Purpose, Strategy and Growth

Board presentation
26 November 2019

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▪ The PSG team has worked closely with Post Office Finance team to depict a picture of product and channel profitability based on existing Post Office data

▪ As per last Board meeting, **we are presenting product profitability using "Contribution"**, a new profitability view developed by the PO Finance team, which splits total overheads between "True" overheads (e.g., finance, HR and legal) and Allocated Indirects (e.g., CIO and DMB costs, which are otherwise part of total overheads)

▪ Channel profitability is presented on trading profit terms

▪ The analysis drives several insights:

– As of FY 2018-19, **Post Office top revenue driver** is **Mails** IRRELEVANT), while **Financial Services** is **top contribution driver** IRRELEVANT with best contribution margin IRRELEVANT

– Over the next two years, **product contribution mix changes significantly**: almost IRRELEVANT **of contribution** is expected to be **driven by Cash & Banking** IRRELEVANT , while only IRRELEVANT) **is driven by Financial Services**. Mail contribution remains stable (~10% of total)

– From a channel perspective, **online / non-branch** channels drove IRRELEVANT **trading profit vs. a loss of** IRRELEVANT **from physical channels** (e.g. Mains, Locals, traditional and DMB), for a total POL trading profit of IRRELEVANT in FY 2018-19

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- As a reminder, in FY2018-19, Post Office generated [IRRELEVANT] **of revenues** and [IRRELEVANT] **trading profits**, a [IRRELEVANT] **margin**

- In FY2018-19 the **top 4 drivers of revenues** were **Mail** ([IRRELEVANT] of total revenues), **Cash & Banking** [IRRELEVANT], **Telecoms** ([IRRELEVANT]) and **Financial Services** [IRRELEVANT]

- **Over the next 2 years, baseline forecasted revenue is expected to** [IRRELEVANT] **CAGR with Mails remaining flat, Cash & Banking growing at** [IRRELEVANT] **CAGR and Financial Services** [IRRELEVANT] **CAGR**

- An analysis of the Direct Contribution shows **every product category made a positive direct contribution in FY2018-19**; **FS the highest direct contribution margin at** [IRRELEVANT]

- Overall, **Direct Contribution is expected to remain stable over next 2 years** ([IRRELEVANT] **CAGR)** in PO Finance baseline forecast at [IRRELEVANT] as Cash & Banking growth is offset by shrinking Financial Services and Identity

- The POL Finance team worked to **refine the profitability view by splitting Total Overheads between Allocated Indirect Costs and "True" Overheads**, providing a view on Contribution ([IRRELEVANT] of revenues)

- **Allocated Indirect Costs** include **CIO**, **DMB**, **Network Ops**, **Agent Fixed Remuneration** and **Marketing**. These can be allocated to product categories using standard assumptions

- **Compared to "Direct Contribution", the "Contribution" proportion of Mails is significantly smaller** ([IRRELEVANT] vs. [IRRELEVANT]), **FS is almost double** ([IRRELEVANT]) **and Payments is** [IRRELEVANT]

- **Contribution is expected to grow** [IRRELEVANT] **CAGR by FY2020-21** in PO baseline forecast, at which point **Cash & Banking expected to drive almost half of Contribution** while **Mails and FS shrink**, and **Identity increases its loss**

REMINDER: In FY2018-19, Post Office generated IRRELEVANT **of revenues and** IRRELEVANT **trading profits, a** IRRELEVANT **margin**

FY 2018-19, £M

⬤ % of revenue

IRRELEVANT

Revenue[1]	**Direct costs**[2]	**Direct contribution**	**Total overheads**	**Trading profit**
		IRRELEVANT		IRRELEVANT

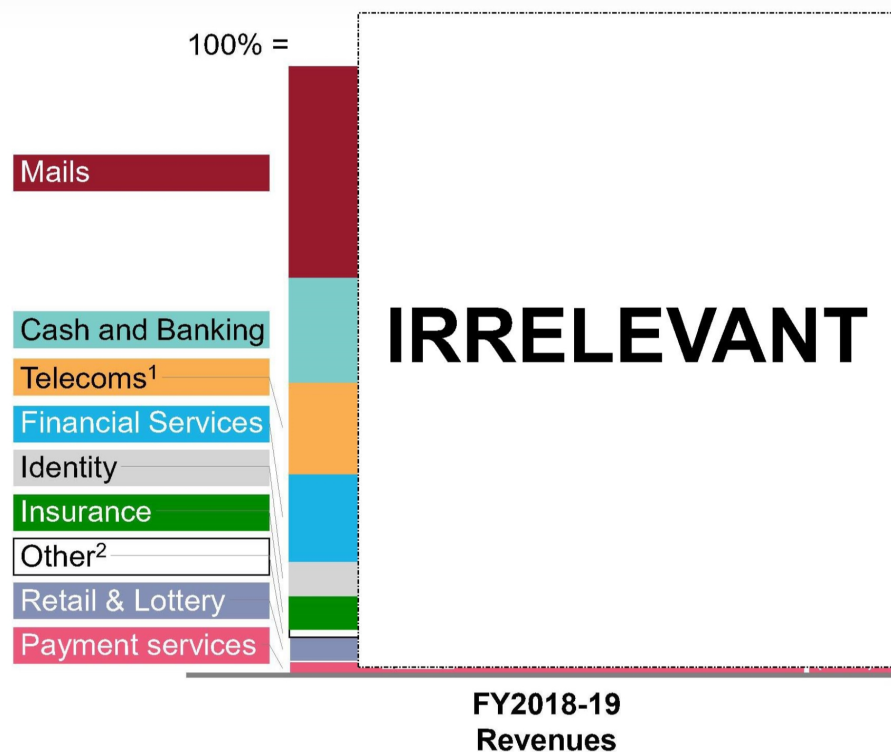1 Revenue before network subsidy payment. Differential with reported IRRELEVANT revenue driven by accounting adjustments: inclusion of POCA as revenue IRRELEVANT inclusion of FRES travel money IRRELEVANT, exclusion of Payzone IRRELEVANT

2 Agent variable costs, processing costs, distribution and postage, postage costs, IT infrastructure & services, finance & losses, marketing; direct overheads and supply chain

Source: POL Finance

In FY2018-19 the top 4 drivers of revenues were Mail (IRRELEVANT), Cash & Banking (IRRELEVANT), Telecoms (IRRELEVANT) and Financial Services (IRRELEVANT)

£M

100% =

Mails

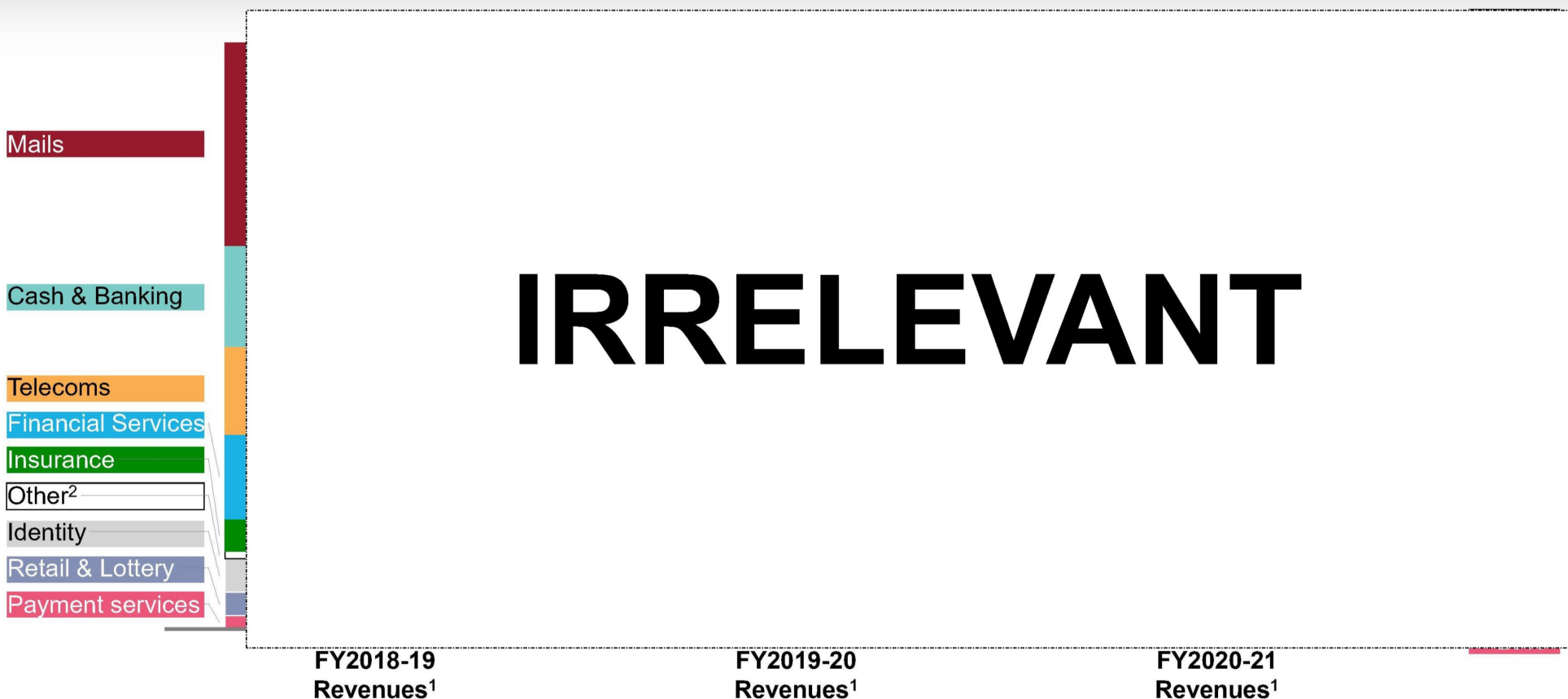Cash and Banking

Telecoms[1]

Financial Services

Identity

Insurance

Other[2]

Retail & Lottery

Payment services

IRRELEVANT

**FY2018-19
Revenues**

1 Telecom and IRRELEVANT
2 Other relates to IRRELEVANT
Source: POL Finance

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Over the next 2 years, baseline forecasted revenue is expected to grow [IRRELEVANT] CAGR with Mails [IRRELEVANT] Cash & Banking [IRRELEVANT] CAGR and Financial Services [IRRELEVANT] CAGR

£M, baseline forecast

Mails

Cash & Banking

Telecoms

Financial Services

Insurance

Other[2]

Identity

Retail & Lottery

Payment services

IRRELEVANT

FY2018-19
Revenues[1]

FY2019-20
Revenues[1]

FY2020-21
Revenues[1]

1 Revenue before network subsidy payment. Differential with reported [IRRELEVANT] m revenue driven by accounting adjustments: inclusion of POCA as revenue [IRRELEVANT] inclusion of FRES travel money ([IRRELEVANT]3m), exclusion of Payzone [IRRELEVANT]. 2 Other relates to [IRRELEVANT]

Source: POL Finance

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An analysis of the Direct Contribution shows every product category made a positive direct contribution in FY2018-19; FS the [IRRELEVANT]

£M

Direct Contribution margin (% of rev)

100% =

Mail

Cash and Banking

Telecoms[3]

Financial Services

Identity

Insurance

Other[4]

Retail & Lottery

Payment services

IRRELEVANT

FY2018-19 Revenue[1]   **FY2018-19 Direct Contribution[2]**

1 Revenue before network subsidy payment. Differential with reported [IRRELEVANT] revenue driven by accounting adjustments: inclusion of POCA as revenue [IRRELEVANT], inclusion of FRES travel money [IRRELEVANT], exclusion of Payzone [IRRELEVANT]. 2 Direct contribution calculated as revenue minus direct costs per major project group. 3 Telecom and [IRRELEVANT]
[IRRELEVANT]   4 Other relates to [IRRELEVANT]
[IRRELEVANT] Source: POL Finance

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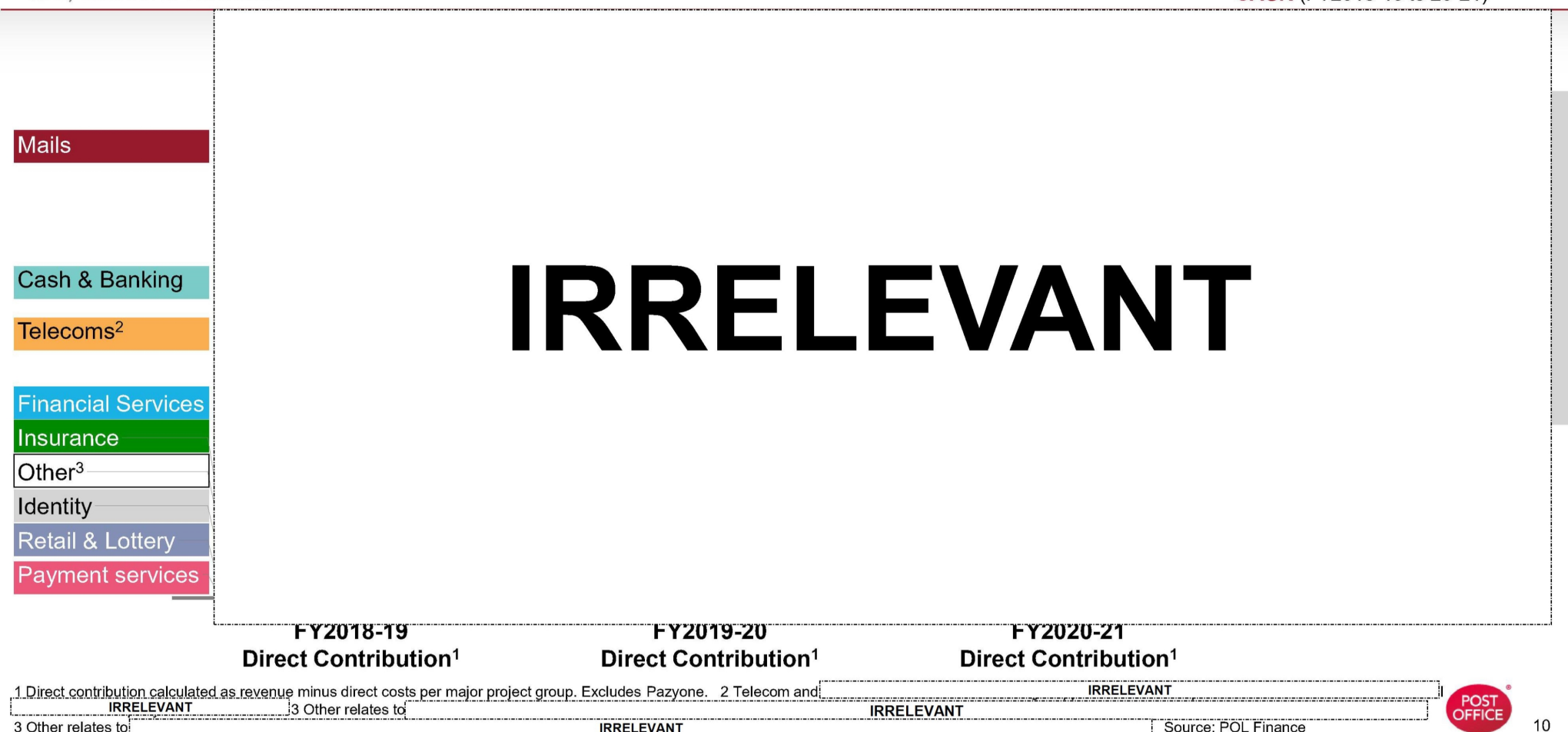
Overall, Direct Contribution expected to remain stable over next 2 years (IRRELEVANT CAGR) at IRRELEVANT as Cash & Banking growth is offset by shrinking Financial Services and Identity

£M, baseline forecast

CAGR (FY2018-19 to 20-21)

Mails

Cash & Banking

Telecoms[2]

Financial Services

Insurance

Other[3]

Identity

Retail & Lottery

Payment services

IRRELEVANT

FY2018-19
Direct Contribution[1]

FY2019-20
Direct Contribution[1]

FY2020-21
Direct Contribution[1]

1 Direct contribution calculated as revenue minus direct costs per major project group. Excludes Pazyone.   2 Telecom and IRRELEVANT

IRRELEVANT   3 Other relates to IRRELEVANT

3 Other relates to IRRELEVANT

IRRELEVANT

Source: POL Finance

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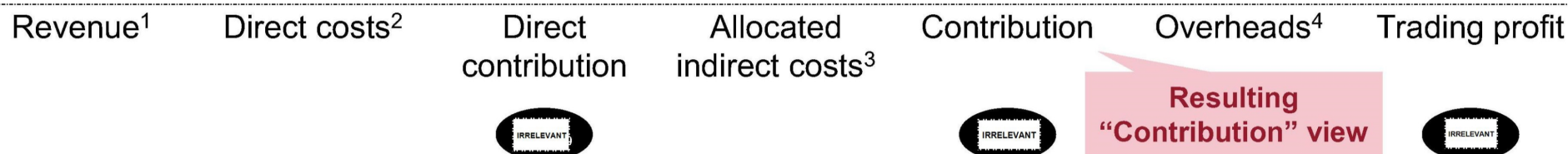
The POL Finance team worked to refine the profitability view by splitting Total Overheads between Allocated Indirect Costs and "True" Overheads, providing a view on Contribution [IRRELEVANT] of revenues)

FY 2018-19, £M

% of revenue

IRRELEVANT

Revenue[1]	Direct costs[2]	Direct contribution	Allocated indirect costs[3]	Contribution	Overheads[4]	Trading profit

Resulting "Contribution" view

1 Revenue before network subsidy payment. Differential with reported [IRRELEVANT] revenue driven by accounting adjustments: inclusion of POCA as revenue [IRRELEVANT], inclusion of FRES travel money [IRRELEVANT], exclusion of Payzone [IRRELEVANT]

2 [IRRELEVANT] processing costs, distribution and postage, postage costs, IT infrastructure & services, finance & losses, marketing; direct overheads and supply chain

3 [IRRELEVANT], DMB costs, Marketing, network operations, CIO

4 Staff costs, finance and operations, legal, risk & governance, HR & people & engagement, communications & central

Source: POL Finance

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Allocated Indirect Costs include CIO, DMB, Network Ops, Agent Fixed Remuneration and Marketing. These can be allocated to product categories using standard assumptions

FY 2018-19, £M ⬤ % of revenue

IRRELEVANT

| Revenue[1] | Direct costs[2] | Direct contribution | CIO | DMB | Network operations[3] | Agents fixed remuneration | Marketing | Contribution |

1 Revenue before network subsidy payment. Differential with reported IRRELEVANT revenue driven by accounting adjustments: inclusion of POCA as revenue IRRELEVANT, inclusion of FRES travel money IRRELEVANT, exclusion of Payzone IRRELEVANT

2 **IRRELEVANT** processing costs, distribution and postage, postage costs, IT infrastructure & services, finance & losses, marketing; direct overheads and supply chain

3 Figures based on 18/19, and so excludes transfer of Retail Operations under Retail in 19/20

Source: POL Finance

Compared to "Direct Contribution": the "Contribution" proportion of Mails is significantly

IRRELEVANT), FS is almost IRRELEVANT), Payments is IRRELEVANT g

£M

Contribution margin (% of rev)

100%

Mail

Cash and Banking
Telecoms[4]
Financial Services
Identity
Insurance
Other[5]
Retail & Lottery
Payment services

IRRELEVANT

FY2018-19 Revenue[1]   **FY2018-19 Direct Cont.**[2]   **FY2018-19 Contribution**[3]

1 Revenue before network subsidy payment. Differential with reported IRRELEVANT revenue driven by accounting adjustments: inclusion of POCA as revenue IRRELEVANT), inclusion of FRES travel money IRRELEVANT exclusion of Payzone IRRELEVANT . 2 Direct contribution calculated as revenue minus direct costs per major project group. 3 Contribution calculated as revenue minus direct costs per major project group. 4 Telecom and IRRELEVANT
IRRELEVANT
IRRELEVANT   5 Other relates to   Source: POL Finance   IRRELEVANT

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Contribution to grow IRRELEVANT **CAGR by FY2020-21, at which point Cash & Banking expected to** IRRELEVANT **of Contribution while Mails and FS** IRRELEVANT **, Identity** IRRELEVANT

£M, baseline forecast

CAGR (FY2018-19 to 20-21)

Mails

Cash & Banking

Telecoms

Financial Services

Insurance

Other

Identity

Retail & Lottery

Payment services

IRRELEVANT

1 Contribution calculated as revenue minus direct costs and unallocated overheads per major project group   2 Telecom and BGL IRRELEVANT

IRRELEVANT   3 Other relates to IRRELEVANT

IRRELEVANT   Source: POL Finance

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- Channel split shows **most product revenues driven at least partly by branches** (vs. non-branch, i.e. online and call centres), **except for Telco and FS**

- **7,400 of POL's ~11,600 PO branches are Mains and Locals**

- **Online / non-branch channels** [IRRELEVANT] **as well as Mains** [IRRELEVANT] **and Locals** [IRRELEVANT] **are the engines of Post Office profits in FY2018-19**

- **Within the branch network, Mains and Locals are the engines of profits accounting for** [IRRELEVANT] **of profits in FY2018-19; DMBs** and **Traditional branches** respectively drive [IRRELEVANT] and [IRRELEVANT] of **losses**

- **50% of revenues** driven by just **14% of branches** (~1,600 branches)

- **Last quartile of branches** (ranked by profitability) drive **losses almost as great as profits from first 2 quartiles**

- **63% of the top quartile branches** (ranked by profitability) are **Mains**; **59% of bottom quartile of branches are Traditional branches**

Channel split shows most product revenues driven at least partly by branches, except for Telco and PO Money

£M revenue[1], FY 2018-19

■ Online/Non-branch
■ Branch

Home Office	
Payment Services	
Banking Framework	1
POCA	
Moneygram	
Postal Orders	
Mails	1% ... 1
Retail & Lottery	1%
ATM	1%
Other Identity	
Travel Money	
Insurance	
PO Money	
Telco	3
Verify	
Other	

IRRELEVANT

1 Revenue before network subsidy payment. Differential with reported IRRELEVANT revenue driven by exclusion of Payzone IRRELEVANT and Royal Mail IRRELEVANT

SOURCE: POL, product split based on Credence database

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IRRELEVANT of POL's ~11,600 PO branches are Mains and Locals

As of end of FY2018-19

Format	Description	Product / service range	Number of branches
Mains	▪ Larger branches with minimum of two counters ▪ May be a dedicated Post Office or situated in another shop, e.g., WHSmith	▪ Core services[1] ▪ Exact range dependent on local needs	~3,400
Locals	▪ Always situated within another shop, e.g., in a Nisa ▪ Usually just has a combi counter	▪ Core services[1] ▪ Exact range dependent on local needs	~4,000
Traditional	▪ Branches not yet converted to Locals as per Network Transformation ▪ Have protected status – remain on old contracts due to POL social purpose ▪ Remain on old contracts, but are on notice until Local partner found	▪ Most services offered ▪ Exact range dependent on local needs	~2,500
Outreach	▪ Often run from public buildings, e.g., village halls, libraries ▪ Include mobile vans ▪ Operate under reduced hours	▪ Core services[1]	1,400
Directly Managed Branches (DMBs)	▪ Managed and staffed by POL ▪ Real estate may be owned or leased	▪ Full[2] ▪ Some do not offer full range of Identity services	~200
TOTAL POST OFFICE			~11,500
Payzone	▪ Provides card payment solutions ▪ Accessed face-to-face, online or via telephone	▪ Card payment solutions	~13,500

