International Post Corporation

Strategic Perspectives on the Postal Market 2011

Table of contents

1. Executive summary 3
E-commerce and the postal sector
Digital business: opportunities to create value
Direct marketing and the postal sector
Environmental sustainability in the postal sector

2. E-commerce and the postal sector 7
Outlook for the global e-commerce market
Implications for the postal industry
Understanding the needs of e-retailers and consumers
Shop@Home
Customer case study: eBay
Customer case study: Nespresso
Delivery company case study: Yamato
Technology case study: Google
Postal operators responding to the challenge
Conclusion

3. Digital business: opportunities to create value 23
Introduction
Implications for the postal industry
Multiple identities
Market opportunities
E-box
Zumbox
SwissSign's secure business processes
Deutsche Post: transforming into an information logistics provider
eBoks: Post Danmark's full-service concept
Poste Italiane's innovation in digital services
Digiposte from Le Groupe La Poste
Norway Post's Digipost
Mappan, Iceland's e-box system
Case study – Itella's integrated approach that is helping drive the Finnish information society
UPU initiative in e-services
Role of postal operators in emerging value networks
Conclusion

4. Direct marketing and the postal sector 41
Global overview of the advertising market
IPC direct marketing intelligence – qualitative research
The agency perspective: a digital communications agency adding direct mail into the mix
Bring Dialog: a breakthrough strategy for postal operators?
Nivea: pushing the boundaries of direct mail
Direct mail in the Asia Pacific region
Case study – The post in Singapore
Connecting to the customer: TNT Mail China
Conclusion

5. Environmental sustainability in the postal sector 55
IPC's sustainability programme
Range and average carbon management proficiency scores by section
Global postal industry cuts over half a million tonnes of CO_2 in one year
iEMMS
Green marketing in the postal sector
Sustainable direct mail at Royal Mail Group
TNT's sustainable mail project
Sharing best practice: 100% carbon neutrality from Itella
Focusing on a challenging target at Norway Post
Greening existing products at Le Groupe La Poste
A structured approach to sustainability: Go Green from Deutsche Post DHL
Conclusion

1

Executive summary

IPC's *Strategic Perspectives on the Postal Market* provides a distillation of the cooperative work carried out between member postal operators and IPC over the past 12 months to the year ending 31 March 2011.

The year's edition of *Strategic Perspectives* focuses on technology and how this is driving change through digitisation, mobile devices, geolocation services and social engagement.

We have drawn out the key trends, challenges and solutions as identified through our intelligence gathering, research and best-practice-sharing platforms, to give an overview of strategic thinking in the postal industry in five key areas: e-commerce; digital postal services; direct mail in a multimedia world, and environmental sustainability.

In a rapidly changing market, a cooperative platform to share best practices, provide short and long-term industry forecasts and monitor industry trends is an efficient way to inform strategic choices. We have drawn on the outcomes and findings of IPC's Senior Executive Fora (SEFs), Best Practice Seminars (BPS) and the IPC Postal Sector Sustainability Report. IPC SEFs in Europe and Asia in the reference period combine input from more than 100 senior postal executives with leadership roles in their areas of responsibility. Our Best Practice Seminars benchmark the operational management processes of members and leading firms both within and outside the postal industry.

In addition, in 2011 IPC entered into research partnerships with two leading global academic institutions: the Stanford Graduate School of Business and the Massachusetts Institute of Technology Center for Digital Business. These partnerships provide a critical external and academic assessment of postal innovation against global best practices, both in supply chain management and in focusing on how digital technologies can deliver measurable business value.

E-commerce and the postal sector

E-commerce is one of the fastest growing retail channels in Asia, Europe and North America. Despite headline grabbing results, e-commerce is still in its infancy, with many players struggling to develop viable business models which successfully lever the global trading opportunity offered by the internet.

While differentiating their e-commerce platforms in an increasingly crowded marketplace, e-retailers and e-merchants must also invest in infrastructure. Their logistics partners need to support the seamless location, transfer and integration of business information and goods in a secure and reliable manner.

New customer technology is fuelling growth. Mobile technology is making it easier for customers to shop anytime, anywhere, and needs and expectations are changing fast. eBay CTO Mark Carges predicted at IPC's recent Innovations in E-commerce Roundtable at Stanford University that the technology innovations of the past two years would do more to radically change e-commerce than anything we witnessed over the preceding fifteen years.

As e-commerce rapidly develops within domestic markets worldwide cross-border shipping services need to keep pace with the evolving demands of customers who want to access global markets through the borderless internet. Cross-border e-commerce adds a new dimension to the online shopping experience by allowing consumers to access a wider range of products, a larger spectrum of price options and even the advantage of macro-economic factors such as exchange rate fluctuations.

Postal operators recognise the need to actively engage in the e-commerce sector and are very well positioned to facilitate the growth of online trade due to ubiquitous first mile access and last mile delivery to every citizen and business of the world. IPC in collaboration with postal operators has identified e-retailer primary requirements as:

- provision of fully-transparent, low shipping costs (including customs duties, taxes and administrative charges) at the time of purchase
- full integration of tracking information through their own web portals
- proactive notification of delivery to the consumer at the time of purchase and throughout the supply chain as the order is fulfilled
- simple, clear and speedy returns processes

The postal sector is focused on growth opportunities in the parcel market as a result of anywhere, anytime, anything internet shopping. The posts are very well positioned to facilitate the growth of online trade due to ubiquitous first mile access and last mile delivery to every citizen and business of the world.

Digital business: opportunities to create value

Letter mail volumes are in decline, making new operating models necessary for both physical and digital services.

Posts must develop in the digital space areas of activity that will limit the shrinkage of their business. The golden rule for innovation is to recognise the pressing need to prioritise as it is impossible to develop in all digital areas at once.

Newly-launched digital services will grow slowly at first, and posts must accept realistic prospects for investment and returns based on practical assessments of the time needed to achieve market penetration and adoption. Posts' owners will need to focus on long-term value creation and operational sustainability over short-term gain.

Nordic posts in general have kept faith with digital services, entering the market ten years ago and staying the course to achieve gradual growth. Other posts left quickly when their digital services failed to make a fast return.

An important fact to accept is that the development of digital services will not now accelerate declines in letter mail volumes—substitution has or will happen anyway, and other service providers will meet customer needs if posts fail to do so.

While digital businesses are not expected to replace highly profitable priority letters, they can be relatively high margin substitutes as they are not labour intensive.

Posts face seven major challenges in their drive to innovate in the digital area:

- learning to operate and monetise services successfully in an unstructured market
- securing the business-to-consumer channel
- adding value to receiver pull, including digital pull
- linking physical and digital services to become a multi-channel operator
- developing customer relationship management opportunities within customer billing operations through multi-function, physical and digital messages
- enriching physical logistics with digital messaging adapted to the new business environment
- attracting the talent needed to manage these businesses

A key challenge is to assess the extent to which consumers require security and proof of identity in a world where

products with low security are being used successfully. Value propositions for postal products will only be successful if they provide the type and level of convenience consumers want.

A further challenge is creating the network effects that will allow posts to gain a critical mass of users that make their digital platforms successful. Several instructive examples of platform innovation and network effects exists from which posts can learn – the classic being Apple, which has created a network effect of mass usage through opening up its systems to developers. Will posts be able to develop open electronic postal services to create such a profitable network effect?

Direct marketing and the postal sector

There is strong evidence to suggest that direct mail can, and will continue to play a key role in the marketing mix, notwithstanding increasing digital substitution.

IPC research in 2010 showed that in countries that had adopted online marketing prior to the economic crisis, the volume of direct mail has remained fairly stable.

The economic downturn precipitated a much stronger transfer in advertising revenue from direct mail to online media in southern European countries such as Italy and Spain. A lot of this is experimental advertising and in many cases, proving the ROI from online marketing campaigns is a challenge. There is a generational change in attitude in regard to physical mail: those over the age of 35 regard it as positive and those under 35 imbue it with less inherent value, which will present a challenge to the posts in the future.

Evidence is emerging that increased digitisation is leading to a move towards sophisticated multi-channel marketing in order to cut through the online clutter, of which direct marketing is a core element. For example, a leading European digital communications agency whom IPC has worked with has stated that direct mail is the most effective way to reach its highest value prospects and VIP customers - even though the agency in case had set out to be a digital communications pure player. Physical media, executed to a high creative standard, personalised and consumer-relevant, speaks directly to the target customer, and has brought the online phenomenon of narrowcasting full circle back into the offline world. Moreover marketers suggest that the ROI of direct marketing campaigns can be measured more accurately than online campaigns. Intelligent marketers realise that no one medium alone is effective, and direct marketing is being rehabilitated and reintegrated into smart multi-channel communications marketing programmes.

The Nivea brand uses direct mail very effectively in Belgium to target its highest value customers as part of regular customer loyalty mailings. The payback on these campaigns can easily be tracked and measured through the redemption of coupons within the mailing. Nivea is highly focused on building on web-centric customer databases. This CRM approach will be increasingly important to Nivea as it considers shifting consumer sales from retail to online in the future – a trend that is already well established in Japan.

The management of customer-centric databases is an area that posts are moving into, as evidenced by both Norway Post through their subsidiary Bring Dialogue, and in Asia where TNT Mail China is investing to build up its own customer databases as part of its longer term business strategy. Lastly, in the Asia-Pacific region where there is the highest growth in internet advertising, SingPost has seen growth in direct mail due to its extensive customer engagement programme.

Providing posts can continue to promote the benefits of direct mail in terms of personalisation, relevance, quality and ROI in reaching high-value customers, evidence shows that mail volume decline can be stemmed. However this requires considerable focus by posts in ensuring the relevance of this medium in today's climate of increasing digital business.

Environmental sustainability in the postal sector

IPC's Environmental Measurement and Monitoring System (EMMS) is playing an important role in helping drive sustainable business practices across the postal industry by promoting a cross-sectoral approach - the first of its kind for a services industry - to emissions monitoring and reduction. The 22 participating posts in the EMMS programme represent some 80% of global mail volumes, which underscores the reach and impact of the IPC EMMS programme. Moreover, as both the full EMMS and the introductory i-EMMS programme are open to non-IPC members, IPC is enabling posts of all sizes and geographies to contribute in whatever way to reducing the postal sector's carbon footprint.

While great progress has been made by participating posts in the first year of comparative reporting, by slashing over a third of the total target of CO_2 emissions, much remains to be done. In some respect the early years of emissions reduction are the easiest, and represent the low-hanging fruit of using simple but effective measures to obtain greater energy efficiency. Moving forward, posts face the challenge of building on these early successes by introducing more fundamentally greener processes into their business models. Moreover, the introduction of Scope 3 reporting will add to the challenge for posts.

In addition to their efforts to cut their carbon emissions, posts are also offering a range of green products to their customers, both business and consumer. These products have the combined benefit of contributing to posts' overall carbon reduction effort, acting as an effective branding tool in promoting posts' image as responsible businesses, and, as we have seen in at least one case, also help to buoy business. The fundamental importance for posts in integrating sustainable business processes and products to their survival and future success cannot be underestimated.

2

E-commerce and the postal sector

- The outlook for e-commerce growth is very strong. According to research by Forrester online retail is slated to grow from $439bn in 2010 to $536bn by 2012.

- Cross–border online shopping is built on confidence and trust of which the delivery service is an integral part.

- Integrators have made significant progress in evolving operations to meet customer needs through technology innovation to provide consumers with unprecedented levels of service.

- Postal operators will meet consumer expectations if they are able to guarantee the reliability of day-certain home delivery and offer more flexibility including parcel pick-up options.

- Many e-retailers do not know where their demand comes from or who their competitors are. They require low-cost, high-quality, reliable logistics with the flexibility to deal with varying volumes and seek in logistics partners a willingness to share risks and benefits in long-term business relationships.

- Return services are extremely important to the development of e-commerce and require sophisticated integrated systems to enable cross-border returns. To this end, IPC has developed an Easy Return Solution (ERS), a postage-paid-authorised return parcel which travels through the EPG network. IPC manages the ERS label creation and distribution centrally on behalf of its participating members.

- Key trends like mobile, local, social and digital are driving tremendous change in e-commerce. Mobile is a huge opportunity: eBay sales from mobile devices have gone from zero to $2bn in two years. eBay CEO John Donahoe believes that the customer experience in e-commerce will change more in the next three years than it has in the last ten combined.

- Many e-retailers are unable to meet consumer cross-border requirements due to their inability to facilitate international customs requirements. If posts could resolve these challenges for sellers it would unlock the huge potential of the cross-border market and put posts in a unique valued position.

- For many e-retailers the cost of delivery is one of the highest costs they face and so understandably they are looking for savings. For example one third of Nespresso's total logistics cost from bean to cup is due to the consumer delivery operations; a further 25% of logistics costs come from picking, packing and storage. To date, no company has offered an EU-wide service at a price competitive with current multi-domestic services, nor has Nespresso found an acceptable reverse logistics solution across borders.

- In the age of e-commerce, consumers are increasingly demanding superior services from delivery companies, which may well evolve into highly-personalised and tailored services. In such an environment, a key focus on customer care will be crucial to success. Yamato of Japan provides an example of how the market may evolve. The market leader in door-to-door delivery in Japan with 39% of market share, the Yamato philosophy is centred on customer care. Their motto is 'service first, profit next', and Yamato customers can choose from six delivery time windows every day, 365 days per year.

- While differentiating their e-commerce platforms in an increasingly crowded market, e-retailers and e-merchants must also invest in infrastructure. Their logistics partners need to support the seamless location, transfer and integration of business information and goods in a secure and reliable manner.

- Seamless integration between all players along the e-commerce value chain is crucial to providing a positive shopping experience for consumers. Delivery operators have a pressing need to understand the strategies for growth developed by all their fellow e-commerce service providers. Posts are very well positioned to facilitate the growth of online trade due to ubiquitous first mile access and last mile delivery to every citizen and business of the world.

Outlook for the global e-commerce market

The outlook for e-commerce growth is very strong according to research by Forrester. In 2010 online retail sales accounted for 5% of all retail sales at $439bn and are forecast to be worth some $536bn by 2012.

In the U.S there was a healthy growth in online retail sales of 13% to $176bn in 2010 and this is expected to increase to $279bn in 2015.

In western Europe, Forrester expects an 11% year-on-year growth in online retail sales from $93bn in 2009 to $156bn in 2014. In the coming five years, the number of online buyers in Europe will grow from 157 million to 205 million.

In Asia-Pacific, online retail sales in Japan were worth $45bn in 2010, the greatest in the region. Although online consumers in Japan purchase across a wide variety of categories, some categories in Japan such as beauty & cosmetics have migrated strongly to online in a way that has not yet been seen in the US or Europe.

Online sales in China were estimated to reach $49bn in 2010 and have a CAGR double that of the US, western Europe and Japan.

The online marketplace in Australia is currently being driven by a large number of cross-border transactions. Though less than half the size of the online retail markets of Japan or China, Forrester's research suggests that Australia's growth rates are slightly higher than those of Japan, the US and western Europe.

Implications for the postal industry

Projections on the future growth of e-commerce should be treated with some caution. E-commerce is a very dynamic and fast moving sector which is being driven by innovation and technical advancements. It is worth remembering that Google did not exist 11 years ago, nor PayPal ten years ago, Skype eight years ago, Twitter six years ago or smart phones four years ago. It is therefore extremely hazardous to project evolutions in products and services over the next three years. However all indications are that e-commerce offers tremendous opportunities for postal operators who can innovate at a similar pace to meet consumer and online retailer requirements. Posts can play a fundamental role not only in the domestic e-commerce sphere, but also in facilitating cross-border e-commerce, which may provide the greatest revenue potential for posts.

Cross–border online shopping built on confidence and trust

Cross–border online shopping is built on confidence and trust, of which the delivery service is an integral part.

Consumers' needs and expectations for cross-border e-shopping are growing rapidly, particularly due to significant advances in the ability of service providers to provide reliability, convenience and visibility of shipments in domestic markets throughout the supply chain.

To meet the needs of consumers shopping across borders while maintaining a viable business model, e-retailers primarily require:

- low shipping and handling charges
- all-inclusive pricing at the time of purchase
- full integration of real-time tracking information
- proactive notification of delivery to consignees
- simple, clear and speedy merchandise returns processes

Due to the rapid growth of domestic and cross-border e-commerce transactions, postal operators must act quickly to meet the needs of both e-retailers and consumers if they are to remain viable alternatives to the integrators as parcel delivery service providers in the future. Integrators have already made significant progress in evolving their operations to meet these customer needs through the use of technology innovation to provide consumers with unprecedented levels of service.

IPC has facilitated the international shipment of parcels since it inception. IPC's item monitoring services measure performance for international postal products including parcels. IPC also provides performance measurement for KPG and the EMS Cooperative and over 150 postal operators have barcoded products tracked through IPC's technical infrastructure services.

Understanding the needs of e-retailers and consumers

In 2010 IPC published a report on cross-border e-commerce based on research conducted for IPC by Market Probe Europe and Rothschild Research Consulting. It included perspectives from large and small e-retailers (postal customers) and consumers.

The research focused on understanding how cross-border e-commerce is currently developing, its growth potential and the factors currently limiting the postal share of the online cross-border market. Seven markets in Europe and North America, at different levels of development in terms of e-commerce, were included in the research.

The findings were based upon qualitative interviews conducted with e-retailers, ranging from small domestic internet pure players to some of the largest European and US-based international online companies. Additional quantitative research provided data on consumers' online behaviour, the barriers to shopping online for goods which require physical delivery internationally, and the importance of factors influencing the choice of delivery options offered by e-retailers. The findings were published in May 2010.

The *IPC Cross-Border E-Commerce Report* identified a number of opportunities for posts in the cross-border e-commerce business. Postal operators will only meet current consumer expectations if they are able to improve the reliability of day-certain home delivery and offer greater flexibility, including parcel pick-up options.

Established e-retailers are likely to give posts a larger share of cross-border deliveries if they can provide more flexible pricing, tracking and tracing based on information shared between postal operators across borders, real time information on delivery progress, and visibility for returns information.

Traders and retailers new to e-commerce seek full logistical support and ready-made e-commerce platforms.

The research identified posts' potential to support e-commerce growth in the longer term by developing tailor-made delivery services for emerging product categories such as beauty products and pharmaceuticals, and to provide consolidated delivery options, which would include environmental benefits.

The cross-border market

Smaller countries tend to shop across borders online more frequently than larger nations: 51% of Danish and 40% of Belgian consumers surveyed had purchased goods across borders in the previous 12 months, compared with 33% in France and 29% in Germany.

Online shopping: a learning process

The study showed that buying online is a learning process for consumers. Purchases per consumer increase over time and once they have experienced domestic online shopping, consumers are willing to venture into cross-border purchasing.

A positive experience of e-commerce is crucial if consumers are to continue shopping. They are deterred if the purchasing and delivery process fails to meet their expectations. The research indicated that the quality of domestic e-commerce goods delivery would influence growth in cross-border shopping.

Barriers to engaging in cross-border e-commerce include consumers' lack of trust in product quality, a lack of payment processing facilities, regulations, consumer protection legislation, and logistics and delivery.

E-commerce business models

The research identified four types of e-commerce business models and a range of logistics needs.

New, purely online players operate in niche markets and are growing at a rate of more than 50% but have limited cross-border business because the delivery speed and flexibility offered in their home markets are difficult to replicate.

Mature, purely online mass market players such as Amazon are growing by 30% to 40%, operating both domestically and across borders. They are expanding their range and reach and are intent on keeping delivery costs low.

Distance sellers moving into e-commerce focus on migrating to an online business model and acquiring new customers. They are achieving modest growth of about 20% and trade across borders. Their logistics and delivery systems are the same for both on- and offline purchases.

Brick & mortar traditional retailers adding an online channel are growing at between 5% and 10%. The challenge for these businesses is to integrate e-commerce into their current organisation. Some of these retailers have been slow to engage in e-commerce.

Many e-retailers interviewed in the research do not know where their demand comes from or who their competitors are. They require low-cost, high-quality, reliable logistics with the flexibility to deal with varying volumes and seek in logistics partners a willingness to share risks and benefits in long-term business relationships.

In the US there is little appetite among many retailers to develop cross-border sales due to the barriers of differing systems and accepting payments from abroad, but also significantly because the domestic market is growing so strongly. The same is of course not true of the big e-retailers and enablers such as Amazon and eBay. When considering cross-border e-commerce adoption strategies in the US, the research identified five e-retailer types.

E-RETAILER BUSINESS STRATEGIES

CROSS-BORDER ADOPTION SEGMENTS IN THE US

"It's almost like we take **international orders**, but we're not actively trying to sell our product to **international customers**."

Source: IPC Cross-Border E-Commerce Report 2010

Consumer needs

Consumers are generally not interested in choosing the delivery partner for their e-commerce purchases, and mostly see delivery as an extension of the e-retailer's brand. They rely on the e-retailer to meet their needs. However, the provision of novel delivery solutions such as pack-stations demonstrate that by providing value-added services to consumers, delivery companies are succeeding in driving differentiation. Anecdotal evidence from Germany indicates that consumers are proactively choosing deliveries by Deutsche Post DHL in order to obtain their preferred delivery option. Across all markets consumers cited price as the most important aspect of delivery. Thereafter a range of other features such as track and trace, the availability of delivery options and reliability emerged as of roughly equal importance.

Consumers want detailed, user-friendly delivery information on e-commerce websites. They have a strong need for full information on delivery costs, whereas they judge notification of goods despatched, a wide range of delivery options and the opportunity to have goods delivered to different locations to be desirable, value-added aspects of delivery.

Return services are extremely important to the development of e-commerce

Return services are extremely important to the development of e-commerce, as consumers want the confidence of being able to return goods if delivered the wrong product or damaged goods. Moreover, especially in the case of apparel, many consumers purchase a range of products in the knowledge that they will return a proportion of these. Return rates vary across the national markets surveyed, influenced by the historic strength of distance sellers and the types of goods most frequently purchased. While international returns require sophisticated integrated systems, the research indicates that an easy-to-understand returns solution would provide a significant fillip to cross-border e-commerce from the consumer perspective. However, national cultural habits can also represent a barrier to growing cross-border online sales from the retailer's side: French retailers may not like to sell in Germany due to the high proportion of returns in that market, which would imply greater costs than selling in markets with a less significant returns culture.

RETURN SERVICES

INCIDENCE AND METHODS OF RETURN

	UK	DE	FR	DK	NL	BE
% Ever returned goods	61%	76%	52%	51%	61%	44%
Average number of returns	3.2	6.6	2.9	4.0	4.8	4.0
Take to a post office/ collection point	64% (n= 389)	82% (n= 457)	79% (n= 319)	85% (n= 307)	74% (n= 381)	81% (n= 269)
Organise a specific pick up	45%	26%	10%	12%	36%	10%
Take it back to the store	25%	27%	6%	11%	18%	17%
Return immediately at moment of delivery	13%	17%	30%	17%	8%	13%

Base: Individuals with internet access at home who purchased goods for physical delivery in past 12 months and ever returned goods
Source: IPC Cross-Border E-Commerce Report 2010

The following chart shows the top ten categories for physical delivery of e-commerce products . While the first category – books, music and film – is at risk of digital substitution, the second – clothes and shoes – is very much dependent on sophisticated returns services, and some innovative companies such as zappos.com have taken full advantage of this returns principle and built it into their business model. Some cosmetics and skin care companies such as Nivea are focused on shifting more sales into the online space, where they would enjoy considerably higher margins by cutting out the retailer. This is a trend that is likely to grow, which could be a further stimulus to e-commerce growth.

ONLINE PURCHASES

TOP 10 GOODS FOR PHYSICAL DELIVERY

ever bought
most often

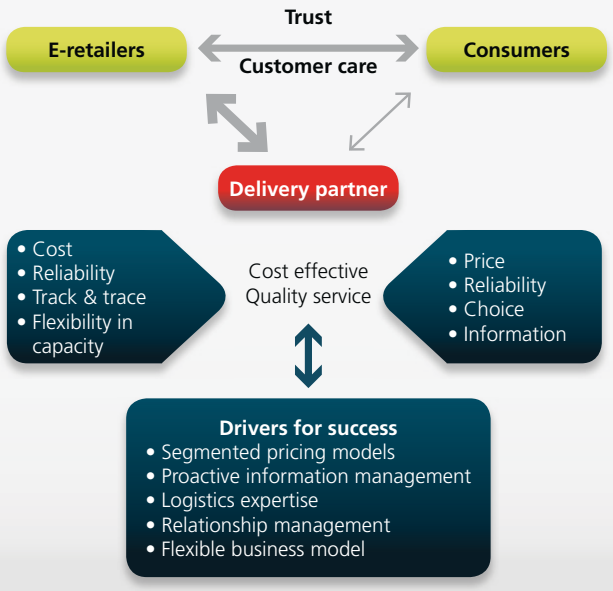
	UK (n= 635)	DE (n= 602)	FR (n= 608)	DK (n= 606)	NL (n= 625)	BE (n= 611)
Average #	7.1	7.8	5.9	6.0	5.4	4.5
Books, CDs & DVDs	88% 43%	85% 37%	67% 23%	76% 28%	81% 36%	68% 25%
Clothes & shoes	79% 24%	78% 29%	72% 36%	65% 26%	68% 29%	54% 23%
Computer software / games	62% 7%	61% 7%	42% 5%	50% 4%	41% 4%	37% 7%
Electronic equip. & devices	58% 5%	61% 3%	45% 3%	61% 9%	41% 5%	33% 5%
Toys & hobbies	47% 3%	48% 2%	28% 3%	32% 3%	29% 3%	24% 2%
Small domestic appliances	46% 1%	60% 2%	45% 1%	24% 1%	33% 1%	22% 1%
Beauty	40% 1%	45% 3%	42% 6%	40% 8%	28% 3%	30% 6%
Computer hardware	40% 1%	50% 3%	48% 9%	41% 4%	31% 4%	31% 4%
Office supplies	39% 3%	47% 2%	20% 1%	35% 4%	28% 3%	21% 3%
Sports goods	34% 2%	39% 1%	29% 3%	30% 2%	23% 1%	15% 2%

Base: Individuals with internet access at home who purchased goods for physical delivery in past 12 months
Source: IPC Cross-Border E-commerce Report 2010

Drivers for success in cross-border e-commerce delivery

The main drivers of cross-border e-commerce are price and access to products unavailable at home. Speed is not a relevant factor for cross-border e-commerce, as price and access take precedence. Consumers do however require reliability and choice. Retailers want strong, robust, flexible and reliable partners to carry out cross-border delivery fulfilment.

