Post Office Board Agenda (Strategy Day 2)

Date:	28 July 2021	Time	08:55 – 15:45 hrs	Location	Finsbury Dials, 20 Finsbury Street, London EC2Y 9AQ

Present		Other Attendees	
• Tim Parker (Chairman)	• Ken McCall (SID)	• Veronica Branton (Company Secretary)	• Martin Edwards (Network Strategy & Delivery Director) (Item 2.)
• Nick Read (CEO)	• Carla Stent (NED)	• Tim McInnes (Strategy and Transformation Director)	• Dan Zinner (Group Chief Operating Officer) (Item 2.)
• Zarin Patel (NED)	• Alisdair Cameron (CFO)	• Owen Woodley (Group Chief Commercial Officer) (Item 3.)	• Chrysanthy Pispinis (Commercial Strategy & Planning Director) (Item 3.)
• Tom Cooper (NED)	• Lisa Harrington (NED)	• Mark Siviter (Product Portfolio Director - Mails, PUDO, Retail & Government Services) (Item 3.)	• Zdravko Mladenov (Business Transformation Director) (Item 4.)
Saf Ismail (NED)	Elliot Jacobs (NED)		
Ben Tidswell (NED)			

Agenda Item		Action Needed	Lead	Timings
1.	**Welcome and Conflicts of Interest**	Noting	Chairman	08:55 – 09:00 hrs
2.	**Session 2 - Network: Approaches to making the network more sustainable, and post offices more sought after**	Discussion	Martin Edwards / Dan Zinner	09:00 – 10:30 hrs
Break				10:30 – 10:45 hrs
3.	**Session 3 - Commercial: Strategic options to expand in mails, and wider commercial growth opportunities**	Discussion	Owen Woodley / Chrysanthy Pispinis / Mark Siviter	10:45 - 12:15 hrs
Lunch				12:15 – 13:15 hrs
4.	**Session 4 - Technology: Enabling business transformation with new technology (e.g. SPM, Branch Hub and Data)**	Discussion	Zdravko Mladenov	13:15 – 14:45 hrs
Break				14:45 – 15:00 hrs
5.	**Strategy Away Day Wrap Up Session**	Discussion	Nick Read / Tim McInnes	15:00 – 15:30 hrs
6.	**Any Other Business**	Noting	Chairman	15:30 – 15:45 hrs

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POST OFFICE LIMITED BOARD REPORT

Title:	Addressing the network sustainability challenge	Meeting date:	28th July 2021
Author:	Martin Edwards, Network Strategy & Delivery Director	Sponsor:	Dan Zinner, Group Chief Operating Officer

Input sought:

At the awayday we will be discussing our franchise economics from a postmaster perspective and reviewing the levers to improve profitability, thereby strengthening network stability.

Questions addressed in this report:

1. What are the key challenges to postmaster profitability and network sustainability?
2. What levers do we have to address these challenges? What is included in our draft 3YP?
3. What is our proposed roadmap for remuneration reform, including our MDA2 response?

The Report

1. What are the key challenges to postmaster profitability and network sustainability?

1. Repeated consultations show that remuneration and profitability is postmasters' top concern, with just 14% believing they get paid appropriately for the services they provide. Since 2014/15 remuneration has fallen c.10% in nominal terms while postmasters' running costs have continued to increase, most notably through a 24% cumulative increase in the National Minimum Wage.

2. This squeeze in profitability has exposed the weaknesses of the franchise models designed under Network Transformation. Successful retail franchises tend to fall into one of two distinct models:

    i. simple category propositions like Paypoint or a Costa terminal which drive profitable footfall for the host retailer with minimal staffing; or

    ii. full franchises proposition like a Snappy Snaps or Mails Boxes Etc, which in return for significant upfront investment enable the franchisee to build a business that is profitable and saleable on a standalone basis.