Grand total of ~25,000 Post Office and Payzone branches

1 Core services include Mails, POCA, Banking, Bill Payments, Travel Money, Click and Collect
2 Full services include Mails, POCA, Banking, Bill Payments, Travel Money On Demand, Post Office Money, Broadband and Phone, Identity services
SOURCE: POL

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Online / non-branch channels (IRRELEVANT) as well as Mains IRRELEVANT and Locals IRRELEVANT) are the engines of Post Office profits in FY2018-19

£M trading profit, FY 2018-19

XX Revenue   xx% Profit margin

IRRELEVANT

- **Online / non-branch** channels drive IRRELEVANT trading profit vs. IRRELEVANT loss from **branches**

- **DMB**, followed by **traditional branches,** (which include community branches) are the **main loss drivers**

- **Mains** and **Locals** branches are the **engine of profit** in the branch network

- **Outreach loss** is relatively IRRELEVANT of trading profits)

- **Closed branches** drive IRRELEVANT of total network losses

1   Revenue before network subsidy payment. Differential with reported IRRELEVANT revenue driven by exclusion of Payzone IRRELEVANT

SOURCE: NSP model, POL Finance

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Detailed view of branch profitability shows DMB and Traditional accounting for the vast majority of all losses generated by the branch network

FY2018-19

Channel	Profit-making		Loss-making		Total	
	# of branches As of end of FY18/19	Trading Profit, £m FY18/19	# of branches As of end of FY18/19	Trading Profit, £m FY18/19	# of branches As of end of FY18/19	Trading Profit, £m FY18/19
Locals						
Mains						
Outreach						
Traditional						
DMB						
TOTAL[2]						

IRRELEVANT

Key takeaways
- Online channel is the primary driver of POL profit
- Excluding DMB, POL physical network will have a positive profitability profile
- **IRRELEVANT**
- IRRELEVANT of traditional branches are ...- IRRELEVANT profit

1 IRRELEVANT outreach branches are served by IRRELEVANT units. These IRRELEVANT units will be used in the analysis over the next pages; 2 Excludes profitability associated to closed branches

SOURCE: NSP model, POL Finance

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IRRELEVANT **of revenues driven by just** IRRELEVANT **of branches (** IRRELEVANT **branches)**

FY 2018-19

Revenue, £m

IRRELEVANT

IRRELEVANT

Branches ranked by revenue
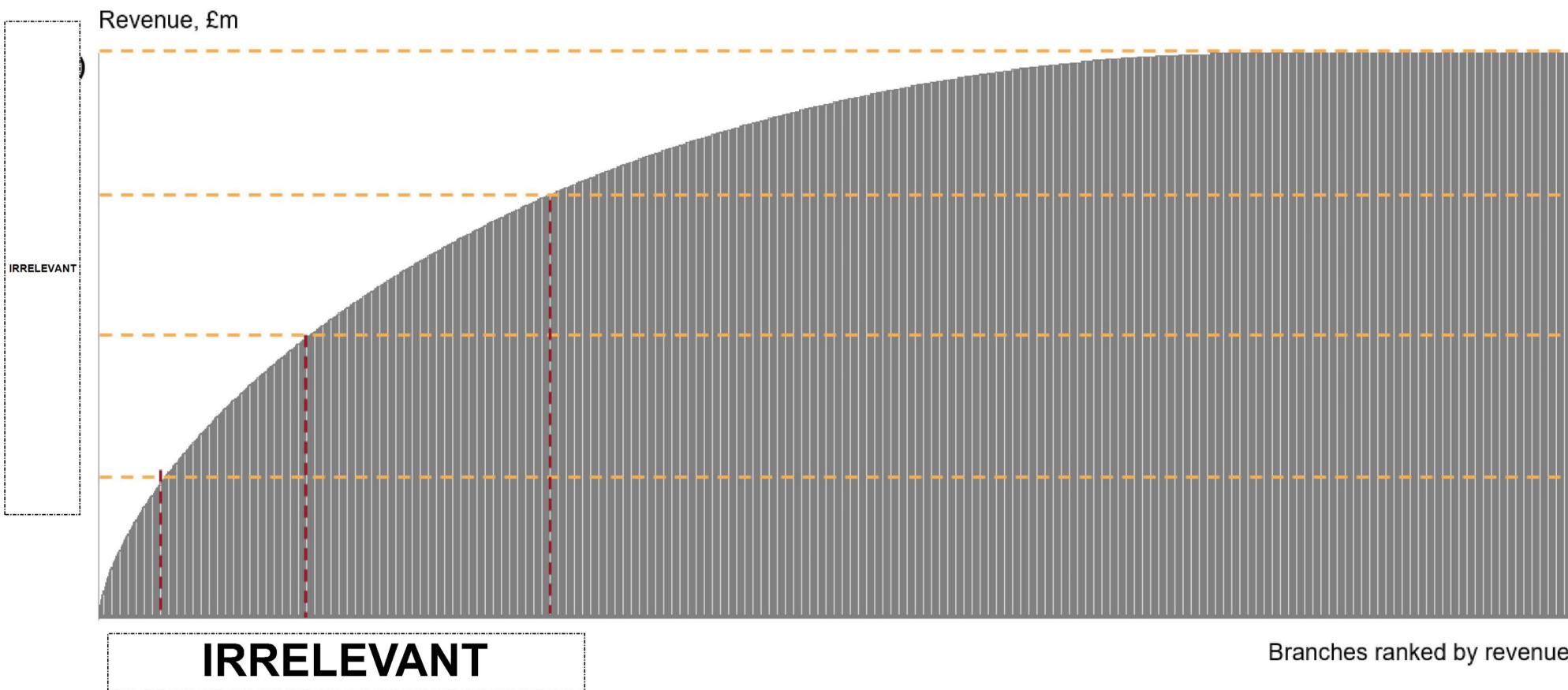
Analysis only includes open branches as of FY2018/19
SOURCE: NSP model, POL Finance

Last quartile of branches (ranked by profitability) drive losses almost as great as profits from first 2 quartiles

FY 2018-19

	Revenue (% of total revenues)		Profitability
xx (yy%)		xx	
	TOTAL IRRELEVANT		TOTAL IRRELEVANT

Profit, £m

First quartile	Second quartile	Third quartile	Fourth quartile

IRRELEVANT

Branches ranked by profitability

Analysis only includes open branches as of FY2018/19
SOURCE: NSP model, POL Finance

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IRRELEVANT **of the top quartile branches (ranked by profitability) are Mains, IRRELEVANT% of bottom quartile of branches are Traditional branches**

FY 2018-19, % of branches by type

■ Main ■ Local ■ Traditional ☐ Outreach ■ DMB   ⬤ Profit margin

IRRELEVANT

First quartile of branches ranked by profitability | Second quartile of branches ranked by profitability | Third quartile of branches ranked by profitability | Fourth quartile of branches ranked by profitability

IRRELEVANT

Analysis only includes open branches as of FY2018/19
SOURCE: NSP model, POL Finance

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Summary of OHI findings and their potential uses

Diagnostic headlines

- Impressive level of engagement with the survey

- Bottom quartile organisational health indicating significant opportunity for improvement

- Accountability, work environment and motivation relative strengths (though still third quartile): relatively more effective in creating a sense of community and belonging; practices around openness, trust, engaging leadership and ownership amongst most emphasised

- Purpose and direction not clearly understood, reinforcing need for current work on Purpose, Strategy & Growth

- Lack of consistent measurement and management of business and risk, or acting to address problems

- Lack of institutional skills and talent, external orientation and innovation/learning

- Overall, senior managers' views most critical (especially innovation and learning)

- Current values centre around community, being of service, care and respect, but also hierarchy and bureaucracy; whereas desired values include competitiveness, accountability, efficiency and being well organised

- Main purpose themes at Post Office are about being a trusted brand, with access for all, serving customer's mails, parcel and cash needs

Uses of the OHI findings

- Syndicate the results internally to increase understanding of the challenges (both generally and for particular parts of the organisation)

- Start to create a narrative about the required change building on the quantitative and qualitative detail of the survey results

- Use the detailed information about where practices need to change to inform concrete improvement initiatives

- Once Purpose, Strategy & Growth are clearer, use OHI results to inform what is needed to enable the new strategy

- Track progress and course correct where/if needed

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Organisational health is related to – but different from – organisational performance

Performance   **Health**   ☐ Focus of the OHI survey

What an enterprise does to improve how it **develops** compelling products and services, **channels** them efficiently through its network and **sells** them into the market to drive financial and operational results

How an organisation **aligns** itself, **executes** with excellence, and **renews** itself to sustainably achieve performance aspirations

POL-BSFF-106-0000002_0025

Organisations that focus on Org Health outperform their peers at every level

Across Industries

Healthy companies across industries outperform their unhealthy peers in the stock market[1] by

3X

Across Companies

Companies that focus on health show an

18%

increase in EBITA between surveys

Within Companies

Health explains up to

50%

of performance variation across units

1 Represents 9 year average Total Return to Shareholders (TRS) for healthy companies vs. unhealthy companies across survey database
2 Based on re-survey data, companies with "Moderate", "Strong", and "Very Strong" recipe alignment

POL-BSFF-106-0000002_0026

The OHI survey digs deep to understand what's happening under the surface and provide a detailed picture of organisational health

Employee Engagement survey	Organisational Health Index (OHI)
• Evaluates individual employee **happiness / attitudes (e.g. how employees feel)**	• Evaluates an **organisation's long-term capacity to perform**
• Helps identify **employee "hot buttons".** (e.g., satisfaction, happiness, morale, engagement, work environment)	• Identifies **strengths and opportunities across a robust set of management practices** proven to drive health
• **Allows customisation and comparison** based on unique questions / lines of inquiry	• **Enables benchmarking** across industries, regions and a global database
• **Focuses on manager level reporting** vs. enterprise-wide focus areas	• Focuses on **enterprise-wide, functional and business unit insights** to inform actions to improve health

In practice, **employee engagement and the OHI are complementary**, however a healthy organisation is not just about happy employees, but **also aligning the workforce and behaviors with the organisation goals**

POL-BSFF-106-0000002_0027

The Organisational Health Index (OHI) offers proven insights and expert support to build an enduring organization that can sustain performance

Conducted an exhaustive academic review

Interviewed key leaders across our client base

Developed the Organisational Health Index (OHI) Survey

800 books & articles

100 client executives

20 minute survey

200 fact-based insights

30 functional leaders

3-5 precise recommendations

~5m participants surveyed

~1,900 companies

With 1+ billion data points, the OHI offers an unparalleled depth and breadth of knowledge, across geographies and industries

Global reach and relevance,
% of OHI surveys

24%

27%

18%[1]

8%

23%
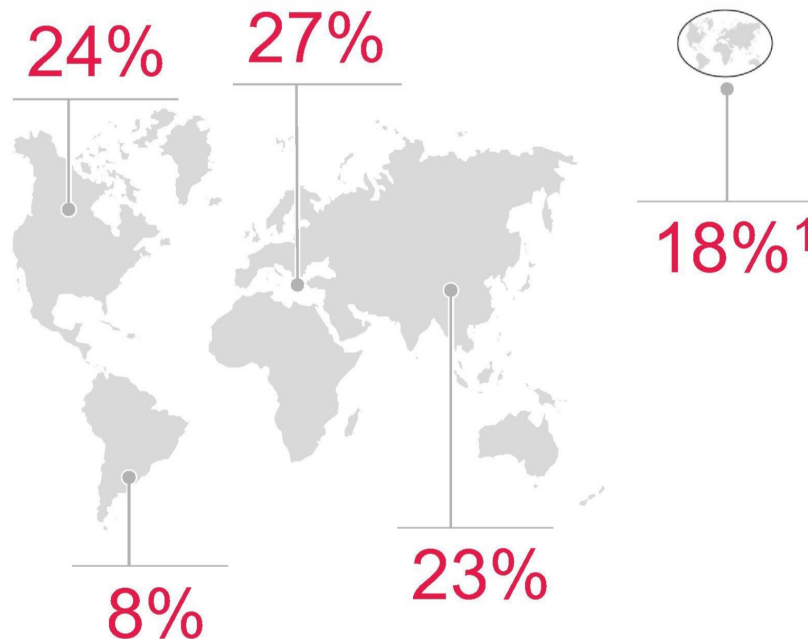
Surveys administered in 100+ countries

Robust industry benchmarks

- Global Energy & Materials
- Banking
- TMT (High Tech-Media-Telecom)
- Consumer/Retail
- Advanced Industries
- Healthcare Systems and Services
- Pharmaceuticals and Medical Products
- Public Sector
- Insurance
- Travel, Transport & Logistics
- Asset Management & Institutional Investors
- Infrastructure
- Professional, Scientific, and Technical Services
- Social Sector
- Multi-Sector Conglomerate

1 Represents the percentage of companies that surveyed globally

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OHI statistics at Post Office
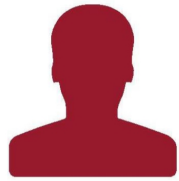
2448

Employees invited to
participate in the survey
(excludes DMB)

73%

Employees provided
responses to the survey

>2000

Individual comments,
recommendations and
opinions as provided
by employees at all levels

Source: Post Office (n=1770); Benchmark: Global (n=2,877,871, no. surveys=878)

POL-BSFF-106-0000002_0030

Two major measurements in the OHI

9 Health Outcomes

- Interprets if what is happening on the ground is working, and how well

- Agreement scale

- Example: "This Post Office colleague is highly motivated"

37 Management Practices
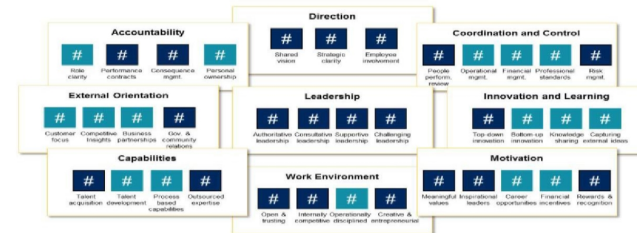
- Identifies colleagues' perceptions of what's happening on the ground

- Frequency scale, from "almost always" to "almost never"

- Example: "Managers in Post Office provide praise, thanks, or other forms of recognition to high performers"

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Employees' sense of community and belonging provide a foundation to build on once direction becomes clearer

% of respondents who selected 'agree' or 'strongly agree'

Benchmark: ■ Top Quartile ■ Second Quartile ■ Third Quartile ■ Bottom Quartile

Communicate a clear and compelling vision of where the organisation is headed, how to get there, and what it means for people

Use effective leadership styles to shape the actions of people in the organisation to drive high performance

Direction 48

Ensure individuals understand what is expected of them, have sufficient authority and feel accountable for delivering results

Consistently measure and manage business and risk, and act to address problems when they arise

Accountability 62

Coordination & Control 48

Engage with important external stakeholders (customers, suppliers, partners, and others) to more effectively create and deliver value – both now and in the future

External Orientation 56

Leadership 62

Innovation & Learning 38

Encourage and harness new ideas, including everything from radical innovation to incremental improvement, so the organisation can effectively evolve and grow over time

Ensure the institutional skills and talent are in place to execute the strategy and create competitive advantage

Capabilities 63

Motivation 52

Develop employee loyalty and enthusiasm, and inspire people to exert extraordinary effort to perform at their very best

Work Environment 60

Cultivate a clear, consistent set of values and working norms that foster effective workplace behaviour

Source: Post Office (n=1770); Benchmark: Global (n=2,877,871, no. surveys=878)

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Direction, Capabilities and Innovation & Learning are lagging most vs. UK benchmark

Benchmark: ■ Top Quartile ■ Second Quartile ■ Third Quartile ■ Bottom Quartile

Difference: ■ Significantly Stronger[1] ■ Comparable ■ Significantly Weaker[1]

	Post Office results % of respondents who selected 'agree' or 'strongly agree'	United Kingdom Difference between Post Office and benchmark median, pp	Travel, Transport & Logistics Difference between Post Office and benchmark median, pp	Public sector Difference between Post Office and benchmark median, pp	Retail Difference between Post Office and benchmark median, pp
OHI Score	54	-5	-8	1	-5
Direction	48	-10	-20	-5	-14
Leadership	62	1	-5	1	-5
Work Environment	60	6	1	13	1
Accountability	62	-3	-1	10	-2
Coordination & Control	48	-6	-14	9	-8
Capabilities	63	-8	-13	-7	-11
Motivation	52	1	6	0	2
Innovation & Learning	38	-8	-24	-9	-20
External Orientation	56	0	-8	4	-10

1 The significance level is at p = .05. Statistical significance is calculated based on outcome distribution, size of population and size of point difference.

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POL-BSFF-106-0000002_0033

Survey scores across 9 health outcomes and 37 management practices

% of respondents who selected 'often' or 'almost always'

Benchmark: ■ Top Quartile ■ Second Quartile ■ Third Quartile □ Bottom Quartile

XX **Power practice** – practice that needs to be prioritised if in bottom quartile

Direction

40	37	43
Shared Vision	Strategic Clarity	Employee Involvement

Accountability

48	61	35	55
Role Clarity	Performance Contracts	Consequence Management	Personal Ownership

Coordination & Control

50	55	52	77	56
People perf. review	Operational Management	Financial Mngmnt.	Professional Standards	Risk Management

External Orientation

47	51	64	61
Customer Focus	Competitive Insights	Business Partnerships	Gvt & Community Relations

Leadership

59	47	60	54
Authoritative Leadership	Consultative Leadership	Supportive Leadership	Challenging Leadership

Innovation & Learning

33	31	33	28
Top-down Innovation	Bottom-up Innovation	Knowledge Sharing	Capturing External Ideas

Capabilities

49	47	40	47
Talent Acquisition	Talent Development	Process based Capabilities	Outsourced Expertise

Work Environment

66	34	63	43
Open and Trusting	Performance Transparency	Operationally Disciplined	Creative & Entrepreneurial

Motivation

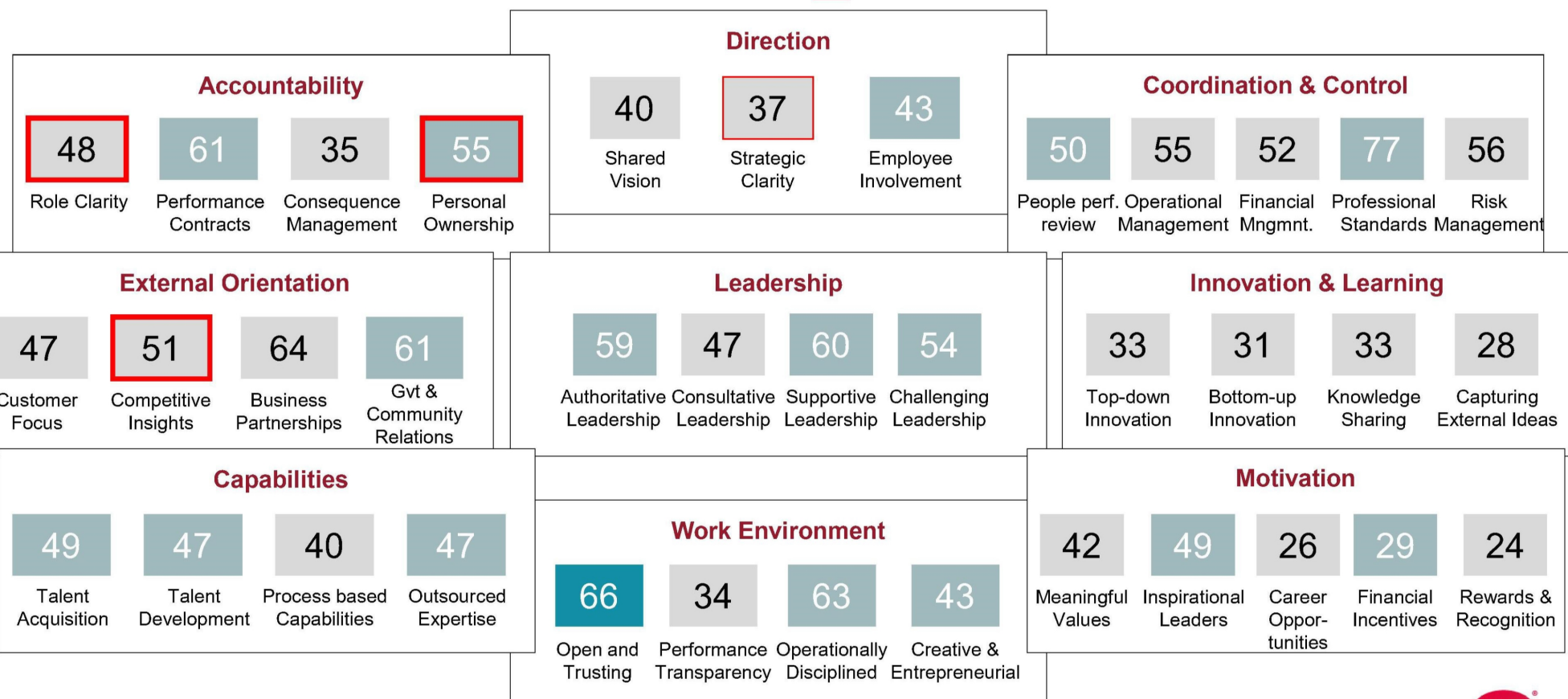| 42	49	26	29	24
Meaningful Values	Inspirational Leaders	Career Opportunities	Financial Incentives	Rewards & Recognition

Source: Post Office (n=1770); Benchmark: Global (n=2,877,871, no. surveys=878)

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Survey scores are supported by a set of related questions: "Accountability" example

Accountability outcome questions[1]

Employees clearly understand what is expected of them

Employees are held accountable for the results they are expected to deliver

Employees within Post Office have sufficient authority to make decisions

Legend: ■ Disagree ■ Neutral ■ Agree

Question	Disagree	Neutral	Agree
Employees clearly understand what is expected of them	9	16	75
Employees are held accountable for the results they are expected to deliver	15	18	67
Employees within Post Office have sufficient authority to make decisions	28	27	45

Accountability practice questions[1]

Legend: ■ Infrequently ■ Sometimes ■ Frequently

ROLE CLARITY

Question	Infrequently	Sometimes	Frequently
Post Office's organisational structure helps create clear accountability	26	34	41
Jobs in Post Office are designed to have clear objectives and accountabilities for results	12	34	54

PERFORMANCE CONTRACTS

Question	Infrequently	Sometimes	Frequently
Employees have written performance goals that clearly define what they are expected to deliver	13	26	61
Post Office sets performance goals for individuals that are challenging	11	28	60

CONSEQUENCE MANAGEMENT

| Question	Infrequently	Sometimes	Frequently
Post Office provides attractive incentives to high performing employees	46	26	29
Post Office has created clear links between performance and consequences	31	28	41