SUCCESS IN E-COMMERCE DELIVERY



Source: IPC Cross-Border E-commerce Report 2010

Shop@Home

The *IPC cross-border e-commerce* report was published to coincide with the International Post Corporation Annual Conference on 21 May 2010 in San Francisco. Called 'Shop@Home', the conference focused on consumer e-commerce and concomitant the growth opportunities in the parcels market. CEOs from the world's largest posts in Asia, North America, and Europe attended and guest speakers comprised eBay CEO John Donahoe, Rakuten CEO Hiroshi Mikitani, and Steve Rosenblum, CEO of Pixmania. These three companies collectively represent over US$10 billion annually in internet sales.

Customer case study: eBay

John Donahoe said that the posts were the natural partners of eBay and together they have created a business that did not exist 15 years ago. This business model has come to be widely accepted but in essence is somewhat unusual: it involves an individual in one country selling something to a stranger in another country.

Consumers' e-commerce experience will radically change

eBay's mission is to connect businesses and sellers. It is not a retailer, but a marketplace that operates two core businesses: eBay is the e-commerce marketplace platform, and PayPal enables the payments that oil the e-commerce machine, not just on eBay but on other e-commerce sites.

It is in the last five years that shopping on eBay has really taken off, largely due to broadband penetration and increasing Wi-Fi and mobile internet access. eBay is the world's largest online marketplace, with about 94 million active customers and 200 million items available concurrently. There are approximately 25 million sellers around the world, many of whom make a living from selling on eBay.

eBay has witnessed an evolution in the type of purchases that take place on its platform. Although its origins are as an auction site, auctions now represent the minority of total sales: today, 60% of sales are fixed-price purchases. The company is focusing on the management of its marketplace to ensure that people coming onto the platform adhere to trust standards.

John Donahoe believes that the customer experience in e-commerce will change more in the next three years than it has in the last ten. Three things that will bring about this change:

1. Shipping and logistics – costs are decreasing and the experience of services such as Amazon Prime is leading customers to believe that shipping is free.
2. Payments – services such as PayPal will increasingly make customers feel more confident in making online purchases.
3. Innovation and technology – smart phones are driving mobile e-commerce.

Online and offline sales will increasingly blur and merge. For example, consumers are able to scan barcodes in a shop and receive an online price comparison through sites such as bestbuy.com. Payments and data transfer between smart phones will also change consumer behaviour.

There has been much speculation about a 'winner take all' scenario for big players such as eBay. Donahoe does not believe this and thinks many different businesses will operate under different models. However a restricted number of payment models will prevail, eBay intends for PayPal to be one of these.

PayPal has 94 million active registered accounts around the world and is used in 190 markets and handles 24 currencies. It works with current global financial networks, and has industry-leading fraud detection technology that has helped it grow into the world's leading online payment system.

Post priorities: cross-border visibility, standardised tracking and barcoding

In the US eBay enjoys what John Donahoe described as a "wonderful partnership" with USPS, through which USPS delivers flat-rate boxes and allows consumers to print shipping labels at home, which consumers greatly appreciate. The eBay partnership with the USPS and with other posts has been very important to the company's business success. However competition in e-commerce is fundamentally changing the customer experience.

Amazon has through its Prime service encouraged consumers to believe that free shipping is the industry standard. In addition, free returns have been very popular in the US, through innovative new business models such as in the example of Zappos mentioned above. Consumer expectations of what is normal are fast changing. However consumers do not like or trust the cross-border experience as there are too many friction points. Customer research by

eBay shows that:

- 93% of consumers would buy more online if free shipping were available
- 67% of consumers research online and buy their goods offline to avoid shipping charges
- the number one reason for not buying online at eBay is shipping costs
- 75% of consumers require more robust tracking information
- consumers care about the environment and will increasingly require sustainable delivery solutions

Issues of returns and trust are of great interest to eBay and its customers, and the key issues identified by eBay for the postal industry to address is the provision of cross-border visibility and standardised tracking and bar-coding.

Cross-border trade is significant for eBay: some $62bn worth of products was sold on eBay in 2010, and gross merchandise volume (GMV) across borders accounted for 19% of eBay's volumes that year. Some 24% of PayPal transactions in 2010 were for international sales.

eBay sellers compete for buyers, and unlike Amazon and other e-retailers, eBay does not warehouse or carry inventory. Some of the larger sellers in Asia warehouse goods in the US so that the consumer thinks they are buying domestically rather than across borders. Buyers do not necessarily care where the goods come from – as long as their service expectations are met. To this end eBay has a team based in China that helps sellers meet consumer demands in quality standards. Expectations differ by region – for example, providing a tracking number is important in the US, but not as important to customers in the UK.

Four forces driving change: digital; social; mobile; local

Speaking at the IPC Stanford Global Supply Chain Management Forum eBay's CTO Mark Carges said that the changes witnessed in technology over the past two years are going to do more to radically change e-commerce than anything seen in the previous 15 years. Key trends in mobile and digital technology, localisation and social media are driving tremendous change moving forward.

Digital

Content, like currency, is going digital. To date over one billion downloads of iPhone applications have been registered. Songs are downloaded over the web, books are digitised for e-readers and tablets; videos are streamed in high-definition. Devices are extremely important in enabling the consumption of digital content.

EBAY – HOW PEOPLE SHOP

Source: eBay, IPC Stanford Global Supply Chain Management Forum, February 2011

Social

Social networks facilitate consumer feedback, changing the way in which people shop. An example is eBay's group gift solution that allows consumers to interact socially online in the purchase of a group present (www.groupgifts.eBay.com).

Another example from eBay is its Fashion Vault, where consumers use the 'like' mechanism to share what they have been browsing on eBay. This kind of social activity includes recommendations and user reviews, drives traffic to eBay and strongly influences purchasing.

Mobile

Currently some 60 million Americans access the web via mobile devices. eBay predicts that the distinction between laptops and phones will gradually disappear; each will just be a different form of access to the internet. The importance of mobile internet access is reflected in the fact that many websites have developed mobile-friendly versions. The convergence of technologies will allow mobile commerce to thrive.

eBay is building some of this technology into its customer experience. An example is eBay's Fashion app for iPhone which, working with front-facing cameras, enable augmented reality by allowing the consumer to virtually try on apparel and accessories, such as seeing how a pair of sunglasses would look on. Red Laser technology in the core eBay app enables barcodes of products to be scanned to find the best online deal.

Local

Geolocation is a mobile technology feature that is increasingly being used to grow commerce. As eBay's objective is to bring the world's offline inventory online it is embracing this technology as demonstrated by its recent purchase of the company Milo; a company informs consumers through their phones what's available in real time at local shops.

As Milo is integrated into eBay, eBay customers will be able collect goods bought on eBay at local shops, without having to wait for them to be shipped, giving consumers more delivery choice. Cross-channel shopping blurs the line between online and local offline shopping and is six times the volume of pure e-commerce.

How can posts support eBay's business?

Many e-retailers are unable to meet consumer cross-border requirements due to their inability to facilitate international customs requirements. If posts could resolve these challenges for sellers it would unlock the huge potential of the cross-border market and put posts in a unique valued position with eBay and other markets and e-retailers.

Customer case study: Nespresso

Nicolas Gueissaz, Director Supply Chain, Nespresso explained about his company's interest in cross-border e-commerce logistics at the IPC Senior Executive Forum on Cross-Border E-Commerce in October 2010.

Nespresso began life 24 years ago as an exclusively online business. It sells single-dose aluminium capsules to its seven million customers which work exclusively with Nespresso coffee machines.

Nespresso's mission is to sell its customers a pleasurable experience built on excellent coffee, technologically smart machines and top-quality service which, crucially, includes delivery service as an extension of the brand. The company accepts orders 24 hours a day, seven days a week and promises to deliver within 48 hours.

It has a strong, information-rich relationship with its members, holding personal telephone numbers and communicating via 'relationship' (customer service) centres manned by directly employed staff.

Nespresso developed its boutiques initially as a branding tool but now 200 retail locations around the world have become a channel in their own right accounting for 33% of total sales. Members are able to place orders in boutiques for home delivery, or order online for collection at a boutique, as well as online for home delivery.

Nespresso's relationship with posts

One third of Nespresso's total logistics costs from bean to cup is for consumer delivery operations; an additional 25% of logistics cost is picking, packing and storage. To date, no logistics company has offered Nespresso a pan-European service at a price competitive with current multiple domestic services, nor has Nespresso found an acceptable reverse logistics solution across borders.

In some countries Nespresso receives a high number of complaints about the condition of packages delivered by the post. There are cultural differences in perception of damage but some postal installations do not provide sufficient care for Nespresso products, due to automated materials handling processes.

Nespresso does not use posts in all markets. On account of damage and reliability issues the company has the largest number of delivery partners in France, its largest market but also the one where it faces greatest competition, making the delivery services even more important.

First-time delivery becomes a challenge as fewer people are at home in the day and trust in neighbours to take in packages has declined. More members are queuing at post offices on Saturdays to collect their packages, an activity not in keeping with Nespresso's luxury brand image and promise of excellent service.

Nicolas Gueissaz confirmed IPC's research finding that the consumer relationship is with the e-retailer and not the delivery company; damaged products reflect directly on his company, not on the post. He invited postal operators to work with him to respond to Nespresso's challenges and to find mutually beneficial solutions and to engineer packaging and pick-pack processes more suited to postal handling equipment.

The consumer relationship is with the e-retailer and not the delivery company

Nespresso is piloting potential new delivery services. Nespresso customers value reliability and convenience above all other service elements. The company needs to evolve its offer to provide even greater convenience because more competitors are providing value-added services.

Members want to know the total cost of their order including delivery so it is important to show the breakdown. Double the normal delivery price might be reasonable for an out-of-hours service but not treble, which is the current postal charge. Nespresso offers a free same day service in Paris and an option to choose a two-hour delivery slot at a cost of €5.

Nicolas Gueissaz suggested that posts can be Nespresso's partner in delivering enhanced services to its members. The company is piloting a home collection service for recycling used aluminium coffee capsules. "We must have partners in other countries, why not the postman?" asked Gueissaz. "His van is empty when he returns to the delivery office."

Gueissaz suggested that postal carriers could also provide a home decalcifying service for Nespresso coffee machines. Calcium build-up is the single greatest reason for malfunction of machines.TNT has already responded to this need in the Netherlands.

The company is assessing Saturday and Sunday delivery and the provision of consumer pick-up points. It would like postal operators to provide later collections to give its pickers and packers time to prepare just-received orders for despatch in time to meet the company's 48-hour delivery promise.

Asked how the post could become the consumer's deliverer of choice, Nicolas Gueissaz suggested that postal operators must brand their major attributes. "Delivered by the Post" could become a selling point on e-commerce websites. Indeed the postal interface with consumers is the visible element of the online shopping experience; postal operators deliver the e-retailer's brand values as well as its products.

Delivery company case study: Yamato

Founded in 1919 in Tokyo, Yamato is the largest C2C service company in Japan with sales in 2010 of $15bn, profits of $400 million and over 165,000 employees.

The Yamato philosophy is focused on customer care: the company motto is 'service first, profit next'. The Yamato logo is of a mother cat carrying her kitten and represents the concept of care that goes into the handling of Yamato customer's packages.

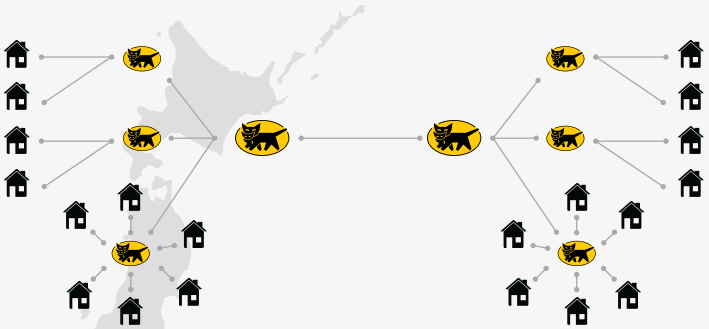
Service first, profit next

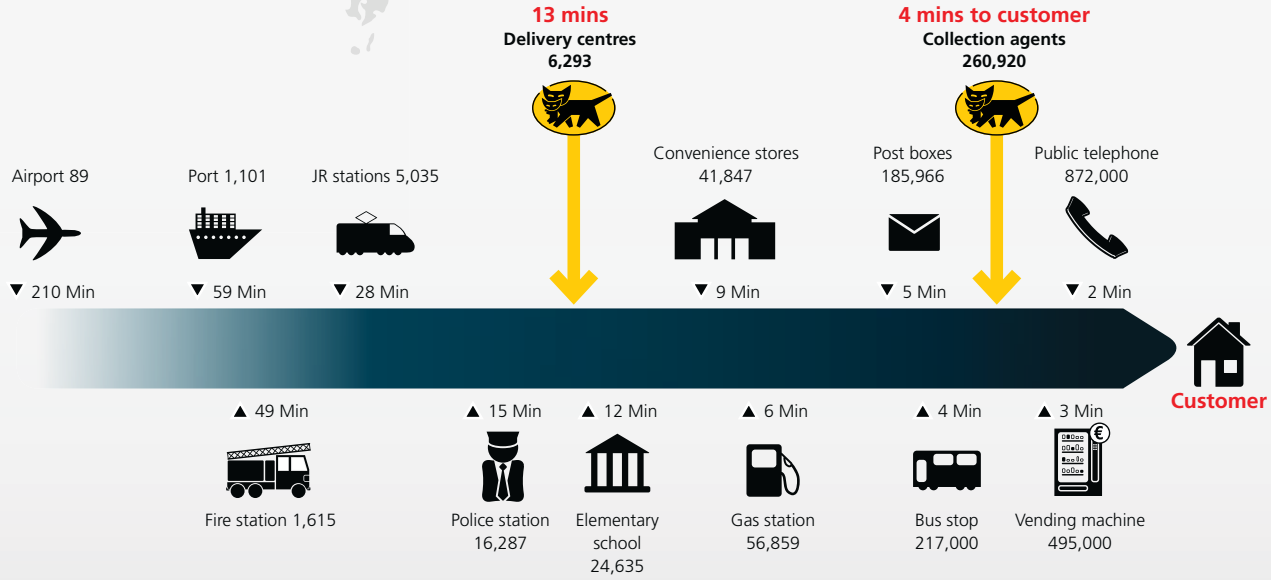
Yamato is the market leader in door-to-door delivery in Japan, with 39% of market share. However it does not benchmark its service against other delivery companies, but rather against experiential service industry companies such as the Tokyo Disney Resort and Singapore Airlines, companies that focus on service satisfaction levels. Yamato ranks number eight overall in the Japanese service satisfaction ranking.

CASE STUDY: YAMATO OF JAPAN

DELIVERY NETWORK AND ACCESS TO CUSTOMERS

Delivery volume	**1.3 billion parcels**
Hub terminals	**71**
Delivery centres	**6,293**
Collection agents	**260,920**
Delivery trucks	**51,386**
Employees	**136,722**
Sales drivers	**50,220**





Source: Jin Whang, Jagdeep and Roshni Singh Professor of Operations, Information & Technology. Codirector, Stanford-National University of Singapore Executive Education Program in International Management, Stanford University, IPC Stanford Global Supply Chain Management Forum, February 2011

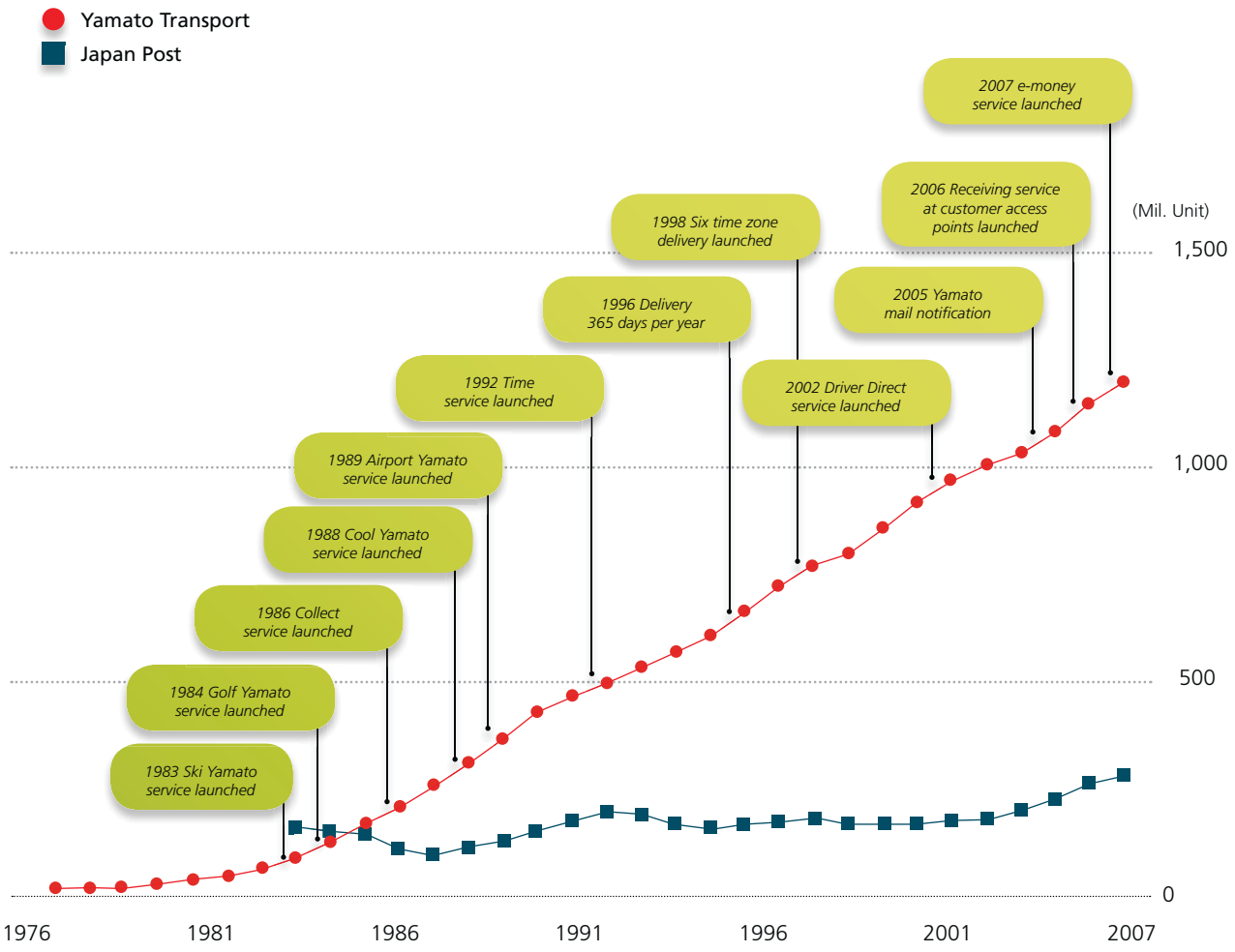
Yamato has created partnerships with 261,000 local dealers which enable the delivery network to place a collection agent within just four minutes of a consumer anywhere in Japan.

Yamato customers can choose from six delivery time windows, 365 days a year

Each day Yamato delivers 3.8 million packages through its dedicated delivery network. Delivery agents are known in their local communities and as such consumers develop relationships with their 'family driver'. To arrange delivery after notification the consumer contacts the driver to specify the designated delivery place and can choose from six delivery time slots every day until 10pm, 365 days a year.

CASE STUDY: YAMATO OF JAPAN

PARCEL HOME DELIVERY VOLUME IN JAPAN



IPC Senior Executive Forum on Innovation for Postal Electronic Products, Brussels, 8-9 March 2011

Source: Jin Whang, Jagdeep and Roshni Singh Professor of Operations, Information & Technology. Codirector, Stanford-National University of Singapore Executive Education Program in International Management, Stanford University, IPC Stanford Global Supply Chain Management Forum, February 2011

Yamato has built its market share and reputation on innovation.

In the 1980s the company introduced a ski service for the transportation of customer skis from the local Yamato office to the mountains. This was extended in 1984 to a golf equipment delivery service. In 1988 the company introduced a cool delivery service for perishable goods and frozen foods. In the 1990s the six-times-a-day-365-days-a-year service was introduced. More recently the company introduced an e-money service in 2007.

Customer satisfaction leads to efficient operations, but not vice versa

Yamato CEO, Masaki Yamauchi, has stated that "customer satisfaction leads to efficient operations, but not vice versa".

Yamato is a shining example of a delivery company that embraces innovation, is totally focused on customer service and in consequence has become the number one door-to-door delivery operator in Japan in terms of volume. Speaking at the International Post Corporation Annual Conference, 'Shop@Home' in May 2010 Hiroshi Mikitani, CEO of Rakuten, singled out Yamato for praise saying that it took greater care of its parcels than any other delivery company.

Rakuten is focused on the Japanese market and is the number e-commerce one player in Japan with a group gross transaction value for 2009 of ¥1,186 billion ($13.1bn) with sales of ¥2,983 billion ($33bn). Mikitani told the conference that the purchasing behaviour of consumers was changing: they want unique products and this will result in a general increase in consumption, rather than a cannibalisation of existing retail. He believed that e-commerce could grow to 25% of total retail, and that
it would cover all product lines including groceries.

Technology case study: Google

Google seeks partners with offers complementary to its e-commerce and online marketing solutions and is engaging more with postal operators. Senior business executives are not yet adopting new technological advances and, as a partner to Google, postal operators could help spread the message faster.

A fundamental technological change has taken place over the past two years with the introduction of modern browsers, enhanced Java script, cloud computing, amongst other developments. Google observes four main trends now defining the internet, strikingly similar to those identified by eBay: mobile, social, personal and local.

The mobile web

All of Google's development is oriented towards mobile phones which it sees as the main entry point to the net. (Android, the open mobile platform first developed by Google is installed in 200,000 new phones shipped globally each day.)

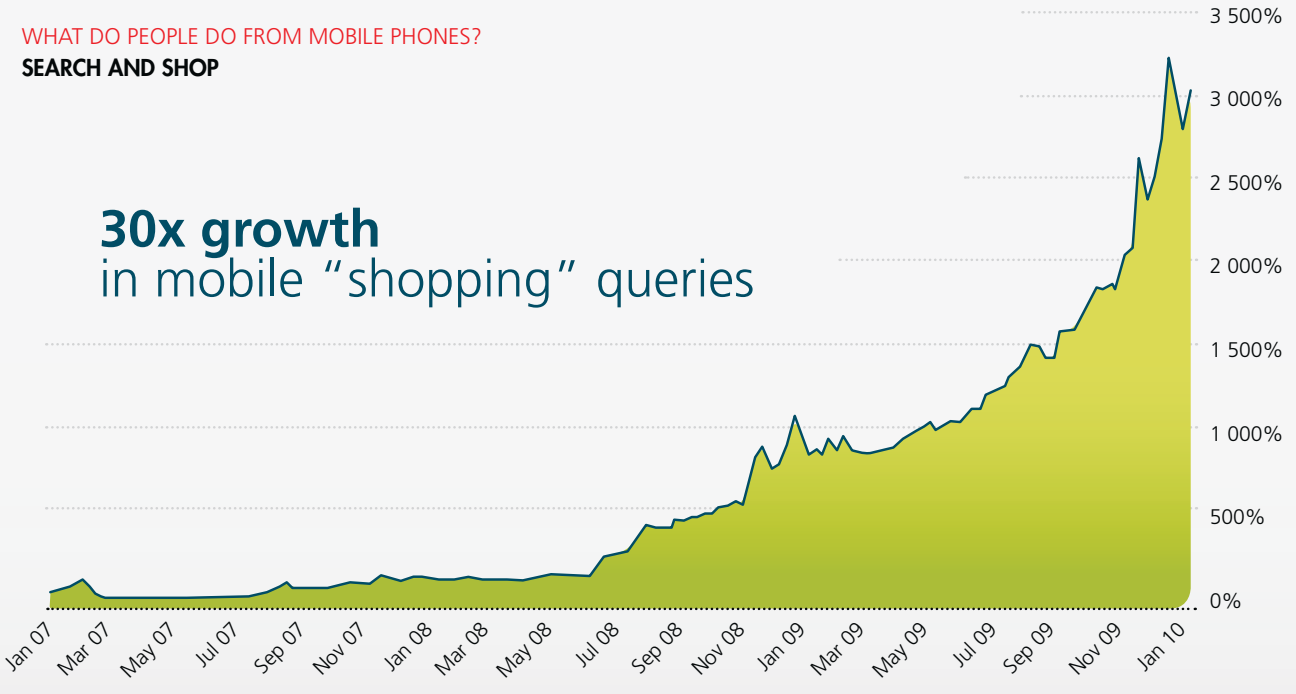
66% of the globe is mobile connected

Two-thirds of the world's population has a mobile phone. In the United States one in five people already has a smart phone. Mobile phones are driving innovations in consumer services across the globe, from smart phones all the way down to first-generation text-only devices. Developing nations with sparse utility infrastructures are seeing mobile phones come into their own in bringing services
to consumers across great distances. In Kenya for example mobile banking is huge, where payments are made by SMS and money is stored virtually in phones to be redeemed at mobile banking centres.

In the developed world, consumers are using smart phones for comparison shopping, to get vouchers or to check stocks in shops, with clear peaks in usage at lunchtime and weekends.

WHAT DO PEOPLE DO FROM MOBILE PHONES?

SEARCH AND SHOP



Source: Google, IPC SEF Parcels and Express: Cross-Border E-Commerce, Brussels, 26-27 October 2010

The mobile web will be more dynamic than the traditional web because the mobile devices give the web eyes, ears, a voice, skin and location (a camera, microphone, speaker, screen and GPS chip). It blends online information with physical experiences such as shopping in traditional stores or locating local service providers while on the move. Google Goggles, launched in 2009, allows consumers to capture images of products on their phone in order to instigate a search for comparative prices and product information.