3. As the background analysis in the Reading Room shows, most of our branches sit uncomfortably between these two models. Our complexity and workload drive the need for dedicated staffing (even in Locals), but in most locations we lack the profitability to be viable without a symbiotic relationship with host retail.

4. Our modelling suggests around half of the network is now on the borderline of profitability, either because they are small branches with limited retail or because they are busier branches where our margins do not cover the high opportunity cost of their retail space.

5. These pressures are set to increase over the coming years, with growth in retail cost inflation (IRRELEVANT CAGR for staff costs) continuing to outstrip the IRRELEVANT CAGR growth in baseline remuneration in our 3YP.

6. 1 in 3 independent postmasters say they expect to leave the network in the next 5 years and there is growing unease from our strategic partners, as highlighted by the recent 31 CJ Lang closures. Of greater concern, we are struggling to attract new postmasters to the network in sufficient numbers, with just 1 in 5 Locals replaced within 18 months of closure.

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2. What levers do we have to address these challenges? What is in our 3YP?

7. Addressing these challenges will require concerted action across multiple fronts over the next five years. Specifically, we have identified five key levers to deliver a sustainable improvement to postmaster profitability, summarised in the table below alongside an outline of what is included in our draft 3YP.

Lever	What is included in draft 3YP?
1. **Reducing postmaster staff costs** through process improvements and automation of mails & banking (the two most labour-intensive areas which we estimate could save up to £50m pa through full adoption across our 4k largest branches). Enabled by the three programmes being taken forward by BTU – SPM, Branch Hub 2.0 and new data capabilities.	**IRRELEVANT**
2. **Introducing simpler propositions** which work as a genuine retail category with minimal staffing demands. The imminent launch of our 'Drop & Collect' pilots is the first step, offering PUDO and bill payments on a small footprint device that operates alongside the retail till. Full roll-out from late 2021 enabled by SPM. We will continue to refine and improve the proposition, leveraging the expansion of PUDO and any move into online mails (as set out in the Mails Strategy paper).	
3. **Exiting branches which do not have the conditions for long-term viability** - around 38% of our network is hosted in branches where either the retail side is poor and/or the post office side is sub-scale - predominantly legacy branches & smaller Mains. We can either wait for these branches to churn (a gradual process at ~4% pa) or we could accelerate the process through compensated exits, subject to the necessary funding.	
4. **Increasing remuneration** section 3 of this paper outlines our proposed roadmap for remuneration reform, including our short-term response to the MDA2 consultation.	
5. **Increasing top line growth for postmasters** – mails & banking remain our primary growth engines. The Mails Strategy paper sets out the options for strengthening our position in the value chain as the market moves online, with wider growth opportunities covered in the separate paper. We will continue to strengthen the role of Area Managers in supporting postmasters to grow both their retail and PO business.	*See separate papers on mails strategy & other growth opportunities.*

8. Slide 3 in the Reading Room deck maps these levers against different branch segments. Slide 4 provides further detail of our emerging plans for automation, together with a segmented view of the potential postmaster cost savings. We will continue to refine these plans through structured engagement with postmasters and strategic partners, using our new formalised postmaster engagement forums.

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3. What is our roadmap for remuneration & contract reform?

9. The 3YP includes an allocation for **IRRELEVANT** This would result in total remuneration **IRRELEVANT** over the period, broadly in line with forecast growth in retail staff costs. In other words, we would be mitigating a worsening of postmaster profitability over the period, but not fundamentally improving network stability. This underlines the importance of the other levers outlined above. Nonetheless, we do believe growing postmasters' share is an essential part of our plan, not least to rebuild trust.

10. The options for allocating this increase and reforming remuneration structures can be framed in three phases, explained in more detail in the sections that follow:

    i. Our short-term response to the MDA2 consultation, which we have committed to confirm by September ahead of implementation in April 2022.

    ii. Other medium-term increases to remuneration which could be pursued over the next 12 months without the need for wholesale reform.

    iii. Major restructuring of our remuneration and contractual framework, which as explained below we believe is a longer-term endeavour.

i. Responding to the MDA2 consultation

11. **IRRELEVANT**

IRRELEVANT Based on trading data from the last 3 months, around **IRRELEVANT** IRRELEVANT with a broad range of outcomes for individual branches as shown in slide 6 of the Reading Room deck.