PERSONAL OWNERSHIP

Question	Infrequently	Sometimes	Frequently
Line managers create a sense of belonging to Post Office	18	28	54
Line managers encourage employees to take a personal stake in their jobs	17	28	55
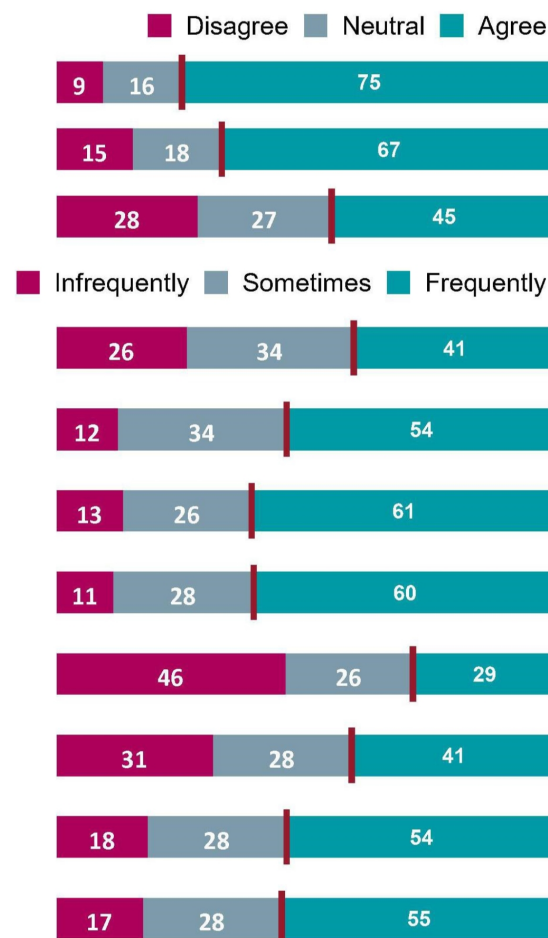
1 Percent of employees

Source: Post Office (n=1770)

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Gap between Post Office scores and next best quartiles is key in understanding scores

Percentage points

Point increase required to achieve next quartile

Benchmark: Top Quartile | Second Quartile | Third Quartile | Bottom Quartile

Direction 48	Shared Vision	40	11-15
	Strategic Clarity	37	15-19
	Employee Involvement	43	5-9
Leadership 62	Authoritative Leadership	59	6-10
	Consultative Leadership	47	4-8
	Supportive Leadership	60	4-8
	Challenging Leadership	54	11-15
Work Environment 60	Open and Trusting	66	3-7
	Performance Transparency	34	3-7
	Operationally Disciplined	63	8-12
	Creative & Entrepreneurial	43	7-11
Accountability 62	Role Clarity	48	6-10
	Performance Contracts	61	6-10
	Consequence Management	35	3-7
	Personal Ownership	55	5-9
Capabilities 63	Talent Acquisition	49	9-13
	Talent Development	47	8-12
	Process Based Capabilities	40	8-12
	Outsourced Expertise	47	5-9

Coordination & Control 48	People Performance Review	50	9-13
	Operational Management	55	5-9
	Financial Management	52	12-16
	Professional Standards	77	6-10
	Risk Management	56	3-7
Motivation 52	Meaningful Values	42	6-10
	Inspirational Leaders	49	2-6
	Career Opportunities	26	11-15
	Financial Incentives	29	6-10
	Rewards & Recognition	24	6-10
Innovation & Learning 38	Top-down Innovation	33	11-15
	Bottom-up Innovation	31	9-13
	Knowledge Sharing	33	6-10
	Capturing External Ideas	28	9-13
External Orientation 56	Customer Focus	47	13-17
	Competitive Insights	51	13-17
	Business Partnerships	64	4-8
	Government & Community Relations	61	7-11

Source: Post Office (n=1770); Benchmark: Global (n=2,877,871, no. surveys=878)

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Next steps on OHI

- Continue sharing survey results with relevant Post Office groups

- Start shaping the interventions to improve organisational health by identifying which management practices can be improved via workshops with L40 (session on 10 December), GE, etc.

- As the strategy work continues to be refined, ensure focus on improving the management practices that are most relevant to delivering that strategy
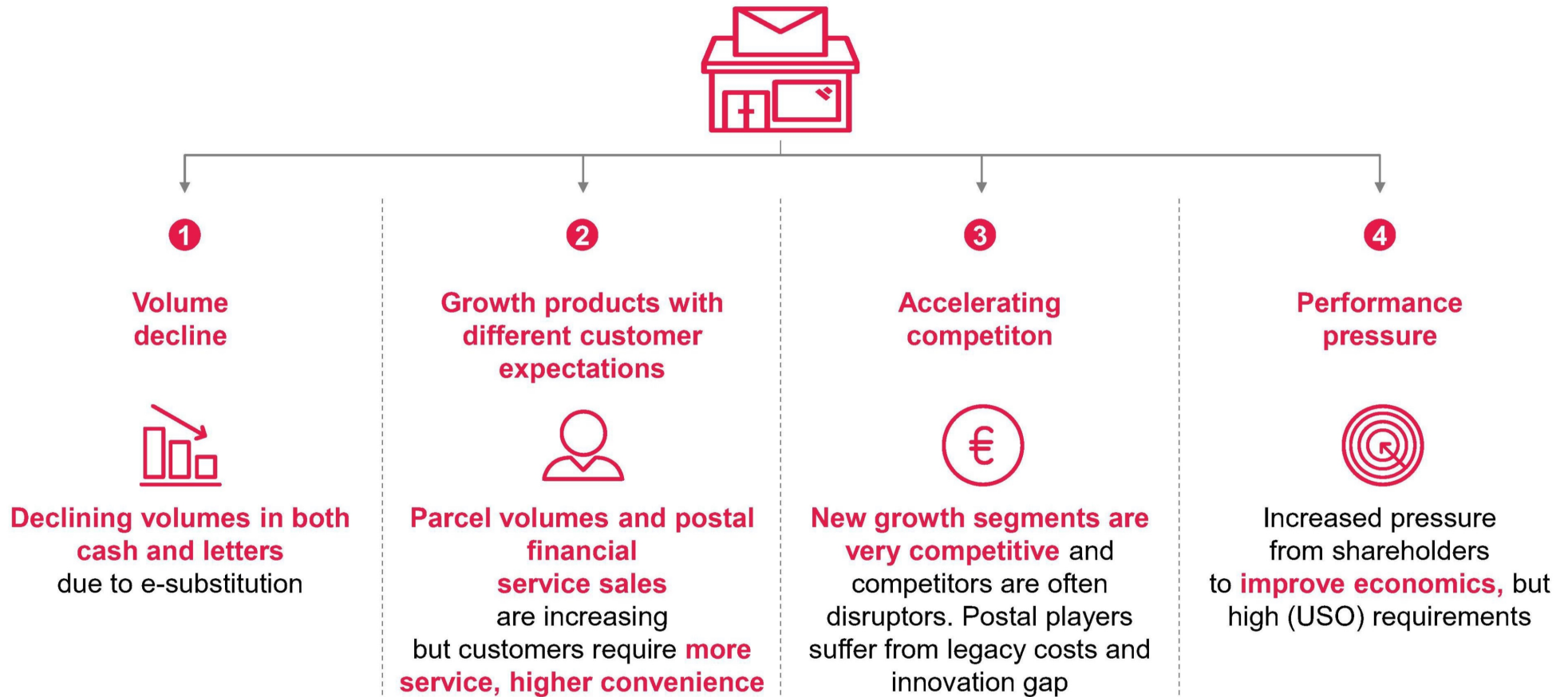
Contents

Where We Make Money

Organisational Health Survey Results

Learnings from other post

- **Review of postal context**

- Learnings

Big Bets

Overall process update

Executive summary – postal market overview

- Postal players have been under increasing pressure. Several trends contribute to this:

  - Structural and irreversible **decline of the mail** business

  - Customers demanding **higher convenience** and **service** in the **core products** offered by postal players, while often not being willing to pay higher prices (especially B2C e-commerce parcel senders)

  - **Disruptors are winning** the postal players' **natural new growth segments** (e.g. parcels and financial services), in particular Amazon

  - Regulatory pressure to maintain **retail network coverage** and **USO requirements** continue impacting postal players' economics; although most European players **still enjoy** some **form of subsidy**

Postal players have been under increasing pressure which impacts branch networks

①

Volume decline

Declining volumes in both cash and letters due to e-substitution

②

Growth products with different customer expectations

Parcel volumes and postal financial service sales are increasing but customers require **more service, higher convenience**

③

Accelerating competiton

New growth segments are very competitive and competitors are often disruptors. Postal players suffer from legacy costs and innovation gap

④

Performance pressure

Increased pressure from shareholders to **improve economics,** but high (USO) requirements

POL-BSFF-106-0000002_0040

The world of post is changing fast in the face of megatrends that generate both threats and opportunities

Digitisation of letters
- World going paperless
- Advertising going digital

E-commerce and parcels growth
- Shopping at your fingertips

Disruptive innovators
- Amazon: "Marketplace" and "Fulfilment by Amazon"

The gig economy
- Much lower labour cost structure
- Different motivations from 'lifestyle couriers'

Disruption in financial services
- Cashless, online and mobile banking
- Trust deficit
- Withdrawal from the high street

Megatrends impacting global postal markets

Digital government
- Online management of national and municipal services, benefits, and taxes

The mobile economy
- 'Uberfication' of services
- Changing customer interaction models

The poly-morphous world
- Emerging social and economic divides driving political disruption (Brexit, Trump)

The privatisation wave
- European posts under private ownership
- Peak in government sales

Convenience retail
- Growth in convenience and discounter retail
- Big box retailers entering the market

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Mail and parcel are set to reach volume parity by 2025

2005 **2015** **2025**

Overall market — 13:1 — 4:1 — 1:1

Typical postal incumbent — 30:1 — 10:1 — 3:1
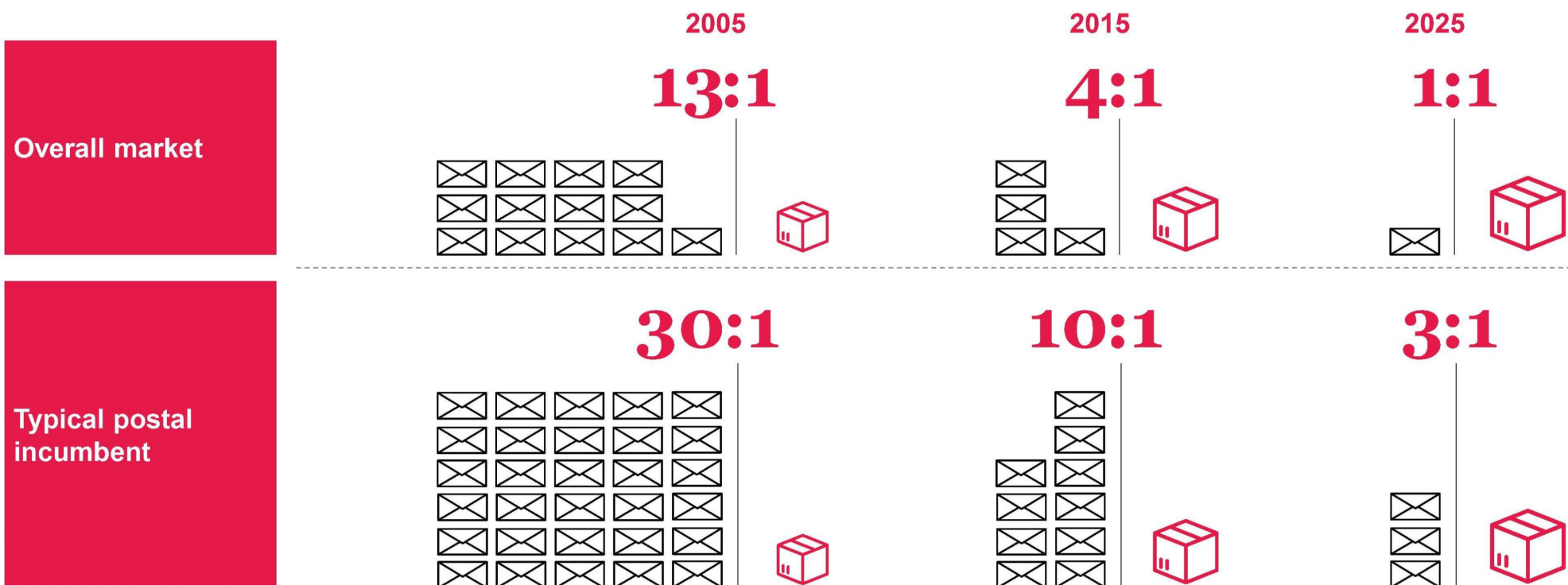
The decline of the mail business is structural and irreversible

Addressed domestic letter volumes in selected markets[1]
Indexed, 2003=100
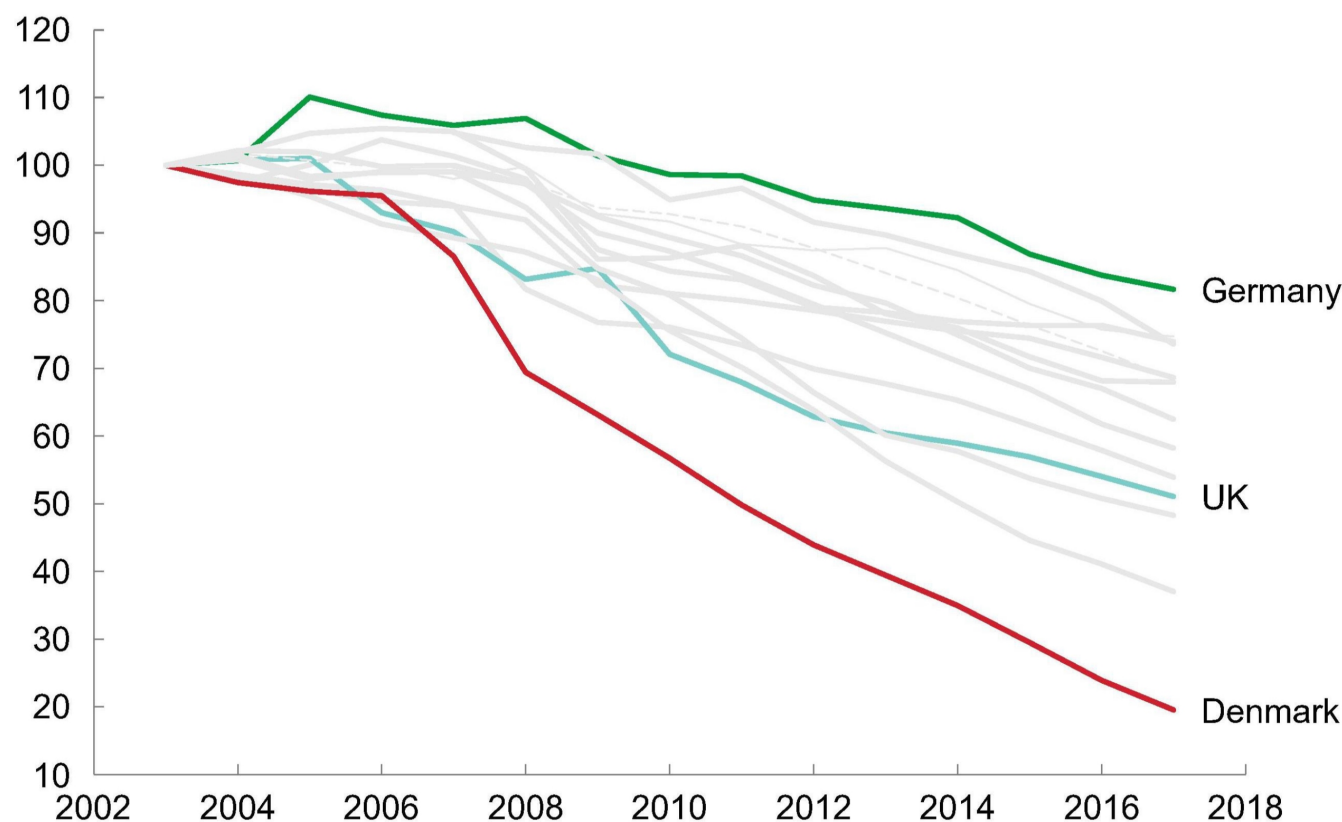
A few observations and additional facts …

- **Drop in mail volumes** in key European postal markets – speed of decline driven by local habits and regulation

- **80% drop** in mail volume in **Denmark** since 2003 – eGovernment initiatives since 2007 accelerated decline

- **<20% drop** in mail volume in **Germany** – least affected market in the analyzed set

- Most of key postal markets **increased stamp prices** since 2010, only Switzerland kept prices stable

1 Austria, Belgium, Canada, Denmark, France, Germany, Ireland, Netherlands, Norway, Spain, Sweden, Switzerland, UK, US
SOURCE: Operators' website and annual report; Regulators; UPU; Press

E-commerce is currently a ~ USD 3 tr market, quadrupling to ~ USD 8 tr by 2025

E-commerce market worldwide USD trillions

Based on observation of historic growth of most mature e-commerce markets (e.g., UK, US), our assumption is that growth rate will decline from 2020 onwards and further from 2025

+20% p.a. · **~15% p.a.** · **~10% p.a.**

Year	Value
2015	1.5
18	2.9
21F	4.9
25F	~8.0
2030F	~13.0
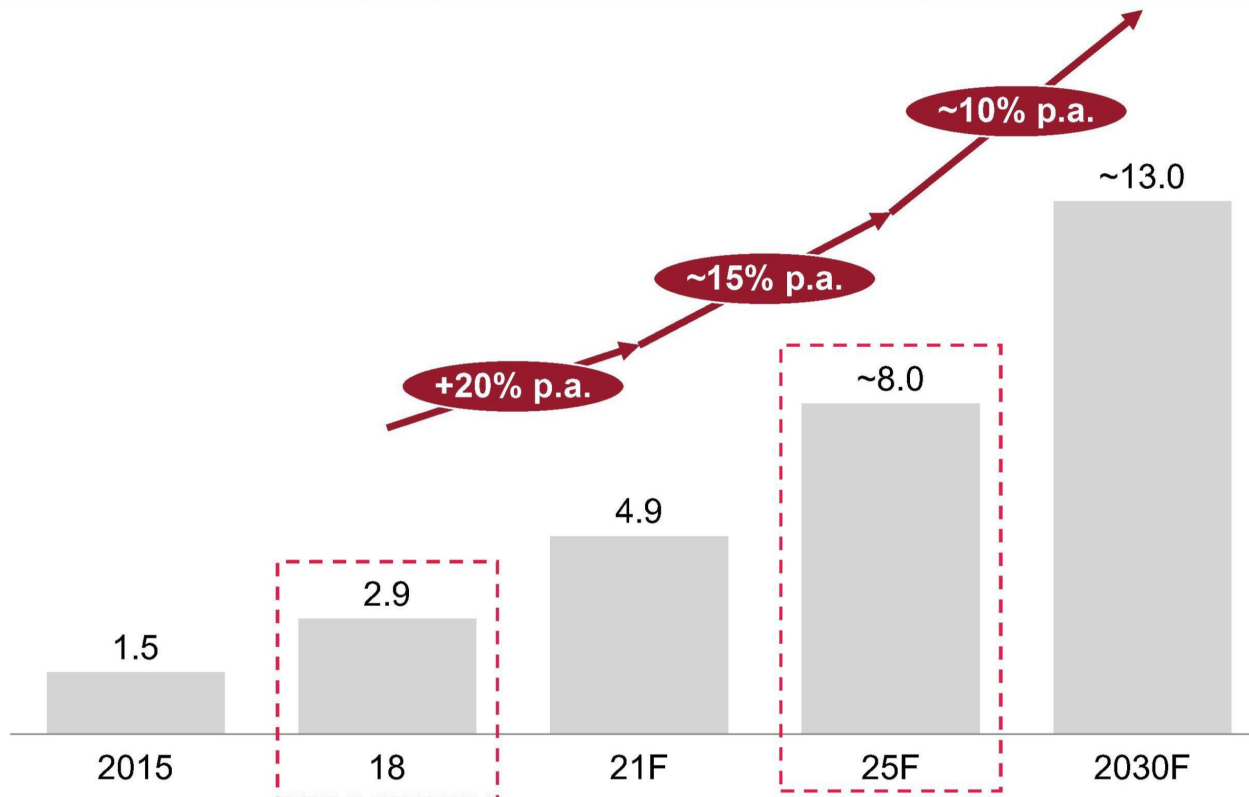
A few additional facts …

20X increase in global e-commerce since 2000

5x growth differential between online and brick and mortar retail expected in 2016-21

30% share of total retail to happen online by 2030

70-80% of all e-commerce purchases delivered via networks

36bn e-commerce (B2C) parcels handled globally p.a.