Up front, social and personal

Today 20% of tweets relate to a product or brand and in the United States 83% of online shoppers are keen to communicate about their purchases online. Google believes that social communication will develop into a personal social monitor which will follow a consumer to enhance their activity online. The essence of search is to bias the information and make it personal to you. Consumers enjoy the personal offers made to them and the opportunity to create their own style. If they collect followers for their style who purchase products they recommend, they will receive product offers as a reward.

There is a trade-off between offering personal information and gaining convenience

There is a trade-off between offering personal information and gaining convenience; individuals should be able to choose. Technological change is so rapid that people are unable to keep pace and they need to be educated about what privacy means.

Enhancing what's local

Ninety percent of surfers seek goods and services locally and 20% of web searches relate to local products. Google provides location services such as augmented street view (below) and 'Near me now'.

Mobile internet means that online and offline commerce will be part of the same experience: consumers use their mobile for price comparisons while out shopping. In this new world of commerce there are three imperatives: be found, make your advertisements and communications useful, and create a seamless shopping experience.

Once a company's products are available on the web their store location could be marked via Google maps on the search page. Search results are now listing sections of e-commerce websites, allowing consumers to click directly through to the relevant page and display items from e-commerce websites. Google believes that openness always works. It developed Android as an open platform to accelerate innovation. When iPhone launched it became clear that mobile devices would be the main entry point to the web. Solutions are now being developed that will allow mobiles to capture delivery information at the doorstep which will provide further opportunities for innovative delivery operators.

Seamless integration between all players along the e-commerce value chain is crucial to providing a positive shopping experience for consumers; therefore, delivery operators have a pressing need to understand the strategies for growth developed by all their fellow e-commerce service providers.

THE WEB IS LOCAL

Source: Google, IPC SEF Parcels and Express: Cross-Border E-Commerce, Brussels, 26-27 October 2010

Conclusion

E-commerce is one of the fastest growing retail channels in Asia, Europe and North America. Despite headline grabbing results, e-commerce is still in its infancy, with many players struggling to develop viable business models which successfully lever the global trading opportunity offered by the internet.

While differentiating their e-commerce platforms in an increasingly crowded marketplace, e-retailers and e-merchants must also invest in infrastructure. Their logistics partners need to support the seamless location, transfer and integration of business information and goods in a secure and reliable manner.

Technology drives growth

New technology is fuelling growth. Mobile technology such as internet access from smart phones is making it easier for customers to shop at anytime, anywhere, and needs and expectations are changing fast.

As e-commerce rapidly develops within domestic markets worldwide cross-border shipping services need to keep pace with the evolving demands of customers who want to access global markets through the borderless internet. Cross-border e-commerce adds a new dimension to the online shopping experience by allowing consumers to access a wider range of products, a larger spectrum of price options and even the advantage of macro-economic factors such as exchange rate fluctuations.

Postal operators recognise the need to actively engage in the e-commerce sector and are very well positioned to facilitate the growth of online trade due to ubiquitous first mile access and last mile delivery to every citizen and business of the world. IPC in collaboration with postal operators has identified e-retailer primary requirements as:

- provision of fully-transparent, low shipping costs (including customs duties, taxes and administrative charges) at the time of purchase
- full integration of tracking information through their own web portals
- proactive notification of delivery to the consumer at the time of purchase and throughout the supply chain as the order is fulfilled
- simple, clear and speedy returns processes

The postal sector is focused on growth opportunities in the parcel market as a result of anywhere, anytime, anything internet shopping. The posts are very well positioned to facilitate the growth of online trade due to ubiquitous first mile access and last mile delivery to every citizen and business of the world.

3

Digital business: opportunities to create value

- A fundamental shift in communications behaviour is challenging the postal sector. A range of digital channels and media offers on the one hand enhanced connectivity, access to information, interaction and mobility to consumers, and on the other to businesses cost savings and simplified business processes. This shift has directly impacted physical mail volumes.

- Posts are responding by placing greater emphasis on the integration of physical and electronic systems, including development of new digital-to-digital postal services. E-ID gives posts an opportunity to offer consumers digital mail delivery and archiving via e-box solutions. Posts are uniquely positioned to do so: they can leverage their strong brand recognition; they enjoy established, trusted roles as intermediaries in commerce, communication and payments; they often have close relationships with government services, and their retail networks provide nationwide reach to the consumer.

- Posts are investing significantly in the development and marketing of e-box services. These are still at the very earliest stage of market development and are perceived across the industry as highly sensitive and competitive areas. There has been thus far very limited sharing of strategies, technology, know-how and successes between posts. Currently, postal e-ID is most widely used for domestic transactional mail, in some cases in combination with government e-services. The services offered by posts are similar, but with the focus currently almost exclusively on the respective domestic markets, many of these services are linked to specific applications that may not comply with international standards and are generally not interoperable.

- Two examples include Deutsche Post's 'E-Postbrief' and Post Danmark's 'eBoks'. Deutsche Post defined three core attributes of a physical letter – that it is legally binding, confidential and reliable – and transferred these to an electronic letter product launched in July 2010 as E-Postbrief. Post Danmark's eBoks fits into a wider range of digital services under the eComOne brand. It provides consumers with access to their bank accounts and government services and requires no personal ID as eBoks uses existing bank customer ID.

- By embracing the digital revolution and providing digital-based services to citizens, posts can have a key role to play in the digital space, as demonstrated by the case in Finland. In July 2010 Finland introduced a USO (universal service obligation) law that provides for every citizen to receive a 1Mbit broadband connection, and in so doing became the first country to introduce broadband as a legal right. Five years ago Itella began putting hybrid mail automatically into consumers' NetPosti boxes. It continues to print and deliver mail pieces, but an increasing number of consumers who have signed up to NetPosti opt for digital-only delivery. In April 2010 Itella began testing alternative mail delivery methods building on the NetPosti service with a trial in Anttila, a town 50 kilometres north-east of Helsinki.

- IPC supports its members in the development of these services through a variety of initiatives, not least of which is leveraging research on platform-driven innovation through collaboration with the Massachusetts Institute of Technology's (MIT) Center for Digital Business. Many examples of platform-driven innovation exist from which posts can learn in their bid to become key players in delivering added value e-services to citizens. A best-in-class example of platform-driven innovation is provided by Apple, which has created a network effect of mass usage through opening up its systems to developers. Will posts be able to open up their electronic postal services to create such a profitable network effect?

Introduction

A fundamental shift in communications behaviour is challenging the postal sector. A range of digital channels and media offers on the one hand enhanced connectivity, access to information, interaction and mobility to consumers, and on the other to businesses cost savings and simplified business processes. This shift has directly impacted physical mail volumes.

All IPC members have seen a reduction in mail volumes; the decline is ongoing and will imply a dramatic reduction in revenues for many postal operators. The United States Postal Service (USPS) for example witnessed a 12.8% volume drop in 2009, and a further 3.5% decline in 2010, to a total of 171 billion annual mail pieces. By 2020 USPS forecasts an overall mail volume of 150 billion pieces. It estimates that share of total letter mail volume that is First Class will drop by 12 percentage points in the ten years to 2020, from 47% in 2009 to 35% in 2020. This translates into a 50% drop in overall mail revenue. The same or similar trends can be witnessed across the markets represented by IPC members.

Implications for the postal industry

Individual posts must make strategic choices about how expansionary strategies should be for the letters and parcels markets, for key customer groups, for international business and in digital services. Posts have for decades relied on a physical platform to deliver mail and packages directly to the customer's door. Electronic communication and competition for last mile delivery mean that a whole new platform must be developed to enable posts to maintain and grow their business.

The need to develop alternative revenue streams is pressing, and IPC is working proactively with its members to assess the opportunities to create added value services – and viable revenue streams – through digital business. Posts need to assess whether their services are good enough to protect their market position in times of technological change. If they lack digital credibility themselves, they could consider establishing partnerships. The key issue is whether and how posts' key brand attributes – strong brand recognition; established, trusted roles as intermediaries in commerce, communication and payments; close relationships with government services; and postal retail networks with their nationwide customer reach – can be leveraged in emerging as credible, strong players in the provision of digital services. In this chapter we look at some of the e-ID and e-box services that are being developed by IPC members.

Multiple identities

Mr John Smith's username may be johnsmith, johnsmith1975 or smith1975john, for just three websites to which he is registered, depending on when he registered and how many John Smiths got there before him. Mr Smith may have as many if not more passwords as online IDs, as website identification solutions have evolved in parallel and in isolation, are typically unconnected, unrelated and use different password protocols. To further complicate the scenario, when some of these websites are accessed infrequently Mr Smith may not recall the given password (or indeed login), making the online transaction truly frustrating and time-consuming.

The growth in the past ten years of closed e-ID systems to allow for online banking, shopping, tax returns and other e-commerce and e-government services has led to the typical modern, connected consumer having to grapple with a multiplicity of online identities, logins and unique passwords. Today's citizen is encumbered with a plethora of personal digital identities from government-issued e-IDs to user-selected IT system authentication, bank identification, and other internet identity systems. Many online identification systems are not interoperable and were built to meet different needs. In general they are not trusted across sectors, or national borders.

In an era of digitalisation government administrations have lost their monopoly on citizens' identities as providers of internet services, ICT companies and identity assurance providers play a part in defining and controlling people's identities. These intermediaries provide the credentials, identification, authentication and authorisation necessary to ensure access to public and private services. With social digital networks a new type of identity is emerging. 'Ambient identity' is built upon online user data capture – through IP addresses, geo-location software, search engine patterns and preferences expressed on social sharing platforms – that creates an electronic trail. 'Ambient identity' expands and blurs the definition of electronic identity.

Market opportunities

Posts are not new to the world of digital business, and many have already been active in creating the basis for secure transactional, messaging and payment services. However market estimates failed to meet revenue expectations, which saw some early innovators such as Deutsche Post DHL, Posten AB, Royal Mail Group and TNT undertake significant disinvestment in the area.

Today there is a renewed interest in developing and implementing variants of these original services, and posts

are placing greater emphasis on the integration of physical and electronic systems, including the development of new digital-to-digital postal services. To date developments in secure e-ID solutions have been country-specific. There exist however opportunities to leverage standard solutions and partnerships across posts internationally to build credibility quickly and limit investment costs. Posts must realise that they will not have a monopoly on e-ID services, and even government applications are likely to recognise certificates from several providers whose systems conform to established authentication procedures.

Policy drivers in the EU

The EU Vision 2020 is an attempt to drive digitisation of the European economy and focus on longer-term value. The EU medium-term mission has also been set out; by 2015 all electronic identity-related processes offered in the EU, either publicly or privately, locally or cross-border, between administrations, businesses or citizens should be secure. These processes should be based on authenticated identity services when either needed or desired by one or both parties. Full respect must be given to the privacy protection regulations by all member states in the EU. IPC will take on a key role of monitoring EU initiatives in e-ID in order to keep members fully informed on the progress in the EU arena.

Certification value chain

In the online environment identities can be forged much more easily than in the physical world, and online transaction security concerns include confidentiality, message integrity and user authentication. Authentication has therefore become crucial to online business transactions, which has led to the emergence of certification authority (CA) service providers such as VeriSign, GTE CyberTrust, and IBM VaultRegistry. CAs authenticate the identity of each trading party in a transaction by issuing digital certificates based on public key cryptography and digital signatures. The benefit to small businesses is enhanced consumer confidence that they are dealing with a business entity that has been authenticated.

Current market positioning

Posts are currently occupying a number of market positions on e-ID. The most comprehensive offering provides a registration authority, certification authority and certificate production authority, to provide full commercial identity services. These can be combined with a range of business-related security applications for internal networks and e-commerce. Currently postal e-ID is most widely used for domestic transactional mail, in some cases for the provision of government e-services and e-communications. The services offered by posts are similar, but some are linked to specific applications that may not comply with international standards.

The focus on those posts that are rolling out e-ID services is squarely on developing the services that will allow them to compete in their domestic markets, driving demand for said services, and monetising their respective systems.[1] Market up-take has been slow due to a variety of factors including access to technology, legal considerations, perceived user immaturity, and insufficient numbers of web-based applications. The high level of investment required to develop these services has resulted in considerable restructuring of the certification sector, with services being closed and new joint-ventures created. However a general consensus among IPC members is that the market is maturing, driven by pressure from governments to move citizen service delivery into digital channels and from mailers seeking to improve business process efficiency.

As posts' focus in developing e-ID services is almost exclusively on the domestic market, they do not perceive a current, pressing need to drive interoperability of respective e-ID systems or to develop systems to a common international standard. Supporting international authenticated digital mail, the needs of mobile populations seeking to access government services, and cross-border e-commerce are considered longer-term objectives in the application of e-ID services. However, as will be discussed later, creating the network effect that allows for the mass uptake of e-ID services and provides consumers with added value may well require that posts develop a common approach to e-box and e-ID services sooner rather than later.

Development of e-ID models among IPC members

Posts can occupy multiple positions in the certification services value chain. However, today the majority of postal operators who currently offer full CA services do so through

E-ID IN BELGIUM FROM CERTIPOST
A BPOST COMPANY

- Name
- First name
- Second first name
- First letter of 3rd first name
- Place of birth
- Date of birth
- Gender
- Nationality
- Card number
- Card validity period
- Picture of the card holder

- Signature of the card holder
- National registry number
- Place of issue of the card
- Signature of the civil servant
- ICAO number

1 As reported by delegates at the 'Innovation for postal electronic products' IPC Senior Executive Forum, March 2011.

joint ventures. Three IPC members – Norway Post, P&T Luxembourg and Swiss Post – currently offer full CA services. A further two, Portugal's CTT Correios and Deutsche Post DHL, provide receivers with fully-authenticated electronic certificates as part of the registration process for digital mail services. The challenge for these posts is to grow the acceptance of the postal certificates for other applications. Some postal operators face roadblocks in developing this area. For example, although Certipost is a subsidiary of bpost and is the Belgian national certification, bpost states that its potential to develop e-ID services in Belgium, such as electronic contract certification is, stymied by legislative barriers that prevent storage of social security numbers on customer databases.

E-box

Market definition

E-boxes are electronic mailboxes which can be used for a variety of secured document services, including secure transactional communications, document management, and e-government and community services. Some e-box solutions focus on only one of these aspects, but a compelling e-box value proposition crucial in persuading senders to sign up to the service. E-boxes are in their infancy, and further market research may be required to help posts define the most important USPs, from both a business customer and consumer perspective.

Current thinking suggests that easy transition, seamless integration between digital and physical communication and the ability to send digitally only using hybrid services are valid propositions. Other potential benefits are provision of a digital platform for integrating customer relationship management (CRM) and enterprise resource planning with promotional messages, shorter business cycles, and enhanced direct mail that targets specific consumer groups.

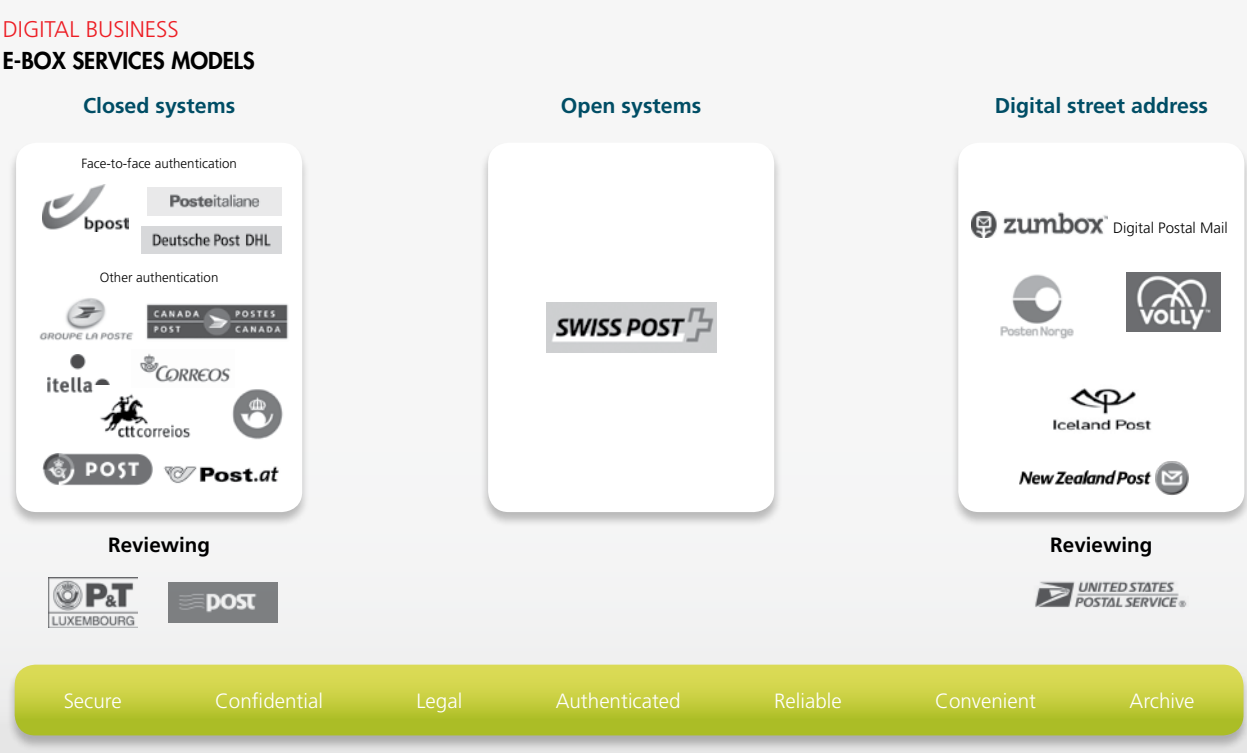
Consumers' perceptions of value will rest on content, convenience, security and privacy, and control over when and how they can receive information. As some of the case studies that follow later in this chapter will demonstrate, certain posts developing e-box solutions are driving consumer uptake initially through e-ID, however all posts will need to ensure their e-box services provide enough value to persuade consumers that registering for an e-ID is worthwhile.

E-box service developments focused on domestic markets

To date developments in postal e-box services have been focused on domestic markets, with customer acquisition strategies focused on major high volume transactional senders and government-to-citizen communications. Some services have been developed for niche segments such as expatriates. All authenticated e-boxes are based on a 'sender pays' model, with basic services currently offered free of charge to receivers.

DIGITAL BUSINESS

E-BOX SERVICES MODELS



Source: IPC analysis as of April, 2011

At this early stage in market development there is no common business model to migrate posts into the digital space, and posts are at different stages of development. Market maturity and e-government strategies are key factors in shaping compelling consumer drivers. Receiver adoption and regular use of the service are key to the long term success of e-box services. There is currently, no indication of which model will become the common industry norm.

Posts are investing significantly in the development and marketing of e-box services. These are still at the very earliest stage of market development and are perceived across the industry as highly sensitive and competitive areas. There has been thus far very limited sharing of strategies, technology, know-how and successes between posts.

High volume mailers have been resistant in converting from physical to digital delivery, and posts therefore need to demonstrate their clear added value as an intermediary. Currently twelve IPC members offer e-box services, with wide variations in terms of target users, market approaches and service offerings. These are documented in detail in *IPC e-box market developments* available at www.ipc.be.

Three business models are emerging for postal e-boxes:

1. A closed system for authenticated electronic communication among verified registered users. Registration to the electronic mail box is based on proprietary authentication processes or acceptance of other sources of digital identities. It requires rigorous identification of senders and receivers, often including face-to-face authentication at postal counters. This is the dominant model to date aimed at the secure transmission of transactional messages and archive management services. Value added services (eg payment services, uploading of documents) can be built on top of the network of identified users and provide additional revenue streams. Marketing communication is not currently envisaged in this model.

2. An open system based on providing identity and security over existing internet infrastructures. Senders and receivers are provided with individual digital certificates which allow access to a modular range of services, including electronic presentation of physical mail and secure email delivery. Users pay a fee for the electronic authenticated certificate (which includes a digital signature) as well as charges based on usage.

3. Digital street address models are based on digitising mail to create an electronic mirror of physical mail addresses. This closed digital channel, separate from email, identifies individuals by their link to a physical address. Authentication processes are not based on qualified signature standards. Digital street address offers a way into electronic direct marketing and could open up new revenue streams for posts based on click-through pricing models. It has potential to facilitate hyper-local marketing (a digital marketing message sent to every resident in the local restaurant's catchment area, for example). Zumbox is currently the leading software solution based on these principles.

At present it is unclear which model might eventually become the standard.

Developments in e-box services

Zumbox

Zumbox is a private California-based company that launched two years ago providing a platform for paperless postal systems. It connects large transactional, financial and government mailers to consumer households for the delivery and storage of digital postal mail via the internet. It is built on location-based ID but is not a certified service. It mirrors traditional mail, stressing that it is not email but a means for the digital distribution of documents. The company proactively markets its services to postal operators and volume mailers alike. For the consumer, the system is free, although the company does state that it may charge end-users for premium service features in the future. One IPC member post, New Zealand Post, has licensed Zumbox technology.

The system creates a new direct marketing channel offering sophisticated reporting tools for direct mailers that provide information on whether mail was opened and read, offering senders the opportunity to conduct direct marketing at a very local level. The sales message to senders is that there is no need to have both an email and physical address for an individual. Zumbox creates email boxes ready for use for addresses that have not yet been claimed by any sender.

Zumbox provides a defined channel for consumers to interact with preferred marketing communications. Receivers have control over sender communications and are able to view marketing communications in specific folders. Mail enters a receiver's Zumbox on the screen as a facsimile of the printed page. It can be viewed from any computer, deleted, printed, archived, downloaded or searched.

Zumbox is not cost-effective for mass mailing and uses pricing to avoid spam. It is easy to understand, offering a physical-to-digital platform that provides rich media including videos and interactive booking forms. Receivers can be in control by having the opportunity to reject senders.

A concern surrounding start-ups like Zumbox is that of many companies such as these pursue a short-term strategy whose primary goal is to exit the business altogether by

seeking a buyout from a larger player in the digital space, such as the Googles of this world. Such eventualities give rise to questions over consumer data and privacy, and may limit the appeal of these services to business customers and consumers. Incumbent postal operators on the other hand enjoy a longstanding legacy of handling consumer and business data securely and reliably, which represents a key competitive advantage. Moreover, the relationship between posts and players such as Zumbox - whether they represent potential partners or competitors - is still ambiguous.

SwissSign's secure business processes

SwissSign is a subsidiary of Swiss Post specialising in secure and fast business processes based on the principles of unique identification, digital signature and secure communication. The company is positioned as a provider of services that help large senders reduce the cost of business processes. SwissSign believes that the increased use of cloud computing means companies increasingly need to verify the ID of those with whom they interact. It began selling at the high end, aiming to win outsourced business processes from large senders (each SwissSign ID currently carries a CHF1m liability). It uses lighthouse customers[2] to demonstrate the benefits of its services.

SwissSign develops, produces and distributes the following services on behalf of Swiss Post:

- Swiss Post Box – online mailbox
- Post SuisseID – digital identity and qualified certificate
- IncaMail – platform for secure and registered email
- Individual solutions with high security requirements for business customers and international post companies

Swiss Post Box: an electronic mailbox for physical post

Swiss Post Box is an electronic mailbox for physical post. Having registered to use the service a customer is given a new correspondence address which they pass onto their correspondence partners (eg insurance company, credit card company, tax office, etc). Swiss Post scans the unopened envelopes of any mail that is addressed to the unique Swiss Post Box address and sends a digital image of the envelope to the customer by IncaMail (for more on IncaMail, see below). The end-receiver is provided with a number of delivery options:

- Open and scan – the letter is opened and the content scanned and forwarded electronically to the customer
- Recycle / shred
- Ship – the unopened letter is posted to a location specified by the customer

As a leading security specialist, SwissSign combines complex security technologies through simple consumer applications:

- Identification & authentication of individuals or organisations (ID check)
- Legally binding statement of intent (valid signature)
- Secure transmission with despatch and collection certificates (registered letter)
- Certificate Service Provider (CSP)

SwissSign is an open system that can work with any web-based email system such as Hotmail or Gmail. The SwissStick is a USB plug-in multi-purpose security device that allows users to access SwissSign from any application and any computer. It gives users secure login, qualified signature and verified sending, and is currently used by 35,000 business customers.

IncaMail is the Swiss Post solution for secure and registered email that works with a variety of mail platforms. Senders can send messages via web-based mail or business software and IncaMail then transmits the message securely over an encrypted connection. The recipient receives notification of the secure message via email, including a pickup link. If the sender and recipient are communicating via IncaMail for the first time a PIN will be transmitted to the recipient. This PIN serves as a unique identifier to collect the message. The recipient picks up the message through a secure connection using the link. If the recipient already has IncaMail integrated into his email or business software the email is automatically delivered over a secure connection. The sender receives confirmation of receipt.

Marketing is based on the post brand and a clear channel strategy with as much business as possible being conducted through SwissSign's own webshop. Revenue from digital services comes from a CHF300 price tag to purchase SwissStick for three years and a payment per email sent through IncaMail. However SwissStick's profitability depends on volumes, and the current CHF300 price tag represents something of a barrier to growth. With economies of scale, the price could come down to CHF50.

2 A customer who, in addition to using the vendor's product or technology, will also provide considerable and candid feedback to help the vendor refine its future product releases, as well as the associated means of distribution, service, and support.

As seen from both the Finnish and Swiss case studies, e-ID is being used to support an e-box solution from both Itella and from Swiss Post.

Deutsche Post: transforming into an information logistics provider

Deutsche Post defined three core attributes of a physical letter: that it's legally binding, confidential and reliable. It then transferred these attributes to an electronic letter product, launched in July 2010 as E-Postbrief. Unlike email, E-Postbrief is linked to an identified person or legal entity. The product incorporates a secure printing service for physical delivery and a scanning service for digital input of physical mail. E-Postbrief is available to individual senders but the main take-up has been business senders convinced that the product will bring them process efficiencies.