12. To inform the implementation of this change we ran a major consultation exercise between mid-April to early June, engaging with over 8,000 postmasters. The key findings are summarised in slide 21 of the Reading Room deck. While many postmasters welcomed the fact that their **IRRELEVANT**

IRRELEVANT

13. Our response to the consultation is due in September and will be viewed as a critical test of whether we are genuinely committed to re-building the relationship with postmasters. Balancing our affordability constraints (particularly in advance of the SR outcome) with the need to rebuild trust and confidence with postmasters, our recommendation is that we make three changes in our final proposals:

    i. **IRRELEVANT**
IRRELEVANT We are exploring whether the Special Delivery increases can be restricted to items below 1kg, given rates for heavier parcels are increasing in any case. This would **IRRELEVANT** but is dependent on Horizon changes. The impact of these increases across branches is shown in slide 6 of the Reading Room deck.

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Tab 2.1 Network Strategy

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    ii.   Providing an additional year of transitional protection until March 2023 to ensure no branches are worse off than they would have been under the old MDA1 rates, at a one-off cost of around IRRELEVANT

    iii. Investing IRRELEVANT over the next 12 months to provide additional sales training support and other interventions for up to 500 branches to enable them to make the most of the new opportunities under MDA2.

ii. Medium-term increases to remuneration to be considered over the next 12 months

14.   Beyond mails we believe a further package of remuneration increases will be required over the next 6-12 months to underpin network stability, with three lead candidates:

    i.   Increasing the rates for banking deposits, responding to the consistent postmaster feedback about the mismatch between effort, risk and reward;

    ii.   Further increases for mails remuneration, which could be linked to the proposals outlined in the Mails Strategy paper or further changes to the RMG portfolio; or

    iii. targeted fixed pay top-ups for branches in challenging locations (both dense urban and rural).

15.   These options will be developed in more detail over the coming months, consulting with postmasters using the new formalised engagement structures. We would propose re-visiting these options with the Board once our wider funding position is clear and as part of next year's budgeting process.

iii. Longer-term reform of remuneration and contracts

16.   Longer term we believe there is a case for restructuring remuneration and contracts, replacing the rigid Mains/Locals categorisation with a more flexible franchise offer. Product rates could either be IRRELEVANT or we could introduce a IRRELEVANT which provide all postmasters with IRRELEVANT (costing IRRELEVANT). We would also propose further use of IRRELEVANT IRRELEVANT For Strategic Partners and entrepreneurial 'pluralists' looking to expand we would IRRELEVANT IRRELEVANT to better support growth and mutual value exchange.

17.   Such a restructuring of remuneration and contracts could have multiple benefits:

-   **Fairness** – branches with similar workloads would be paid the same, addressing the growing discontent from many Locals postmasters about the fact that they are paid 30% less (around 1 in 4 Locals have a similar workload to Mains);
-   **Greater profitability for Locals**, increasing network stability particularly for medium sized Locals;
-   **Greater flexibility for existing Mains branches**, removing the disincentive for retailers to move to a more efficient and integrated branch format; and
-   **Accelerating the delivery of our blueprint** by making it easier for us to find viable replacements for Hard to Place and other legacy branches.

18.   While there would be clear network stability benefits for these changes, changing contracts on this scale would be a major undertaking requiring very careful engagement with postmasters and the strengthening of capabilities in Post Office to handle such change. Our provisional view is that we should not embark on change of this scale until SPM roll-out has been largely completed, but we should discuss this question at the awayday.