New geographies, consumer segments, product verticals, channels and occasions as drivers

SOURCE: eMarketer 2016

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Differences in e-commerce parcel penetration highlight growth opportunities

E-commerce relevant parcel[1] penetration
In parcels per capita, per year

>20x

5 - 10x

Country	Value
Vietnam	<1
India	<1
Malaysia	1
Thailand	1
Indonesia	2
Italy	2
Singapore	6
Belgium	9
Switzerland	9
Sweden	10
Netherlands	12
Austria	14
Ireland	15
US	21
UK	22
Germany	24
China[2] (tier 1)	>70

Less mature markets
~ 1 - 2 parcels/capita

Moderately mature markets
~ 10 parcels/capita

Mature markets
> 20 parcels/capita
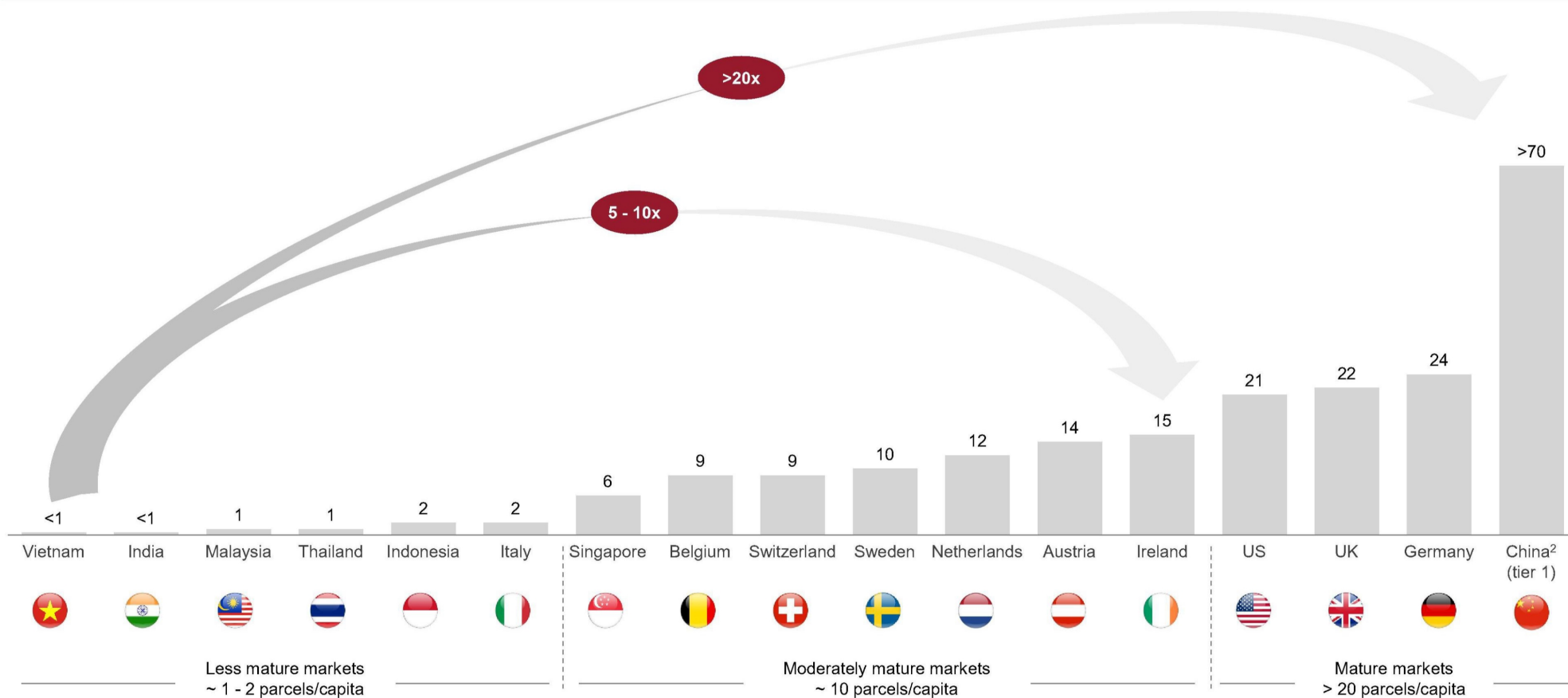
1 "E-commerce-relevant" is defined as domestic B2C parcels, with speed typical for e-commerce shipments in the given country2 Shanghai and Beijing, assuming 70% B2C share
SOURCE: Research, various reports

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4 universal truths

Competitive market

40%

of parcel market share for typical incumbent

Australia with dominating incumbent share in B2C[1] parcel delivery (75%[2]), particularly outside major population areas

Competition is aggressive and increasing, e.g., e-tailers such as Amazon are already insourcing logistics

Customer expectations

70%

prefer price over speed

44% of customers have no willingness to pay extra for same-day parcel delivery, 40% only <1 EUR[3]

Currently 90% of parcel deliveries are same-day or next-day deliveries

Legacy costs

~30%

higher unit costs vs. competitors in urban areas

Labor represents 80% of parcel production costs

In urban areas labor cost disadvantage of up to 30% - without benefit of network effects

Innovation gap

10x

less IT jobs

No postal incumbent listed in Forbes top 100 list of digital companies 2018

Postal incumbents are often stuck with rigid corporate cultures that are slow moving and risk averse

1. 30% market share in B2B; 2 Based on percent of total volumes in 2015; 3 Consumer survey across US, China and Germany (n= 4,700), conducted 2016
Source: IPC; APA/Branchenradar

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Domestic volumes dominated by local players – various competitor types attacking with sharp value propositions

■ Postal Incumbent ■ 2 main competitors ■ Other

Tough competition - postal incumbents are #1 in most parcel markets, but face strong rivalry …

… with 3 types of competitors attacking with sharp value propositions

Domestic parcel & express market shares,
Selective markets[1], Percent

	Postal Incumbent	2 main competitors	Other
🇨🇭	84	16	
🇳🇱	60	35	5
🇬🇧	53	20	27
🇩🇪	47	27	26
🇫🇷	38[2]	28	34
🇩🇰	33	35	32
🇧🇪	25	40	35
🇮🇹	15[3]	58	27

Competitor type	Strengths	Examples		
B2B-focused parcel specialists and express integrators	⊕ Transferrable expertise from B2B operations (e.g., time-window delivery)	US	UPS	ups
	⊕ Network synergies due to B2B baseload and factor cost advantages	EU	DPD	dpd
	⊕ Stronger brands in some markets	CN	SF Express	SF EXPRESS
B2C delivery startups	⊕ High agility and innovative power ('digital first', '10X better' mindset)	US	Postmates	POSTMATES
	⊕ Ability to cherry-pick and tailor offering to coverage areas or verticals	EU	Ocado	Ocado
	⊕ Ability to 'buy market growth' on the back of growth financing	CN	Ele.me	ele.me
Forward-integrating e-tailers	⊕ High agility and innovative power ('digital first', greenfield)	US	Amazon	amazon
	⊕ Superior consumer insight and access ('what's inside the box')	EU	Amazon	amazon
	⊕ Ability to cross-subsidize with other revenue streams (e.g., commissions)	CN	Alibaba	Alibaba.com

1 Revenue-based for BE, DK, FR; 2 Includes Coliposte, Chronopost, Exapaq; 3 Poste Italiane is not in top 3
Two main competitors include: DPD and DHL in SW; UPS and DHL in BE; GLS and local player in DK; FedEx and UPS in FR; Hermes and DPD in DE and UK; DHL and GLS in NL;
Top 3 in IT: Bartolini, FedEx and UPS
SOURCE: IPC

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Legacy costs – parcel production costs are a function of labor costs on the last mile where incumbents have a major handicap vs. low-cost attackers

■ Low-cost attacker ■ Incumbent

Legacy costs – parcel production costs are a function of labor costs on the last mile …

Parcel production costs by process step,
Incumbent example (urban areas), EUR/percent
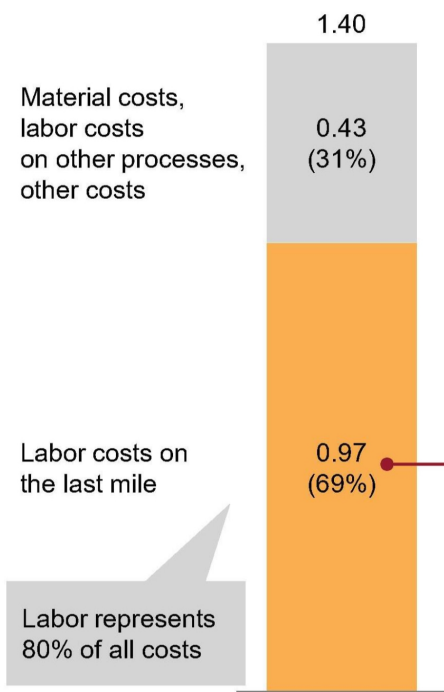
… where incumbents have a major handicap vs. low-cost attackers

Comparison of labor cost between incumbent and attacker, Labor costs per hour, selected global markets, EUR

1.40

Material costs, labor costs on other processes, other costs — 0.43 (31%)

Labor costs on the last mile — 0.97 (69%)

Labor represents 80% of all costs

Country 1: 9 | 13 (+44%)
Country 2: 8 | 13 (+63%)
Country 3: 6 | 10 (+67%)
Country 4: 12 | 15 (+25%)

+30% Global average

➕ More rigid labor terms and conditions (working hours, scheduling flexibility, …)
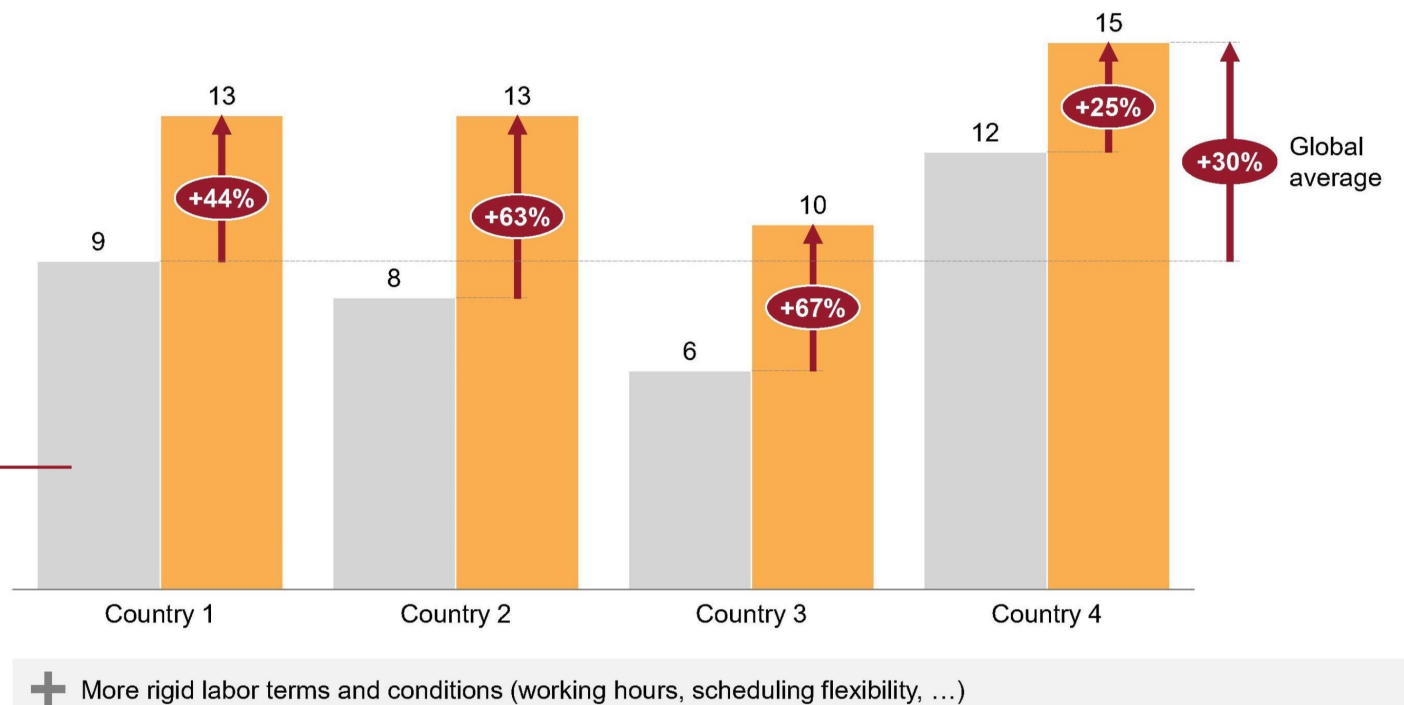
1 Case example for delivery of 1 parcel in Berlin through a parcel network with 125,000 parcels per day
SOURCE: Press

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Innovation gap – postal incumbents find it harder to innovate than their 'digital first' attackers

0 Postal incumbents appear on Forbes' Top 100 Digital companies list

#10 FedEx as first Postal/Parcel company on most admired companies list

<200 IT Jobs open worldwide for Deutsche Post DHL[1]

60% Of FTEs are longer than 10 years with their firm

4.7% Capital expenditure as a share of total revenue in 2017 by Postal companies

VS

3 Amazon, Alibaba and JD.com all listed within Top 50

#2 Amazon ranking

2,000 Jobs offered by Amazon within the category of Operations, IT & Support-Engineering[1]

~1 Year median tenure at Amazon and Google

~6% Capital expenditure on average by Amazon, Alibaba, JD.com

1 May 2019
SOURCE: Forbes, IPC, Fortune

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E-commerce and financial services are important drivers of growth in postal business

Industry revenue share [1]
Percentage

	2012	2017
Other	6	4
Logistics & Freight	11	12
Financial Services	19	16
Parcels & Express	18	25
Mail	47	44
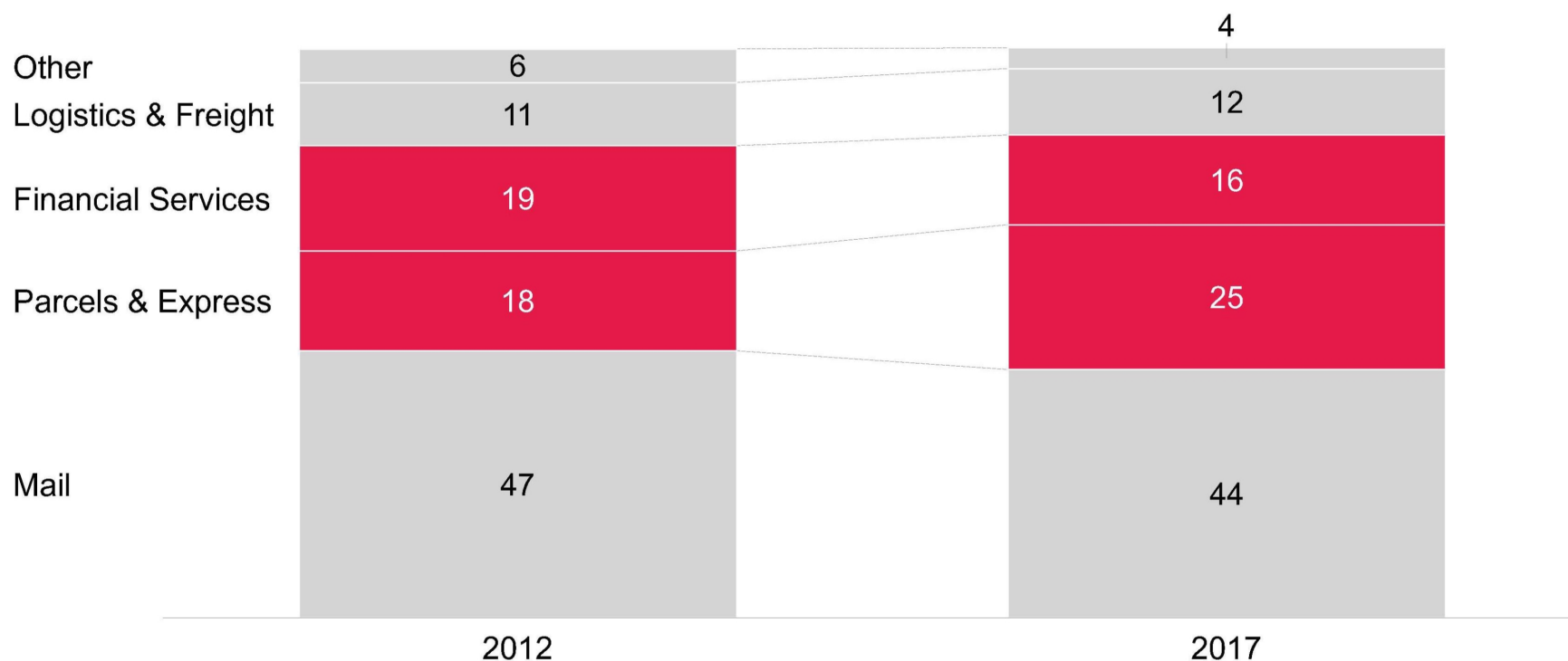
1 Includes IPC members (postal operators from Europe, North America and the Asia-Pacific region). Collectively, their operations deliver 80% of global mail volumes
SOURCE: IPC

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E-commerce shoppers' need for convenient receiving drives explosive growth of parcel retail networks

Post and parcel retail network expansion
# of offices

UK chart (2010 vs 2018)

	2010	2018	Category
Total	15,405	45,783	
Others	—	4,800	Others
(1,300 bracket)			
Amazon Locker		2,600	Amazon Locker
Parcelly		2,600	Parcelly
DPD		2,800	DPD
UPS Access Point		3,000	UPS Access Point
Hub-box		4,700	Hub-box
DHL Service Point		5,000	DHL Service Point
myHermes		7,436	myHermes
CollectPlus			CollectPlus
Grey	3,500		
Post office	11,905	11,547	Post office
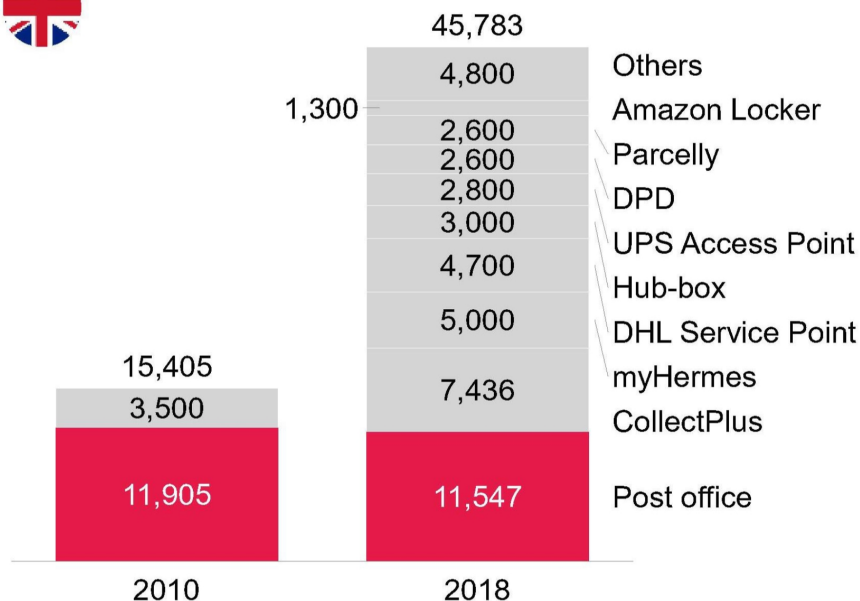
~7 new branches opened every day in the UK between 2010 and 2017

Belgium chart (2005e vs 2018e)

	2005e	2018e	Category
Total	1,820	4,407	
DPD		450	DPD
DHL	50	20	DHL
GLS/Mondial Relais		600	GLS/Mondial Relais
Kiala/UPS	40	900	Kiala/UPS
PostNL[2]		100	PostNL[2]
Kariboo[1]		1,000	Kariboo[1]
bpost - post points	100	675	bpost - post points
bpost - POs	1,300	662	bpost - POs
(grey 330)	330		
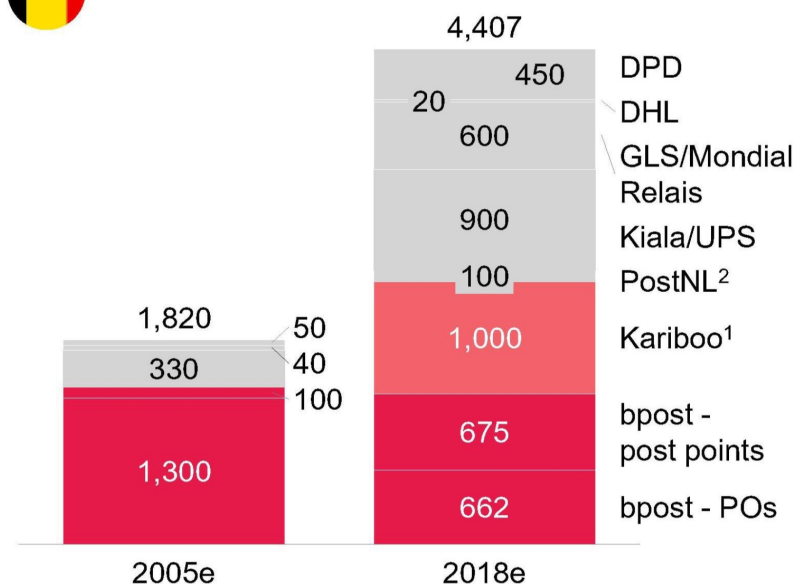
bpost increased its network relying on postal points and non-exclusive parcel shops

1 Kariboo points serve as non-exclusive parcelshops (for bpost and some for competitor PostNL too); 2 PostNL relies on Kariboo and additional own points
SOURCE: UPU; Company Web sites; Press search

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E-commerce supergiants are entering the battle for B2C logistics

| | | Starting to insource | Insourcing at scale | Offering to other parties |

		Size of the global e-commerce revenue pool[1]	Supergiant activity		
	Value pool	USD billions	Amazon	Alibaba, Cainiao	JD.com
Enabling (web) services	Web services	~ 55	Offering to other parties	Offering to other parties	Offering to other parties
	Payment/fraud	~ 30	Offering to other parties	Offering to other parties	Offering to other parties
Outbound B2C logistics (incl. cross-border)	E-fulfillment	~ 90	Offering to other parties	Offering to other parties	Offering to other parties
	Linehaul domestic	~ 15	Starting to insource	Starting to insource	Offering to other parties
	Linehaul international	~ 10	Starting to insource	Starting to insource	Starting to insource
	Last mile	~ 115	Insourcing at scale	Offering to other parties	Offering to other parties
	Returns	~ 40	Insourcing at scale	Starting to insource	Starting to insource
	Σ	**~ 270**			

Already offering last mile services at scale to e-tailers

1 Total costs of e-commerce merchants, both in- and outsourced
SOURCE: Industry experts

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Example Amazon: broad fulfilment network as basis for fast delivery across regions

Amazon's fulfilment network and delivery speeds
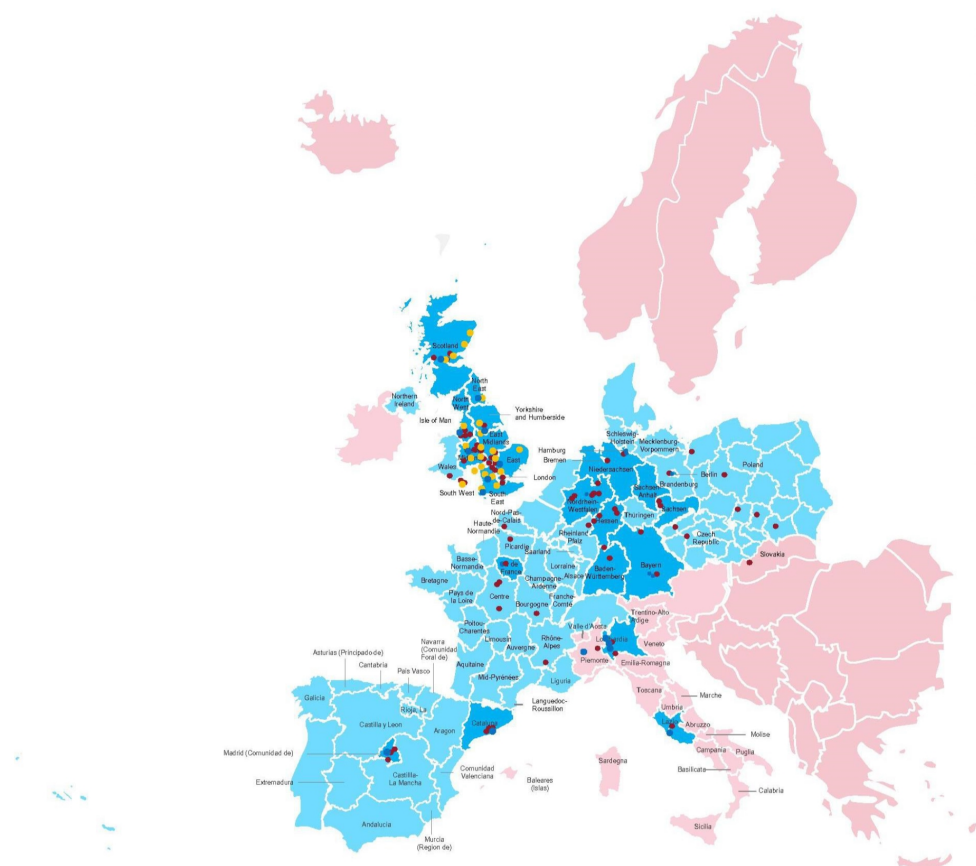
Amazon's footprint

- 🔴 Fulfilment centers
- 🟡 Current delivery stations
- 🔵 Current prime now hubs

Amazon's delivery speed

- 🟦 Same-day in metropolitan areas, otherwise next-day
- 🟦 Next day
- 🟥 1-2 days
- 🟥 2+ days

Implications

Amazon has a broad network of fulfillment center across Europe to enable both scale and speed

Amazon already has a consistent same-day offering in metropolitan areas in main countries

Amazon also leverages its broad fulfillment network to offer fast cross-border deliveries (e.g., Belgium, Portugal, Poland)

1 Best available delivery speed for Amazon Prime customers, delivery speeds for some products and areas may vary

Source: Web search

Amazon's value proposition is built on operational excellence, scale-induced quality improvements and an integrated offering