Not dependent on client software

E-Postbrief operates through a portal and is not dependent on client software. Deutsche Post has been successful in signing up big mailers, including banks and insurance companies, that spend a lot of time and effort digitising physical letters and printing digital messages. It claims to remove complexity from senders' processes by managing communications between businesses and consumers.

Implementation of E-Postbrief at a sending customer takes about 25 days and costs the sender about €25,000. The customer has to carry out mapping between its current email and the official e-post address in order to manage who in the business has the right to communicate with the outside world. At Allianz, for example, Deutsche Post delivers messages to the point of the firewall while for outbound messages it connects to the customer relationship management which uses email. Allianz now has two email addresses and only uses E-Postbrief for certain communications.

Convenience is the E-Postbrief benefit sold to consumers – being able to see all communications securely and in one place. However, persuading consumers of E-Postbrief's value has been more difficult than it was to convince senders. Registration requires face-to-face identification supported by official documentation, which is not a very convenient gateway to the service.

Deutsche Post supported E-Postbrief's launch with a high-impact marketing campaign encouraging registration. Senders also sent personal letters to their customers supporting a transfer to E-Postbrief. After the initial surge of early adopters growth, consumer registrations have now slowed. Deutsche Post gained permission for lottery bets to be transmitted via E-Postbrief because the system verifies that senders are over 18 years old, which may provide a fillip to consumer registrations. As of January 2011 post carriers have been carrying out registration at consumers' front doors to make the process more convenient.

E-Postbrief is central to Deutsche Post's innovation strategy to provide a platform of basic services on which to build added value

E-Postbrief is a margin rather than volume business and is seen ultimately as a driver for development of value-added services. It is central to Deutsche Post's innovation strategy to provide a platform of basic services on which to build the added value. Positioning E-Postbrief as a letter and not an email was crucial to its marketing as research showed resistance to paying for email. Unlike electronic services offered by other posts, the price of an E-Postbrief is the same as that of a stamp, although discounts do apply to large senders. This was a bold strategy but there has been no outcry about the price. Deutsche Post is not sure, however, whether price per message is where E-Postbrief's main value will lie in future. It aims to build a secure infrastructure capable of containing new applications.

eBoks: Post Danmark's full-service concept

Post Danmark's eBoks fits into a wider range of digital services under the eComOne brand. It provides consumers with access to their bank accounts and government services and requires no personal ID as eBoks uses existing bank customer ID. The government has been driving the transfer to digital communication in Denmark. It announced some time ago that it would no longer pay physical invoices from its suppliers and, with the banks, it has created ECID, a single e-ID for all consumer banking and e-government services.

eBoks is used by 180 netbanks, government ministries, all municipal authorities, more than 400 business-to-consumer senders and more than 200 business-to-business senders. By the end of 2010 an estimated 2.8 million consumers (just over half the population) were registered to use eBoks and the growth rate for uptake is substantial. Consumers can pay bills and sign up to receive all their mail electronically, archiving it according to specified preferences.

eBoks senders pay an annual service fee and a small fee per document sent representing 35-45% of the postage rate. Receivers pay nothing to register or receive messages but are charged €12 to upload 100 MB of their own digital information. In 2009, eBoks generated revenue of €8m and earnings before interest and tax of €2.8m (a 32.5% margin). It has been profitable for the past three years and employs 11 people.

Poste Italiane's innovation in digital services

Poste Italiane has developed into a digital services provider and claims to have the most modern integrated network and platform systems in Italy. It operates PostaCertificat@, a legally binding, certificated e-box for government services through which Poste Italiane provides a range of outsourced services under a strategic cooperation with the government.

Poste Italiane does not own the communications between government and individuals and the number of users for a service varies: for example, Poste Italiane handles 4,000 requests a day for green cards. It first began by handling speeding fines from shared service centres that administered, scanned, digitised and posted fine notifications, managing also the responses from fine receivers.

The certified email system, Posta Elettronica Certificata (PEC), is regulated by the government according to defined standards. It provides proof of sending and receiving, giving messages registered mail status. Companies and government agencies are obliged to use the service.

Postemail is a secure email service using the electronic postal certification mark (EPCM) to notify about online transactions. It is a free service for retailers registered on the Poste Italiane website.

Users can access paid-for hybrid services from their Postemail account, and send registered mail, priority mail and telegrams electronically. In each case Poste Italiane prints and delivers the item.

At an international level Poste Italiane aims to develop common UPU standards with other postal operators in order to enhance international legal e-communication. PReM is a pilot study of an e-service based on UPU standards for cross-border, secure digital communication. Poste Italiane says that by using the EPCM standard the system can guarantee the same legal status as physical registered mail and in addition provide evidence of secure message forwarding and delivery, certification of contents and timing.

Poste Italiane is the only non-US company in the New York Electronic Crime Task Force. In June 2009 Poste Italiane, in cooperation with the US Secret Service and Italy's Home Affairs ministry, established the European Electronic Crime Task Force based in Rome. This strategic partnership of law enforcement agencies and private companies aims to reduce electronic crime and raise the level of security in the digital world.

Digiposte from Le Groupe La Poste

The French government has been very proactive in promoting digitisation and has implemented two related pieces of legislation; one giving legal validity to electronic salary slips, and one which has recently liberalised the market for registered digital mail. The government has also set up a platform called mon.service-public.fr which

SERVICE DESCRIPTION & LAUNCH DATES

Source: Le Groupe La Poste

enables citizens to access most government services online and already counts a million subscribers. Previously all communication between the government and citizens was via physical mail, whereas now it is online and increasingly cost-free to the government. Given these developments Le Groupe La Poste needs to defend its position towards other well settled on-line competitors and approach potential partners in the public sector.

Digiposte: a universal secured free mailbox

Digiposte provides a universal secured mailbox free of charge for basic services and live archiving in the system's e-safe of documents such as invoices and pay slips. A USP for consumers is the centralisation the system provides: it is the only offer where users can get all their documents in a single location. La Poste has important know-how in digitisation processes and a certain amount of credibility among business in that regard. The system is designed to have minimal impact on the IT systems of mail issuers.

Revenues come from the mailbox: issuers pay an access fee, a fee for each document sent, and differential pricing per document type is applied. For example a salary slip is more expensive to send than an invoice. Issuers gain from more fluid processes. They save more than the cost of a stamp, adding to that the greater savings and economies of scale that come with the digitisation of additional content. Individual consumers do not pay for the service, although SOHOs (small office / home office) do pay a monthly service charge. The e-safe is free, but consumers are charged to upload documents via the e-share function.

Registration is by name and physical address, to which an authentication code is sent, with login and a double password. Digiposte does not currently use certificates but may do so in the future for consumer transactions over the net, such as buying insurance.

Le Groupe La Poste identified three core groups in its market research:

1. Highly digitised – uninterested in Digiposte as they think their current systems cover their needs. They will only become interested when they can derive value from the sharing proposition.
2. Mildly digitised – getting to a plateau, a good part of clients are digitised but cannot go farther because they have reached saturation of the number of people that want to digitise. They see Digiposte as a competitor. Banks are big here: for example e-banking is popular but statements are still sent by paper.
3. Undigitised – these are typically companies specialised in document management systems such as HR, pay management etc, who are facing challenges converting their companies over to digital systems. They are currently looking at digital solutions with a view to eventually moving over to partially- or fully-digital systems.

Digitposte is currently focusing on segments (2) and (3), and particularly on bank statements and salary slips. Banks have a legal obligation to send statements and allow clients time to communicate rectifications, so represent a natural target. La Banque Postale and Crédit Mutuel are current customers.

Salary slips are important for pension rights and most people keep them archived in their homes. HR companies are interested in the cost savings digitisation can bring but consumers are worried about the potential loss of electronic data. The added value to consumers is that Digiposte is a postal solution, which leverages people's trust in the post. Digiposte has already signed up its first customer, ADP.

Digiposte undertook a survey of HR managers and salaried employees and found that:

- HR managers are ready to offer e-pay slips to their employees
- 79% of HR and financial directors would recommend salary slip digitisation to their company
- 59% of salaried employees currently prefer to handle the archiving of their salary slips on their own
- 60% of employees would be interested in receiving and archiving other documents in their e-safe

So while salaried employees prefer hard-copy pay slips, they are still open to the digitisation and online archiving of other documents, meaning that there is conversion potential when it comes to e-slips. Consumers need to know that their digital salary slips are safe as they may need them for other administrative services. Le Groupe La Poste believes it can leverage its image, neutrality and security to convince people to go from physical to digital salary slips. This does not cannibalise existing business as salary slips are normally delivered internally. The salary slip is an interesting document to start with in order to overcome the barriers inside and outside La Poste.

Because Digiposte is a mail issuer controlling system it guarantees the authenticity of senders. Consumers do not want to divulge their data to people that are too linked to them commercially, eg banks. Digiposte can be a neutral actor to earn consumer trust, which is a further selling point. Digiposte centralises mail for consumers, who otherwise and currently have to hold accounts across the web and, if they do want their documents centrally located, copy them into a central area. A big disadvantage of this is that by copying documents they lose their legal value. La Poste believes that the market potential is immense and that the opportunities created by linking services will drive innovation and create new market opportunities.

Norway Post's Digipost

Norway's digital mailbox Digipost is based on a person's street address and national ID number. It is not seen as an e-box initiative, but as a new postal system in the digital world. A high-level authentication and certification service is provided by using two electronic IDs that are already on the market, one provided by the banks and one by the national lottery. As such around 70% of the Norwegian population already has a form of electronic ID and this is matched to the postal database. It is a legal requirement to inform Norway Post when changing address, which ensures the quality of the postal database.

During the registration process a customer chooses a password to log into the service. It is enough to have one's national ID number and a password to log in, but some letters need stronger identification to be opened, and in that case extra security can be added to the envelope, such as an additional PIN code or a token. The resulting electronic letters look the same as physical mail piece items, but as they are delivered on the web they include additional interactive elements. The value propositions are:

Consumers
- One digital mailbox for all important mail
- Ease of use
- High security
- Free of charge

Senders
- Cost efficient
- Ability to be integrated with sender portals

Norway Post made great efforts to gather input from senders and consumers alike during the development phase of the service. Early in the process they launched a site called labs.digipost.no to crowd source input, and also used social media platforms like Twitter and Facebook to spread the word and gather further input.

Mappan, Iceland's e-box system

Iceland Post's e-box solution Mappan, or 'folder' in Icelandic, went live in April 2011. Iceland Post bought ePost solution licences and source code from Canada Post in 2009, since when it has modified the system and developed a new interface and features.

The system can store any type of document and the purpose is to make it easy to send items such as bills, invoices, payment slips and statements. Documents can be sent in any format such as XML, Doc, PDF, etc. The system allows for document forwarding and replying to issuing mailings with communication history. All documents received through the system are stored for seven years.

Consumers can upload documents and each user gets 1GB of free space; thereafter they can choose to purchase additional storage. This personal storage space never expires.

Iceland Post changed the system to use social ID numbers. All citizens have a social ID in the format DDMMYY-xxxC. The social ID is compared to the national registry for full demographic details. This information is used to create the consumer's personal debit card which includes their digital ID. Almost all Icelandic citizens currently have debit cards and under the new system will be required to have one. As they use the same digital ID as for online banking services users do not have to sign up to the system, they can simply log in with their digital ID. Mailers can use the system to target specific demographics and/or specific areas to send targeted communications.

Consumers can pay bills from the system: a pay button redirects them to the internet bank with a secure login. With the payment details pre-completed, the customer just has to approve payment on the bank site. The system provides for a secured reply system should a consumer wish to contest or comment on a bill.

The system also provides for an image-based information system for consumers on culture and events, as well as a calendar and discussion boards for different neighbourhoods.

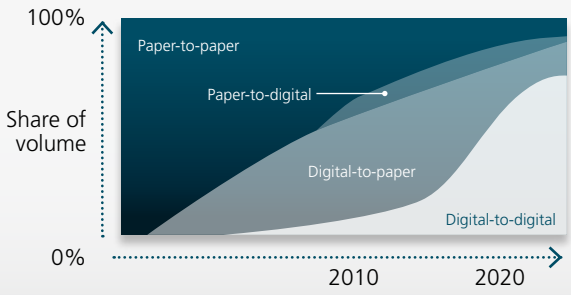
Next in the development pipeline are:
- Digital applications
- Registered mail
- Digitally signed documents
- Mappan for companies
- Voting system
- Prepaid online payment cards
- B2B invoicing

Case study – Itella's integrated approach that is helping drive the Finnish information society

In July 2010 Finland introduced a USO (universal service obligation) law that provides for every citizen to receive a 1Mbit broadband connection, and in so doing became the first country to introduce broadband as a legal right. Ninety-six percent of the Finnish population is connected and the Finnish government has promised that all households will have a 100Mbit broadband connection by 2015. It is hardly surprising that the Finnish postal operator Itella has become a European leader in information and service logistics.

ITELLA'S STRATEGIC ASPIRATION

To be proactive and prepared



Source: Itella

Itella's vision is to be European leader in information and service logistics

NetPosti allows consumers and small businesses to securely receive a range of important official documentation, such as pay slips, notices from service companies or authorities, and other digital communication. NetPosti is an alternative to a physical mailbox coupled with a file archive: letters that used to be delivered to a mailbox in paper format can now be sent electronically to a NetPosti mailbox. Mail can be received from companies and other organisations connected to hybrid mail service providers which offer NetPosti delivery. An electronic letter sent to NetPosti looks exactly the same as the corresponding paper letter. Consumers can organise and archive electronic letters securely in NetPosti for seven years for free. In addition to receiving and archiving letters digitally, entrepreneurs and small businesses can also send electronic invoices or hybrid mail through Itella's hybrid mail service.

Itella has developed NetPosti in gradual stages over the past ten years. Electronic salary slips have been one of the best drivers for consumer acceptance to date and there is still more growth in the sector. An entire group of employees comes into NetPosti when each major employer stops delivering paper slips. Banks in Finland provide the main competition for this service but NetPosti is the market leader. Five years ago Itella began putting hybrid mail automatically into consumers' NetPosti boxes. It continues to print and deliver mail pieces, but an increasing number of consumers signed up to NetPosti are opting for digital-only delivery.

Itella's subsidiary Itella IPS Ltd (Itella Payment Services) offers services relating to e-invoicing and payment transfer. The Finnish Financial Supervisory Authority (FIN-FSA) granted the company a payment institution license that gives Itella access to the payment transfer network used by banks, which allows Itella to integrate invoicing and money transfer services. Itella is now able to forward consumers' electronic invoices to NetPosti or online banks and it can also offer a unique range of solutions for sending and receiving electronic invoices for corporate customers. The standardised Finvoice interface requires no system change or special action by senders. Invoices can be delivered to the consumer directly via NetPosti while arriving also via the banking network.

Managers involved in NetPosti have had to see through a long period of slow growth when mail substitution did not impact overall mail volumes. Itella's patience is now paying off and its digital delivery services are attracting consumer acceptance and growth. Without NetPosti, Itella would be losing consumer invoice volumes to online banks, but Itella has been able to keep most of digitised invoices.

In 2010 NetPosti grew its user base by 46% and its annual letter volume by 71% to a total of 5.3 million digital letters, largely driven by a high-profile marketing campaign. At the beginning of 2011 NetPosti counted 300,000 users and Itella aims to grow that figure to 500,000 subscribers by the end of 2011. NetPosti has also been made available via applications for iPhones and Android phones, as well as tablet devices such as the Apple iPad.

NetPosti in figures:
- Over 4,000 senders
- Over 300,000 users
- 1,000 e-government forms
- 0 carbon dioxide emissions: NetPosti generates 90% fewer emissions than physical mail, while the remainder is offset

In 2010 NetPosti grew 46% in users and 71% in annual letter volume to total 5.3 million digital letters

NetPosti is an at-arms-length operation, separate from Itella's information logistics business, and Itella actively offers NetPosti as a digital distribution channel also to

NetPosti

www.netposti.fi

its information logistics competitors, like Strålfors (Posten Norden) on a purely open basis.

In 2009 Itella launched its 'NetPosti Inside' concept, which integrates NetPosti with banks' online services and provides consumers with a 'pay' button within the NetPosti environment for one-click settlement of e-invoices or e-bills received in their NetPosti inbox. This obviates the need for consumers to log in multiple times to access their secure mail and then banking services.

NetPosti already has agreements with several banks to integrate NetPosti Inside into their online services, with more banks due to come online in 2011. Banks are eager to collaborate due to NetPosti's strong brand position and Itella's willingness to build in the security that banks require. NetPosti is leveraging its critical mass of some 4,000 senders to bring digital invoicing to partner banks' customers, which in turn is providing another route for driving consumer uptake. Partner banks are also provided with an electronic invoicing solution for their own end customers. E-invoicing is enabled by Itella IPS Ltd, as mentioned above.

NetPosti allows large retailers to send electronic customer loyalty letters to targeted consumers. NetPosti's visual letter approach makes it possible for sender to combine marketing information with their letters.

Itella's core strength is its ability to use physical mail addresses in digital delivery, which makes it easy for all mail senders to start using NetPosti. Senders do not need to invest in billing systems to support new electronic addresses. Itella believes that in future it could have virtual user addresses for electronic business by creating a single ID that uniquely and securely identifies individuals. This kind of ID could provide possibilities in developing new mail delivery services as well as support growing electronic commerce.

The Anttila experiment

April 2010 saw a mail delivery trial in Anttila, 50 kilometres north-east of Helsinki, to test alternative mail delivery methods and builds on the NetPosti service. The objective was to understand which services participants wanted in order to optimally combine physical and digital delivery. More than 140 households and companies participated.

Combining traditional mail delivery and electronic services

During the trial, mail was delivered just twice a week to the recipients' mailbox. On other days mail was delivered to the recipients PO box at the local postal outlet, from where the customer could pick up the mail at any time. Customers did not have to visit their box unnecessarily as they were notified of new mail deliveries by text message or email.

In addition to the physical mail delivery, first and second-class mail items were scanned and delivered to the customer's NetPosti account in an electronic format. Again, recipients were notified of incoming mail to NetPosti by email or SMS, and the digital delivery of the letters was available early in the morning and before the physical mail delivery at 9am. Scanned items were put in envelopes for physical delivery by a specialist unit of personnel in Helsinki where the employees have all signed strict confidentiality agreements. In addition, each participant in the trial signed an agreement stating that they agreed to their mail being opened and scanned.[3]

Itella has received very positive feedback on the trial. Providing consumers with both digital and physical delivery of the same mail items has empowered them to make informed consumer choices regarding their preference for mail delivery. It also allowed consumers to compare the quality of service between both offerings, in an effort to develop demand for digital delivery. Many of the trial subjects were unconcerned about receiving their physical mail less frequently and preferred the early delivery that digital delivery entailed. Itella is continuing its living lab as a permanent development platform for new postal services, and the latest trial is delivering a newspaper in a digital form to NetPosti where it can be read by e-reader devices. The experiment has created a social relationship between residents and Itella and the grass-roots experience has brought about service improvements.

The experiment has created a social relationship between residents and Itella

UPU initiative in e-services

The Universal Postal Union (UPU) is developing a high-level strategy for the interconnection and interoperability of postal services based on new standards. New regulations on hybrid mail and an electronic postal certification mark also aim to encourage interconnection. In December 2009 UPU signed a contract with ICANN to become the first United Nations agency to sponsor a top-level internet domain.

3 For some years now the Itella Group has scanned physical letters into electronic format for companies and public corporations, such as insurance companies, accounting firms, and the State Treasury. Hundreds of thousands letters are scanned each day. Reliability of the service is of the utmost importance. In preparing for the trial, Itella discussed the issue both with the Finnish Communications Regulatory Authority that supervises postal activities and the Data Protection Ombudsman, neither of whom was opposed to the trial.

The domain .post is a long-term project to provide posts with the right to control the space in which they deliver electronic postal services.

The UPU's vision is to link physical and digital messages and integrate them with financial services, helping posts to remove their internal service silos. It believes .post provides the post with an opportunity to be a key player in e-commerce, e-government and e-post. The idea is to use .post to create trust in senders and receivers because it is a closed domain of regulated postal companies. It will bring together postal activities and integrate them with e-ID.

The Domain Name System (DNS) technical standard will create a secure internet but all existing domain names would have to change in order to benefit from the added security as .post will operate to DNS standard from the start. The UPU is appointing a technical infrastructure provider but it will register posts for their domain names. The domain registry is planned to open in early 2011.

Role of postal operators in emerging value networks

IPC supports its members in the development of these services through a variety of initiatives, not least of which is leveraging research on platform-driven innovation through collaboration with the Massachusetts Institute of Technology's (MIT) Center for Digital Business. Many examples of platform-driven innovation exist from which posts can learn in their bid to become key players in delivering added value e-services to citizens. A best-in-class example of platform-driven innovation is provided by Apple, which has created a network effect of mass usage by opening up its systems to developers. Will posts be able to open up their electronic postal services to create such a profitable network effect?

Work undertaken by Marshall Van Alstyne, Research Affiliate (MIT), Associate Professor (Boston University) on digital platforms[4] has shown that networked businesses comprise a large and growing share of the global economy. Such platforms are not just restricted to computing, media, telecoms and the internet but also include:

- Financial services: ATMs, credit cards, stock exchanges
- Transportation: fuel cell cars, reservation systems
- Retail: shopping centres, universal product codes
- Energy: grid & appliances
- Health care: HMOs
- Real estate: home buying
- Personal relationships: bars, dating sites

Today 60 of the world's 100 largest companies (by market capital) earn in excess of half of their revenues from platform-mediated networks.

Competition for supremacy in technology platforms is ever present, eg Kindle vs e-readers, Blu-ray vs HD-DVD, MS vs Mackintosh, and iPhone vs Android. This is not a new phenomenon and history provides many examples whereby an inferior technology which is more actively promoted to a wider public becomes the dominant technology over time. For example, the move away from the vinyl disc began in the 60s. "Bill" William Lear, designer of the Lear Jet executive airplane, also invented the eight-track stereo, which featured a good sound but a flawed track system that did not include a rewind capability. The tape also had limited capacity that sometimes forced songs to be split into two tracks. After years of moderate success, the eight-track finally lost out to the smaller and cheaper audiocassette.

What seemed like a never-ending battle has finally come to a close. The war between HD-DVD and Blu-ray began because Sony and its partners could not reach a compromise with Toshiba and its partners. There was no standard format, and so two formats were released and a see-saw battle waged on for two years, holding back both format's widespread acceptance and worldwide adoption of high-definition video. In the end, the Trojan horse that is Sony's PlayStation 3 enabled Blu-ray players to outsell HD-DVD players, causing several Hollywood studios to side with Blu-ray exclusively. Toshiba officially pulled the plug on HD-DVD on 19 February 2011.

Platforms & applications

A platform is defined as components used in common across a product family whose functionality can be extended by 3rd parties (Boudreau 2007) characterised by network effects[4].

Examples of such platforms are:
- Desktop operating systems: Unix, Mac, Windows
- PDAs: Palm, Psion, Newton
- Game consoles: Wii, Xbox, Playstation
- Network switches: Cisco, IBM, HP
- Multimedia: Adobe/Flash, MS/Silverlight, Google-Apple/HTML5
- Payment systems: Paypal, Google Checkout, Visa, Apple, Mobile Felica
- Mobile devices: iPhone, Android, Symbian, Blackberry
- Enterprise systems: Salesforce, Oracle, i2, IBM, SAP
- Social networks: Facebook, MySpace, LinkedIn, Monster, Twitter

4 Eisenmann, Parker & Van Alstyne, 2009

- Batteries: Sony, Panasonic, Sanyo, A123
- Web search: Google, Bing+Yahoo!, Baidu
- Ebooks: Amazon, iPad, Nook, Sony

The managerial implications are that winners in a platform market generally have the best platform strategy, not necessarily the best product. Here 'best' platform refers to a system that is open to other user interfaces and which has modular architecture upon which it is easy to build on, or to extend. There are also a number of compelling complements which are generally the result of a vibrant ecosystem. By comparison, the best product may have the best standalone value proposition, but while it may be a good starting point, it is usually not enough to win in a platform market.

Convergence in technology will always occur. In regard to the development of a postal e-box there will be many companies looking at different applications that can be developed. This point can be illustrated by the example of Word on Windows. Apple launched the personal computer market but Microsoft licensed widely, building a huge developer ecosystem. By the time of the antitrust trial, Microsoft had more than six times the number of developers.

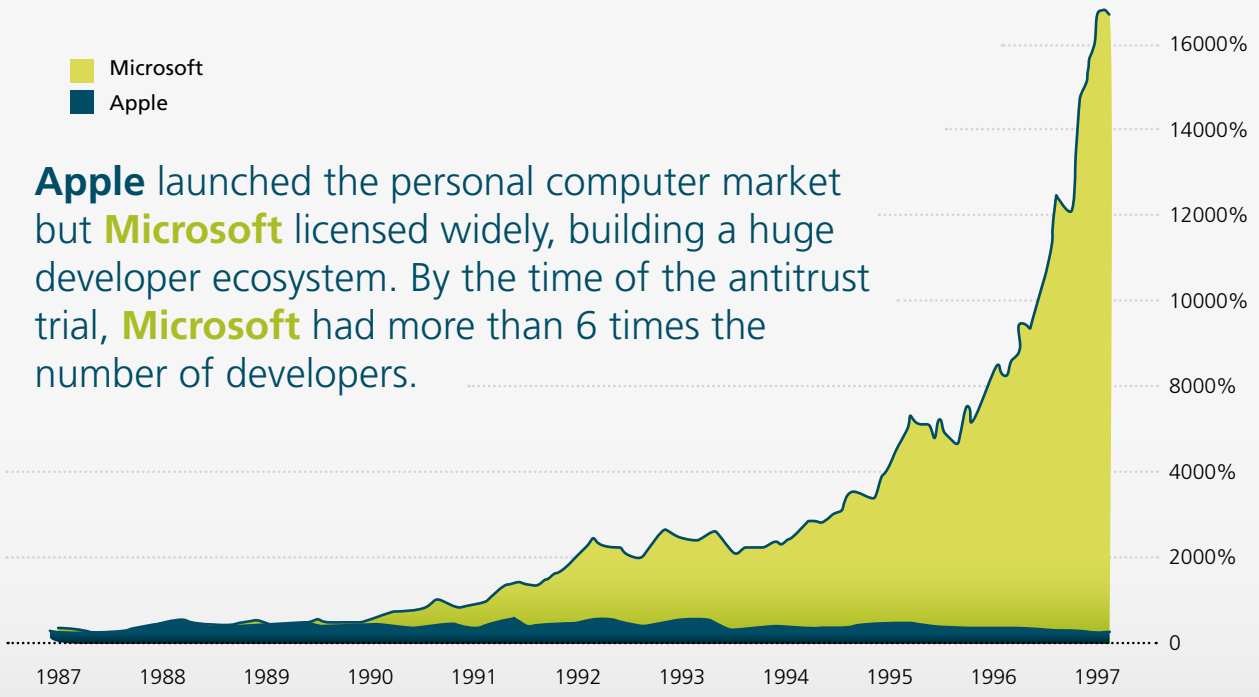
Some argued in the late 90s that Apple was going to disappear. Apple had too much of a closed ecosystem and was charging for its applications whereas Microsoft was giving them away.