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Appendix 1: points & questions raised in the pre-Board meetings with NEDs

Points / questions raised	Response / where is this point covered?
We need to focus on underlying issues around cost to serve and to accelerate automation, rather than just looking at remuneration. (EJ, TC, ZP)	Reflected in this paper and in the balance of our 3YP investments, including ▢IRRELEVANT▢ to support roll-out of mails & banking automation. To be discussed further at the awayday.
We need to build a business which people want to invest in with long-term growth potential & relevant products. (SI, CS, EJ)	The Commercial session at the awayday will cover both the strategic options within mails and wider growth opportunities for the business and postmasters.
Keen to understand more about profitability per branch and churn rates. In NT we did not think enough about the branches that will struggle on variable remuneration and that will continue to need fixed pay support. Is the way we classify branches to determine rem rates correct? (TP)	Our first cut of analysis on this is provided in the Reading Room deck (see pages 10-16), and this will continue to be refined over the coming months.
What more can we do to help retailers – e.g. providing access to cost effective financing so they can invest in branches and acquire more locations (taking over from underperforming postmasters) or more structured retail support? (EJ)	Further work on financing options and master franchise agreements to be undertaken following the awayday. Role of Area Managers in providing retail support will be discussed as part of postmaster engagement session, and the growth opportunities paper includes a review of retail buying groups.
We need a branch-by-branch audit of the network to understand which branches are underperforming, which ones have the conditions to be developed into strong retailers and which ones have little prospect of improvement and need to be exited. (TP)	The analysis in the Reading Room deck (see pages 10-16) provides an initial segmented view of branch profitability and the key levers to address each segment. We are exploring how we can refine this analysis over the coming months through a combination of additional desk-based data sources and Area Manager insights to build a more granular branch-by-branch view.
We need an updated assessment of the cost of meeting the Government's network obligations, including how this evolves over 3YP period. (TC, CS)	Covered in the Strategic Plan paper in the section on 'The cost of BEIS's policy obligations'. Cost of social network estimated at ▢IRRELEVANT▢ in 21/22, not including DMBs.
We should separate out the mails vs banking requirements of the network so we have clear visibility of the numbers / types of branches and costs associated with each. (TC)	We can share a view of how client requirements, customer demand and postmaster profitability for mails vs banking flow through into network requirements during August.
Keen to see comparison of Post Office to other franchise commercial models. (TP)	Case studies of other franchise commercial models provided in the final section of the Reading Room deck (pages 26-38).

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BOARD REPORT

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Title:	Commercial Opportunities	Meeting Date:	28th July 2021
Author:	Chrysanthy Pispinis, Commercial Strategy and Planning Director	Sponsor:	Owen Woodley, Group Chief Commercial Officer

Input Sought:

The Board is asked to:

- Note the position around the Big Bets and new commercial opportunities;
- Provide its challenges, steers and further considerations on the 'ecosystems' concept;
- Support the proposed next steps.

Questions addressed

- How could we grow Post Office income, for the benefit of the business and Postmasters?
- How do we improve Postmaster profitability?

How could we grow Post Office income?

1. The Post Office growing its top line and developing new commercial opportunities is key to its long-term commercial sustainability and customer relevance.
2. In early 2020, McKinsey and the business developed a series of 'Big Bets' to help drive Post Office growth:
   a. The Big Bets were initiatives that require significant resources and investment and will materially impact the PO strategy and/or operating model;
   b. Many of these Big Bets have been taken forward, and are included in our 21/22 and/or 3Y plans, including Banking Framework 3 and PUDO;
   c. McKinsey also concluded that significant new growth opportunities were limited, and Post Office, in the medium term, should focus its limited resources on its Core business activities and on driving cost efficiencies.
3. The global pandemic and clarity on our 2025 strategic intent were two key drivers to revisit the Big Bets and explore whether any opportunities discarded at the time are worth pursuing now, in addition to identifying new opportunities to improve returns for Post Office and Postmasters
   a. Revisiting the Big Bets has reconfirmed and solidified McKinsey's recommendations from 2020, but with a couple of builds which are outlined in the presentation.
4. Our paper sets out our criteria for triaging opportunities to ensure we stay aligned to our Purpose and core competencies, and provides examples of opportunities we will consider further (e.g. stationery, printing services) and opportunities we have dismissed (e.g. travel prepaid debit card/ transactional banking).