What amazon offers…

…and what is needed to match it

Operational Excellence

- **Best-in-class fulfillment**, **fast delivery** and **customer-friendly returns** fulfillment
- Branding that drives **end-consumer trust in fast and reliable service**

Scale and Consolidation

- **Superior service levels** currently unavailable to eCommerce merchants
- **Scale effects** for eCommerce merchants

Integration

- Integrated **domestic and international carrier management**
- **End-to-End tracking** across entire value chain

Inventory Intelligence

- **Distributed Order Management system** with **integrated optimization algorithm for cost and speed** in FC network

eFulfillment

- **Integrated fulfillment center network** to allow **fast shipping** and easy localization
- **Late cutoffs, rigorous cutoff manage-ment** and service promise transparency

Int'l Mid Mile

- **Direct Injections into foreign networks** to limit quality losses
- IT-Integration with and optimized use of **international deferred carrier network**

Parcel delivery

- **Priority processes** to ensure fastest delivery in deferred network (i.e. at affordable cost)

Reverse logistics

- **Integrated white-label returns portal** for direct connection between **returns, inventory and payment**

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POL-BSFF-106-0000002_0054

Logistics partners can enable a consistent next day service promise across Europe for retailers – matching Amazon on fulfilment center density not a requirement

Amazon's current fulfilment center footprint in Europe

amazon

\# Number of fulfillment center per country

2
2
2
5
5
1
0
5
7
0

72 FF center

Theoretical requirements for consistent next-day-shipping in Europe

⬤ Possible next day coverage via ground shipping per fulfilment center
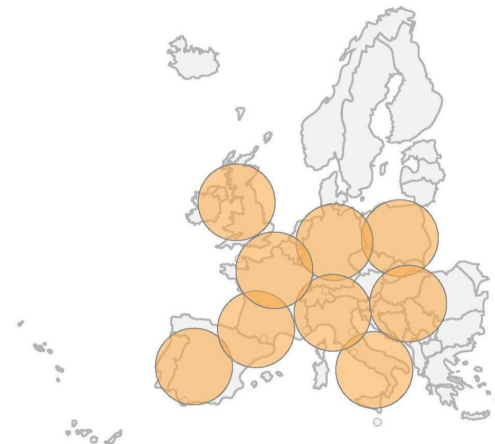
~9 FF center

~87% of Amazon's 72 fulfillment center in Europe are only **required due to the immense scale of the business** and are strategically located to service high density areas

1 For ground shipping
Source: MWPVL.com

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POL-BSFF-106-0000002_0055

Governments are increasingly digitising their services, reducing the need for both mail and a physical footprint

Public Sector examples

Sweden

Strong digital agendas in social insurance and tax:
- Social insurance agency: **eliminating paper forms** and manual handling processes
- Tax : **authorisation of annual tax declaration through text message** response to pre-filled tax form

Denmark

Top down digitisation agenda spearheaded by the central digitisation agency:
- **Digitising 80% of all government communication:** non-digital communications to citizens are banned except in rare exception cases

Australia

Service New South Wales developed a unified, **single point of contact** for residents and businesses for more than 800 transactions, including:
- Driver licenses
- Birth certificates
- Seniors1 Cards
- Fair Trading licenses
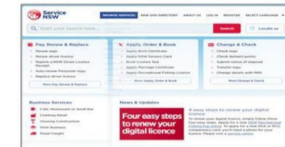
UK

Core services now predominantly online:
- **Tax return submission**
- **Passport renewal**
- **Car tax renewal**, including abolition of physical tax disc
- Renewal of **driving licenses**
- **Booking driving tests** (over 98% booked online)
- **Parking fines** payment

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As volumes decline, operators obtain more important USO scope modification. EXAMPLE

Portugal: reduced weight to 10kg for parcels; removed direct mail; Start of XY delivery pilot in deep rural areas

Iceland: Split into A- and B-Mail

New Zealand: 3 day urban delivery, 5 days in rural; changed service outlet specifications (e.g., allow self-service kiosks)

Netherlands: adjustment to reduce number of post offices and letterboxes

Denmark: D+1 mail removed from USO and becomes priority product delivered with parcels; shift to "flower" rolling model for standard mail, now with D+5 specification

Finland: Postal Act was approved which allows discontinuation of Tuesday delivery of USO letters, advertisements and magazines; Non USO mail delivery three days per week in large cities

Bulgaria: removed postal money orders and direct mail

Slovenia: reduced parcel weight to 10kg

Croatia: changed existing services scope and weight limits

Italy: changed from 6 to 5 days of delivery per week; removed direct mail

2000 2010 2011 2012 2013 2014 2015 2016 2017 2018

Austria: reduced parcel limit to 10kg, and included newspapers

Finland: redefined coverage of the USO scope

France: added a new single piece product in D+2 to USO; deletion of second class letter for outbound international mail

Ireland: specified minimum set of services

UK: removed bulk mail from USO

Czech Rep: reduced parcel and insured items weight to 10kg

Latvia: reduced weight to 10kg for domestic parcels

Lithuania: removed bulk and direct mail

Poland: removed bulk mail

Romania: excluded direct mail; included mail for the blind; new parcel quality provisions

Netherlands: reduced delivery from 6 to 5 days a week (with minor exceptions)

Canada: will introduce community mailboxes to all households that still receive door-to-door delivery over 5-year period[3]

Australia: introduced a 2nd class service with slower delivery times for existing USO service; existing delivery times moved to premium service

Finland: discontinuation of two mail classes (2nd class ended) as of Jan, 2017. Plan to reduce delivery from 5 to 3 days in urban regions[1]; mail delivered to flat houses can be left in boxes by the entrance

Italy: from 6 to 5 days, gradual implementation of <5 delivery days in alternate-delivery-day system; staged implementation plan, eventual impact on 25% of population[2]

Norway: discontinuation of mail delivery on Saturdays

Iceland: delivery in most rural areas every other day

Norway: discontinuation of two mail classes with two day delivery

Sweden: reduction in delivery quality to D+2

Finland: delivery speed requirement from D+2 to D+4

1 Coverage: 85% of the population. This measure is not yet implemented, 2 Delivery standard of 2-13 days depend on distance, product, and urbanization, 3 Halted after government change and review

Source: Press, academic literature search, operators' reporting

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POL-BSFF-106-0000002_0057

Though, regulatory pressures on network coverage have been increasing in some markets

Portugal

Anacom reviewing minimum required coverage on each municipality, likely to result in increased (branch-like) coverage in 33 locations for CTT

+ 🧑‍💼 **33**

VS

Netherlands

The State allowed several USO modifications, including halving number of post offices and letter boxes

− 🧑‍💼 **1,000 offices**
1,000 down from 2,000
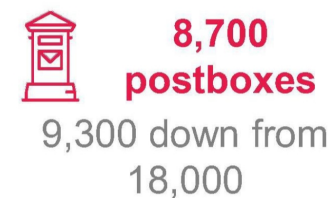
📮 **8,700 postboxes**
9,300 down from 18,000

Regulatory debate will stay key lever on the long-run

Regulatory negotiation stays key for postal services entrusted with USO, branch requirement

Themes to address in regulatory management

Optimization within the current requirement

Renegotiation of constraint to decrease service cost

Negotiation of the financing or alternative delivery of the public service

Peer examples

bpost — Stable network size, but outsourcing of operation

postnl — Network size adaption

LA POSTE — Tax exemption for territorial presence and joint post-townhall operation of branches

POST OFFICE

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Regulatory requirement on network size and proximity is a key lever

	Minimum branch number	**Distance criteria**
🇩🇪	✓ 12,000 fixed location facilities. At least 1 permanent facility in any municipality with more than 2,000 residents	✓ Customers in any municipality with more than 4,000 residents or in adjoining built-up areas shall in general be able to reach a permanent facility within no more than 2,000 m. Additionally, in every district 1 permanent facility shall be located per 80 km². All other locations must be served by mobile postal service units
🇫🇮	✓ At least 1 facility in each municipality[1]	✓ Service points shall be placed so that users have access to a service point within a reasonable distance
🇳🇱	✗	✓ At least 95% of the national population should have access to a complete assortment of postal services within a 5 km reach from where they live. The distribution of service points, with a complete assortment outside residential areas of more than 5,000 inhabitants, shall provide access to at least 85% of the non-urban population within a 5 km radius
🇬🇧	✗	✓ Under the regulatory conditions, Royal Mail must ensure facilities are provided such that the premises of not less than 95% of users or potential users are within 5 km of an access point capable of receiving the largest relevant postal packets and registered mail, and that the premises of not less than 95% of users in each postcode area are within 10 km of such access points
🇨🇭	✗	✓ At least 90% of the population must be able to reach this network within 20 minutes on foot or by public transport (30 minutes if a doorstep collection service exists). In addition, at least one post office in every For financial services included in the USO, at least 90% of the population must have access to the services within 30 minutes by foot or by public transport on average
🇧🇪	✓ Postal Law requires one facility by municipality. The Sixth Management Contract provides that bpost must maintain a retail network SGEI of at least 1,300 postal service points, including post offices and third-party-run postal shops.	✗
🇸🇪	✗	✓ Services must be accessible to everyone and be provided at a reasonable distance from one's home or workplace. The density of the access points must take into account the needs of users
🇫🇷	✗	✓ At least 99% of the national population and at least 95% of the population in each department must be less than 10 km from a post office branch. All municipalities with over 10,000 inhabitants must have at least 1 post office branch per 20,000 inhabitants. Additional post office network requirements (following the requirements of La Poste's public service mission of regional planning) do not permit more than 10% of a department's population to be further than 5 km or more than 20 minutes by car under normal driving conditions for the area concerned from the closest La Poste point of contact. The 2010 postal act requires that the postal network consists of at least 17,000 contact points
🇦🇹	✓ The Postal Market Act prescribes a minimum of 1,650 postal service points.	✓ Density criteria newly introduced. Austrian Post must ensure that all municipalities with over 10,000 inhabitants as well as 90% of the people living in the urban areas of all provincial capitals must have access to a postal service point within a radius of two kilometers. In all other regions, the prescribed maximum distance to a postal service point is ten kilometers

1 Service points shall be placed so that users of a universal service have access to a service point within a reasonable distance of their permanent residence. It is also possible to operate a service point that is not at a fixed location

SOURCE: Regulators, Opretators' reporting, Press

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In light of sector trends, postal players have been optimizing their retail network – example of North American postal player

Key actions

- Review of product portfolio

- Simplifications of retail products and processes

- Full clean sheet redesign of branch formats, pricing and third-party contracts
  - Urban office conversion/closure (~400)
  - Rural office conversion to co-located (~900)

- Optimized retail footprint exploiting new-gained flexibility in USO regulation

EBIT impact, $mn

	EBIT impact
Current	-100
New rural corporate offices	75
Outsourcing of rural corporate offices	60
Outsourcing of urban offices	20
Improved contract terms	20
Incremental delivery costs due to less density	40
Future retail vision	35

POST OFFICE

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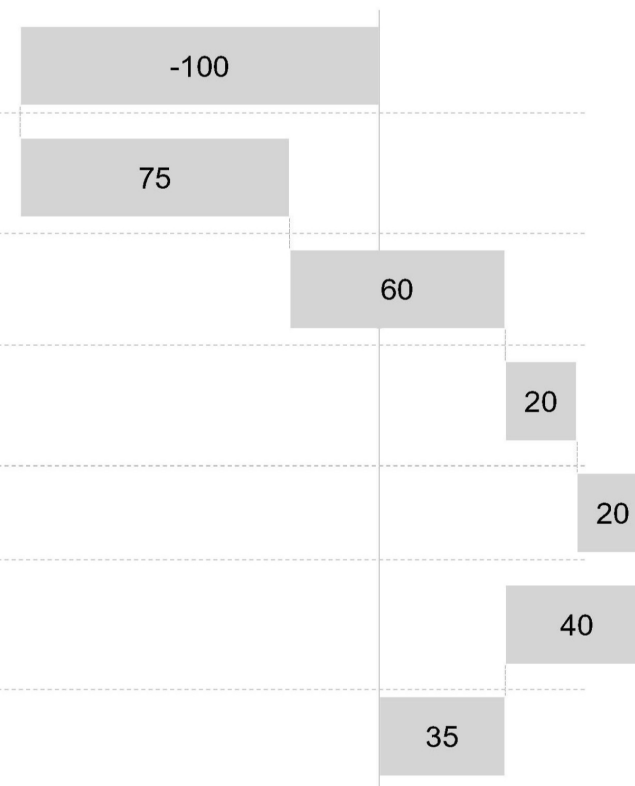
Throughout Europe postal companies receive (in)direct subsidies for sustaining the USO

National subsidies postal companies in Europe, EUR mn

NOT EXHAUSTIVE   ■ 2015 ■ 2016 ■ 2017 ■ 2018

Description

Deutsche Post — Indirect subsidy

Indirect subsidy through **favorable pension arrangements;** replacement of standard pension system for system where government pays part of pensions

Bpost
- 288
- 265
- 270
- 271

Subsidies for **providing services of general economic interest (SGEI)**, compensation based on **net cost** of providing these serivces (e.g. Network density, press distribution, basic banking access)

Poste Italiane
- 353
- 262
- 262
- 262

General subsidy for **providing USO**

Correos
- 180
- 180
- 59

General subsidy for **providing USO**

La Poste[1]
- 300
- 289
- 295
- 286

SGEI subsidy for **transport** and **distribution of press** and to **guarantee network** for delivery of **financial products** (latter given in the form of tax excepmtion)

Posten Norge[3]
- 26
- 40
- 36
- 54

General subsidy for **providing USO**, compensation based on reimbursement for loss-making services that are required by the USO

1 Excluding compensation for providing banking services, 2 Based on exchange rate of 1,13 EUR per GBP; network subsidy payment to Post Office Limited
3 Based on exchange rate of 0,10 EUR per NOK

Source: Annual reports postal companies, national supervisors

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Contents

Where We Make Money

Organisational Health Survey Results

Learnings from other post

- Review of postal context

- **Learnings**

Big Bets

Overall process update

Executive summary – learnings from postal players

There are **three pillars** of learnings from other post players:

1. Winning in competitive growth areas requires **adapting the retail network structure** to better serve consumers (e.g., DHL's dense parcelshop network provides convenience to its e-commerce receivers)

   – **Multi-tiered networks** allow for **improved economics** without compromising on **sales and convenience**

2. Growing the top-line through **non-core, third-party products** usually **fails to create sizeable revenue** streams. Most sizable growth areas are parcels and financial services. **Sales performance programmes** as well as **targeted incentives can be effective** growth levers

3. Remaining competitive with a lean cost base requires **consolidating footprint** and **different approaches to ownership** (e.g., franchise, dealers)

   – **Automation in selected areas**, both in customer-facing activities and in in-store operations, is a **key lever** to improve **customer experience** in a **cost-effective** manner, culminating in the "unmanned branch" (Singapore, Finland)

   – **Strong partnerships with retailers** (e.g. in Canada) have been successful, based on standardised master franchise arrangements and clear understanding of economic benefits of having a post office (e.g. 15% sales uplift for retail)

We have reviewed over 40 posts globally to identify learnings for postal retail networks
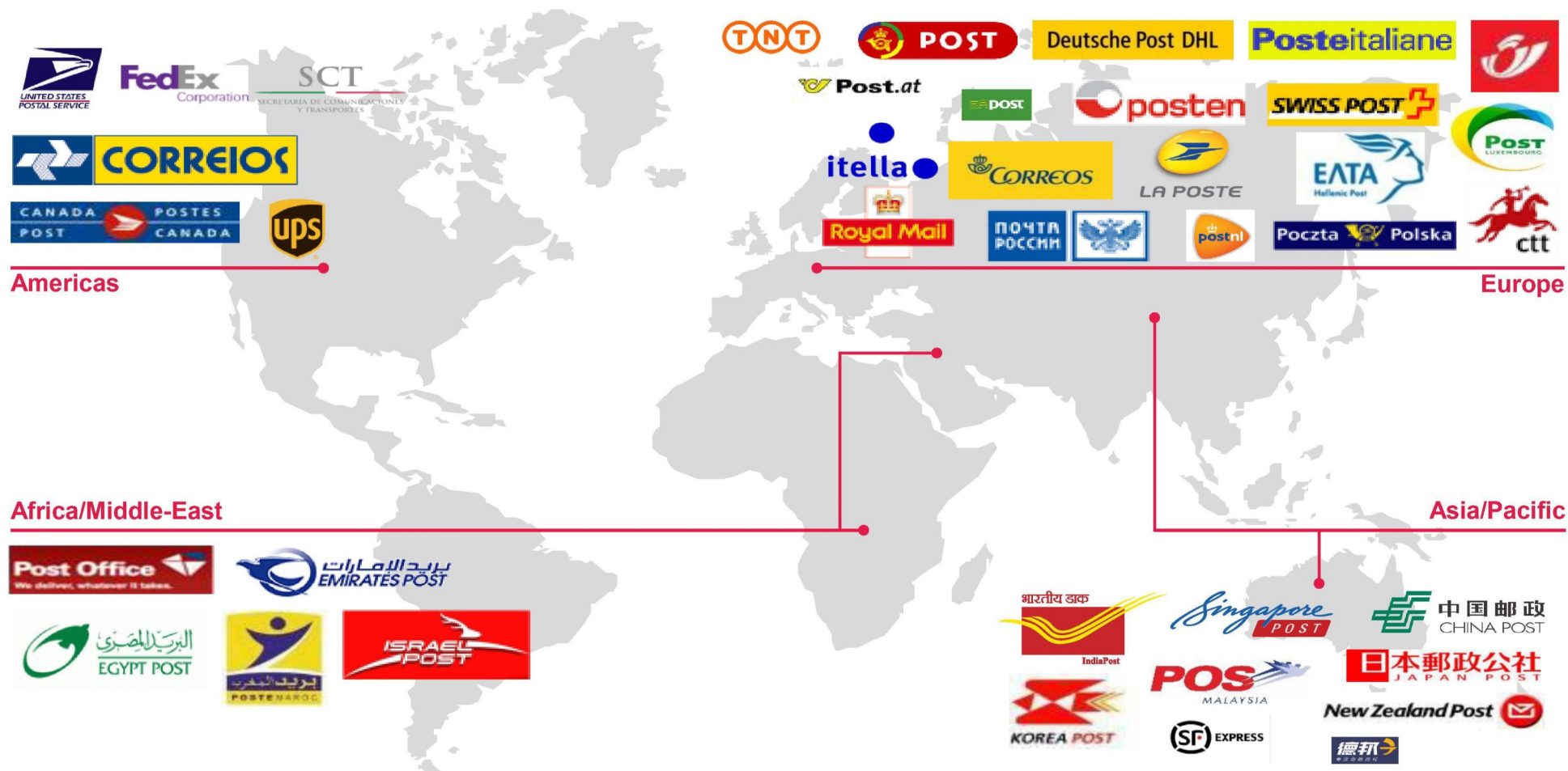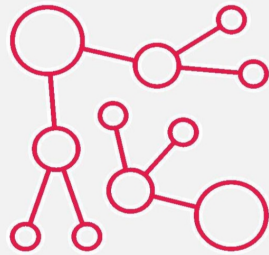
Americas

Europe

Africa/Middle-East

Asia/Pacific

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Three main groups of questions to be addressed

Retail network strategy

1 How can stores help win in growth segments such as e-commerce and FS?

2 What is the right branch segmentation to ensure appropriate and efficient service?

Product & sales

3 What further products should be commercialized and how?

4 How sales in branches can become more efficient?

Operations & economics

5 What ownership model work to control costs while delivering excellence?

6 What is the ideal store coverage and operational model?

❶ DHL is building a dense parcelshop network to provide convenience to its e-commerce receivers

Deutsche Post 〇✕

- Offers proximity access to parcel sending for individual customers

- At target state, DHL aims to have 20,000 parcelshops (today ~11,000 parcelshops, 13,000 retail outlets and 3,700 parcel lockers)

- Low and variable cost operations

- Basic product offering - parcel receipt, send and returns, domestic stamps

- Only needs basic equipment (a handheld scanner, label printer) and inventory is minimal

SOURCE: DP DHL; Press

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1 SingPost redesigned branches to reflect e-commerce ambition

From...

Change Alley Post Office

Post Office as key customer touchpoint does not reflect SingPost's vision and transformation
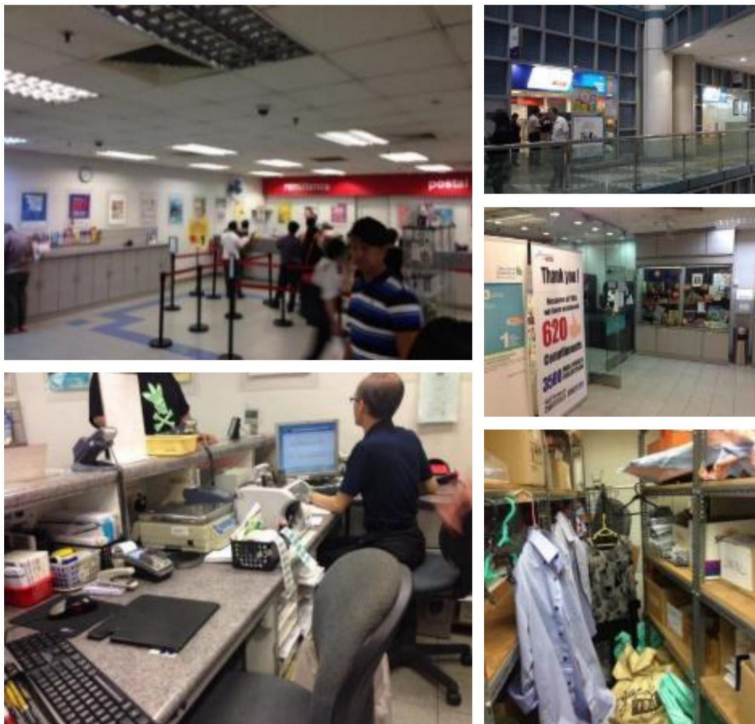
To...