A comparison of the market value shows a complete turnaround in the performance of both companies.

Apple now has more than a quarter of a million applications developed on its own platform. Microsoft by contrast is struggling and is now working with Nokia to develop a platform eco system. Using a platform strategy, Apple has become the most valuable technology firm in the US, representing $222bn to Microsoft's $219bn.

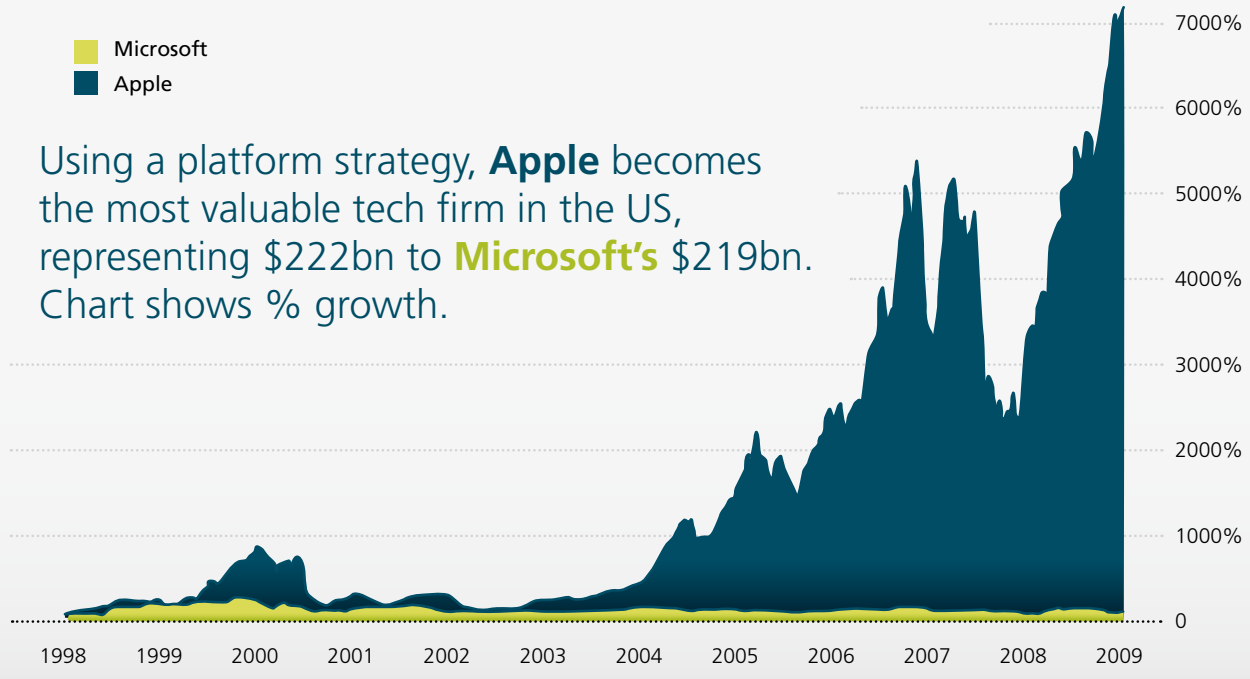
New business models are born as old ones die. This is directly relevant to the postal operators trying to manage the transition from physical mail to online. One example is the US video chain Blockbuster, which recently declared bankruptcy. Its traditional home rental market was taken away by the Netflix mail-order DVD service. Today Netflix is again evolving and moving towards video streaming to its customers and phasing out mail distribution. It chooses to cannibalise its own business rather than let others do it. There are many parallels in what posts are doing with the introduction of electronic services – is it better to make 10 cents from a digital communication than 60 cents from a physical one?

1981-1997 MICROSOFT BEATS APPLE



© 2011 Parker & Van Alstyne

APPLE PASSES MICROSOFT 26 MAY 2010



© 2011 Parker & Van Alstyne

In the music industry there are many parallels such as the former retailer Tower Records which was effectively killed off by Apple iTunes, again through the digitisation of content.

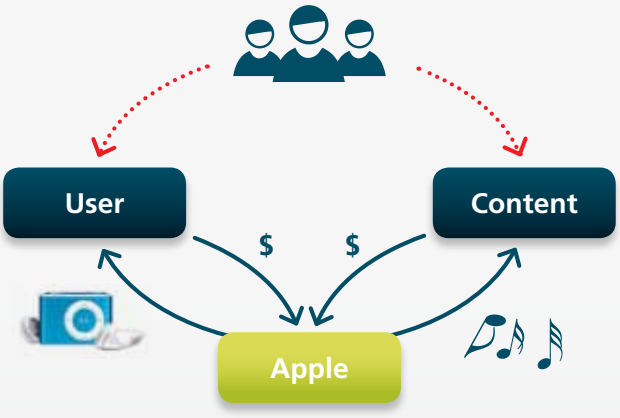
Apple iPod

Initially the Apple iPod was an example of a classic linear supply chain. The user copied CDs and loaded them onto iPod/mp3 players, and there were very few network effects. However the genius of Apple was its iTunes strategy which enabled the relationship with the consumer to become triangular. Apple managed the device on the one side and content on the other, becoming a choke point and giving it ownership of the revenue streams for the content on the supply side. It also drove content business through suggestions and recommendations ("you liked that, so you may like this").

Apple was therefore able to create a network effect – having millions of users on the iTunes platform incentivised others to join and the content further benefited. Apple is killing standalone platforms like Microsoft Zune, Amazon Kindle and Sony PSP by combining these into one platform – with so many users in each area, more users will be pulled into the Apple platform where they can do more than one thing.

There are so many benefits of being part of a single ecosystem that Apple is currently dominating the market. Even if standalone products are better than those on the Apple platform, a standalone platform does not have the network effect and will lose out.

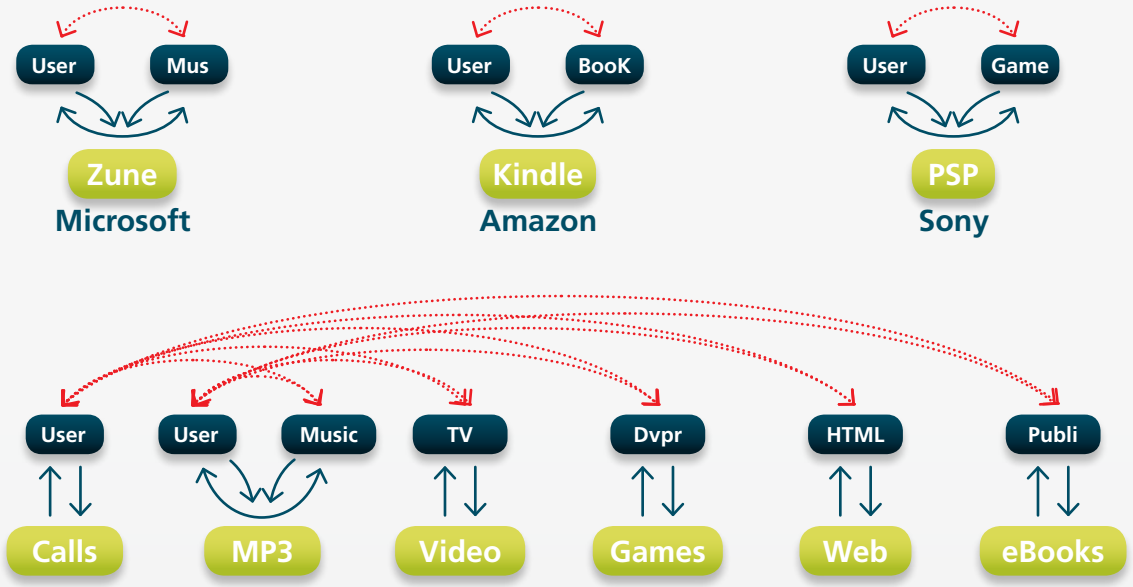
APPLE IPOD PLATFORM



(1) Triangular platform supply network
(2) Apple owns financial chokepoint
(3) Apple matches users to content
(4) Stronger network effects

© 2011 Parker & Van Alstyne

HOW APPLE IS KILLING STANDALONE PLATFORMS



Apple has vastly stronger **network effects**.

Message for IPC members: A great standalone product (eg e-box) might not be sufficient.

© 2011 Parker & Van Alstyne

For IPC members the message is clear. Developing a single platform creates the danger of not attracting sufficient numbers of users to create the desired network effect. While closed systems provide total control and 100% of revenue streams, they do not provide postal operators with the potential to grow the industry. On the other hand a system that is too open will not allow posts to make much money, and therefore an optimal level of openness exists.

It can be asked whether the opening of platforms will lead to economic success. The chart on page 39 shows the daily reach of MySpace compared to Facebook from before Facebook opened up its platform to after. Openness enhanced the network effects and third-party participation, and developed Facebook into a very sustainable platform.

Managing an ecosystem raises the question of when to open in the first place. In the case of the iPod, Apple was probably right not to open the iPod as it only did one thing, that is play mp3 files. The genius of Apple was to ensure that through design and innovation the iPod performed this one task brilliantly, thereby creating consumer desire and sales.

In contrast, the iPhone performs multiple tasks. While it was not possible for Apple to conceive of developing all of the applications in the long tail, Apple only opened its iPhone system under the threat of competition, and it is this very openness of the iPhone and subsequent iPad that has been instrumental in the company's turnaround.

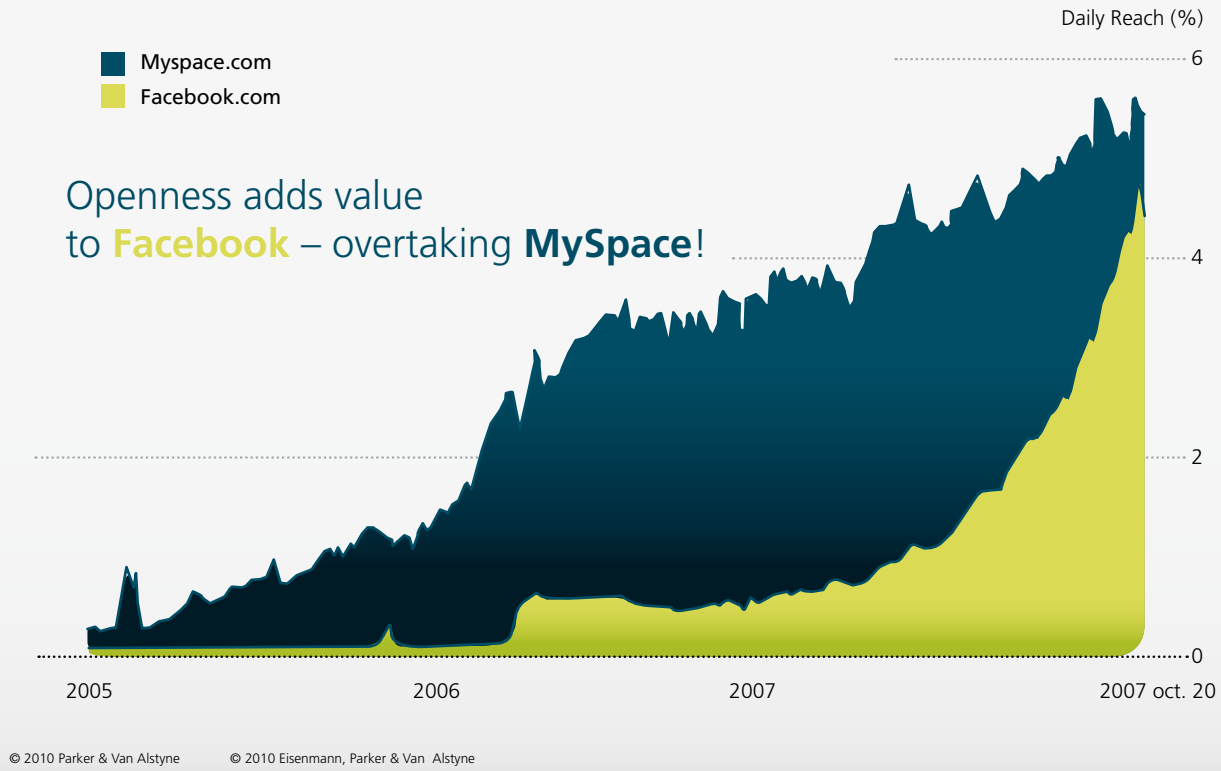
Some product features are so valuable that they are made standard features to the benefit of everyone. In this case, the first rule is to absorb the highest-value applications from the ecosystem. This adds value for users and mitigates the threat of disintermediation. Examples include how Apple's iPad absorbed e-books and Microsoft Windows absorbed web browsing.

Limited value is created in serving each market separately; much greater value is created by helping separate markets serve each other.

Bundling & envelopment

Rhapsody invented streaming audio and video in order to control content without user capture. Real gave away their players and charged for content creation. In contrast,

1981-1997 MICROSOFT BEATS APPLE



© 2010 Parker & Van Alstyne © 2010 Eisenmann, Parker & Van Alstyne

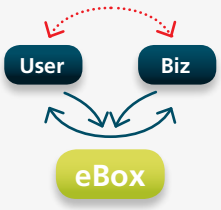
Microsoft bundled an initially inferior product - the Windows Media Player (WMP) - as part of the Microsoft operating system, which meant that it could leverage its massive distribution scale: as the vast majority of PC users already had WMP, so content suppliers had a ready-made market and developed their content for WMP rather than Real. Real then switched strategy by introducing subscription content. Yahoo entered the market with a different business model: by giving away content supported by portal advertising.

Apple's margin on music sales was initially small - the strategy was to make money on iPod sales and subsidise iTunes with these sales. However Apple then bundled the iPod into the iPhone, which could do much more than just play music. At the same time, through iTunes, Apple still manage the content distribution side.

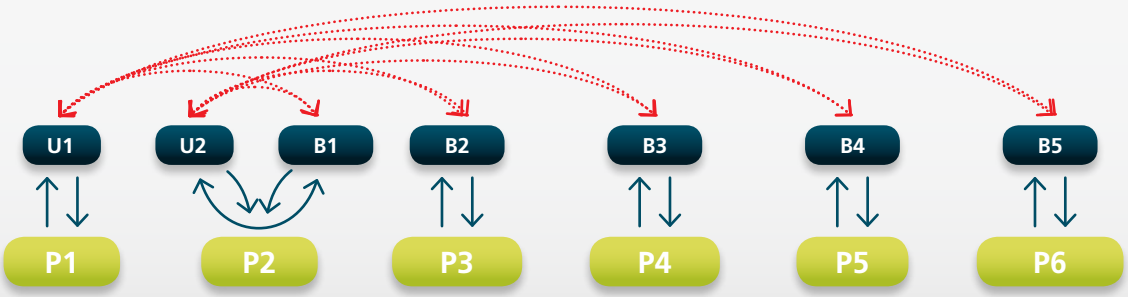
The relevance to postal operators developing e-box solutions is that these will have the same 'Russian doll' nested structure, and offer partners and competitors similar opportunities and threats. Postal operators need to seriously consider their relationship with the rest of the IT industry. The Zumbox case study demonstrates how others are already entering the space, which at present can represent both a threat and an opportunity to postal operators. However, as yet there is no evidence of how postal operators would work with such firms. It seems that the postal industry has not yet fully determined the type of platform its e-box solutions will represent, nor how posts will manage their nested doll strategies. The window of opportunity to do so will fast close.

THE FUTURE…

Will **postal e-Box** solutions be like this?



Or this?



© 2010 Eisenmann, Parker & Van Alstyne

Conclusion

Letter mail volumes are in decline, making new operating models necessary for both physical and digital services.

Posts must develop in the digital space areas of activity that will limit the shrinkage of their business. The golden rule for innovation is to recognise the pressing need to prioritise as it is impossible to develop in all digital areas at once.

Newly-launched digital services will grow slowly at first, and posts must accept realistic prospects for investment and returns based on practical assessments of the time needed to achieve market penetration and adoption. Posts' owners will need to focus on long-term value creation and operational sustainability over short-term gain.

Nordic posts in general have kept faith with digital services, entering the market ten years ago and staying the course to achieve gradual growth. Other posts left quickly when their digital services failed to make a fast return.

An important fact to accept is that the development of digital services will not now accelerate declines in letter mail volumes—substitution has or will happen anyway, and other service providers will meet customer needs if posts fail to do so.

While digital businesses are not expected to replace highly profitable priority letters, they can be relatively high margin substitutes as they are not labour intensive.

Posts face seven major challenges in their drive to innovate in the digital area:

- learning to operate and monetise services successfully in an unstructured market
- securing the business-to-consumer channel
- adding value to receiver pull, including digital pull
- linking physical and digital services to become a multi-channel operator
- developing customer relationship management opportunities within customer billing operations through multi-function, physical and digital messages
- enriching physical logistics with digital messaging adapted to the new business environment
- attracting the talent needed to manage these businesses

A key challenge is to assess the extent to which consumers require security and proof of identity in a world where products with low security are being used successfully. Value propositions for postal products will only be successful if they provide the type and level of convenience consumers want.

A further challenge is creating the network effects that will allow posts to gain a critical mass of users that make their digital platforms successful. Several instructive examples of platform innovation and network effects exists from which posts can learn – the classic being Apple, which has created a network effect of mass usage through opening up its systems to developers. Will posts be able to develop open electronic postal services to create such a profitable network effect?

4

Direct marketing and the postal sector

- Direct mail has historically accounted for 50% of postal mail volume in developed markets. In a market increasingly defined by falling mail volumes and substitution it is important that direct mail be considered as an advertising medium first and a mail product second.

- The results of an IPC-commissioned qualitative study published in 2010 of cross-media communication revealed that consumers – particularly those under 35 years of age – view online channels as exciting with unlimited potential, valuing the interactivity, speed and measurability of digital media. Physical direct mail was perceived positively: as achieving more impact than digital media, offering personal communication and having the ability to reach specific customer groups and sectors.

- In 2013 507 billion emails will be sent out, 81% of which will be spam. Already consumers are bombarded with too many online marketing messages. At the same time fewer direct mail pieces are being delivered per consumer. The indirect consequence is that direct mail is becoming more highly valued.

- There is a growing trend for B2C manufacturers of consumer products to prefer direct mail as a primary marketing and even distribution channel. The Nivea group is one such example. The Nivea brand manager for Belgium believes direct mail is a powerful channel within an integrated direct marketing programme that spans a range of media, centred on a web platform.

- The trend for increased expenditure on internet advertising is forecast to continue as online advertising becomes increasingly popular. In 2009 the online media share in China was 14%, accounting for US$3.3bn, in Japan this was 17%, worth US$7.6bn, however in Thailand where TV accounts for half of all media expenditure, online advertising was almost zero.

- Providing posts can continue to promote the benefits of direct mail in terms of personalisation, relevance, quality and ROI in reaching high-value customers, the evidence is that mail volume decline can be stemmed. However this requires considerable focus by the posts in ensuring the relevance of this media in today's climate of increasing digital business.

- Posts' responses in leveraging these opportunities are varied. Singapore Post is trying to compensate for the decline in business mail by pursuing an aggressive strategic focus across four different areas for direct mail. Some postal operators provide database solutions directly to business customers, an example of which is Norway Post's subsidiary Bring Dialog. TNT Mail China has decided to reposition itself to provide integrated direct marketing and home delivery solutions focusing on customer acquisition, customer implementation and customer retention.

Global overview of the advertising market

Trends in direct marketing have been strongly affected by the growth in digital communications, with web-centric customer databases creating ever greater convergence between direct mail and online direct marketing, particularly between e-commerce and direct mail. Having identified high-value customers, marketing managers are using direct mail to cut through the digital clutter to reach their key customer prospects with high value, personalised communications.

Direct mail: historically 50% of postal mail volume in developed markets

Direct mail has historically accounted for 50% of postal mail volume in developed markets. In a market increasingly defined by falling mail volumes and substitution it is important that direct mail be considered as an advertising medium first and a mail product second. IPC is working with its members to ensure direct mail remains an important element of integrated, cross-media campaigns.

ZenithOptimedia, a media services group owned by the Publicis advertising and communications group, has predicted that the global advertising spend is forecast to grow by 4.5% during the course of 2011 to €352.9bn.

The same source predicts spending on internet advertising to account for the largest proportion of that growth, with a forecast increase of 16% in online advertising. In Asia Pacific, this is forecast to grow by 20.8%.

THE GLOBAL ADVERTISING MARKET

Major media in €bn	2010 (e)	2011 (e)
North America	119.6	122.9
Western Europe	77.0	79.0
Asia Pacific	80.1	85.3
Global Total	**337.6**	**352.9**

(e) = Expected value
Major media: TV, print, radio, cinema, outdoor, internet
Source: ZenithOptimedia, July 2010

Internet ad spend in €bn	2010 vs 2009 (e)	2011 vs 2010 (e)
Western Europe	+9.0%	+8.8%
North America	+13.6%	+17.4%
Asia Pacific	+14.6%	+20.8%
Global total	**+13.0%**	**+16.0%**

(e) = Expected value
Source: ZenithOptimedia, July 2010

Source: IPC 2010

To maintain relevance and share, direct mail has to work effectively with online advertising media through cross-media campaigns. During the last twelve months IPC has identified increasing evidence that direct mail remains a powerful marketing media which is complementary to online advertising. In this chapter we present findings from market research, customer testimonials and changes in advertising agency strategies that demonstrate this.

IPC direct marketing intelligence – qualitative research

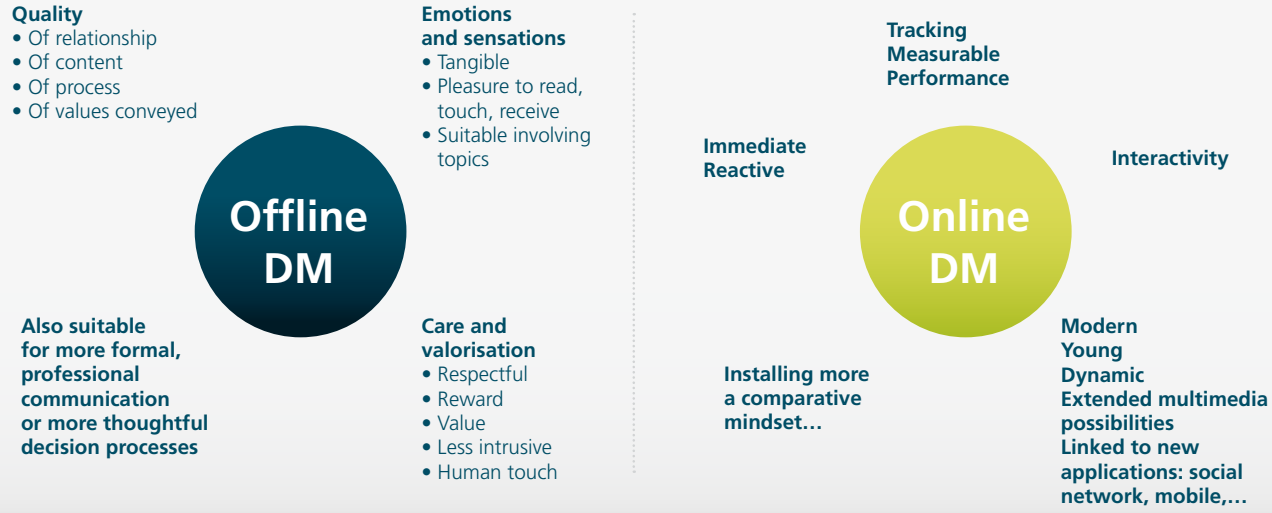
At the close of 2009 IPC designed and commissioned a qualitative study to understand key aspects of cross-media communications, the results of which were published in the 2010 edition of this publication[1]. These findings were presented to senior postal executives during an IPC Senior Executive Forum during which case studies on developments in direct mail from the business and communications agency world were also presented, which will be discussed later in this publication.

It is opportune to first recall briefly the scope and some topline results of the research. The research sought particularly to understand the issues facing postal customers managing the direct mail channel, the strengths and weaknesses of paper and online communication, the impact of the economic downturn, and trends for the future. In-depth interviews were conducted in Belgium, Italy, the Netherlands and Spain with chief marketing officers, senior managers, advertising agencies and media buyers. The interviews were conducted at the nadir of the recession which was depressing sales and restricting company budgets. At the time, the immediate focus for direct marketing was on customer recruitment, internal cost control and return on investment per contact.