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Tab 3.1 Commercial Growth Opportunities

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How do we improve Postmaster profitability?

5. With Post Office's purpose centred around Postmasters, commercial opportunities are not just about growing Post Office's income. We should also consider commercial sustainability through the lens of improving Postmaster profitability. Post Office can support this in two ways:

    a. Helping Postmasters run their businesses - whether Post Office or retail - with products and services they need, from insurance to utilities. We're envisioning an ecosystem for Postmasters that helps to bring our purpose to life.

    b. Helping Postmasters grow their business within the local community, such as support with local prospecting, going beyond the support Area Managers offer today - this topic is covered as part of the broader Postmaster engagement work, and as such we are not covering it in our paper, but wanted to acknowledge the interlinkage between the two.

6. Postmaster profitability is at the core of network sustainability, as laid out in the 'Addressing the network sustainability challenge' paper; we recognise that growing the top line and improving Postmaster profitability are two sides of the same coin.

7. Postmasters could benefit from access to products and services that have been procured and negotiated using Post Office's buying power, thus reducing Postmaster costs whilst offering a uniform experience across the network.

8. This suite of products and services could sit on a platform or 'ecosystem' that allows Postmasters to pick and choose depending on their business model; there are many such 'buying groups' in operation in the market, which gives us options in terms of routes to market; ultimately, they could help cement Postmasters' role at the heart of communities.

9. The 'ecosystem' could be structured in a way that creates income for Post Office, is a 'free' value-added service to Postmasters, or a combination of both.

10. Whichever way we chose to proceed, we will test the appetite of such an ecosystem with Postmasters, and with regards to the evolving relationship with the NFSP.

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Tab 3.1 Commercial Growth Opportunities

Commercial Opportunities

Board Strategy Day
28th July 2021

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Tab 3.1 Commercial Growth Opportunities

Executive Summary

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Context

- Growing the top line and developing new opportunities to improve the profitability of Post Office franchises is critical to long term commercial sustainability and customer relevance
- In early 2020, McKinsey and the business developed a series of 'Big Bets' to help drive Post Office growth...
  - The Big Bets were initiatives that require significant resources and investment and will materially impact the PO strategy and/or operating model
  - Options were prioritised on: affordability, timing, risk profile, interdependencies, PO capacity and capability for change
  - Many of these Big Bets have been taken forward, and are included in our 21/22 and/or 3Y plans
  - McKinsey also concluded that significant top line growth opportunities were limited, and that Post Office, in the medium term, should focus its limited resources and management focus on its Core business activities and on driving cost efficiencies
- A global pandemic, but also clarity on our 2025 strategic intent and purpose, were two key drivers to revisit the Big Bets and explore whether any opportunities discarded at the time are worth pursuing now, in addition to identifying new opportunities to improve returns for Post Office and Postmasters

The questions we are seeking to answer:

1. How could we grow Post Office income, for the benefit of the business and Postmasters?
   (a) Revisiting the McKinsey Big Bets
   (b) Capturing new opportunities and our assessment criteria
   (c) Exploring whether there is a near term opportunity in Stationery

2. How do we improve Postmaster profitability?
   (a) A Post Office procurement ecosystem - with Postmasters, for Postmasters

The ask:

- **The Board is asked to provide its steers, challenges and further considerations on the opportunities outlined and proposed next steps in advance of formal engagement with the market**

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Tab 3.1 Commercial Growth Opportunities

How do we grow Post Office income for the benefit of the business and Postmasters?