Ocean Financial Center

New branch with 60% less overall space, but 24/7 self service zone occupies 48% of total space
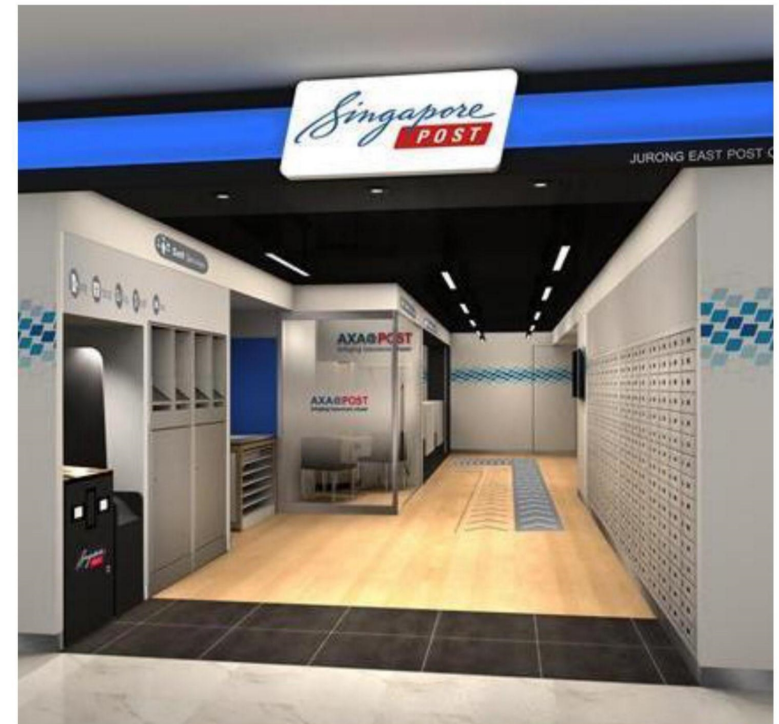
SOURCE: SingPost

1 Canada Post tests a concept store to meet online shoppers' needs

- Drive-thru parcel pickup

- All-in-one self-serve shipping station

- A fitting room where customers can try on the outfit they bought online and if needed, return it immediately

- Self-serve vending kiosk

- Extended hours: self-serve 24/7, opening 9-9 on weekdays, 9-5 weekends

SOURCE: Canada Post

① Poste Italiane has established a leading FS business through BancoPosta

BancoPosta

BancoPosta starting position

- Large incumbent utility with 8m customer, 150k employees and €0.5tn in assets

- BancoPosta can offer a full suite of products without a banking license
  - BancoPosta cannot lend to the public directly, but can be an intermediary

- BancoPosta is, however, required to **maintain ring fenced capital**
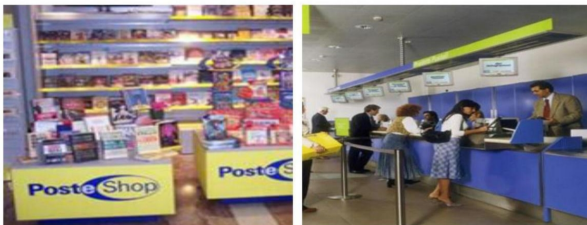
Key developments

- Since 2001, BancoPosta has innovated and **grown its product range in a steady** and managed way
  - They moved from current accounts and payments, to prepaid cards, and on to mobile payments
  - Other products include **lending, mutual funds, insurance**

- BancoPosta has managed this growth **through numerous partnerships**

- **Banking clients receive several advantages**
  - Priority postal branch services; Discounts on postal and other products; Easier online money transfers

Outcome

- In 10 years, BancoPosta **more than doubled the market share** in terms of number current accounts

- Moving to **expand wealth management and increase distribution** of loans, mortgages and P&C insurance
  - **Strongly positive market reception** to renewed 5-year strategic vision: double digit share price increase

- The postal networks allows for **nearly 3x the number of branches** versus the next largest bank

SOURCE: Poste Italiane

POL-BSFF-106-0000002_0070

1 Poste Italiane created a competitive advantage in financial services with its large branch network

Coverage of Italian population, Branches / 100k inhabitant

Posteitaliane

	Poste Italiane	1st Italian Bank
Italy average	21	7
North Italy	23	9
Center Italy	20	8
South Italy	20	5
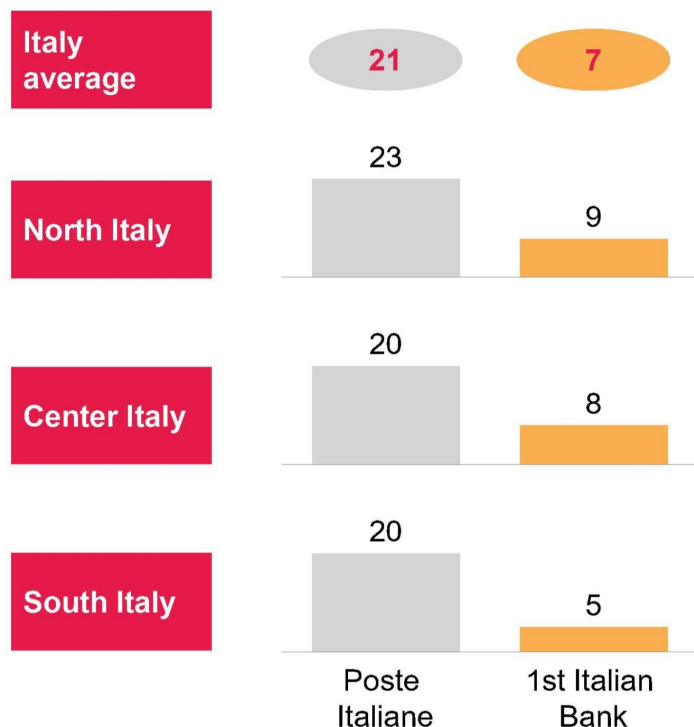
» Italy's leading customer distribution network

Mail & parcel
- Unrivalled physical distribution network

Payments, mobile & digital
- Italian payments champion
- Advanced customer data capabilities
- Leading financial web and app platforms

Financial & insurance
- Market leading product distribution network

Poste has nearly 50% of population as a customer, 18% share in savings accounts, 8% in consumer loans and outperforms peers on ROE (~23%)

SOURCE: Poste Italiane investor presentation

1 Poste italiane : The FS play

2017

Posteitaliane

Main business units	Mail and parcel	Financial services	Payments, mobile and digital	Insurance
Key financials				
Revenues, € Bn	~3.6	~5.4	+0.6	24.4
EBIT, € Bn	-0.5	+0.6	+0.2	+0.8
TFA[1]		506		
Commercial figures	• ~110m parcels/year • ~30% B2C market store	• ~34m customers • ~13k post offices • 15m daily visits	• ~25% e-commerce payments • ~25m cards issued • ~104bn1 pay-ments transactions • 3m Telco customers	• ~22% market share on life GWP

1 Total financial assets

❶ La Poste is expanding financial product portfolio and adjusts the branch environment

- La Poste Bank and BPE collaborate to offer private banking services targeting the postal bank's 600,000 affluent clients

- Early 2019, BPE has 75 offices, BPE-spaces in 45 post offices complement its own branches deploying private banking spaces in some of its post offices

SOURCE: La Poste; Press

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① Portugal's CTT has moved up the FS value chain from distribution to creating and broadening the product offering

🏇 ctt

Where CTT started

» ## Key developments

» ## Outcome

- In 2015, Banco CTT was created as legal entity with banking license provided by Bank of Portugal
- **Prior to this, CTT offered very limited financial services**
- CTT had a very strong existing mass market postal customer base
- The initial approach was for a **low risk balance sheet strategy**

- The bank **focuses on the mass market,** offering simple, transactional products
  - Principles of **fairness, transparency, low cost**
- Lending began as an intermediary, in partnership with Cetelem
  - It is **gradually increasing its exposure to credit risk** and broadening the product range
- The initial **51 branches have expanded to ~200, built off CTT's postal network**
  - Branches have either multifunction counters (with postal), dedicated counters, or dedicated space
- **Digital focused**

- **Strong customer growth, and move to breakeven (2015 v 3Q16):**

Net loans
€m
0 → 3.0

Deposits
€m
0.1 → 182.3

Net profits
€m
-0.6 → N/A

- Aggressive branch growth

  ■ Dedicated space
  ■ Dedicated counter
  ■ Multifunctional counters

	2016	2017E	2018E
Total	202	402	379
Dedicated space	79	84	84
Dedicated counter	123	250	25
Multifunctional counters		68	270

Dedicated counter space
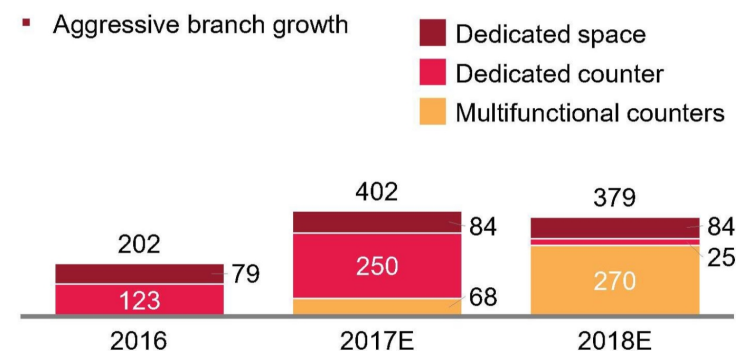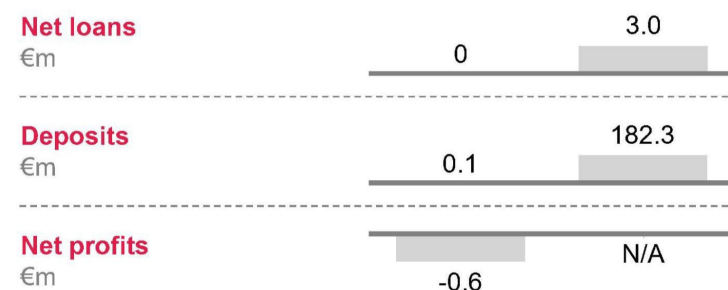
1 Within FS we see different strategies for posts

Traditional approach → **Radical moves**

	A Last Mile Utility for all F2F needs	**B** Classic Postal Bank model with Distribution only	**C** Digital Customer Interface provider	**D** Become Ethical Bank	**E** Ecosystem covering FS (Fintech) + non-FS
Description	• Offer branch services for existing banks • Expand into KYC/ ID verification for credit checks etc	• Expand current offering (e.g., credit cards, loans) • Negotiate best possible distributor terms	• Act as aggregator of all financial relationships (PSD2 play) • Offer 3rd party and own products	• Build a fair ethical bank based on brand trust • Fair and transparent themed	• Become key gateway that spans FS and related sectors • Partner with Fintech • Build ecosystem
Potential operating model	• Fee-based partnership with banks	• JV with traditional banking to act as intermediary	Multiple models possible depending on product choice – opportunity to take origination revenues either directly as a bank or in JVs		
Example players	POST OFFICE Money	LA BANQUE POSTALE / JP BANK ゆうちょ銀行 BancoPosta	ctt Revolut / bud. OnTrees	Nationwide Building Society	支 Alipay / IdeaBank / WeChat / POST OFFICE

② Retail networks have to be adapted to maximize customer convenience

European post and parcel player example

-680

Full-range post offices

-50%

Traditional owned post offices

+680

Agent based parcel shops

+450

Smart parcel lockers in partnership models
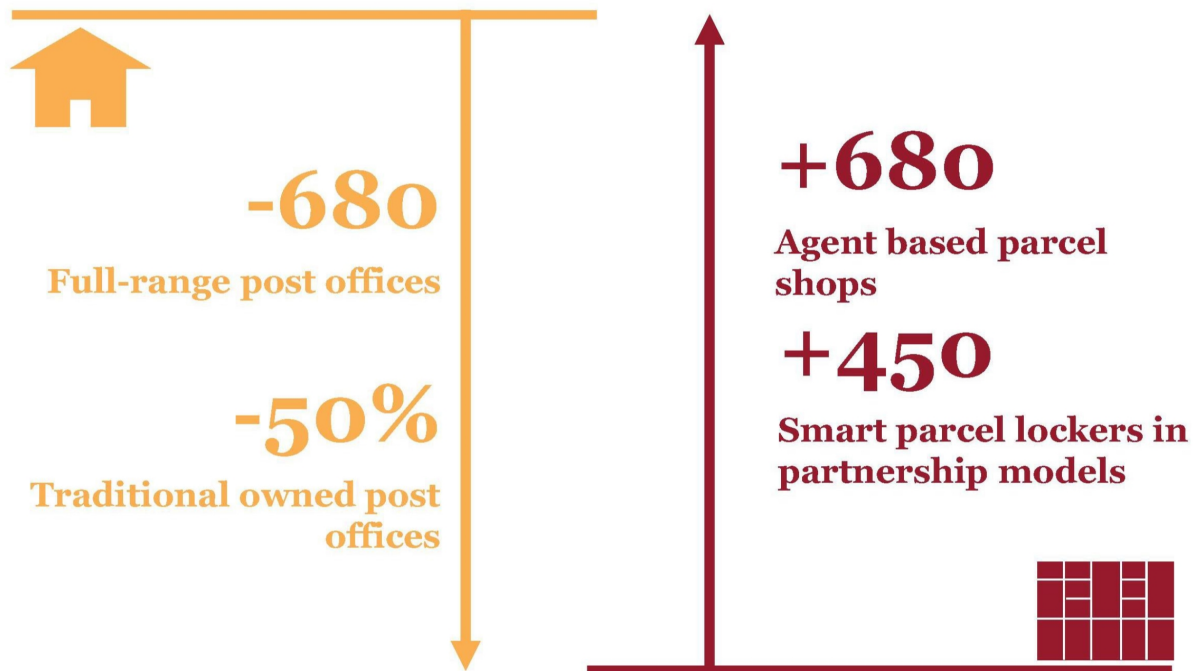
Key considerations

- **Maximizing convenience** through longer opening hours and additional (community) services

- **Improving accessibility** for pickup and returns through more access points

- **Creating lock-in effect** with e-commerce customers through parcel lockers

- **Providing attractive agent incentives** in a post-mail environment

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2 Successful postal peers transformed their branches in multi- tiered networks to allow sales, convenience and lower cost
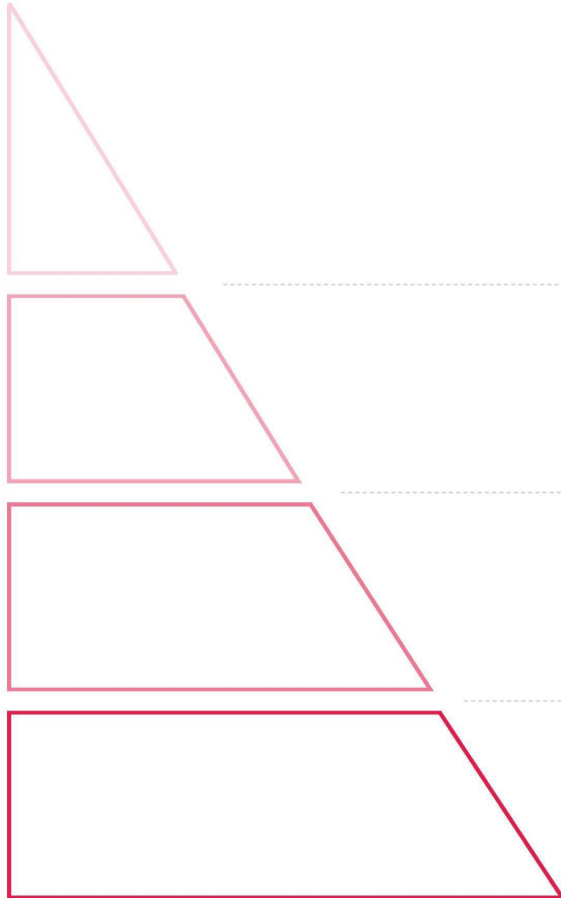
❶ Sales focus

Large offices with a wide range of services

Primary goal is to provide the highest quality service and ensure a positive brand perception

❷ Service focus

Mid-sized offices with an optimal set of services

Primary goal is to provide **fast, efficient and high-quality** of large volumes of transactions

❸ Local Access

Small offices with a narrow range of core services

Primary goal is **meet the accessibility criteria**/social needs or **provide a response to the competition**

❹ Direct Channels

A set of alternative channels provides more options to the customer and increases the quality of customer service – **mainly websites, mobile applications, call centers**

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2 **For example, La Poste has 3 outlet formats, to which DPD adds parcel shop and locker network**

LA POSTE

Own operated office

- ~8,700 outlets
- 1-2, 3-5, 7-8 counters, banking dedicated office or counter in medium and large offices
- Private customers, SME and corporate
- Service offers
  - Full range postal
  - Full range financial services
  - Full range of mobile and digital services
  - Third party services

3rd-party municipality outlet

- ~6,500 outlets
- 1-2, 3-5 counter, banking dedicated counter in medium ones
- Municipality branches are operated partnership with a town hall or group of municipalities
- Private customers1
- Service offers
  - Large scale of post, parcel services
  - Most commonly used FS

3rd-party retail outlet

- ~2,000 outlets
- 1(-2) counter at retailer
- Framework agreements with a few large retailers (Franprix, Total, Carrefour) but also individual retail contracts
- Private customers1
- Service offers
  - Most commonly used post, parcel and basic financial service

DPD Pickup (parcel shop)

- ~7,800 in France (31,200 in Europe)
- 1 counter
- Equipment: handheld scanner, label printer, scale
- Private customers, SME
- Service offers
  - Parcel sending, return and receiving (direct order to shop or failed home delivery)
  - Product exchange, sending and receipt of equipment for repair (e.g., set-top box)
  - Parcel shop to parcel shop sending France and international within DPD European network

DPD Pickup Station (parcel locker)

- ~350 (250 in stations, 150 in post offices)
- Private customers
- Service offers
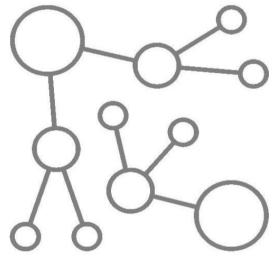 - Parcel receipt on choice of customer to order in locker
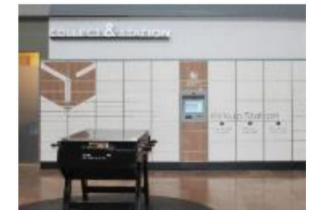
1 Or SMEs behaving like private customers
SOURCE: La Poste; Press

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Three main groups of questions to be addressed

Retail network strategy

1 How can stores help win in growth segments such as e-commerce and FS?

2 What is the right branch segmentation to ensure appropriate and efficient service?

Product & sales

3 What further products should be commercialized and how?

4 How sales in branches can become more efficient?

Operations & economics

5 What ownership model work to control costs while delivering excellence?

6 What is the ideal store coverage and operational model?

❸ Postal players have attempted to sell various non-core, third-party products in offices

Description	Example operator
Mobile phones, prepaid cards and subscriptions	Various operators
Fixed line and internet subscriptions	UK Post Office
Stationery	Commonly offered
Personal computers and other electronic items	Swiss Post in the past, Austrian Post
Various items (e.g. consumer electronics) via mail order	Poste Italiane
Books/CDs/DVDs	Commonly offered
Gift vouchers	UK
Public transport tickets/subscription	Czech Post
Event tickets	China Post for Expo
Flight ticket booking & payment (Jetstar airlines)	SingPost
Cinema ticket booking & payment	SingPost
Toys and games	Australia Post
ID photo service	Australia Post
Copy and fax services	Austrian Post
Drop off and pickup point for computer repair services	SingPost
Travel services, e.g., rental car, airline and hotel booking	UK Post Office

SOURCE: Press; Operators; Interviews

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❸ What are the services you see being the most important to success over the next 5 years?

Mails	Parcels	Digital and/or Hybrid mail	eCommerce	Reverse logistics	Loyalty	Financial services
10%	90%	50%	83%	35%	25%	44%
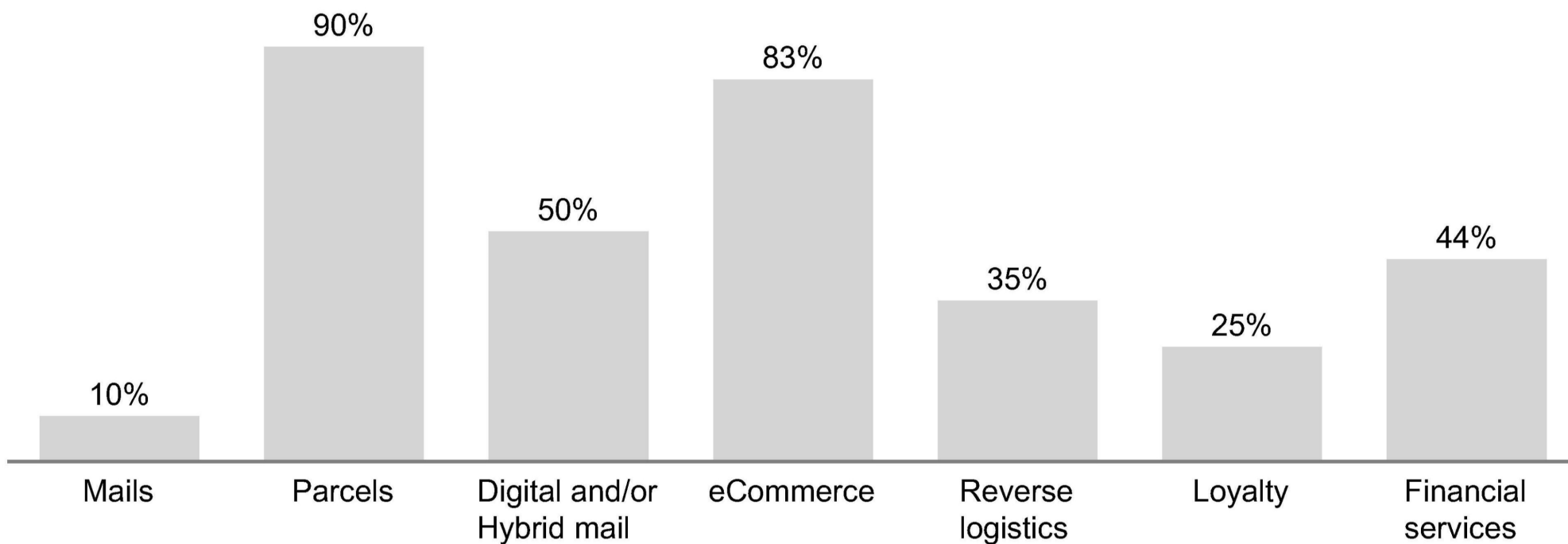
NOTE: Multiple answers were allowed
SOURCE: Escher

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POL-BSFF-106-0000002_0081

③ EU peers offer varied level of government services and often decoupled from branch network NOT EXHAUSTIVE

Italic Service provided outside post office

Country	Payment services	ID verification, authentic-cation, enrolment	E-government services	Official document applications and renewals[1]	Other government services
ctt Citizen Bureau Areas[2]	• Reimbursement requests concerning health expenses • Utility payments • Toll road payments	• Notarial or judiciary certificates • Real estate, civil or commercial certificates requests	• n/a	• Driving license renewal • Residence permit renewal • Registering foreign workers' contracts • Registering intellectual property	• Scheduling appointments at the hospital or healthcare center
Posteitaliane	• Vehicle tax • Social welfare payments • State pension payments • Payment services for unbanked citizens • *Electronic payment for customs duties* • *Electronic payment services for INAIL (insurance for workplace accidents*	• PosteID application	• *With PosteID, users can enter into SPID, a single login system for access to all online services of the Italian public administrations (e.g. INPS, social security institution, and INAIL)*	• Passport services • Health card application • Application for cards of welfare benefits • 5700 offices operate citizen help desk, which allows multiple services, e.g. land registry, residence permit personal certificates applications	• *Integrated notification services: manages selected government official communications towards citizens (e.g. traffic fines)* • *End to end management of PosteVita fund, a national health insurance system for companies and public administrations*
SWISS POST	• *Adminpay - secure online payment for e-government*	• *Video ID checks* • *SuisseID (likely 2020)*	• *Vivates - secure eHealth data exchange* • *E-voting platform*	• n/a	• *Postal voting* • *Secure delivery and digital access to court documents*
bpost	• Cash transactions for unbanked citizens	• n/a	• *E2E license plate management*	• Fishing permit	• *Medical document distribution* • *Traffic fine management* • *Treasury's financial transactions* • *Pensions' home distribution*