Online was valued for being cost-effective and measurable and most believed strongly in a continuing drift towards online media and a consequent reduction in paper and postal channels, but those in Italy and Spain had embraced online media as a panacea in the face of limited budgets. Respondents in Italy and Spain perceived direct mail as somewhat out-dated but advertisers in these countries believed it would become a niche channel for personalised campaigns and premium products. In Belgium and the Netherlands, more mature online markets, advertisers took a different view, recognising declining conversion or redemption rates from click through, the negative aspects of spam, complaints about intrusive and aggressive emails and the risk of encouraging customers to focus on price comparisons. Advertisers in Belgium and the Netherlands were positive about the potential for online, persuaded by the potential benefits of cross-media approaches. Across all countries, age influenced perceptions of marketing channels, with those under 35 valuing online more highly and those over that age expressing greater enthusiasm for

1 Strategic Perspectives on the Postal Market 2010, p 26-29

OFFLINE AND ONLINE DIRECT MARKETING REFER TO DIFFERENT VALUES



Source: IPC Direct Marketing Intelligence, 2010

physical direct mail. Delivery costs represented a significant barrier to use of direct mail for all respondents, a perception that postal operators need to address. Most advertisers and communication specialists consider that online and offline direct marketing have different values and respond to different objectives.

Online marketing is seen as lower cost, suitable for higher volumes, faster, easier, less labour intensive and more flexible. Physical direct mail was perceived positively as achieving more impact, offering personal communication and having the ability to reach specific customer groups and sectors. Its efficacy for catalogue/distance sellers, coupons and incentives or gifts was widely recognised; respondents also felt that direct mail is less intrusive and has a longer-lasting effect than email. Direct mail has a role, therefore, both in building brand awareness and as a tactical promotional tool.

In all four countries, respondents were moving away from mass volume campaigns to a more segmented approach. Advertisers in Belgium and the Netherlands were increasingly integrating direct mail with online channels in their campaigns, and agencies were interested in expanding into direct mail as a way of enhancing their partnerships with customers. As many agencies are the first touch point for potential customers who are only seeking online support at present, these agencies could represent key partners for postal operators in the future.

Some of the key issues that postal operators must consider include:

- The need for expert sales personnel
- Whether paying agency commission will bring profitable results
- The value of direct mail in customer relationship management (CRM)
- The need to build up a portfolio of successful direct mail campaigns to use as case studies
- The extent to which postal operators should facilitate integrated, multi-channel direct marketing

Urgent action points to capitalise on the strengths of direct mail

- Direct mail needs to be repositioned and its high positive value to both senders and receivers measured. Postal operators should justify premium pricing, providing data to demonstrate direct mail's efficiency and thereby build stronger relationships with customers
- The image of direct mail must be reinvigorated, particularly in the minds of younger executives and recent adopters of online marketing. Providing examples of effective direct mail campaigns can encourage advertisers to revisit direct mail
- The price issue needs to be addressed. Barriers to the use of direct mail are linked to volume-based pricing at a time when campaigns are becoming more segmented and personalised. The cost of delivery is a significant proportion (typically one-third) of total direct mail cost
- Postal operators could provide database management solutions to customers, either directly, or as a partner to address management companies. There are significant benefits in helping advertisers find new customers via richer, more effective data, helping them integrate internal databases as a tool available to all points of contact. It is time for posts to act now on database management services as the competitive space is relatively open

- Postal operators should consider positioning themselves as facilitators of cross-media activity with expert knowledge of the strengths and weaknesses of each channel. There is a need to build up a portfolio of successful direct mail campaigns to use as case studies.

Postal operators: facilitators of cross-media marketing

Brands today seek to dialogue with consumers, which means that the communications need to be sophisticated and highly targeted via the correct media channels for the relevant audience. Social media and the internet in general have allowed for highly-targeted marketing outreach, and consumer behaviour and events are increasingly being used to trigger communications to consumers. For example,

ADVERTISERS ARE LOOKING FOR SUPPORT TO DEVELOP INTEGRATED DATABASE MARKETING TOOLS

Whatever the touch point with the customer, the following process is required:

Source: IPC Direct Marketing Intelligence, 2010

The agency perspective: a digital communications agency adding direct mail into the mix

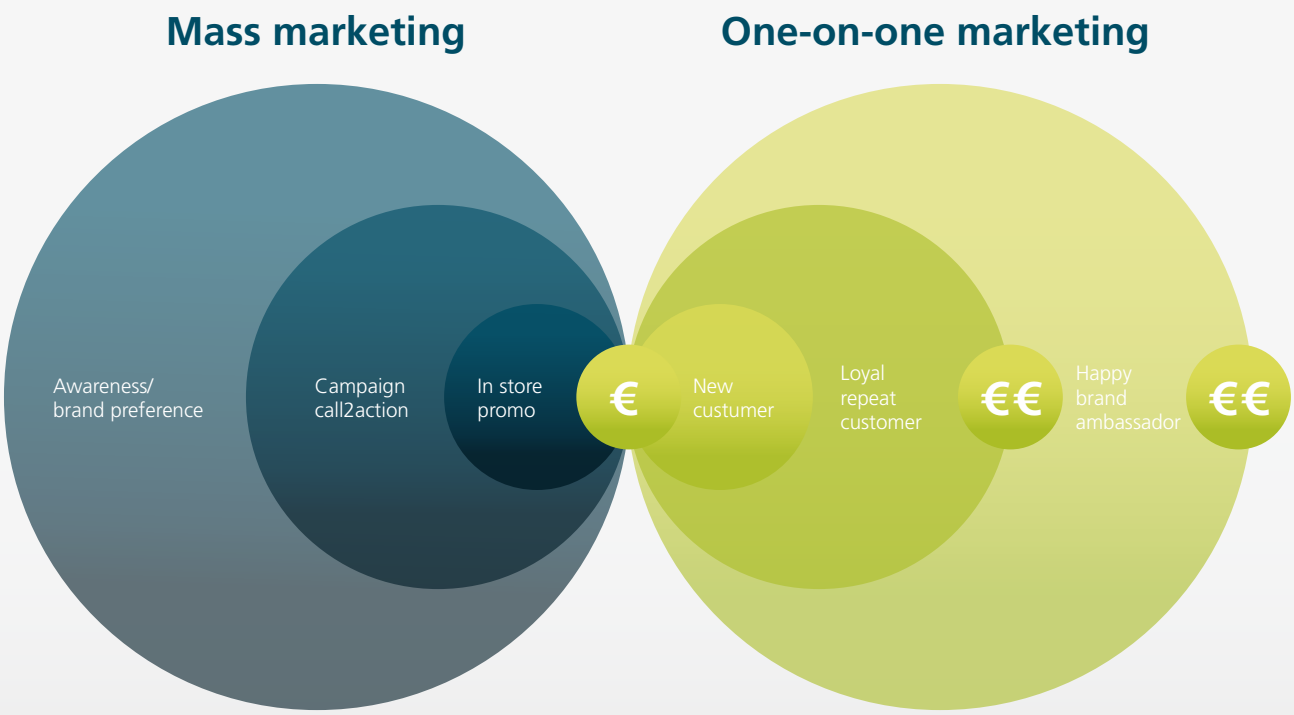
Emakina Media is a digital communications agency operating in Belgium, France and the Netherlands that provides communications services such as consultancy, creative concept development, media planning, search engine optimisation, social and mobile marketing and web and database hosting as well as specialising in cross-media database driven direct marketing.

Emakina thinks that the market has moved from mass media to masses of media, which requires advertisers to respond to many different direct marketing channels, including direct mail. Despite its primary digital focus, Emakina recognises the value of direct mail and its role as an effective player in the direct marketing mix. Emakina uses direct mail as highly specialised and targeted campaigns like consolidating or developing brand loyalty and converting consumers into brand ambassadors. It claims to be the only digital agency in Belgium offering its clients expertise in all direct marketing channels, both virtual and physical.

clicking on a website might generate an email, a sales visit might prompt a 'thank you' letter, or a customer's failure to place their regular order might trigger a direct mail piece containing a coupon. However there is a thin line between such events-based outreach being rewarding and welcomed and being invasive. Getting the timing and frequency right is therefore critical. Consumers will choose which channel they respond to, which in turn determines how companies communicate with them.

Emakina's campaigns are generated from opt-in customer databases. Emakina does not operate external database-driven direct marketing for either direct mail or email. Renting addresses is too expensive: for the cost of 50,000 letters Emakina can conduct a viral campaign that is more effective. Email is often a supplement to direct mail: twice as many emails will be opened if the target consumers have first received a direct mail piece. In digital marketing the level of personalisation is so high that it affects design, one reason why Emakina has taken design in-house. In many campaigns every part of a brochure is personalised according to click behaviour on a website, for example, the consumer who chooses olive oil and not butter will be mailed the coupon relevant to their preference.

TODAY, BRANDS SEEK TO HAVE A DIALOGUE WITH CONSUMERS



Source: Emakina - IPC Senior Executive Forum on Direct Mail, June 2010

The Yunomi online community

For Unilever, Emakina has developed an online community called Yunomi, where women aged between 30 and 50 interact. The Unilever name does not appear anywhere on the site, but the company's brands do feature prominently. Yunomi has replaced all Unilever online advertising in Belgium. Consumers can access digital coupons for Unilever brands via the site, but the content, such as recipes, is generated by its users, not Unilever.

Eleven people at Emakina work full time on Yunomi, updating the site daily with offers and competitions. A reward programme for the site's users allocates points to collect against money-off coupons. At the end of 2009 Yunomi was receiving one million visitors a month, 30,000 articles were published by users and the site had registered 836,000 user reactions to recipes or articles. The online community is enhanced by physical direct mail. Emakina sends out 400,000 copies of personalised direct mail for Unilever four times a year plus 100,000 ad hoc mail pieces a year. The site's physically-mailed magazine has content generated by Yunomi consumers. The direct mail supports and is complimentary to the online and social network Yunomi media integrations.

Emakina collects information about users by asking questions; for example, a consumer who clicks on an offer might be asked how many times they use the product, which in turn might generate a personalised direct mail piece.

What's in it for the post?

In 2013 507 billion emails will be sent out, 81% of which will be spam. Already consumers are bombarded with too many online marketing messages. At the same time fewer direct mail pieces are delivered per consumer. The indirect consequence is that direct mail is becoming more highly valued. Emakina and its clients are just one example of how businesses require direct mail to provide reliable, on-time delivery and flexibility in recognition of the need for personalised messages that make every mail piece different. Emakina believes that postal pricing is too focused on quantity per drop rather than on annual volume.

Bring Dialog: a breakthrough strategy for postal operators?

An example of a postal operator providing database solutions directly to customers is Norway Post.

The Talk2Me dialogue marketing company was purchased by Norway Post in 2006 and renamed Bring Dialog in 2008 to align it with the Bring brand which covers all of the group's services to business. Bring Dialog works with large advertisers advising on the development and implementation of customer communications. Activity is based on its own cross-media dialogue platform covering direct mail, online and mobile marketing, but with a principal focus on direct mail.

The company's primary aim is to deliver a segmentation model, a CRM system and a campaign to its clients. It determines the right channel, timing and contacts, building CRM databases quickly for clients in order to achieve results.

Bring Dialog's offer includes:

- Advice/consultation
- Customer communication plans
- Customer analysis and segmentation models
- CRM system
- Campaign planning, execution and analysis (direct mail, call centre, mobile, web, email)

Commercial operation

The company charges for consultancy services and invoicing for the whole package it provides, including direct mail postage costs. Database management is Bring Dialog's main customer offering, accounting for half its profit and providing a powerful tool for effective campaign execution. The company operates customer databases for 50 clients and always seeks to take on database management for any new client.

It promotes direct mail as an effective marketing tool, pointing out that the opening rate is about 100% while the rate for CRM email is only in the 20-30% range, with about 30% of all marketing emails sent blocked by spam filters. It does however recommend campaigns with no direct mail element: the target audience determines the channel, so if it is determined that a particular target audience will not respond to direct mail then it is not included in the recommended mix.

Clients whose databases are managed by Bring Dialog represent a combined direct mail distribution value to Norway Post of NOK1bn (€140m).

BRING DIALOG'S CRM SYSTEM

Source: Bring Dialog - IPC Senior Executive Forum on Direct Mail, June 2010

Richer data from transactions: Bring Dialog helping NORDEA and Netcom

Norwegian bank NORDEA wanted to undertake personalised direct mail, but had no suitable database. Bring Dialog was contracted to build one. Each night Bring Dialog receives millions of transaction data from NORDEA's own database which interfaces with the customer database it manages. It stores accumulated bank account values in its NORDEA CRM database but not the transactions. Large transactions do, however, act as trigger events for direct mail. NORDEA's, in-house marketing department has access to the database held by Bring Dialog via an online link.

Mobile phone company Netcom transmits details of its 1.4 million customers' phone call transactions to Bring Dialog for analysis and segmentation. The company's relationships with creative agencies differ according to customer needs. However, Bring Dialog does want to be the main communications partner and is taking more business from agencies where it can.

Nivea: pushing the boundaries of direct mail

Nivea in Belgium is an example of a brand that strongly advocates direct mail and uses it as one of its main marketing channels. Nivea brand managers in Belgium believe that direct mail is a powerful channel within an integrated direct marketing programme that spans a range of media, centred on a web platform. While Belgian consumers continue to receive direct mail, Nivea brand managers in other countries have stopped all direct mail and use only online channels for direct marketing.

Internet presence is essential

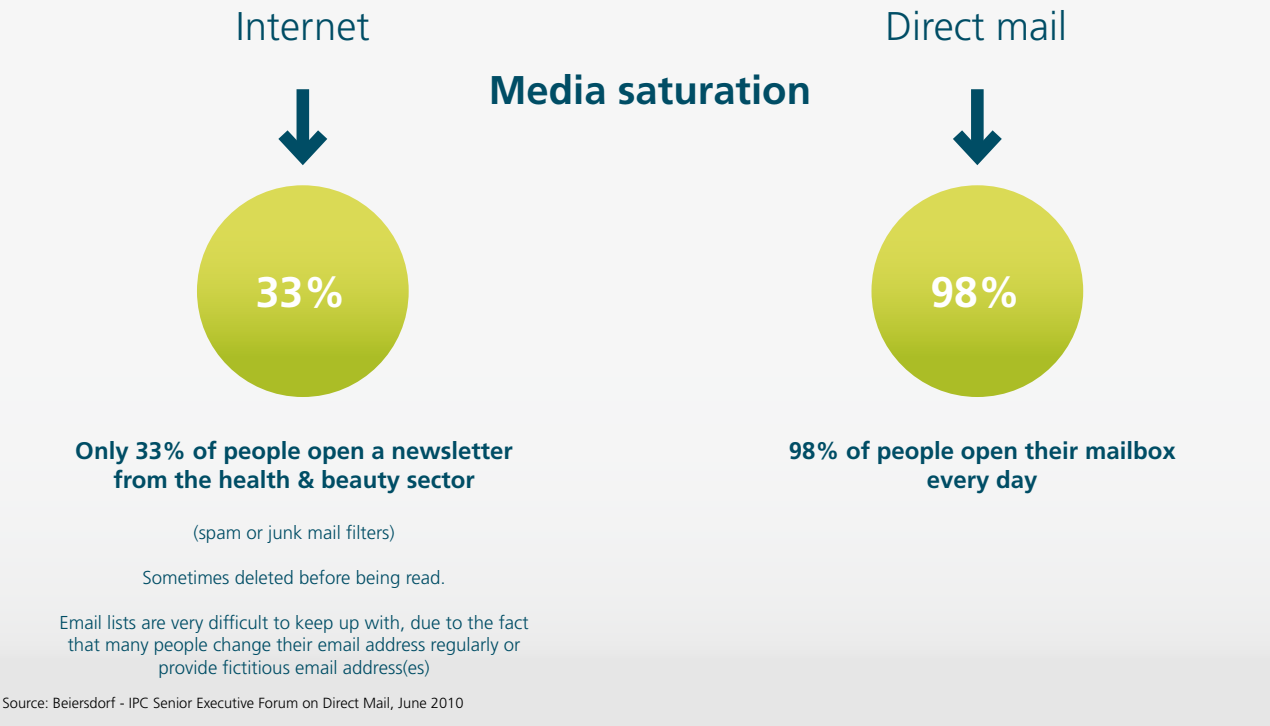
Nivea is the most used cosmetics brand in Belgium. Its marketing strategy moved from straightforward brand development to its own internet platform supported by couponing. A big consumer-health & beauty brand such as Nivea must be present online, but within an online-led campaign, direct mail has a valuable part to play in building relationships with consumers. An internet community of female consumers accesses online content and receives a regular email newsletter.

The online channel is considered the best added-value media for personalisation and daily updates, offering competitions, advantages and testimonials. It is the place where consumers can access all information about Nivea products, increase their engagement, establish a dialogue and interact with the brand.

Direct mail builds relationships

Online information is supported by direct mail and *Naturally Beautiful*, Nivea's consumer magazine which has been running for 12 years. *Naturally Beautiful* is a targeted, VIP communications tool: new subscribers are referred

INTERNET VERSUS DIRECT MAIL



Source: Beiersdorf - IPC Senior Executive Forum on Direct Mail, June 2010

via word of mouth and by referral only. They can ask an existing subscriber to sponsor them or sign up directly via the website.

Nivea's consumers expect to receive direct mail, which builds a better relationship between them and the Nivea brand. Direct mail creates a strong emotional contact as the magazine is read more than online content, and is more likely to be passed around to other women. The Nivea team also believes direct mail works better for coupons. A direct mail piece can contain both a coupon and a sample (the company has, however, been experimenting with online coupons). Nivea has saved costs by mailing *Naturally Beautiful* less frequently, but by adding more value to each mailing, switching from a loyalty points system to coupons offering instant discounts.

Cost is an issue

Sales generated by coupons make direct mail cost-effective, but Nivea stresses that the high cost of direct mail is an issue. The total cost of producing the *Naturally Beautiful* and mailing it to 150,000 people is €120,000, a cost per contact of €0.80. In comparison, an online newsletter by contrast costs just €1,300 with a cost per contact of €0.013. To make its direct mail more cost-effective Nivea extends the distribution of its magazine by inserting it in women's magazines, making it available at points of sale, and handing it out in the street. Nivea wants posts to be more flexible in pricing direct mail, to offer loyalty programmes, and would like pre-test and post-test mailings to be combined with price incentives.

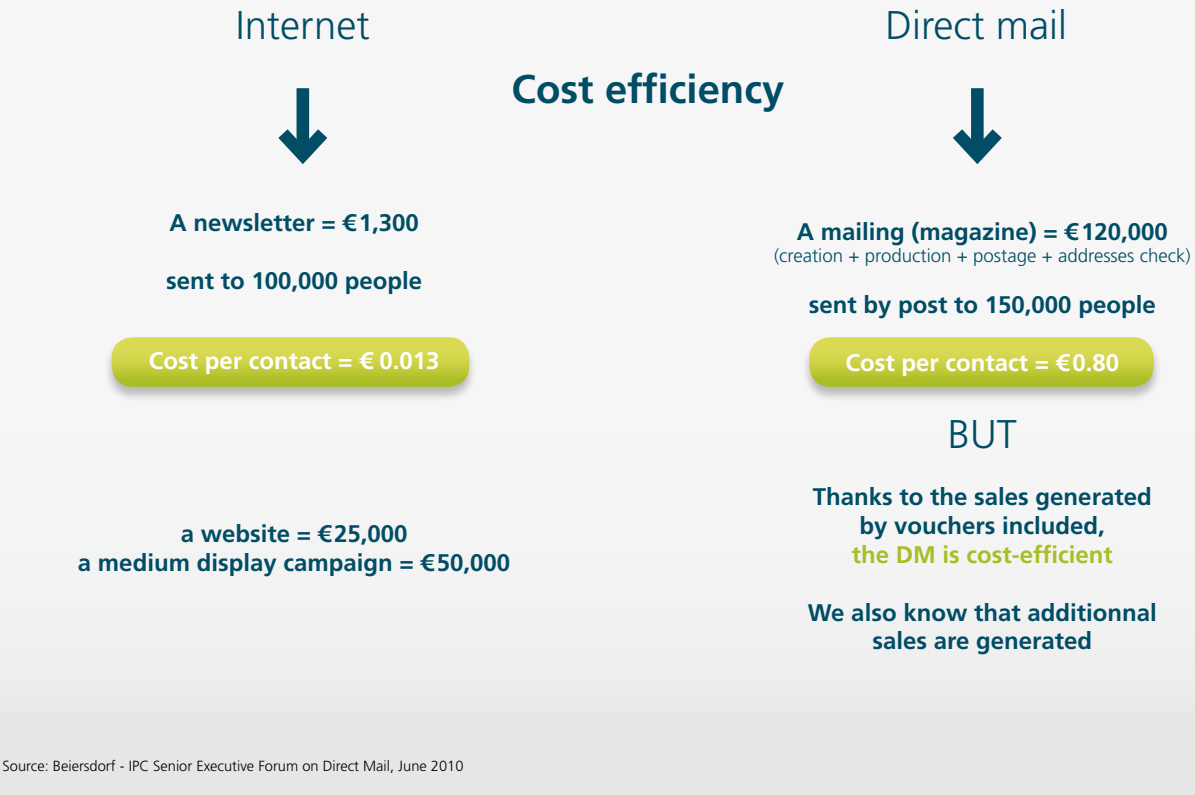
Direct mail in the Asia Pacific region

The Asia-Pacific region accounts for 23% of global advertising, or US$100.4bn. In the Asia-Pacific region TV and print media account for the highest share of advertising investment. In 2009 spend on all media channels in the region was down on the previous year with the exception of the internet, which accounted for 14% of total advertising spend, an increase of 6% on the previous year.

The trend for increased expenditure on internet advertising is forecast to continue as online advertising becomes increasingly popular. The share of national advertising expenditure on online advertising varies by country and relates both to internet penetration and cultural media preferences.

In 2009 the online media share in China was 14%, accounting for US$3.3bn, in Japan 17%, or US$7.6bn, but in Thailand where TV accounts for half of all media expenditure, online advertising has an almost zero share.

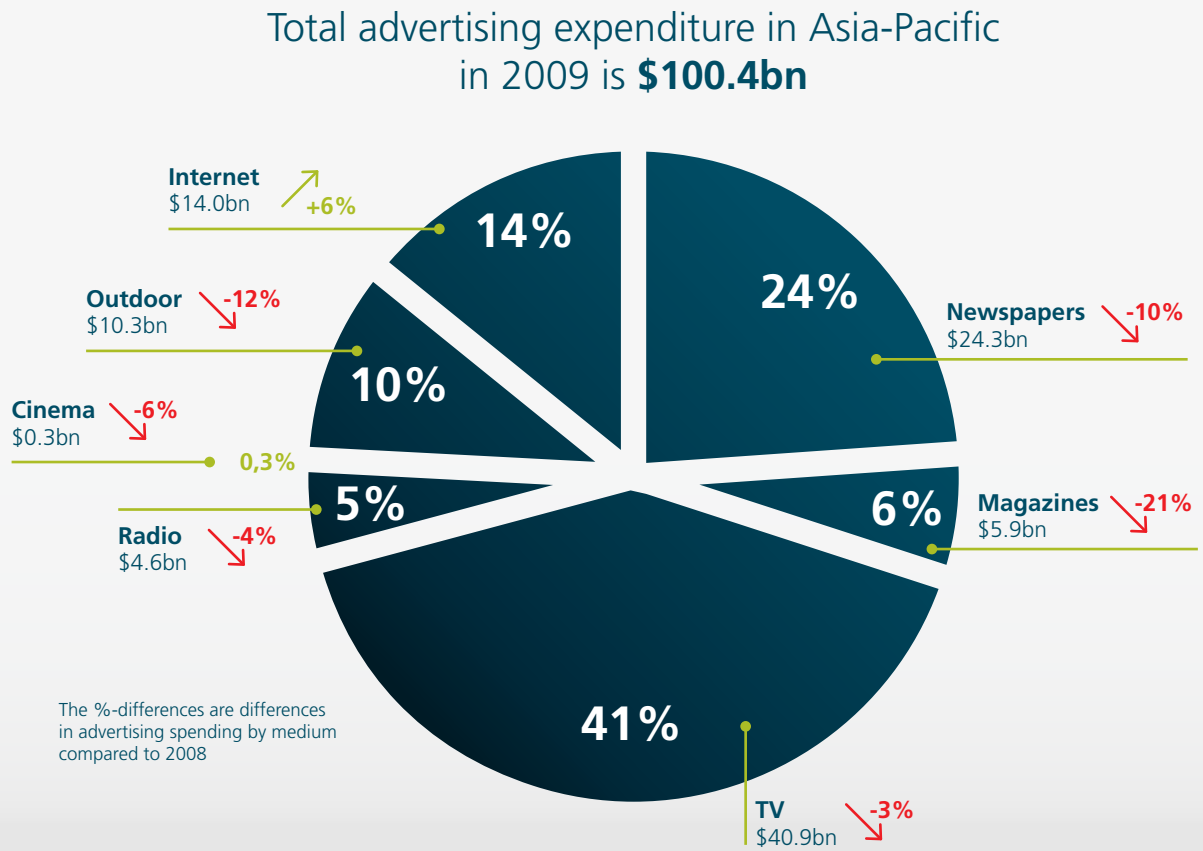
INTERNET VERSUS DIRECT MAIL



Source: Beiersdorf - IPC Senior Executive Forum on Direct Mail, June 2010

ASIA – PACIFIC: SHARE OF AD SPEND BY MEDIUM (2009)

TV and print media attract the most investment. Internet accounts for 14% of ad spend and in 2009 was the only media for which spend increased compared to 2008.



Source: Zenith Optimedia advertising expenditure forecasts July 2010 / IPC analysis

Increased usage and penetration of the internet

In the Asia-Pacific region both the number of internet users and internet penetration increased in 2009, with China and Thailand experiencing the highest growth (China 24% growth to 420m users at 32% penetration; Thailand 30% growth to 17.5m users at 26% penetration). In addition across the region the average time spent online increased in 2009, with people in South Korea spending the most time online, for an annual average usage of 1,798 minutes online per visitor – approximately twice the New Zealand average. Forecasts for 2012 show that the amount spent on internet advertising in China will reach the same level as Japan, whereas in 2009 internet advertising in China was less than half that in Japan.

The Asia-Pacific region has the highest growth in online advertising in the world. We include in this chapter two examples of postal best practice for direct mail from this region[2].

Case study – The post in Singapore

Direct mail in Singapore is growing. Despite slowing in 2009, the CAGR from 2004 to 2009 was 9.2%. This includes both addressed and unaddressed mail and volume growth of 4% is forecast for 2010. By contrast, business letter mail in Singapore is forecast to decline by 2% in 2010.