Revisiting the McKinsey Big Bets

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A Reminder of the McKinsey Purpose Strategy Growth ('PSG') conclusions

The PSG concluded that we should avoid commercial distractions and focus our limited resources on the Big Bets'

	Big Bets	Comments/programme
Simplify to increase agility and to deliver to customers and postmasters	E1 Right-size the central functions ✓	▪ In train through Organisational Effectiveness
	C1 Redefine the network based on customer needs ✓	▪ In train through Network Strategy **(covered on this Board agenda)**
	C5 Improve supply chain efficiency ✓	▪ SC investing in optimisation initiatives
	D1 Horizon discovery process ✓	▪ SPM **(covered on this Board agenda)**
	C4 C6 Reimagine Postmaster experience and support ✓	▪ In train through PSIP and other programmes
	D2 Enable management information across POL ✓	▪ In train under BTU
Defend the core	B1 Digitise the parcel journey ✓	▪ In train through Mails Strategy **(covered on this Board agenda)**
	C3 In-branch mails automation[4] ✓	▪ In train through Network Strategy
	B2 Mails strategy ✓	▪ In train **(covered on this Board agenda)**
	C4 C2 Invest in growing Banking Framework Business ✓	▪ Banking Framework 3
	B3 Replace BOI ATMs with POL ATMs ✓	▪ In train
Use platform plays as a means to fund our core and to deliver purpose	A3 Develop an SME proposition in FS or more broadly ⏸	▪ Not started - in the opportunity hopper
	B9 Develop a FX transactional proposition ✕	▪ Considered and rejected – there is no appetite from potential providers in the current interest rate environment effect

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Tab 3.1 Commercial Growth Opportunities

McKinsey also posed other ideas: some have been taken forward, others are not material

Key:

Complete/BAU	
Pending	
Dismissed/N/A	

Building an optimal portfolio

1. "Go big or go home" in
   a) **Telco** – retain and invest in Fibre or sell – Done, sale completed
   b) **Identity** – exit, price up and wait vs invest – Yoti partnership
   c) **Insurance** – exit, organic growth, inorganic growth, systems investment – strategy to be revisited in 21/22

Growing new profitable revenue streams

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IRRELEVANT

Defending existing revenue streams

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IRRELEVANT

Achieving cost savings

16. Undertake **review of Ts&Cs challenges** such as MTFS
17. Review **footprint of overhead** functions and relocate to reduce costs - linked to OE/ return to the workplace
18. Transform **central functions** through automation and digitisation (cash forecasting, back office, etc.); potentially creating ServCo

Transforming technology

19. Replace Horizon, shift to **fully cloud based service model** and exit Fujitsu contract - in train, SPM
20. Improve **IT system resilience**, flexibility and cost effectivity (IT strategy etc.) - in train, SPM
21. Build a data collection strategy and leverage its potential value

Improving Agent experience & economics

22. Accelerate the development of and roll-out of automation (e.g. SSKs) to increase branches customer service - in train
23. Develop **two-way cash solutions** in existing branches - in train
24. Apply a **true franchise model** (as in telco) to more product families; bring additional products in-house and take control of customer journeys / data
25. Keep **reducing DMB** branches as per agreed plan - in train
26. Reduce **number of branches to the minimum** needed to **meet government requirements** - no longer applicable, we are seeking to stabilise network reach and formats
27. Redefine **minimum product offering** that each **type of branch needs to meet** - in train through network strategy
28. Revisit **outreach model** (e.g. ringfence)
29. Improve **agent journeys** (e.g., onboarding) and agent management tools (e.g., complete development of Branch Hub) - in train through PSIP, Branch Hub 2.0, etc.

Source: 20200207 Portfolio Big Bets

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Tab 3.1 Commercial Growth Opportunities

How do we grow Post Office income for the benefit of the business and Postmasters?

Capturing new opportunities and our assessment criteria

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Tab 3.1 Commercial Growth Opportunities

Opportunity Assessment

We are developing a **sharper** new product development process to ensure that we do not allow some of the past product distractions to re-emerge...