1 Typically, not all services offered in all States/Counties/Regions and all Pos, 2 In 300 POs

SOURCE: Operators' websites and reporting; Press

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③ "Lessons learned" from other postal services companies yield several insights for POL direction

❶ Every post has made attempts to **grow outside the core** in "adjacent" markets. The vast majority of these efforts has **failed to create either sizeable revenue streams** (more than £20m per annum) or profits. E.g., mailroom management, ID validation, secure email, digital letterbox, document archiving, warehousing, postie add on services (meter reading) etc

❷ The **successes** have been **primarily from legacy assets, in particular growth of financial services and mobile** (e.g., Poste Italiane), as well as parcel markets

❸ Other posts have, in general, **failed to incubate new businesses organically**. There have been some **successes** in making acquisitions, especially in two areas:

- **Rollup of other express or parcel operators** (DHL Express in Europe, UPS and Fedex globally)

- **Acquisition** of businesses which have subsequently been **run at arm's length** in order to preserve different culture and people processes e.g. Deutsche Post acquisition of digital marketing boutiques Nugg and Admail

4 Sales scripts, tools can boost in-branch sales

Best practices from retail and banking environment

- Standard and well-known to staff **scripts** for basic products is use

- A **heatmap of potential cross and up-sell situation** identified and staffed trained on transitions if recognizing any of the triggers

- Staff is coached on **translating products knowledge** to a language understandable by any customer

- Adequate **training and coaching** e.g., via role plays providing experience on how to deal with different customers

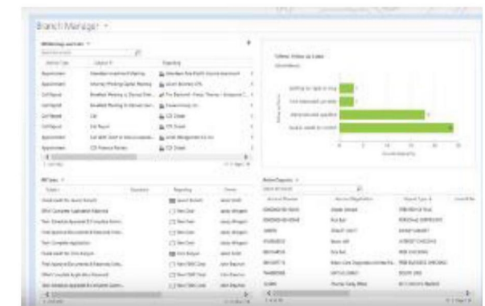- Regular **monitoring**, **feedback** and performance dialogues are provided to staff

Counter clerk trigger-selling chart example
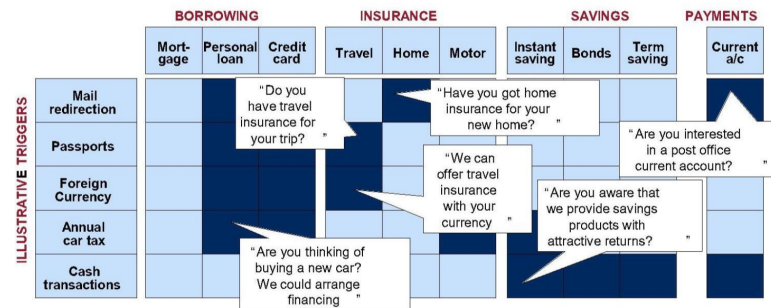
Simple visual and IT tools help track process and progress

Visual sales performance management board

Branch manager's CRM tool

POST OFFICE

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④ Branch-specific incentive practices can lift sales

Best practices at retail banks

- Pay out **incentives frequently** and more often to create right frontline motivation

- **Create gradual incentives** to drive growth – don't create strong step function

- Ensure employees clearly **understand how their incentives tie to overall goals** of the institution

- Prioritize strategic objectives (e.g., tiered quotas)

- **Drive collaboration** amongst sales teams (e.g., group bonus)

- Use leverage in financial incentives to drive appropriate employee behavior

- Provide **attractive non-cash incentives** to conveys importance and special appreciation

- **Build loyalty** to the company through unique and culture-specific awards

Examples at postal operators

Deutsche Post — Incentivizes to postal clerks by providing possibility to become financial advisor in case of stellar performance

La Banque Postale — Recruits and manages postal banking staff as in banks: employees specialize in products, they are in charge of a client portfolio, there is separation of staff for retail and corporate banking staff, incentivized for sales

Post — Luxembourgish Post provides incentive-pay for both financial services and telecommunication sales staff

EU postal incumbent — Team incentive for most successful office in sales of third-party product

Three main groups of questions to be addressed
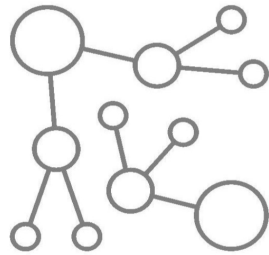
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⑤ What ownership model work to control costs while delivering excellence?

⑥ What is the ideal store coverage and operational model?

5 Typically only 1/3 of own-operated branches are profitable…

Profit (loss) per branch[1]
€ thousand

Small group of relatively profitable outlets – typically very busy commercial agency outlets

~60%-75%

~25%-40%

Large number of "marginal branches"

Long tail of highly loss-making branches – typically rural areas
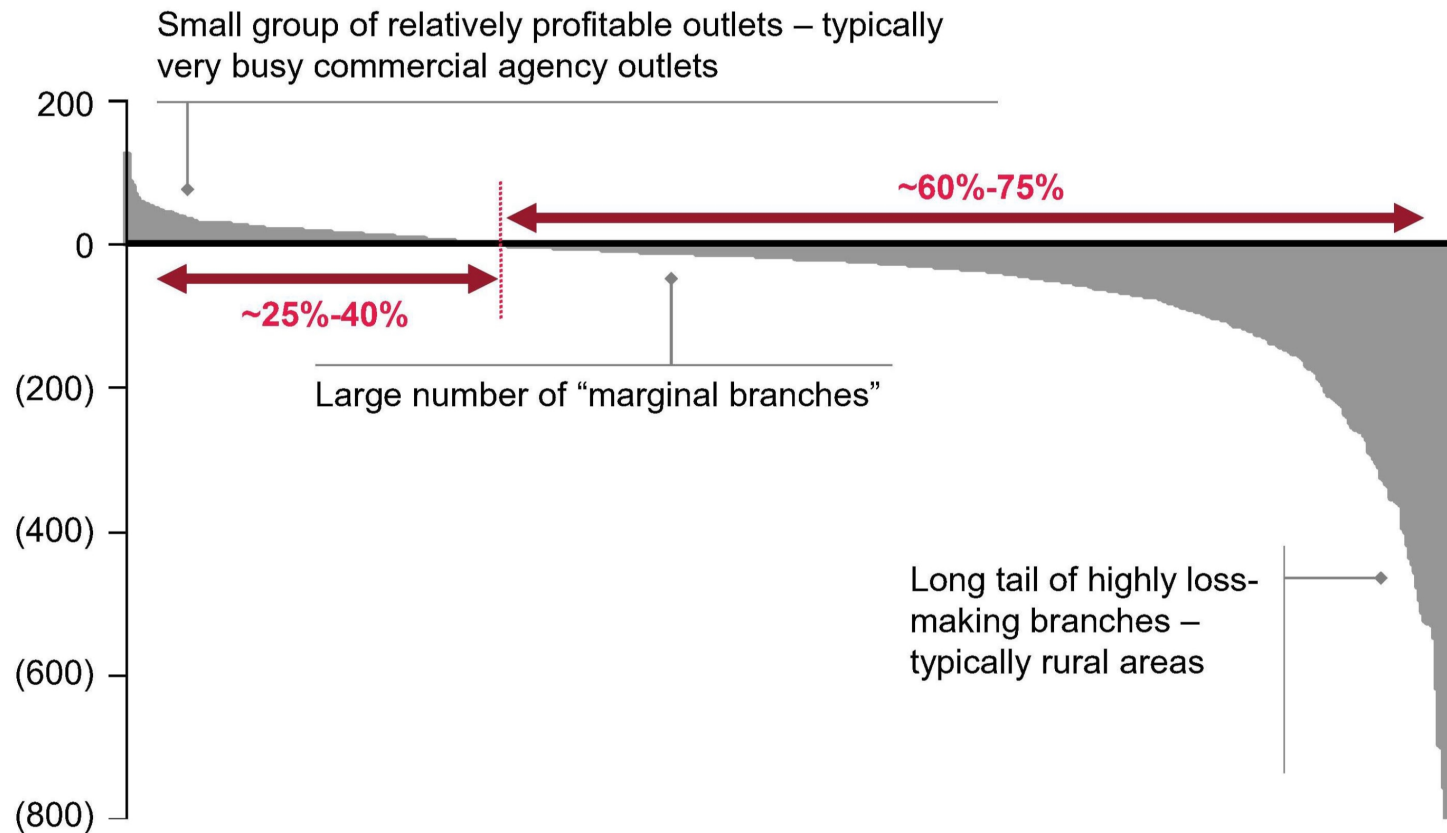
1 Net profit per branch includes income less direct and attributable costs of network provision
SOURCE: Typical experience across multiple European postal counters networks

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⑤ … which leads to a strong trend of outsourcing offices

◻ Outsourced ■ Own

Postal retail network size and ownership
Percent

2005

	Hong Kong	Italy	Spain	Switzerland	US	France	Austria	Germany	Australia	Sweden	Netherlands	UK
100%=	133	13.881	10,081	2,531	37,142	17,000	1.947	12.671	4.511	2.234	2.100	14.376
Outsourced	0	0	0	6	11	18	31	55	81	81	88	97
Own	100	100	100	94	89	82	69	45	19	19	12	3

2017

	Hong Kong	Italy	Spain	Switzerland	US	France	Austria	Germany	Australia	Sweden	Netherlands	UK
100%=	124	12.822	8,669	2157	35,005	17,100	1.802	13.167	4.356	1.851	1.670	11.547
Outsourced	0	0	0	45	10	51	75	100	84	87	100	98
Own	100	100	100	55	90	49	25	0	16	13	0	2

1 PostNL owns offices, but provide services only to corporate clients and were excluded for benchmark purposes

SOURCE: Company websites and annual reports; Regulator reports; Press

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⑤ Achieving best strategy typically requires relocating many postal branches and innovative approach to partnerships

Where different partners could support the network

Sales focus	MAJOR SUPERMARKET	DEPARTMENT STORES	LARGE STATIONERS	RETAIL PARKS	MAJOR SHOPPING CENTERS	GREENFIELD BUSINESS PARK
Service focus	BOOKSHOPS	PETROL STATIONS	TRAIN STATIONS	INDEPENDENT FORECOURTS	MOTORWAY WAY STOPS	GYM
Local access	PUBS	DOCTOR SURGERIES	LIBRARIES	CHURCHES	LOCAL AUTHORITIES	BAKERY
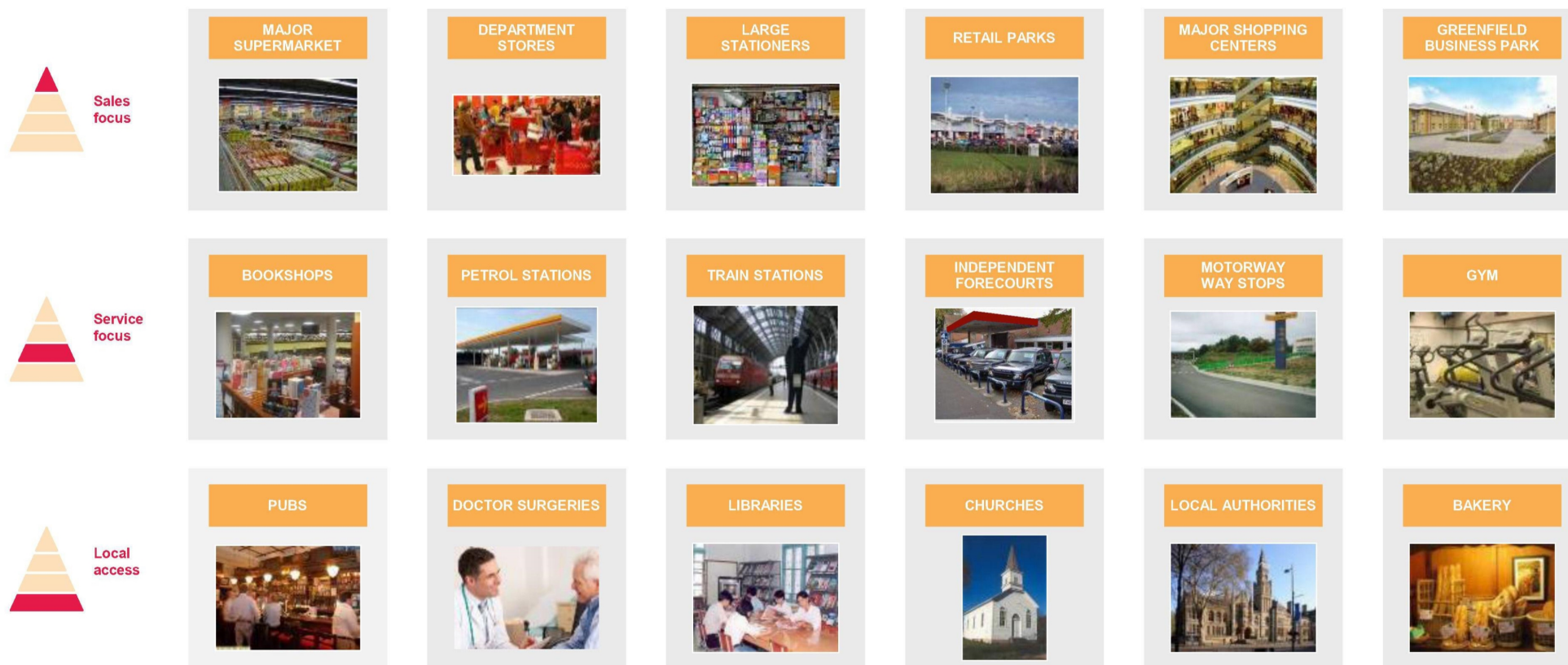
⑤ Example - Canada Post has transitioned from a fully Direct to more of a Master Franchise model over time

Overview of Canada Post

- Directly managed
- Franchised

- Canada Post operates **6,200 branches**
- 98% of Canadians **live within 15km** of a Canada Post branch
- Canada Post delivers mails and parcels to around **~16M addresses** per year
- Canada Post generates **~$8.2B annual revenue**

Directly-managed branch

Franchised branch (store-in-store format)

~6,200

~3,700 (60%)

~2,500 (40%)

Total number of branches

Overview of transition to Master Franchise model

Current state

Early years of franchise model

Before franchise model (pre-1987)

- Canada Post **managed 100% stores** directly
- Canada Post sought franchise model to:
  - Improve **customer access**
  - **Reduce costs**
  - Leverage the **retail know-how** of the private sector

- Franchisees were granted exclusive **territory rights**
- Canada Post opened a **franchised store** for every directly managed store it closed
- Post offices were **standalone branches,** rather than store-in-stores

- Removal of **territory rights**
- **Consistent split of franchised and directly managed branches** over time (~40% franchised, 60% directly managed)
- The organisation has moved from owned stores to a **'store-in-store' format**, particularly in urban areas

⑤ Example - Canada Post's Master Franchise model enables a lean organisation structure with standardised, fixed-period contract terms

Overview of Canada Post franchising model

- Sub-franchisee **owns and operates** a Post Office within an existing retail store, e.g., a drugstore

- No exclusive **territory rights**

- **Blended margin of ~20%** for Master Franchisees and additional economic benefits driven by increased customer footfall generated by Post Office products (~15% sales uplift)

- **Contract term of 5 years** with option for a further 5-year renewal

- Minimum of **76 opening hours per week** and **7 days per week**

- No management of store operations, **performance management** of stores conducted on a quarterly basis

- **Explicit preference for household brand names** as partners, as quality is perceived to be better

Example partnerships

SHOPPERS DRUG MART | Loblaws | Hallmark | Sobeys | 7-ELEVEN

SOURCE: Canada Post

Relationship with Shoppers Drug Mart

Overview

- Shoppers Drug Mart, a franchised organisation itself, owns **~50% of Canada Post franchised branches**

- Canada Post agrees a framework with Shoppers Drug Mart but actual contract is signed on a store-by-store basis – **very specific formal contract with standard terms and pricing**

- The Master Franchisee is responsible for paying most of the **setup cost**, i.e., standard fit-out, staging and equipment

- The relationship between Canada Post and Shoppers Drug Mart is **renewed every 5 years**
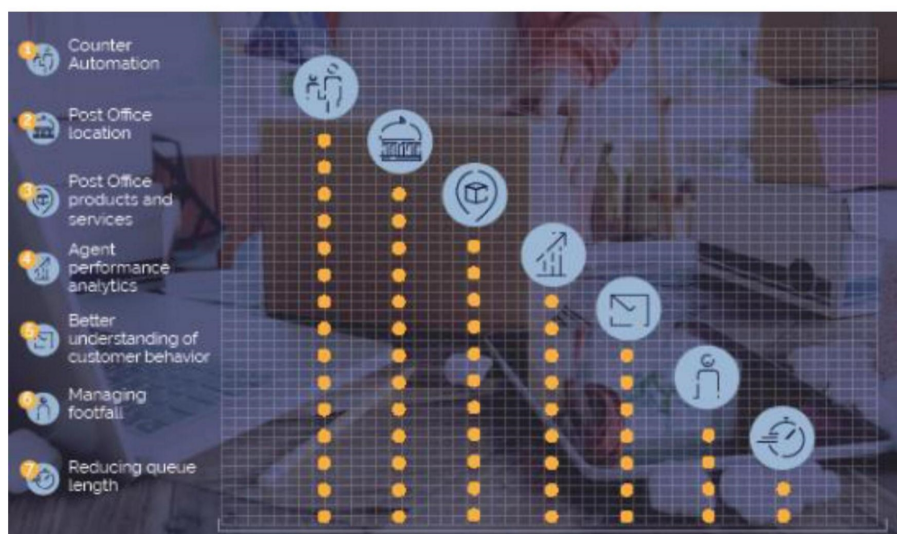
Insights for POL

- Although Master Franchise models create a leaner agent servicing structure, larger **contract management teams** are required to ensure consistency among franchisees

- **Fixed period contracts** allow the franchised organisation to update arrangement terms if desired, making it easier to change franchise strategy

SHOPPERS DRUG MART

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⑤ Increasing automation plays an important role in transforming network economics and driving future customer satisfaction

Counter automation mentioned as #1 factor in branch productivity
Escher postal survey responses[1]

Younger generations use significantly more automated delivery method
Doddle survey

Legend: ■ Home ■ Lockers ■ Workplace ■ Store pick-up ■ Friend/family

Millennials	GEN X	Baby Boomers	Seniors
30%	27%	23%	19%
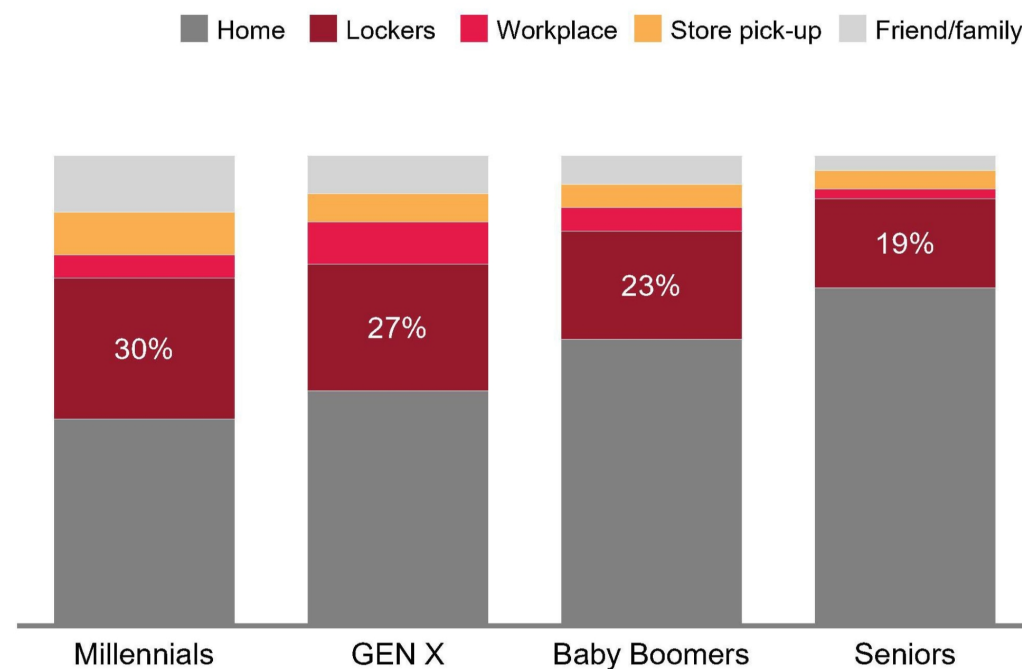
1 Survey conducted between July and September 2018. Online survey of Postal leaders worldwide, with 76 total responses from 32 countries
SOURCE: Escher – Future of the post, 2019 report, Doddle - UK presentation on World Mail and Express Europe conference, June 2019

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5 **Example - Singapore Post introduced self-service postal machines as early as 1997 and also built up the world's densest parcel locker network**

Self-service Automated Machines (SAM) were introduced in 1997 by SingPost

They allow easy access to services without queuing and also outside of office opening hours and often 24/7

SAM specially started to be popular in the early 2000s with introduction 24/7 machines

In 2010, two thirds of the counter network is composed of SAMs. In 2016, only 3 post offices were not equiped with a SAM

Wide range of products and services include: bill payments, government services, top ups and gaming etc.

SingPost introduced Popstations (automated parcel terminals) in 2013 for convenient parcel receipt and return

Network is composed of 139 machines today, with expansion plan of doubling the network on mid-term
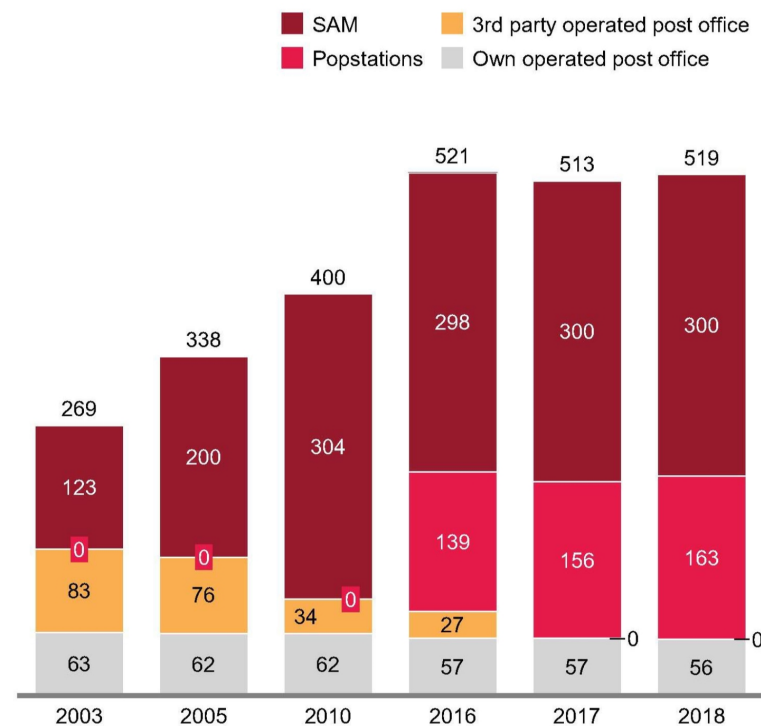
Machines allow parcel sending, receiving and returning and customers can also rent a box for peer to peer e-commerce sending

Both services are especially appreciated by younger generation due to convenience

In 2015, 29 Pos have been renovated all allowing digital access, 24/7 letter, bill payment and parcel services

SingPost retail Network
# of access locations

Legend:
- SAM
- Popstations
- 3rd party operated post office
- Own operated post office

Year	Total	SAM	Popstations	3rd party operated post office	Own operated post office
2003	269	123	0	83	63
2005	338	200	0	76	62
2010	400	304	0	34	62
2016	521	298	139	27	57
2017	513	300	156	0	57
2018	519	300	163	0	56

Source: Singapore Post; Press

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❺ Example – Posti starts roll-out of unmanned post offices

- Posti has completed its second unmanned postal kiosk, located outside Posti's headquarters in Helsinki.