SingPost is trying to compensate for the decline in business mail by pursuing an aggressive strategic focus across four different areas for direct mail:

- Enhanced packages
- Innovations
- Resellers
- Education

Only 29% of SingPost's customers continued to spend with the post over the last three consecutive years. Customer retention is therefore a key focus for SingPost. Of the top

2 Presented at the IPC Senior Executive Forum on Direct Mail in Asia, Fukuoka, Japan, October 2010.

INCREASED USE OF DIGITAL MEDIA:

INTERNET USERS AND PENETRATION - ASIA-PACIFIC

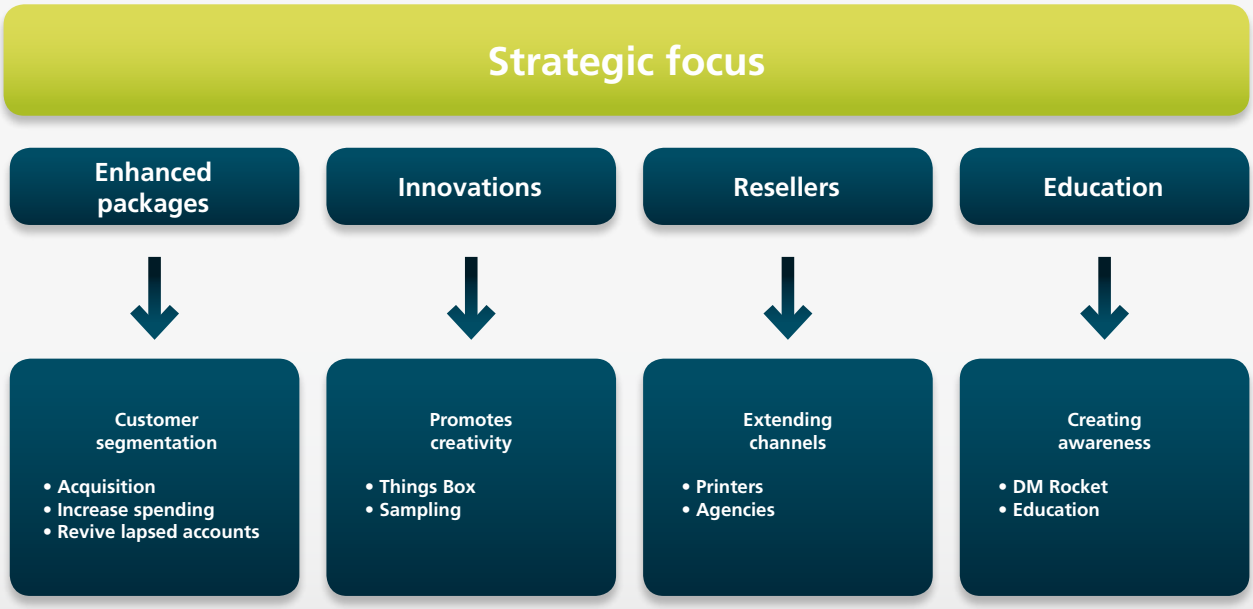
In the **Asia-Pacific** region, both the number of internet users and internet penetration has grown compared to 2009. **China and Thailand experienced the strongest growth.**

	Internet users		Internet penetration	
	Figures 2010	Growth vs 2009	Figures 2010	Growth vs 2009
China	420,000,000	24%	32%	6.3%
Japan	99,143,400	5%	78%	4.%
South-Korea	39,440,000	5%	81%	3.8%
Vietnam	24,269,083	13%	27%	2,8%
Thailand	17,486,400	30%	26%	6.0%
Singapore	3,658,400	18%	78%	11.1%
Asia-Pacific	846,358,386	17%	21.9%	3.0%
Europe	475,069,448	18%	58.4%	8.3%
North-America	266,224,500	6%	77.4%	3.5%
World	1,966,514,816	18%	28.7%	4.0%

Source: Internet World Stats July 2010

STRATEGIC FOCUS FROM SINGAPORE

POST ON DIRECT MAIL

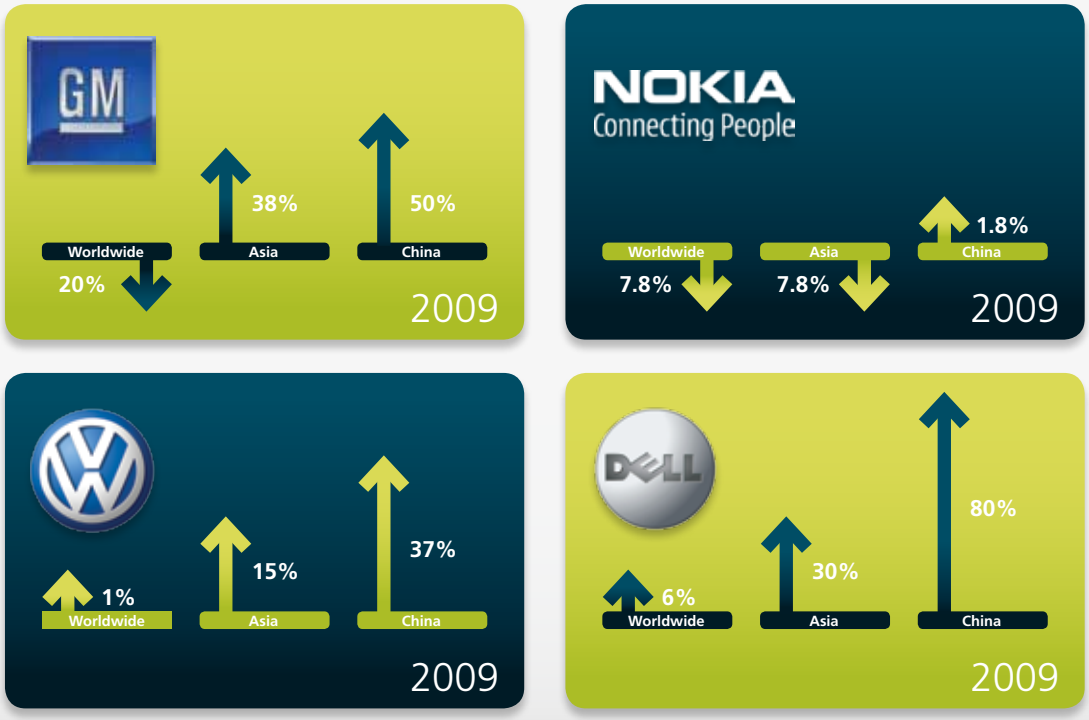


Source: SingPost - IPC Senior Executive Forum on Direct Mail in Asia, October 2010

CUSTOMER ENGAGEMENT AT SINGPOST

Source: Internet World Stats July 2010

PERFORMANCE OF INTERNATIONAL COMPANIES IN CHINA COMPARED TO ASIA AND WORLD WIDE



Source: IPC 2010

100 customers in Singapore, the post has calculated that it has only a 1.5% share of their collective total advertising budget.

To increase the share of advertising expenditure allocated to the post, SingPost ran a three month promotion called 'the great Singapore sale'. The campaign saw revenue grow by 16%, with 57% of growth coming from five industry sectors: retail, electronics, beauty, restaurants and property. Of the incremental growth, 39% came from new customers and 44% from lapsed customers.

SingPost recently introduced a full customer engagement programme. Corporate customers participate in a loyalty programme where they are rewarded for expenditure on direct mail and are provided with a sales kit to explain how to use the service more effectively.

Innovations: Things Box

SingPost has introduced 'Things Box', a tool which enables businesses to engage their consumer customers by sending three dimensional promotional objects appealing to the different senses. Customers for this service have access to a database of a minimum of 5,000 pre-determined consumers. Up to eight advertisers can include their samples within the box. Testimonials for the services have been very promising: SingPost customer Sentosa 4D Magix described it as "an innovative means of reaching out to a specific target audience; the SingPost Things Box doesn't just offer a medium to create awareness but it gives our potential customers an opportunity for trial."

The response from the general public has also been very positive, as monitored by discussions on social networks. Consumers regard these samples as gifts and rewards and share their experiences with friends and family.

Authorised resellers – Mail authorised resellers scheme

To further promote the growth of direct mail in Singapore, SingPost launched the Mail Authorised Resellers Scheme (MARS) in July 2008. Nineteen partners are now operating under the scheme. These mail consolidators are rewarded for selling mail services to customers and receive postal discounts for their consolidated traffic. This has been developed into a loyalty programme where partners can earn and redeem points to further offset against SingPost invoices. A similar scheme was launched for advertising agencies in April 2010, providing 150 agencies with the possibility of receiving commission from SingPost for each posting they make.

Direct mail education

SingPost is very active in promoting its direct mail education programme which is branded as DM Rocket – direct mail that delivers. This involves roundtable sessions to discuss direct mailing in today's business environment. The objectives of the programme are to build relationships, create a greater awareness of direct mail and better understand the advertising needs of SingPost's customers. The feedback from the market is that despite the boom in the use of web-based campaigns, these are actually creating more opportunities for direct mail and CRM to drive traffic to websites.

Direct mail can help e-commerce businesses succeed. In Singapore, a growing number of customers are now outsourcing their direct mail activities. Of concern to SingPost are issues of the environment, spam and littering, coupled with the lack of quality customer databases. The conclusion from SingPost was that although direct mail volumes are under threat, new technology and tactics, together with favourable business sentiments, will allow direct mail to experience a rebound.

New technology and tactics, and a favourable business sentiment will allow direct mail to rebound

Connecting to the customer: TNT Mail China

As we have seen earlier in this publication, e-commerce in China is expanding exponentially, and e-commerce sellers are increasingly turning to direct mail for marketing support. The main reasons for using direct mail are to

- attract potential customers to their website
- increase online sales
- acquire new members for their online clubs
- keep contact with their customers and to maintain relations
- increase the loyalty of their existing customers

In a market with millions of customers, the e-commerce industry presents an enormous opportunity for direct mail. Instead of trying to find the optimal direct mail delivery solution, TNT's customers are looking for full marketing solutions. The questions being asked of TNT in China are

- how to acquire new customers
- how to connect to customers effectively
- how to retain customers

Direct mail is just one solution of many and TNT Mail China has therefore decided to reposition itself to provide integrated direct marketing and home delivery solutions focusing on customer acquisition, customer implementation and on customer retention.

TNT Mail China's approach begins with a deep understanding of the five main challenges its business customers are facing, namely to identify

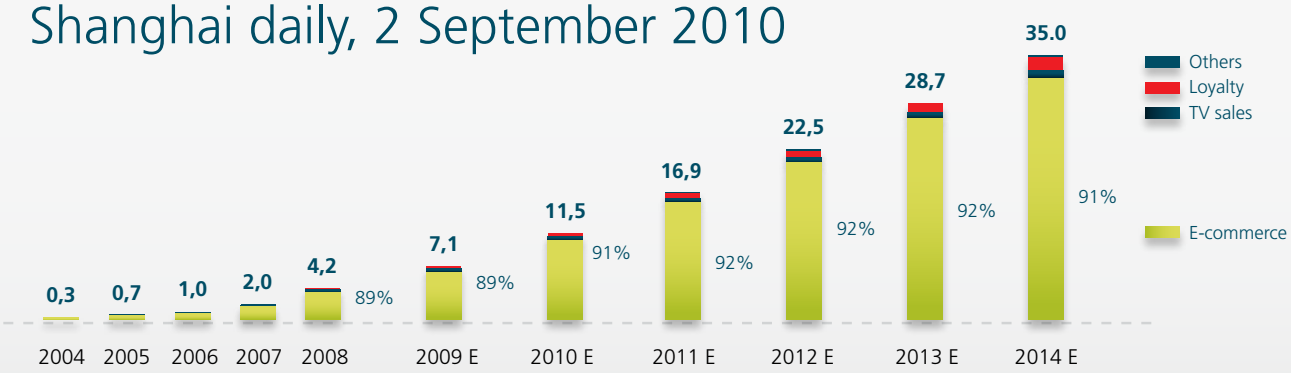
DM TRENDS IN ASIA

STRONG GROWTH IN E-COMMERCE IN CHINA

E-commerce 2014:
Expected RMB 35bn

Bright skies for Chinese e-commerce

Shanghai daily, 2 September 2010



(1) Exclude products such as antiques, dangerous goods, and items prohibited by law that most B2C parcel delivery players could not ship
(2) Others include telephone sales, mailing catalogue and etc.
Sources: iResearch; Analysys International; Prospects of Acorn International; EIU forecast; A.T. Kearney analysis;

1. the customer
2. where to contact the customer
3. the channels to the customer
4. how to keep the customer loyal
5. how to deliver to the customer

A major challenge in Asia is obtaining reliable consumer data.

EYE database

TNT Mail China has made a major investment in building its own proprietary database. Known as the EYE, it contains consumer preference data on more than 2.5 million individuals in Shanghai, Beijing, Guangzhou and Shenzhen, representing 10% of the population living in those cities.

Data was obtained from incentivised online questionnaires and all consumer data is permission-based, which can be used for both physical and electronic mailings. TNT owns the data and rents it out to clients. By renting rather than selling the data, TNT is able to control the printing and all elements of the value chain, including fulfilment, delivery, response and return services, and call centre services. It was considered strategically important to own this database in order to keep it updated, as 15% of Chinese residents relocate each year.

TNT DM SOLUTIONS

INTEGRATED SERVICE PROVIDER

Source: TNT Mail China - IPC Senior Executive Forum on Direct Mail in Asia, October 2010

TNT's China Connect is a geographical information system that allows it to locate and map consumers. Home and office addresses are transformed into geo-coordinates and plotted on electronic maps. China Contact helps TNT's business customers select potential customers and target direct mail at defined areas. It can also identify density per postcode and locations where existing customer penetration is low. TNT Mail China offers an automatic address recognition system which assigns a correct postcode to each delivery address.

The multiple communication channels TNT deploys include direct mail, catalogues, samples, telephone selling and customer services. Pre- or post-delivery alerts can be sent to the recipient's mobile, with email marketing or internet solutions also offered.

TNT uses Mail Delivery Management System (MDMS), a web-based tracking and control system for the mail delivery process, to calculate campaign ROI. This shows the real-time status of a mail piece, as well as statistics for the entire campaign. After printing, each mail piece undergoes five stages within the process and the MDMS automatically checks the status and results at ten different points within the process.

Lastly, to complete the circle of integrated services TNT Mail China supports its clients by maintaining customer relations through CRM and loyalty programmes. These services include hotlines, online track and trace and reverse logistics services. It is through this range of services that TNT Mail China can claim to be a truly integrated service provider – and can make a margin across a full range of CRM value chain activities.

Conclusion

There is strong evidence to suggest that direct mail can, and will continue to play a key role in the marketing mix, notwithstanding increasing digital substitution.

IPC research in 2010 showed that in countries that had adopted online marketing prior to the economic crisis, the volume of direct mail has remained fairly stable.

The economic downturn precipitated a much stronger transfer in advertising revenue from direct mail to online media in southern European countries such as Italy and Spain. A lot of this is experimental advertising and in many cases, proving the ROI from online marketing campaigns is a challenge. There is a generational change in attitude in regard to physical mail: those over the age of 35 regard it as positive and those under imbue it with less inherent value, which will present a challenge to the posts in the future.

Evidence is emerging that increased digitisation is leading to a move towards sophisticated multichannel marketing in order to cut through the online clutter, of which direct marketing is a core element. For example, Emakina has stated that direct mail is the most effective way to reach its highest value prospects and VIP customers—even though the agency had set out to be a digital communications pure player. Physical media, executed to a high creative standard, personalised and consumer-relevant, speaks directly to the target customer, and has brought the online phenomenon of narrowcasting full circle back into the offline world. Moreover marketers suggest that the ROI of direct marketing campaigns can be measured more accurately than online campaigns. Intelligent marketers realise that no one medium is alone effective, and direct marketing is being rehabilitated and reintegrated into smart multi-channel communications marketing programmes.

The Nivea brand uses direct mail very effectively in Belgium to target its highest value customers as part of regular customer loyalty mailings. The payback on these campaigns can easily be tracked and measured through the redemption of coupons within the mailing. Nivea is highly focused on building on web-centric customer databases. This CRM approach will be increasingly important to Nivea as it considers shifting consumer sales from retail to online in the future – a trend that is already well established in Japan.

The management of customer-centric databases is an area that posts are moving into, as evidenced by both Norway Post through their subsidiary Bring Dialogue, and in Asia where TNT Mail China is investing to build up its own customer databases as part of its longer term business strategy. Lastly, in the Asia-Pacific region where there is the highest growth in internet advertising, SingPost has seen growth in direct mail due to its extensive customer engagement programme.

Providing posts can continue to promote the benefits of direct mail in terms of personalisation, relevance, quality and ROI in reaching high-value customers, evidence shows that mail volume decline can be stemmed. However this requires considerable focus by posts in ensuring the relevance of this medium in today's climate of increasing digital business.

5

Environmental sustainability in the postal sector

- IPC is leading the drive to develop a cross-sectoral approach to sustainable business for the postal sector, on which it has been working since 2008 when stakeholder research was undertaken with leading global companies to understand both best practice standards for carbon reporting and the requirements of stakeholders in the postal sector for carbon reporting.

- The IPC Environmental Measurement and Monitoring System (EMMS) is a sector-wide emissions management programme, the first of its kind for a services industry. Launched at the UN Climate Convention in Copenhagen in December 2009, EMMS is the scientific, audited and transparent carbon measurement system behind EMMS participants' collective pledge to reduce CO_2 emissions by 20% on 2008 levels by 2020. Twenty postal operators made that pledge at Copenhagen, and a further two have since signed up to the programme.

- IPC member postal operators transport some 80% of global postal volumes and to do so manage over 100,000 facilities, around 520,000 transport vehicles and employ some 2.4 million people worldwide. Collectively these resources emit a significant amount of CO_2 from fuel combustion and the use of energy to power equipment and heat and cool buildings, making energy consumption and carbon dioxide emissions a significant operational and strategic risk for the postal sector.

- EMMS measures carbon management proficiency across ten areas aligned with IPC's plan-do-check-act approach. In 2009 participating posts achieved an average management proficiency score of 61%. In the first year of audited results participating postal operators announced an impressive cut of 597,000 tomes of CO_2 emissions, reported in the IPC *Postal Sector Sustainability Report 2010*, which means that EMMS participants' first year efforts have put them more than one third of the way to achieving the 2020 target.

- IPC has developed an introductory EMMS (i-EMMS) programme that allows those postal operators that feel that they are not in a position to sign up to the full EMMS programme to get started with Carbon Management Proficiency assessment. IPC's vision is to drive sustainable business practices across the whole postal industry, and to that end both the full EMMS and the i-EMMS programmes are open to IPC members and non-members alike.

- Posts have adopted a variety of strategies for green marketing, from offering a range of specific green products such as carbon-neutral parcels, sustainable direct mail or green packaging, to adopting holistic corporate programmes. The following examples are illustrative of both approaches:

  - Faced with negative perceptions of direct mail, high waste disposal costs for municipal authorities and government pressure, Royal Mail has developed a standard for sustainable direct mail and introduced a certified product that offers customers a price incentive to go green.

  - TNT Post has spearheaded a project to develop sustainable mail in the Netherlands and will launch sustainable mail products across all addressed and unaddressed products in April 2011. The Dutch scheme is based on an eco-label logo demonstrating the sustainability of qualifying mail items.

- Deutsche Post DHL's Go Green is another example of a comprehensive corporate sustainability programme. In 2010 Deutsche Post's Go Green shipments increased significantly to reach the one billion mark, indicating that customers want to accept responsibility for climate protection.

- Norway Post has set itself its own challenging target of a 30% reduction in CO_2 emissions by 2015, based on 2008 figures. The target is supported by an action plan devised to achieve bottom up and top down engagement through a series of workshops for employees at all levels. The programme is measured and controlled using a variety of tools including IPC's EMMS programme.

- Itella has taken the bold decision to make its entire range of domestic postal services carbon neutral at no additional cost to customers. It has switched primarily to protect volume in response to competition in both the parcels and letters sectors.

- For the past three years Le Groupe La Poste has been building into its business a fully integrated approach to sustainable marketing. It has created tools to help marketing teams understand sustainable issues and how to build sustainable elements into products and services.

- IPC's groundbreaking approach to developing a cross-sector emissions management programme for the postal sector has won recognition and plaudits from leading international media, the UN and CSR organisations, and was recognised for its 'innovative reporting' at the 2011 Ethical Corporation Awards.

In this chapter we provide an overview of EMMS, IPC's cross-sectoral sustainability programme, and an update on the progress that has been made thus far under the programme. We also detail the i-EMMS, the introductory programme that allows those postal operators that feel that they are not in a position to sign up to the full EMMS programme to get started with carbon management proficiency assessment. IPC's vision is to drive sustainable business practices across the whole postal industry, and to that end both the full EMMS and the i-EMMS programmes are open to IPC members and non-members alike. We also consider the importance of green marketing of postal products and provide case studies on best practice from within our membership.

IPC's sustainability programme

IPC member postal operators transport some 80% of global postal volumes and to do so manage over 100,000 facilities, around 520,000 transport vehicles and employ some 2.4 million people worldwide. Collectively these resources emit a significant amount of CO_2 from fuel combustion and the use of energy to power equipment and heat and cool buildings, making energy consumption and carbon dioxide emissions a significant operational and strategic risk for the postal sector.

IPC is leading the drive in developing a cross-sectoral approach to sustainable business for the postal sector, on which it has been working since 2008, when stakeholder research was undertaken with leading global companies to understand both best practice standards for carbon reporting and the requirements of stakeholders in the postal sector for carbon reporting. This research and subsequent engagement with sustainability experts from within IPC's membership lead to the introduction of the IPC Environmental Measurement and Monitoring System (EMMS).

Launched at the UN Climate Convention in Copenhagen in December 2009, IPC's sector-wide emissions management programme, the Environmental Measurement and Monitoring System (EMMS), is the first of its kind for a services industry. EMMS is the scientific, audited and transparent, carbon measurement system behind EMMS participants' collective pledge to reduce CO_2 emissions by 20% on 2008 levels by 2020 (the '20-2020' target). Twenty postal operators made that pledge at Copenhagen, and a further two have since signed up to the programme.

Measurement began across 20 IPC member posts in 2008 to produce the benchmarking report that was published at Copenhagen in 2009. EMMS is aligned with the following key international standards:
- Greenhouse Gas Protocol
- Dow Jones Sustainability Index
- FSTE4Good Index
- Carbon Disclosure Project
- GRI G3 sustainability reporting guidelines
- UN Global Compact Communication on Progress
- AA 1000 and ISAE 3000 auditing and assurance standards
- United Nations Millennium Development Goals
- International Finance Corporation

EMMS comprises two elements: one qualitative, assessing management proficiency across 11 areas; the other quantitative, assessing carbon efficiency through indicators that factor in different company sizes, geographies and operations.

The annual results are published in the IPC *Postal Sector Sustainability Report 2010*, available to the public at http://sustainability.ipc.be/en/NextSteps.aspx. The report provides details of overall reductions achieved by posts for Scope 1 and 2 emissions (transport, heating and electricity), and emissions per postal item delivered. The 2010 report is fully modular and interactive and features stakeholder comment and video testimonials from postal customers and

employees, government and NGOs. IPC's groundbreaking approach to developing a sector-wide emissions management programme for the postal sector has won recognition and plaudits from leading international media – including Bloomberg, The Financial Times, The Guardian, and Reuters – the UN and international CSR organisations: IPC was recognised for the 'innovative reporting' of the *Postal Sector Sustainability Report 2010* at the 2011 Responsible Business Awards.

The next challenge is to include Scope 3 emissions in EMMS results

While the results achieved to date under the EMMS programme are impressive, the challenges going forward should not be underestimated. One of the biggest challenges will be to include in EMMS results Scope 3 emissions, that is, emissions generated by non-direct processes such as subcontractors and business travel. While several participating posts already include Scope 3 data in their EMMS submissions and some Scope 3 emissions information is given in the 2010 sustainability report, not all have yet managed to audit these accurately, and a major hurdle to overcome will be the difficulty of auditing large numbers of external suppliers.