Step 1 - Strategic considerations	Step 2 - Product Design Principles	Step 3 - Hopper Prioritisation
Once an opportunity has been identified, we will assess across the following strategic considerations:	Product Design Principles must be considered as part of all new opportunities proposed. This will ensure consistency across the organisation and help prioritise opportunities appropriately	Based on the Strategic Considerations and Product Design Principles, we will establish the level of effort required and then place the opportunity in one of the following 3 categories:
Purpose/Right to Play & Risk	**CORE**	**PURSUE**
Postmaster Effort/ Reward	**RANGE**	**ON HOLD**
Capability/Feasibility	**PLATFORM**	**DO NOT PROGRESS**
Commercial Viability/Scale Market Share Potential		

'Core' Products: Mass market products sold face to face by Postmasters - primarily built around Mails, Cash and Banking Services, Bill Payments and Travel

'Range' Products: Additional products and propositions to improve the attractiveness of the PO franchise to existing and prospective Postmasters/franchisees - these drive Postmaster economics either directly (via commission) or indirectly through footfall. Includes Lottery, Retail, Gift Cards, MoneyGram, In-branch ID, Postal Orders

'Platform' Products: Primarily an online product portfolio to drive contribution - includes Insurance, Retail Banking, Digital ID. Flexibility within portfolio to build, maintain or sell assets depending on requirements. Supplier contracts structured to limit required management bandwidth, investment and risks

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Tab 3.1 Commercial Growth Opportunities

Some of the ideas we are pursuing (and some of the ones we have dismissed)

No.	Growth Opportunity	Description	Status	Purpose/ Right to play	Commercial Viability	Risk	Postmaster Effort/reward	Product Design Principle	Feasibility
1			Do not progress	X	X	X	X	Range	Difficult
2			Pursue	✓	✓	✓	✓	Range	Easy*
3			Do not progress	X	X	X	X	Range	Difficult
4			On hold	✓	X	✓	X	Platform	Easy
5	IRRELEVANT	IRRELEVANT	On hold	✓	TBC	✓	✓	Range	Standard
6			Do not progress	✓	X	X	X	Core	Difficult
7			On hold	✓	✓	X	X	Platform	Standard
8			On hold	✓	TBC	✓	✓	Platform	Standard
9			Pursue	✓	✓	✓	✓	Range	Easy
10			On hold	✓	✓	✓	✓	Platform	Standard

* Consideration to NFSP, see slide 12

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Tab 3.1 Commercial Growth Opportunities
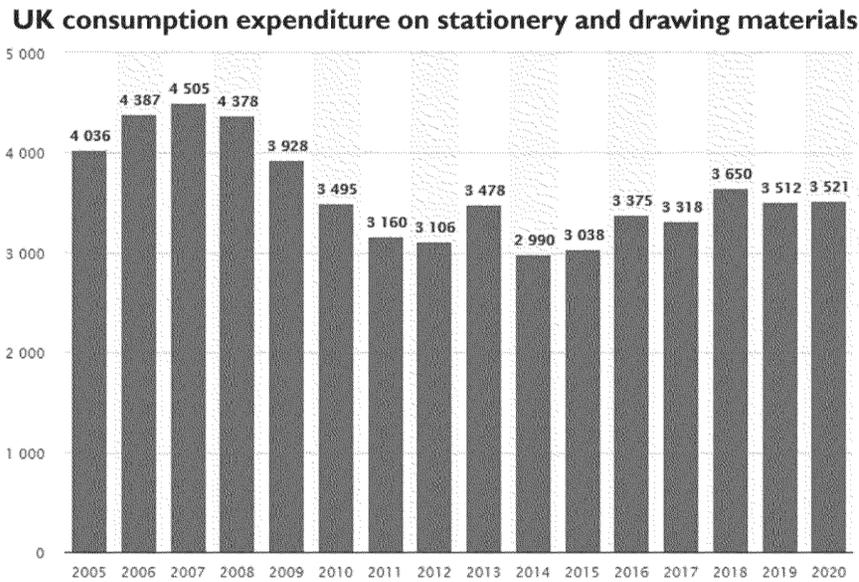
How do we grow Post Office income for the benefit of the business and Postmasters?

