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Looking Up: Growth Strategies for Post Offices

The post office network of retail outlets has two important and contrasting features that shape strategy. Firstly, it is an important element of the universal service obligation. Secondly, it is a critical business asset.

The universal service requirement is usually expressed as the need to maintain a minimum number of offices throughout the nation or to have them distributed according to population centers. This is a public policy demand regulated by government and therefore can only be changed by political processes. It assumes there is a net social benefit to communities in having a post office. It's not the post's job to question this. However, the post must point out the business impact in terms of costs and service needs and to argue for compensation if it is unable to derive a commercial return from the investment in the network.

The business need for a retail network is to give households and small businesses access to the range of services the postal company provides. This is a distinct source of competitive advantage. If they can be made cost-efficient, post offices provide a convenient way to deliver services, something that actual or potential competitors do not have. In other words, rather than being a burden, they can be a valuable asset.

Successful postal businesses have tried to reconcile these two distinct forces – social obligation and competitive asset – and this has led to a range of different outcomes. In the UK, for example, most of the very extensive retail network is operated by private shopkeepers. However, it remains largely a fixed-cost network, and the rural component is explicitly subsidized through state aid. In the USA, post offices remain owned and operated by the USPS with a limited range of services. The cost of this network is subsidized through postage prices and a highly protected postal market. In the Netherlands, post offices were sold into a joint venture with the Postbank. Something similar happened in Germany where the largest offices have now moved into bank control. In Australia, post offices have become agencies for a very wide range of federal, state and local financial institutions and government services as well as offering a wide range of merchandise.



Elmar Toime identifies business opportunities and develops strategic solutions for Escher customers worldwide.

Two Trends

There seem to be two trends. In one, commercial pressures and growing commercial competence is beginning to see a relaxation of the social obligation to varying extent. This recognizes the retail network's strengths as a strategic business unit. In the second trend, the network is being maintained through subsidy or market protection. Whichever



strategy is adopted, the day to day management tasks remain similar and can be summarized into three thrusts:

- Revenue and profit:
How can we put more profitable business through the fixed cost structure of the network?
- Productivity and costs: How can we raise the productivity of the investment in the network and how can we convert fixed costs into variable?
- Service: How can we raise the quality of service customers experience in post offices?

Increasing Revenue and Growth

Of the three, revenue growth seems to have the greatest appeal but is also the most difficult to achieve. Diversification into financial services seems to be the preferred strategy, with approaches ranging from generic payment and agency services to banking and insurance services, provided through joint ventures or even extending to obtaining banking licences. Growth related to postal and sending services (parcels, postal merchandise, courier, and registered for example) is available, but on its own seems insufficient to justify new investment in the network.

A promising direction is to consolidate the post office as a center for regional and central government, providing payment, licensing, and information services. To some extent there is competition from other government offices, but as the pressure for cost reductions in the public sector grows, a trusted agency such as the Post is likely to become more attractive. Notably, the universal service obligation can be used as an argument to insist on government support for the network by putting new business through it.

Raising Productivity and Lowering Costs

Raising productivity and lowering costs in the network is an essential component of any retail business strategy. Good

information systems are vital and need to provide relevant and useful measures at the local level. There is still too much paperwork in post offices, both in the back office and for the counter clerks. Business processes need to

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be transformed to take advantage of technology solutions that use barcodes, label printers, automatic data capture, reconciliations and so on. Services that are not compatible or that require manual interventions should be phased out or priced appropriately. Finally, up-selling and cross-selling can raise productivity by getting more revenue per transaction. Successful management interventions to achieve higher sales from existing service offers require intensive employee training.

Enhancing Service and Customer Satisfaction

Increasing employee satisfaction and increasing service quality have both been shown to improve sales in many different selling environments, including the post office.

Systems, processes, and people drive service quality. Efficient technology and business processes allow employees to stay focused on the customer standing in front of them. At the individual post office level there may be little that can be done about the location, technology and product range. However, the way in which counter employees behave and attend to their customers is the biggest driver of customer satisfaction. This should be the principal focus of local post office management. Again, good information on customer perceptions of service, good measures of productivity, good training and good benchmarks are essential tools to assess how well the local team is performing and whether its service levels are improving. Benchmark retail post

offices (and international comparisons have been made on service quality) excel in these areas of performance and the reasons for their success should be shared across the network. Invariably, the development of front-line management

and incentives for employees is the key to achieving customer service improvement.

A number of postal businesses have created incentive programs based on financial or service performance. If you are able to tie rewards to performance—ranging from cash payments to team prizes – you can begin to direct employee behavior towards company goals. In the end, this is best practice in all successful retail chains and the post office network should be no different. In this way, everyone can share in post office success. Customers get better service and competitiveness, employees are better paid, and owners are rewarded with higher profitability.

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Elmar Toime was appointed executive deputy chairman for Royal Mail Group in 2003, where he had responsibilities across Royal Mail and Post Office Ltd. Prior to joining Royal Mail, he was chief executive of New Zealand Post from 1993 to 2003 and is credited with leading that organization through its transformation into one of the top-rated postal services in the world. In recognition of his success at New Zealand Post, Toime received the Industry Leadership Award at the 2004 World Mail Awards last May in Berlin, Germany.



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