



“What do you see as the main opportunities for the Post Office in the future?”

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## Six key trends are creating significant disruption and intense pressure within the Post Office operating environment

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Intense Pressure drives a need to focus on:

- > Innovative and differentiated customer propositions
- > Efficient operating models (omni-channel)
- > Lean operating costs
- > Fit for purpose organisational structures



## Clear progress to date ...but headwinds....and more to do

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1. Post Office has successfully transitioned to a profit making business, based on its Franchise model
2. Network Transformation (including Grown Office) has both improved the customer experience and stabilised the estate
3. Innovation, NPD and acquisition has driven new revenue streams which will secure the three year horizon eg banking framework

BUT...

- > Core revenue and footfall generators are in decline eg POCA and letter mail
- > Relationship with Franchisees is strained
- > Cost to serve is uncompetitive and not digitised
- > Relevance to a younger demographic remains unclear
- > Dependency on Royal Mail and bank of Ireland

## So what? Where do the opportunities lie?

<p><b>Strengths</b></p> <ul style="list-style-type: none"> <li>&gt; Trusted and well recognised brand</li> <li>&gt; Broad geographical reach/unique network</li> <li>&gt; No1 for mail and parcels</li> <li>&gt; Growing F5 business</li> <li>&gt; Market leader in foreign exchange</li> <li>&gt; Network stabilisation and dedicated workforce, entrepreneurial Franchisees</li> </ul>	<p><b>Weaknesses</b></p> <ul style="list-style-type: none"> <li>&gt; Declining footfall, transactions within the Network</li> <li>&gt; Lack of consumer brand awareness – products and services</li> <li>&gt; No clear customer segmentation and targeting – SME, youth, home, aged</li> <li>&gt; Limited transformation skills and capabilities – particularly digital and analytics</li> <li>&gt; Central cost base and overheads too high. IT estate (including Horizon) not fit for purpose</li> </ul>
<p><b>Opportunities</b></p> <ul style="list-style-type: none"> <li>&gt; Accelerate Network Transformation</li> <li>&gt; Exploit Digital Identity Verification and growth in brand</li> <li>&gt; Extend FS business – framework and open banking</li> <li>&gt; Introduce ‘challenger’ brands alongside Telecoms, such as energy</li> <li>&gt; Push harder on Insurance</li> <li>&gt; Leverage the growth in convenience retail and ecommerce</li> </ul>	<p><b>Threats</b></p> <ul style="list-style-type: none"> <li>&gt; Royal Mail (MDA) relationship</li> <li>&gt; Securing the next stage of the everyday banking framework</li> <li>&gt; On-going decline in fast services – Government front office?</li> <li>&gt; Litigation and Franchisee relationship</li> <li>&gt; The leading position in mails</li> <li>&gt; Viability of the rural network</li> </ul>



## Addressing the threats to ensure they are nullified will be critical

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1. Royal Mail contact agreement ends in 2022. Securing a favourable renewal to this £300m/year contract is essential. Growth in parcels presents a huge opportunity to lock in value and address the threat of disintermediation
2. Securing the Everyday banking framework for deposits/withdrawals and potentially extending/enhancing services to include DD/Standing Orders/Printing statements ..and other products
3. Government services have been in terminal decline since 2004/5. The opportunity remains to drive national and local Government services – BEIS, DWP, DfT, Defra, Home Office – back into the Post Office
4. Litigation and the Franchise remuneration model has the potential to embarrass the Post Office. Delivering a fair, equitable (and affordable) solution is critical. Central to this is reducing the operating costs for franchisees through digitising and automating processes
5. Defending and maintain the Post Office leading position in mails through innovation – products such as ‘drop and go’ and ‘drop off’ and with greater convenience and efficiency

## A range of opportunities exist...

matching capability to execute, with a clear strategy, will determine success

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1. Accelerate Network Transformation. Digitise and automate to reduce the cost structure, improve customer service and cover the cost to serve for franchisees
  - > Focus on core processes – onboarding, agent servicing, cash management, call centre service, as well as HR, training and finance
  - > Radically automate and digitise customer journeys, improve ecommerce convenience and POS system (Horizon)
  - > Introduce AI to drive cash predictive modelling, vehicle routing, labour scheduling
  - > Step up strategies to drive efficiency for Franchisees and profitability for local model (eg lower cost self service kiosks)
2. Further develop the current position of most popular provider of Identity verification. Internet security issues and brand will only increase
  - > large addressable market – KYC, benefits claims, bank account opening, banking fraud, website verification
  - > Potential to develop a digital identity platform and produce a digital certificate for universal use
  - > Look to potential partners – Government departments, banks... gov.uk.verify

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3. Drive and build out further the Financial services business
  - > Extend the everyday banking – provide more services too
  - > Exploit Open Banking by building partnerships with Fintech operators – Revolut, Monzo, Starling
  - > Explore customer segmentation strategy through FS – eg youth, children's accounts, Go Henry
4. Leverage the success of the Telecom business by harnessing the strong challenger brand potential of customer champion, trusted brand, simple propositions but disruptive
  - > move into adjacencies – Utilities, Energy
  - > develop white label partnerships with low cost structures and cash generative potential
  - > extend from purely residential into SME
5. Drive the Insurance business larger and use it to test market new propositions
  - > Aging customer demographic needing health insurance
  - > Product bundling – Passport 'check and send', Travel Insurance and Foreign exchange
  - > Extend into the home market – Hire, Alexa, Security, home moving



## Mobilise the team around a simple version, with a clear purpose and timeframe

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### Particular activities which should be prioritised ahead of others:

1. Addressing and resolving the Franchisee disputes
2. Accelerating the simplification and digitisation of the cost structure
3. Securing the Royal Mail contract and driving the parcel opportunity
4. Focusing on certain growth opportunities
  - > Growing FS through digitally enabled customer propositions
  - > Become the leader in Identity services
  - > Insurance
  - > Telecoms and adjacent Challenger brand opportunities

This will ensure the strong financial improvements, currently even, are maintained  
Declining revenue streams are replaced with new growth opportunities  
The future proofing of the Network is sustained