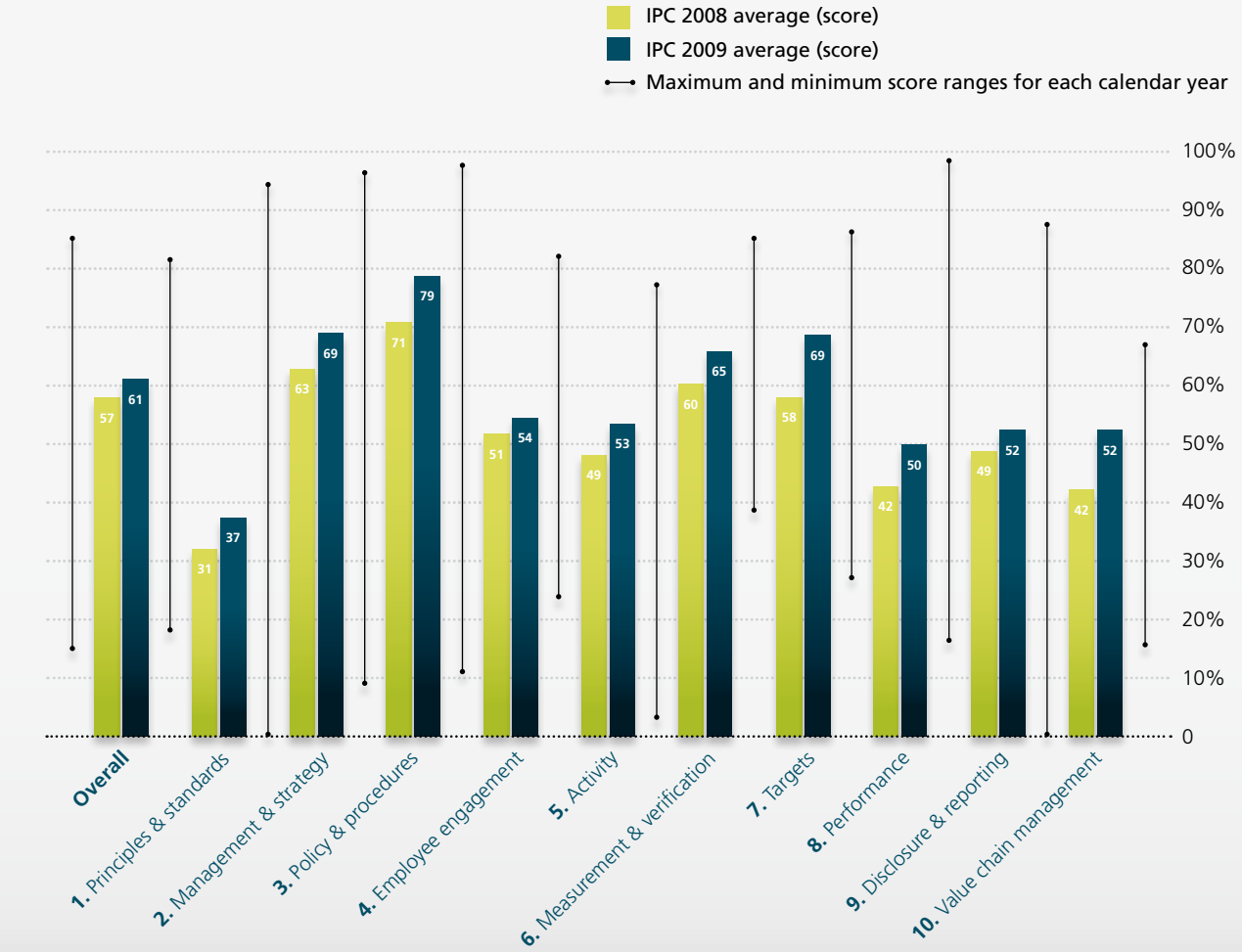
Range and average carbon management proficiency scores by section

Carbon-related management

The EMMS tool measures carbon management proficiency across ten areas aligned with IPC's plan-do-check-act management systems approach. In 2009 participating posts achieved an average management proficiency score of

EMMS - MANAGEMENT PROFICIENCY

AVERAGE, LEADER AND LOWEST SCORES



Source: IPC Postal Sector Sustainability Report 2010

61%, representing an increase of five percentage points on 2008, and a significant appreciation of energy and carbon emissions as a priority for business. The full score range was between 20 and 83 percentage points and 95% of participants showed improved scores. The current rate of improvement in management proficiency (five percentage points per annum) significantly exceeds the required rate to meet our sector goal of carbon management proficiency of 90% by 2020.

Areas of strength

Participating posts performed best on issues relating to policy and procedure (79%), management and strategy (69%), target setting (69%) and measurement and verification (65%). This represents a significant positive shift in performance, with more than 95% of companies now having either internal or external targets for the reduction of greenhouse gas emissions. Over 76% of participants already have targets in place that are at least in line with the sector 20-2020 target. More than 14% have made a commitment to be carbon neutral. Responsibility for climate change, carbon management and emissions is clearly defined for almost all participating posts, with many also having individual energy and carbon metrics in senior manager performance appraisals and performance-related pay schemes.

Global postal industry cuts over half a million tonnes of CO_2 in one year

Since the launch of the EMMS the postal industry has moved one-third of the way to achieving the 2020 target in the first year of sustainability reporting. In 2010 IPC published the first set of comparative results showing that participating posts had reduced their CO_2 emissions by 7% in the first year alone. In this first year of reporting nearly all of the 20 participating postal operators improved their carbon management scores on 2008, reporting a collective reduction in CO_2 emissions of a total 597,000 tonnes. In 2009 these posts collectively emitted 8.63m tonnes of CO_2.

597,000 tonnes of CO_2 emissions cut in just one year, more than one third of the pledged total

In 2010 Österreichische Post (Austrian Post) and Poste Italiane announced their participation in the EMMS programme, bringing the total number of reporting posts to 22. Both will report in 2011 on their emissions evolution from 2009 to 2010. The 20 postal operators whose results

EMMS - CARBON EMISSIONS

COMPARING 2008 AND 2009 RESULTS

Indicator	Original members 2008	Original members 2009	Extended group 2009
CO_2 emissions in tonnes			
Scope 1: Transport (vehicule, aviation, rail)	2,948,000 tonnes	2,857,000 tonnes	3,008,000 tonnes
Scope 1: Heating (gas, heating fuel, oil, steam)	1,164,000 tonnes	979,000 tonnes	1,057,000 tonnes
Scope 2: Electricity (including electric vehicles)	4,248,000 tonnes	3,927,000 tonnes	4,062,000 tonnes
TOTAL	**8,360,000 tonnes**	**7,763,000 tonnes**	**8,143,000 tonnes**
Overall sector indicators			
Total CO_2 in tonnes per 1 000€ turnover	0.067	0.064	0.058
Total CO_2 in grammes per item - mail and parcels	29	25	25

Source: IPC Postal Sector Sustainability Report 2010

contributed to the IPC *Postal Sector Sustainability Report 2010* are: An Post, Ireland; Australia Post; bpost, Belgium; Canada Post; Correios de Portugal; Correos y Telegrafos, Spain; Deutsche Post DHL, Germany; Le Groupe La Poste, France; Hellenic Post, Greece; Itella, Finland; Magyar Posta, Hungary; New Zealand Post; Norway Post; PostNord AB, Denmark and Sweden; Postes et Telecommunications Luxembourg; Royal Mail, United Kingdom; Swiss Post; TNT, The Netherlands; and the United States Postal Service.

iEMMS

IPC has developed an introductory EMMS (i-EMMS) programme that allows those postal operators that feel that they are not in a position to sign up to the full EMMS programme to get started with carbon management proficiency assessment. Like the full EMMS, the i-EMMS programme is open to IPC members and non-members alike.

i-EMMS: helping posts get started

The i-EMMS is designed as a complement to any new or existing environmental monitoring system, and also for companies that have only recently initiated an environmental management programme. The questions in the i-EMMS are designed to assess the development of a postal company's environmental management system. They also provide insight for the assessment of performance, to promote continuous improvement. As with the EMMS, individual postal scorecards are generated which can be provided to stakeholders, including customers, or used to demonstrate commitment to carbon disclosure and help contribute to government and customers' carbon emission targets.

Green marketing in the postal sector

Posts have adopted a variety of strategies for green marketing. Some, such as Deutsche Post DHL and TNT, have taken a holistic approach through corporate programmes (Go Green and Planet Me, respectively). Others offer specific, green products such as carbon neutral parcels, or direct mail and green packaging.

IPC research carried out among its members in September 2010 revealed their current green product offerings, planned products in the pipeline, and the approach being taken to green marketing, the main findings of which follow. As a service provider, the challenge is to make primary postal processes greener as a priority, but IPC's research indicates that changing postal processes to improve sustainability is a less popular choice for postal operators; the focus is on marketing green products based on offsets, or customer and supplier action.

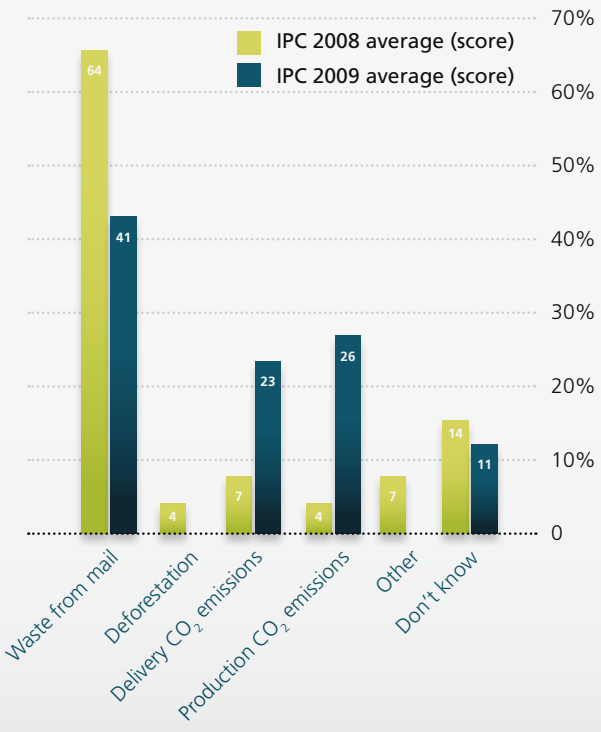
Direct mail, parcels and packages account for most of the green postal products offered now or planned. Posts differ in the way they position green parcels: while some operators claim green parcels offer added value, one post prices green parcels lower than its standard parcels, two offer carbon neutrality for their standard product, and three invite customers to contribute to a carbon offsetting scheme.

Sustainable direct mail at Royal Mail Group

Faced with negative perceptions of direct mail, high waste disposal costs for municipal authorities and pressure from the government, Royal Mail has developed a standard for sustainable direct mail and introduced a certified product that offers customers a price incentive to go green.

ISSUES WITH WASTE DOMINATE

PERCEPTION AND CARBON JUST ROUND THE CORNER



Source: Royal Mail, IPC Best Practice Seminar on Marketing Green Products in the Postal Sector, February 2011

UK businesses and consumers believe mail waste has the greatest environmental impact

In the United Kingdom, both businesses and consumers believe that waste from mail has the greatest impact on the environment, not carbon emissions. The three 'icons of waste' are junk mail, plastic bags and packaging; some e-retailers in the UK have even been fined for excessive use of packaging.

In 2004 Royal Mail agreed with the government that 55% of direct mail would be sustainable by the end of 2009; at the beginning of 2008 it risked missing its target and resulting government action either to force consumer opt in, ban direct mail or introduce punitive pricing. The solution was to develop a Publically Available Specification (PAS) for sustainable direct mail: PAS 2020.

Royal Mail wanted the new standard to be independent and available throughout the postal, direct marketing and mailing industries. It formed a steering group with other mail operators in the UK including TNT and DHL, the British Standards Institution, the Direct Marketing Association, data services provider Acxion, and the British advertisers association ISBA. The group agreed that the specification should set a baseline for the whole industry so that direct mail customers would only have to comply with one set of standards. It consulted around 30 industry, consumer and environmental interests on each draft of the standard.

PAS 2020 was launched in January 2009 to unify the whole UK industry on the definition of a piece of sustainable mail. It incorporates 10 aspects with an objective attached to each one:

- Targeting – ensure the campaign is relevant
- Suppression – ensure data quality is maintained
- Recyclability – design the communications to be recycled
- Paper products – use environmentally-responsible paper
- Ink and finishes – make efficient use of ink and finishes
- Printing – use those that manage their environmental impact
- Mailing houses – use those that manage their environmental impact
- Distribution services – use those that manage their environmental impact
- Field marketing – use those that manage their environmental impact
- Unsubscribe – promote the use of an unsubscribe facility

As Royal Mail had to ensure its customers adopted the standard it decided to launch two identical products: Sustainable Direct Mail for its own customers, and Responsible Mail for wholesale customers introducing mail downstream for delivery.

Royal Mail froze prices for customers choosing the sustainable mail product

Launched in April 2009, Royal Mail froze prices for customers opting for the sustainable mail product. It needed approval from the regulator to limit its incentive to mailings with direct mail content, the first time that pricing by content had been allowed in the UK.

The sustainable mail product comprises two options for the customer: entry level at a discount on current bulk mail prices of 2.5%, and intermediate level offering a discount of 4.7%. These discounts are calculated to compensate direct mail customers for any additional costs they incur in conducting sustainable campaigns.

The success of sustainable mail

The new products have proven to be good for business: they boosted returns on investment for direct mail, retained a large proportion of the volume predicted to move to online marketing, enhanced the Royal Mail brand, made direct mail easy for consumers to recycle, and reduced waste as the return rate fell owing to data quality requirements.

In the first year 10% of direct mail customers switched to sustainable mail, split roughly 50-50 between retail and wholesale. The uptake has been achieved through discussions with existing customers. Royal Mail has not advertised sustainable mail beyond issuing a press release. It did, however, conduct a promotional campaign explaining the greater recycling opportunities to municipal authorities. In addition to the social and environmental benefits of sustainable mail, customers have reported significant cost savings from better data analysis and targeting. Royal Mail is currently forecasting that 25% of customers will use sustainable direct mail campaigns in 2011 and 50% within four to five years, once customers committed to switching are released from current supplier contracts.

Sustainable mail is offered only for addressed mail at present. Royal Mail has devised plans to roll out the product to all types of mail – there is pressure from customers to do so – but the regulator and parts of business are cautious. The UK government will now move to sustainable direct mail for its own campaigns. It is negotiating a new responsible mail deal with Royal Mail to include a possible single opt out from direct mail for the whole of the UK and a more specific version of PAS 2020 for mail in general. Royal Mail is also considering the introduction of sustainable mail for its door-to-door (unaddressed) services.

The objectives of the government deal will be zero waste to landfill, plus carbon reduction, including development of a Royal Mail calculator to assess CO_2 emissions. The new requirements will be in place in May 2011, when the government publishes its next waste plan. Royal Mail took the view that sustainable mail is an issue for collaboration with other operators, not competition. It hopes to see more innovative ideas for sustainability in the future.

TNT's sustainable mail project

TNT Post spearheaded a project to develop sustainable mail in the Netherlands and will launch sustainable mail products across all addressed and unaddressed mail products in April 2011.

The Dutch scheme is based on an eco-label logo demonstrating the sustainability of qualifying mail items. The eco-label project began in response to government pressure to reduce the environmental impact of unaddressed mail. Its aims are to promote environmentally friendly mail production and distribution, to advise senders and suppliers, and to provide guarantees that mail carrying the eco-label is less polluting.

TNT's business case was based on risk. It wanted an integrated approach involving the whole mail value chain for maximum environmental impact, and, like Royal Mail, TNT involved the whole industry. It set up a board composed of the postal operators operating in the Netherlands. Linked to the board were two councils: one for senders comprising mailers, magazine publishers, e-commerce traders, charities and the national direct marketing association; and another for suppliers of paper, print, envelopes and recycling projects. These councils were consulted at all stages in the development of the eco-label.

The board opted for a sender's self-assessment scheme backed up by independent checks at least twice a year by a foundation established for the purpose. The foundation will investigate the whole value chain for mail items selected at random. If self-assessment does not work effectively the scheme will move to full certification which will involve more administration.

The eco-label is based on a single performance level arrived at by gaining a sufficient number of points. The system means that senders locked into a long-term contract for print or paper can still qualify. The project began by focusing on CO_2 emissions but the board soon decided it needed to go further to take account of pollution and forestation. It built its criteria using existing initiatives such as ISO 14001 and the Forest Stewardship Council (FSC).

An external body calculated environmental impact criteria and created an average. From this, the project developed qualifying criteria for the eco-label, including only supply items already available; green paper is included, but electric vehicles are not until they are more widely available. Reduction in CO_2 emissions is the primary aim, with carbon offsetting included only for transport and distribution.

Senders will be able to obtain eco-label logos online from the new foundation's website. The website will list contact details for green suppliers and pro formas for mailers to send to their suppliers. It will also provide 'fact and fiction' information about aspects of mail and a link to the consumer opt-out website.

Sharing best practice: 100% carbon neutrality from Itella

Itella has taken the bold decision to make its entire range of domestic postal services carbon neutral at no additional cost to customers. The products covered are:

- Parcels
- Letters, magazines and newspapers
- Hybrid mail (iPost)
- Direct mail

Itella switched primarily to protect volumes in response to competition in both the parcels and letters sectors. New lifecycle analysis by Itella found that its NetPosti electronic mailbox is responsible for 90% fewer CO_2 emissions, at 6g per average communication compared with 50g for mail. Previously NetPosti was responsible for 40% fewer emissions but it has made process efficiencies.

The company announced it was operating at 100% carbon neutrality at the beginning of February 2011. Itella believes carbon-neutral services offer benefits to its customers who increasingly seek to measure their suppliers' emissions. Carbon neutrality complies with customers' own targets and enhances Itella's reputation.

Carbon neutrality covers processing and delivery and is being achieved by a combination of reduction and offsetting via gold-standard projects. Postal services currently generate 60,000 tonnes of CO_2 a year in Finland. Big mail centres recoup emissions by improving their use of energy and by saving energy from the use of larger vehicles.

At the same time Itella moved to promote second class letters over first class by removing the twenty-letter volume requirement and the need to affix economy labels to second class mail. It has also reorganised its mail collection system, bringing final collection forward by one hour in some locations.

Itella's green products are part of the company's environmental programme to reduce its CO_2 emissions by 30% by 2020

Itella's green products are part of the company's environmental programme to reduce its CO_2 emissions by 30% by 2020 through energy efficiency and the use of renewable energy. The cost of carbon credits provides management with an incentive to reduce energy used in postal processes.

All green physical mail carries an 'Itella Green' text postmark. Itella rejected the idea of a logo which it thought might be mistaken for an official eco-label. Awareness of Itella Green has already risen from 7% in 2009 to more than 40% in 2010. So far Itella has not experienced any negative feedback from its initiative to be carbon neutral.

Focusing on a challenging target at Norway Post

Norway Post has set itself a challenging target of a 30% reduction in CO_2 emissions by 2015, based on 2008 figures. To achieve that goal the company is focusing on specific areas:

- Environmentally friendly vehicles
- Eco-driving training
- Route optimisation for distance and delivery transport
- Energy reduction in lighting and heating
- Waste sorting and handling

The target is supported by an action plan devised to achieve bottom-up and top-down engagement through a series of workshops for employees at all levels. The programme is measured and controlled using a variety of tools including IPC's EMMS programme. Environmental organisations are positive about Norway Post's plan and have agreed to work with the company on communicating its objectives.

Transport operations

Mail delivery personnel are being asked to give up conventional vehicles in favour of mopeds. This programme presents a challenge in persuading employees with an average age of 57 and 20 years' service to make the switch. Norway Post has ordered 500 alternative fuel vehicles and mail carriers, mostly mopeds and trolleys.

Norway Post sees its 30% reduction target as a driver for greater efficiency. The company has identified significant energy and cost savings from reshaping transport operations; specific actions include a move from air to rail and route optimisation between line-haul and delivery.

In 2012 Norway Post plans to launch climate-neutral products for business-to-consumer parcels, second class mail and unaddressed mail, using UNFCCC carbon offsets to complement its reduction efforts.

Greening existing products at Le Groupe La Poste

For the past three years Le Groupe La Poste has been building into its business a fully integrated approach to sustainable marketing. It has created tools to help marketing teams understand sustainable issues and how to build sustainable elements into products and services. The company has already assessed 90% of its products, achieving a commitment to sustainable innovation from marketing along the way.

The programme began in 2007 when Le Groupe La Poste built on its work to develop alternative green products. It implemented a responsible marketing policy for all products and services as a major element of a three-year corporate strategy with sustainable development at its centre. The policy is based on improving the social and environmental qualities of the group's commercial offering and promoting responsible consumption.

During 2008 and 2009 Le Groupe La Poste developed a checklist and software to create a matrix for assessing products and services and rolled it out to their business units. The company first developed a 100-point sustainable marketing checklist and tested it with its marketing teams. This helped the teams expand their marketing vision to new groups such as the disabled. Next, software, created to analyse the value chain of individual products, and training raised awareness of sustainable development. The matrix has been reviewed externally. In 2010 the company enhanced the transport element of the checklist, reduced the total number of questions and included a way to compare progress over time.

For the future the idea is to create an online 'ID card' for each product or service. The individual ID allows progress to be tracked and advances to be discussed with customers, to identify ways to add value and innovate through further sustainable development. Le Groupe La Poste also plans to implement its product and service assessment matrix within its European parcels subsidiary GeoPost. In mail operations the company is investigating opportunities for reverse logistics for products such as paper collection for recycling.

A structured approach to sustainability: Go Green from Deutsche Post DHL

Deutsche Post DHL's corporate responsibility policy stands on three pillars:

- Go Teach – projects in Europe among communities and employees
- Go Help – disaster response teams providing logistics support at airports in disaster-hit countries

- Go Green – the group's whole environmental protection programme, underpinned by a commitment to improve CO_2 efficiency by 30% by 2020. This target includes subcontractors, who account for 80% of the group's carbon footprint.

Deutsche Post DHL believes that going green meets customer demands for environmentally friendly suppliers, reduces costs and provides other economic benefits. The wholehearted support for Go Green from the chief executive and its integration into corporate strategy means that effective action can be taken. To meet its target the company has taken a thorough look across the whole business, changing the way it operates its transport and buildings, designs its network, and engages its employees to achieve its goal.

Deutsche Post DHL trialling an 18-tonne Volvo hybrid truck

Air transport has the highest carbon footprint, followed by large trucks, and driver training and aerodynamic fittings are being employed to help reduce the emissions generated by individual vehicles. Deutsche Post DHL is also currently trialling its first 18-tonne hybrid truck with Volvo.

The company does not believe in biofuels as a sustainable option and is not yet sure that electric vehicles will provide the ultimate solution for delivery operations. It has 50 electric vehicles in service and 30 on order, but they are not yet commercially available. Go Green teams in China and Asia are also working to introduce electric vehicles.

The whole efficiency process is driven by a carbon accounting and control system – operated by the finance department, as Deutsche Post DHL views carbon as a currency. Each division of the company shares the 30% efficiency target but is free to decide how it is broken down.

The company supports its customers by providing carbon-neutral products through its network operations and tailor-made solutions for its supply chain customers. It produces reports of customers' emissions to help them calculate their own carbon footprint. The CO_2 emissions generated by Go Green products are measured using a certified methodology and verified process. The emissions are converted into carbon credits for offsetting through gold standard projects. In 2010 Go Green shipments increased significantly to reach one billion, indicating that customers want to accept responsibility for climate protection. Pricing for Go Green products varies: the offsetting cost is included in the fixed price for consumer products, while it is usually shown separately for large volume customers.

Deutsche Post DHL has at times found it difficult to obtain carbon credits for good projects. That is why it announced this year plans to supplement the climate protection projects it already uses for offsetting with its own Gold Standard project in Lesotho. The project to provide carbon efficient cooking stoves is currently being certified by the UN and is expected to generate 20,000 tonnes of carbon credits from 2012.

Conclusion

IPC's Environmental Measurement and Monitoring System (EMMS) is playing an important role in helping drive sustainable business practices across the postal industry by promoting a cross-sectoral approach - the first of its kind for a services industry - to emissions monitoring and reduction. The 22 participating posts in the EMMS programme represent some 80% of global mail volumes, which underscores the reach and impact of the IPC EMMS programme. Moreover, as both the full EMMS and the introductory i-EMMS programme are open to non-IPC members, IPC is enabling posts of all sizes and geographies to contribute in whatever way to reducing the postal sector's carbon footprint.

While great progress has been made by participating posts in the first year of comparative reporting, by slashing over a third of the total target of CO_2 emissions, much remains to be done. In some respect the early years of emissions reduction are the easiest, and represent the low-hanging fruit of using simple but effective measures to obtain greater energy efficiency. Moving forward, posts face the challenge of building on these early successes by introducing more fundamentally greener processes into their business models. Moreover, the introduction of Scope 3 reporting will add to the challenge for posts.

In addition to their efforts to cut their carbon emissions, posts are also offering a range of green products to their customers, both business and consumer. These products have the combined benefit of contributing to posts' overall carbon reduction effort, acting as an effective branding tool in promoting posts' image as responsible businesses, and, as we have seen in at least one case, also help to buoy business. The fundamental importance for posts in integrating sustainable business processes and products to their survival and future success cannot be underestimated.

Notes

Notes

International Post Corporation

The International Post Corporation is the postal industry's partner company that provides leadership by driving service quality, interoperability and business-critical intelligence, and gives its members an authoritative, independent and collective voice.

IPC Publications

IPC produces a broad range of publications and electronic information that provide insights into the postal sector. Publicly available publications are:

Market Flash – Fortnightly newsletter covering the latest news from the global postal industry, with a focus on market changes, new products and services, mergers and acquisitions, financial reports and personnel news.

Green Flash – Quarterly newsletter with the latest developments in sustainability initiatives from postal operators worldwide.

Strategic Insights – Series of occasional publications that provide in-depth analysis of key industry topics

IPC Sustainability Report – IPC's annual report of the cumulative results achieved under IPC's Environmental Measurement and Monitoring System, the postal industry's sector-wide emissions reduction programme.

In addition, IPC produces the following members-only publications:

Regulatory Flash – Monthly newsletter with the latest international regulatory developments affairs, including a regular leader thought piece

Strategic Perspectives on the Postal Market – Annual report providing a distillation, analysis and key findings of IPC's cooperative market intelligence projects from the preceding year

IPC Global Monitor – Quarterly report with detailed information on domestic postal volumes combined with key macroeconomic and substitution data

Global Postal Industry Report – Comprehensive annual overview of the state of the postal industry, comprising extensive data and in-depth analysis

Statistical Database – Online tool with information on key postal operators including the macro environment, consolidated income statements, balance sheets, cash flows, key ratios and key postal division financials

IPC Carrier Intelligence – Concise online intelligence reports on each IPC member and key operators from Asia, Central Europe and South America

Regulatory Portal – Online interactive database providing a synoptic overview of regulatory options for 27 countries, with specific focus on USO, USO financing and costs, price control, and downstream access and licensing

For more information about IPC, please visit our web site at www.ipc.be or write to publications@ipc.be

While every care has been taken to ensure the accuracy of this report, the facts, estimates and opinions stated are based on information and sources which, while we believe them to be reliable, are not guaranteed. No liability can be accepted by the International Post Corporation, its directors or employees, or by the authors of the report, for any loss occasioned to any person or entity acting or failing to act as a result of anything contained in or omitted from this report, or our conclusions stated.

This document and all of its contents is for the exclusive use of IPC members. Any dissemination or use of this information by a person other than the intended recipient is unauthorised and may be illegal.

Published by:

International Post Corporation
Avenue du Bourget 44
1130 Brussels, Belgium
Direct +32 (0)2 724 72 11
Fax +32 (0)2 724 72 32
www.ipc.be

Printed in Belgium May 2011, © IPC

Printed on FSC Certified paper. Design & production: www.inextremis.be - Photos: fotolia.com