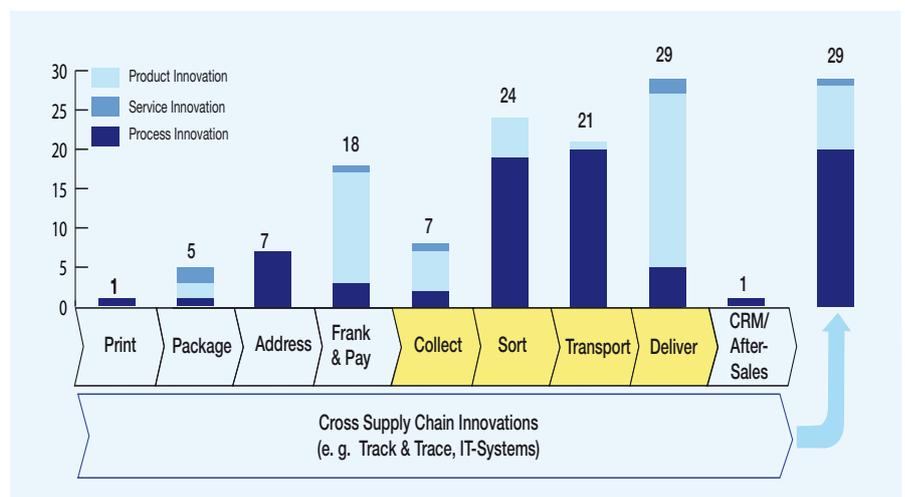
- **Diversification Analysis:** We researched 16 postal operators in Europe and 12 in other parts of the world regarding how /if their portfolio development has diversified over the last ten years. Overall, we discovered that there are two main types of operators in the postal market:
 - **Market Shapers:** Postal operators with well-organized innovation management but who lack confidence for implementing deep-impact innovations; their profits are low.
 - **Market Optimizers:** Postal operators with a less organized, more spontaneous approach to innovation management who bring innovations of deep impact to market and often achieve high profits.

Let's delve a little deeper into the findings for each of the groups we analyzed:

Key findings from the Award Analysis

To evaluate the information found in the Awards applications we grouped innovations in the postal supply chain into four main categories: Core Supply Chain, Non-Core Supply Chain, Product and Other. Of these, the majority of innovations (61%) fall into the Core Supply Chain category. Figure 2 shows where the innovations occur within this category, with sorting, transport and delivery as the most common areas targeted. The Product category accounted for 27% of the innovations reported, with direct mail and hybrid mail making up almost two thirds of those offerings. The Non-Core Supply Chain and Other categories account for 6% each of the remaining innovations.

Figure 2: Positioning of postal innovations in the Core Supply Chain category (Award Analysis)



Expenditures for postal innovations are far behind those in other industries but postal operators are convinced they are innovators

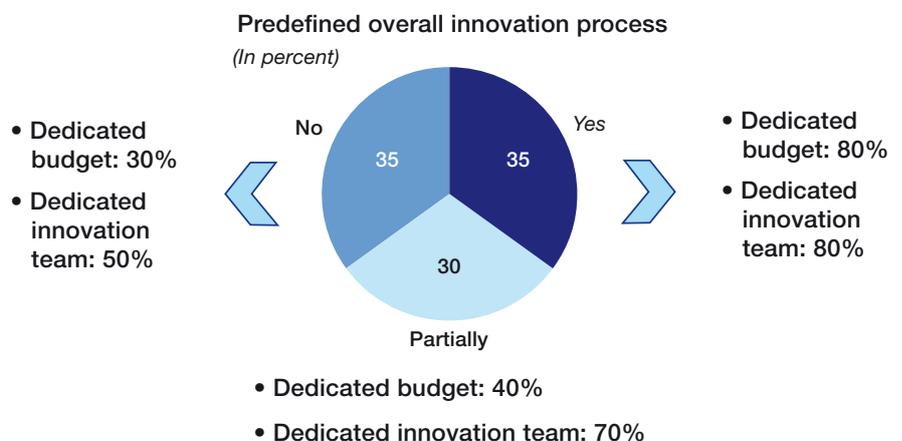
Key findings from the Empirical Analysis

According to the Centre for European Economic Research², in 2008 the innovation intensity (measured in terms of expenditures for innovation as a percentage of revenue) for postal/courier services was generally lower than for other industries. In Germany, for example, the percentage of revenue for innovation amounted to just 0.6% for postal/courier services, while automotive was at 8.4% and the electrical industry was at 7.2%. Despite the very small percentages, our interviews indicate that 78% of postal operators evaluate themselves as equal to or more innovative than their competitors. Our questioning also revealed that 65% of the postal operators have no or only a partially predefined innovation process, while those who do have a predefined process also have a higher dedicated budget and team in place (Figure 3).

A promising statistic is that 38% of those postal operators interviewed have innovation management teams allocated to innovation departments. But the teams involved in idea creation are not usually linked to the ones involved in launching products/services. Our interviews further reveal that the underrepresentation of marketing, sales and production personnel on innovation management teams decreases the overall success potential of projects. In addition, successful postal operators set primarily long-term and “soft” goals, such as brand recognition or customer satisfaction as measures for success and fail to emphasize generating profits as a key success factor.