- The kiosk features parcel lockers for collection of parcels and lodging e-commerce returns. Customers can also send domestic and international parcels.

- Customers can contact Posti customer service personnel via a video link for help and advice.
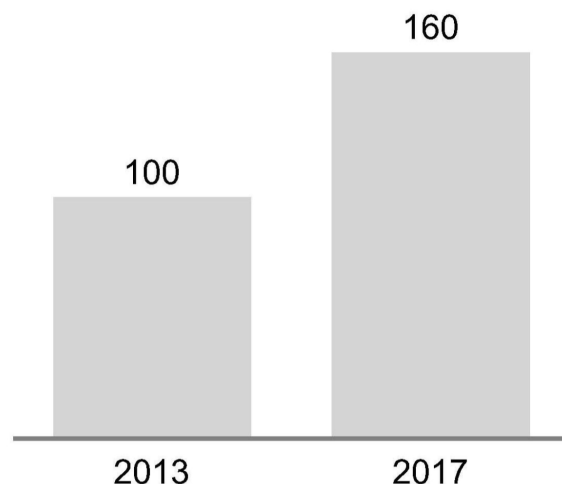
⑤ Parcel lockers gain in popularity and some operators make aggressive bet towards this delivery mode

Overall trend towards expansion of locker networks continues …
# of terminals of IPC members, indexed

160	
100	
2013	2017

… with pronounced strategy towards lockers at a few operators
Examples

DHL

~3700 terminals across Germany

- Lockers introduced as early as 2001
- Multiple generations of technology tested
- Over 10% of population are registered regular users
- Plans to roll out 7,000 by 2021

posti

~1,600 terminals in 2018

- 40% of the Finns are covered by a seven day parcel distribution via lockers
- Target of 1500 terminals by end 2019, most dense EU network at target state

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Where We Make Money

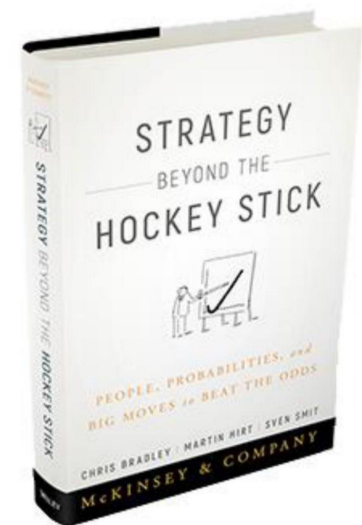Organisational Health Survey Results

Learnings from other post

Big Bets

- **Approach to building a portfolio of Big Bets**

- Latest list of Big Bets considered and discarded

Overall process update

REMINDER: Big Bets will help shape the future of the Post Office

- Research found that a **significant and flexible reallocation of resources to support "big bets"** is one of the **most important drivers of revenue growth and profitability improvement**

- **"Big bets"** are initiatives that require **significant resources and investment** (£10m+ of total CAPEX and exceptional spend over the entire duration of the project) and will materially impact the strategy and/or operating model of the Post Office

- We developed a **methodology by which we propose to assess and choose a portfolio of "big bets"** using **3 dimensions:** financial returns, ease of value capture and fit with the purpose of the Post Office

- Since the previous Board meeting, we have:
  - **Further developed our long list** of potential Big Bets
  - **Assessed the Big Bets** against the 3 said dimensions
  - **Started ruling out some Big Bets** on the basis of poor financials or low feasibility

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We are currently in the 3rd and final stage of our approach to building a Big Bet portfolio

	① **Ideation** Finish w/c/ 4 Nov	② **Evaluation** Finish w/c 25 Nov	③ **Selection**
Activities	■ Generate Big Bet ideas ■ Structure into categories ■ Refine Big Bet definitions ■ Assign primary source of content for evaluation	■ Build fact base to level needed to decide on Big Bets: — Financial estimates (benefits, investment, terminal value when insightful) — Feasibility assessment — Fit with PO Purpose ■ Cut Big Bets weak on financials, feasibility or fit with purpose ■ Make decisions aggressively on weak big-bets to focus on better candidates	■ **Continue to pressure test / refine big-bets,** maturing financial estimates and feasibility assessment ■ **Cut weakest individual projects** by financial / feasibility rankings ■ **Select a portfolio from the individual Big Bets** based on: affordability, timing, risk profile, interdependencies, PO capacity and capability for change ■ **Step-back and test: can we make these bolder, more ambitious?**
Outputs	■ Agreed long list of Big Bets	■ List of excluded Big Bets ■ List of shortlisted Big Bets with summary 1-pager	■ **Sequence of Big Bets that will shape the Post Office for next 5 years**

POST OFFICE® 101

③ Big Bet selection is first done at a project level, then at a portfolio level

| **3A** Project-level assessment | **3B** Portfolio-level assessment |

Evaluate Big Bets under 3 dimensions:

High-level financials
- Investment required and contribution
- Level of granularity: as much as relevant for selection
- Informed by external market view when relevant

Feasibility
- How likely is POL to succeed in implementing and capturing the value
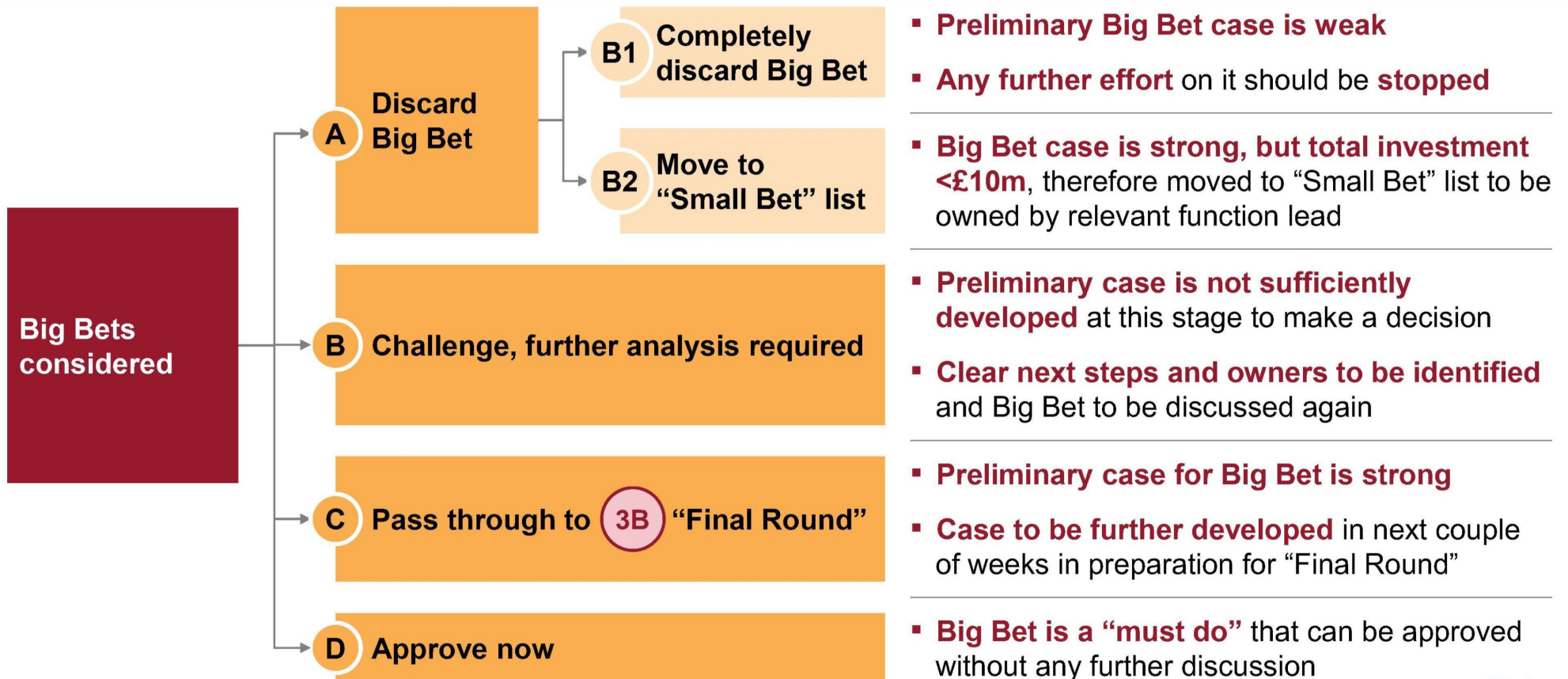- Informed by external market view when relevant

Fit with POL's purpose
- Will it increase convenience, access for all, ability to help our end customers with everyday tasks, etc.?

- Bring all remaining potential Big Bets in a single list
- Refine high-level financial as relevant
- Construct Big Bet portfolio options taking into account:
  - Affordability of investment cash flows required
  - Timing and Risk profile of overall portfolio:
    - Does the portfolio offer a healthy balance between higher-certainty and higher-risk/potential payoff Big Bets, and between shorter- and longer-term payoffs?
    - What is the potential correlation between risk profiles of the higher-risk Big Bets?
    - PO capabilities and capacity for change
  - Potential interdependencies between projects

Big Bet are submitted to a "decision tree" that underlines a rigorous selection process

Big Bets considered

A Discard Big Bet

B1 Completely discard Big Bet
- **Preliminary Big Bet case is weak**
- **Any further effort** on it should be **stopped**

B2 Move to "Small Bet" list
- **Big Bet case is strong, but total investment <£10m**, therefore moved to "Small Bet" list to be owned by relevant function lead

B Challenge, further analysis required
- **Preliminary case is not sufficiently developed** at this stage to make a decision
- **Clear next steps and owners to be identified** and Big Bet to be discussed again

C Pass through to **3B** "Final Round"
- **Preliminary case for Big Bet is strong**
- **Case to be further developed** in next couple of weeks in preparation for "Final Round"

D Approve now
- **Big Bet is a "must do"** that can be approved without any further discussion

The result is an iterative process that gets us progressively closer to the recommended Big Bet portfolio

1 Ideation	2 Evaluation	3A Project-level selection	3B Portfolio-level selection
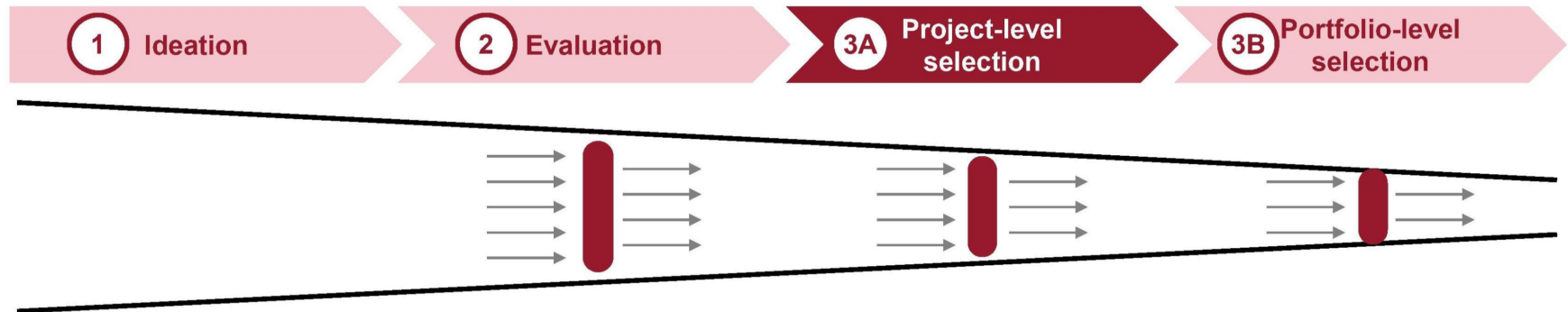
| **Decision-making activities** | • No decision at this stage | • Rule out those Big Bets whose high-level financials, feasibility or purpose fit are clearly weak | • Through an iterative process, reduce the list to a manageable size by ruling out those Big Bets that have the weakest financials and feasibility | • Select Big Bet portfolio options based on:
– Affordability
– Timing
– Risk profile
– Interdependencies
– PO capacity and capability for change |
| **# of potential Big Bets** | ~40 | ~25 | ~15-20 | ~10-15 |

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Organisational Health Survey Results

Learnings from other post

Big Bets

- Approach to building a portfolio of Big Bets

- **Latest list of Big Bets considered and discarded**

Overall process update

4 Big Bet categories

Examples of Potential Big Bets

Optimise the product portfolio and grow revenues from the existing product categories	▪ Sell Telco business ▪ Digitise parcel journey ▪ Replace BoI ATMs with POL ATMs
Transform the network and its operations to ensure its sustainability	▪ Redefine the network ▪ Improve customer experience through branch automation
Build technology and digital capabilities to support the business	▪ Modernise Horizon ▪ Build digital and analytics capabilities to support other Big Bets
Right-size the central functions	▪ Right-size the central functions

Big Bets: Optimise the product portfolio & grow revenues from the existing product cat.

	Big bets	**Example of initiatives**
Mails and parcels	Digitise the parcel journey	▪ Implement an online parcels business connected to the branch journeys
	Extend the PUDO network	▪ Increase the PUDO points through Payzone and Parcelshop
Bill Pay	Expand the Bill Pay network	▪ Expand the bill payment network through contract wins and whole estate convenience retailers deals
Telco	Telco: divest or keep	▪ Divest Telco, or keep Telco & reduce cost base through RFP and potential supplier change
Banking	Replace BOI ATMs with POL ATMs	▪ Invest in infrastructure to replace current BoI ATMs by POL ATMs
	Grow banking framework business	▪ Invest in marketing campaign to increase awareness ▪ Take a partnership lead approach to develop new services for banks
Identity	Grow Identity business	▪ Invest to develop Identify service and seek partnership with a bank
FS	Build an FX transactional proposition	▪ Expand current FX offering to capitalise on market growth within travel Credit/Debit card market

Left column label: **Optimise the product portfolio and grow revenues from the existing product categories**

Row categories: **FS**, **Cross-product categ.**, **Adjacencies**, **Business model**

IRRELEVANT

	Marketing / Branding investment	▪ Invest in developing a Post Office campaign to reinvigorate its brand

IRRELEVANT

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Big Bets: Transform the network and its operations to ensure its sustainability

	Big bets	**Example of initiatives**
Transform the network and its operations to ensure its sustainability	**Redefine the network based on customer needs**	▪ Continue DMB closure program at accelerated pace ▪ Continue Mains to Locals program ▪ Continue New Network Locations program
	In-branch cash automation	▪ Invest in cash automation through TCRs and automated deposit machines
	In-branch mails automation	▪ Invest in automating in-branch mails customer journey through deploying SSKs
	Improve agents' experience	▪ Modernise agent support (e.g., Branch Hub) ▪ Digitise agent journeys (e.g., training) ▪ Optimise the channel mix and ROI for the agent package taking into account pay, alarms & security, building spend, cash, field teams... ▪ Change Horizon and processes to simplify customer journeys in branches, reducing errors & queues
	Improve supply chain efficiency	▪ Optimise supply chain efficiency, ownership and systems ▪ Outsource cash supply chain ▪ Apply advanced analytics to optimise supply chain logistics
	Develop agents' capabilities	▪ "Super-size" hot housing ▪ Build sales competencies of postmasters

POST OFFICE

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Big Bets: Build technology and digital capabilities to support the business

	Big bets	Example of initiatives
Build technology and digital capabilities to support the business	**Modernise Horizon**	▪ Invest to move the Horizon technology onto modern architecture and without any supplier lock-in ▪ Review the business needs that drive complexity into what the future Horizon must do
	Enable management information across POL	▪ Build a MI strategy that enables data-led decision making
	Build customer data and loyalty approach	▪ Build a customer loyalty program underpinned by data & analytics capabilities
	Platform capability building	▪ Build a POL own platform that allows owning customer data across POL online businesses

Big Bets: Right-size the central functions

	Big bets	**Example of initiatives**
Right-size the central functions	**Right-size the central functions**	▪ Zero-base lowest run cost for staff costs and non-staff costs that will support the business ▪ Leverage tools such as digitisation, automation and spans & layers to transform and right size the central functions for: -SLP-grade managers -Supply chain -(not DMBs)
	Undertake review of Ts&Cs challenges such as MTSF	▪ Undertake review of employees Ts&Cs to close the gap with market average metrics

Discarded Big Bets

Big bets	Example of initiatives

▪ We should not divest insurance because it is an important profit contributor (13% of total

IRRELEVANT

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POL-BSFF-106-0000002_0109

PSG: Overall Project Plan

Workstreams	PHASE I: Baseline and Theme	Phase II: Strategy Development	Phase III: Syndication and Iteration
	4 weeks (30 Sep to 25 Oct)	*7 weeks (28 Oct to 13 Dec)*	*5 weeks (6 Jan to 7 Feb)*

Strategy and Growth	• Provide a fact base to assess POL's markets and customers
	• Start assessing the "strategic balance sheet" of POL
	• Brainstorm alternative Purposes
	• Identify emerging themes that would inform the future strategic "Big Bets"
	• Design a Customer Insight survey
		• Articulate Post Office purpose
		• Define the future strategy and start answering the strategic questions listed earlier, e.g.:
		  — "Big bets"
		  — Markets should we play in
		  — Attractive growth opportunities
		  — Strategy financials / economics
		• Launch the Customer Insight survey
			• Syndicate and refine the strategic choices, and finalise the answer to the strategic questions
			• Articulate the 2-3 "Big Bets", including resources needed to support them
			• Prioritise initiatives to embed Purpose and Strategy
			• Integrate with 5 year plan

Organisational capabilities	• Launch the Organisational Health Index (OHI) survey • Provide targeted expert support to the Zero-Based review of the organisation	• Playback the results of the OHI survey • Identify the leadership steps to shape the actions informing the strategy • Continue ZBB acceleration	• Drive OHI survey results into target behaviours and interventions
Technology	• Identify major problems posing a threat to continuity of the business ("lights out" risk)	• Baseline technology • Identify implications for the business strategy	• Prioritise technology initiatives to deliver strategy
Board meetings	• 29 October 2019	• 26 November 2019 • 19 December	• 28 January 2020

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Overall PSG plan: several workstreams come together to feed into Big Bets over next 4 weeks

	Output	November	December	January
Purpose	**A refreshed statement of our purpose that states what POL stands for and…**	Gather inputs from wide group of stakeholders	Test early purpose statements	Finalise purpose statement
Customers & Postmasters	**Resonates with our customers and our Postmasters**	Understand what customers and postmasters think through engagement and surveys	Feed results into iterations of the Big Bets	Engage postmasters with findings (may be later)
Big Bets	**Captures the coherent set of services we will invest money and effort into**	**Create long-list with estimated financials and feasibility; shortlist best**	**Iterate portfolio of Big Bets with learnings from Purpose, Customer and Financials**	**Select portfolio and engage stakeholders to confirm**
Financials & Markets	**Aligns us to where POL can be profitable within our investment envelope**	Estimate product and channel profitability; analyse markets for difficult Big Bet decisions	Improve financial forecasts and feasibility assessments where required for shortlisted Big Bets	Build PO financial forecasts
Org capabilities	**Fits our capabilities and motivates our people**	Baseline the organisation to understand changes needed to deliver Big Bets	Review ways to strengthen effectiveness of Product and Partnership	Identify leadership actions to shape the culture needed to support Big Bets
Technology	**Is supported by a funded set of technology changes**	Diagnose issues with technology and identify what it takes to move forwards	ITLT works on addressing issues and designs project to identify Horizon way forwards	ITLT starts project to understand Horizon and identify a costed way forwards Q1 2020
Integration	**Brings together all the above in board papers + unified plans**	Feed Purpose, Customers & Postmasters and Financial & Markets inputs into Big Bets	Ensure coherence of Big Bet iterations with Purpose and Customers & Postmasters view	Feed Big Bet choices into financial forecast

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We are engaging postmasters through "curry nights", 1-on-1s and an online survey

Curry Nights and 1-on-1s

Current progress

Engaged **over 80 postmasters** at "curry nights", including:
- Diverse **blend of branch formats/ locations** (rural, suburban, urban)
- **Varying tenures** ranging from <1 year to 33+ years
- The **youngest postmaster** in the UK at 22 years old
- Postmaster for the only Post Office run by a **town council**
- Third **generation postmaster**, handed down in the family since 1932

Next steps
- Final "curry night" with ~15 **London area postmasters**
- **10+ 1-on-1 conversations** with high performing postmasters scheduled for w/c 25 Nov

Curry nights

	Location	Date	
A	Eastbourne	Mon 4th	✓
B	Burton-on-Trent	Tue 12th	✓
C	Weston-super-Mare	Thu 14th	✓
D	Cambridge	Mon 18th	✓
E	Manchester	Tue 19th	✓
F	Guildford	Thu 21st	✓
G	London	Tue 26th	

One-on-ones

1	England	
2	Wales	10+ post-masters;
3	Scotland	w/c 25th
4	Northern Ireland	
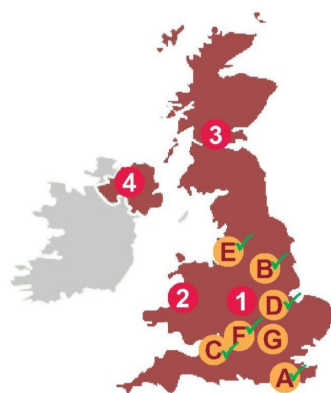
Survey

Current progress
- Sent to **~6,000[1] postmasters** at 18:00 on Friday 15 Nov
- **6% response rate** by end of first week of survey being live
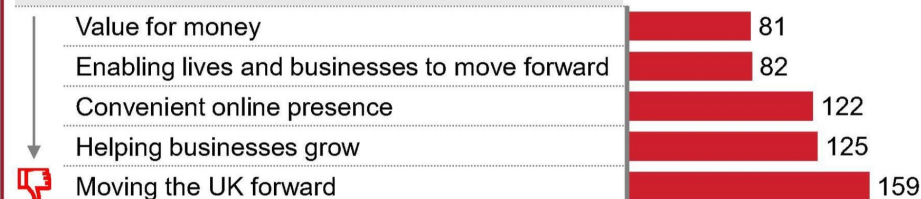- **Reminder email** sent Friday 22 Nov

Next steps
- **Area Managers will follow-up to encourage people** to complete survey during routine branch visits
- **Close survey** Friday 29 Nov and analyse results

Early results

Theme	Value
Serving our communities	215
A trusted brand	213
Part of the social fabric in our communities	203
Care for our customers	135
Consistent, friendly service	129
Middle 25 ranked themes	
Value for money	81
Enabling lives and businesses to move forward	82
Convenient online presence	122
Helping businesses grow	125
Moving the UK forward	159

1 ~6,000 represents postmasters that opted in to communications per GDPR restrictions; DMBs were excluded from this survey as their input was taken in the OHI survey

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