Figure 3: Dedication of budget and innovation team (Empirical Analysis)

Teams responsible for idea creation are usually not linked to the teams responsible for launching products and services



² Zentrum fuer Europaeische Wirtschaftsforschung GmbH/ZEW, ZEW Branchenreport Innovationen, 2010

Nearly all key postal operators have been diversifying their businesses for years, especially into the logistics and financial services areas

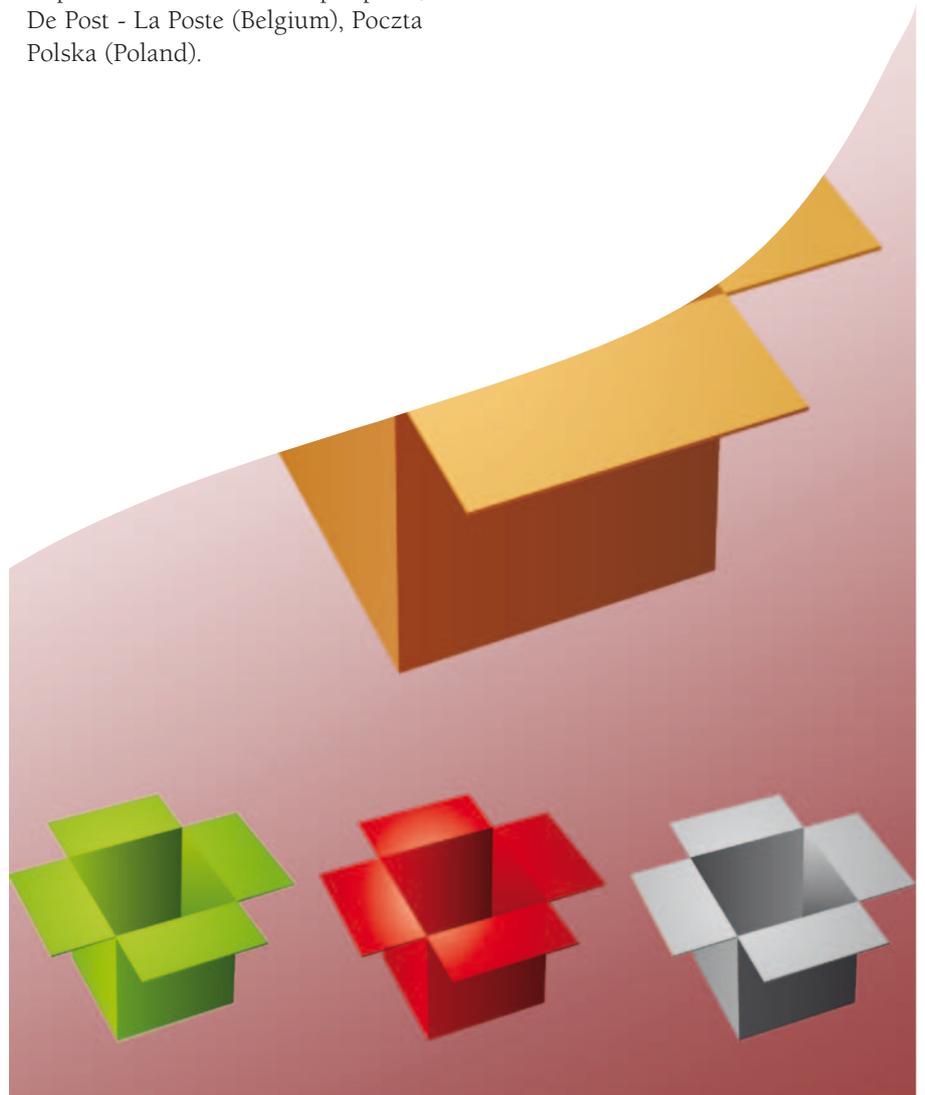
Key findings from the Diversification Analysis

There is a general tendency among all postal operators to diversify by investments outside their core business (mail, parcel). European postal operators tend to fall into two distinct groups, based on where they focus their diversification strategies:

- **Operators with increasing dominance of the non-core business:** in particular Poste Italiane (Italy), Swiss Post, Deutsche Post DHL (Germany), Austrian Post
- **Operators with increasing dominance of the core business:** in particular Correos Group (Spain), De Post - La Poste (Belgium), Poczta Polska (Poland).

Outside of Europe, diversification strategies for postal operators are a little less distinctive. The industry is dominated by three groups:

- **Operators with dominance of the non-core business:** in particular Japan Post Group, India Post, Correios (Brazil)
- **Operators with dominance of the core business:** in particular Hong Kong Post, USPS (United States)
- **Operators with tendency for diversification in non-core business:** in particular New Zealand Post, South African Post Office.



Overall findings

Capgemini's 2010 Postal Innovation Study concludes that the postal industry has made a good start in innovation management, especially compared to their perceived image in the market. However, postal innovations need to be managed even more tightly and with an end-to-end perspective if they are to be successful. We've identified ten lessons learned:

1. Innovation has been mainly focused on processes over the last ten years.
2. There has been more of a push regarding innovating products and customer orientation over the last three years.
3. Official innovation budgets for postal organizations are still low (0.6% of revenues, excluding tier one investments).
4. The postal industry is highly innovative (more than 3,000 innovations in the last ten years).
5. Creativity is not the issue; it has more to do with how to make marketing/public relations an integral part of the innovation process.
6. Award winners have been successful about 80% of the time, but have been too focused on awareness.
7. There is a disconnect between idea creation and commercialization.
8. There is a lack of portfolio and end-to-end innovation management responsibility.
9. The tendency to do things oneself rather than involving a third party expert (make-culture) is slowing down launches and usages of business model innovations.
10. As we move further into the mobile revolution, postal operators will need to include aspects of mobile solutions in their service offerings.





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More information is available at www.capgemini.com

To find out more about Capgemini's Postal Innovation Study, please contact:

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