Exploring whether there is a near-term opportunity in Stationery

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Tab 3.1 Commercial Growth Opportunities

Despite the pandemic, the stationery market has grown faster than forecast, and in 2020 was worth £3.5bn

UK consumption expenditure on stationery and drawing materials

(Expenditure in million British pounds)

Year	Value
2005	4 036
2006	4 387
2007	4 505
2008	4 378
2009	3 928
2010	3 495
2011	3 160
2012	3 106
2013	3 478
2014	2 990
2015	3 038
2016	3 375
2017	3 318
2018	3 650
2019	3 512
2020	3 521

Stationery: "writing and other office materials" including but not limited to; pens, paper, notepads, and envelopes. It can also include greeting cards, office supplies and packaging such as bubble wrap or Sellotape.

Growth has surpassed expectations and already in 2020, the stationery market was **worth £3.5bn** in the UK
* Australian retailer Smiggle has had rapid success since joining the UK market in 2014, and now has around 140 stores across the UK
* This has eroded market leader WHSmith's market share significantly; in 2010/21, Smiggle's online sales grew 1834% vs WHSmith which grew 68%

Sources: https://salience.co.uk/insight/reports/stationery-and-office-supplies-industry-analysis/ ; Statistica, UK Expenditure on stationery, April 12 2021; https://www.businesswire.com/news/home/20161017006204/en/UK-Stationery-Market-Growth-2.4-CAGR-2021

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Tab 3.1 Commercial Growth Opportunities

Given the market size and brand fit, there is an identifiable opportunity for Post Office to offer a product that is adjacent to its Core offering, and that customers and Postmasters want

Our current stationery proposition is inconsistent and overpriced where present, and otherwise absent across 90% of the network. Post Office DMBs (c114 branches) sell PostPak and PostBox branded packaging (supplied by WHSmith) and stationery (supplied by VOW Retail). The PostPak products make up c83% of DMB stationery/packaging sales per week.

Outside of DMBs, Postmasters have three options to sell stationery products in their branches:
* through VOW Retail
* through an NFSP relationship
* through their own independent sourcing (including from a local cash and carry)

As a business, we do not have the data on how many branches sell stationery through the NFSP relationship or their own independent sourcing; through VOW Retail, there are 1553 active Postmasters (i.e. having placed an order within the past three months) as of June 2021. As these are not Post Office managed processes, there is no Postmaster remuneration linked to stationery

The UK Stationery market is worth over £3.5bn, yet there is no clear "market leader"; this presents an obvious opportunity for Post Office for three key reasons:

* **Reach** – with c11,500 branches across the country, Post Office has the most accessible network in the UK for customers

* **Brand fit** – Stationery and packaging are required to send letters and parcels, so it makes sense that they would be available in post offices

* **Margins** – Stationery is a relatively inexpensive product set with scope for significant mark-up and therefore lucrative margins, which can often be as high as 30-40%"(Retail)

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Tab 3.1 Commercial Growth Opportunities

If Post Office were to offer white-labelled stationery as a customer proposition, there are two operational routes to be considered which impact the sourcing, fulfilment and delivery of the products

- Post Office has an obvious right to play in this market and could potentially do so anywhere on the spectrum, from a light touch model to seeking to become the number one stationery provider in the UK

- This is not a newly recognised opportunity for Post Office, and Postmasters are starting to become vocal about it too, especially because many of them have their own independent arrangements, which are often sub-optimal

- Developing a stationery proposition could be really rewarding for Postmasters. It would allow Post Office to use its buying power to obtain products for Postmasters in a commercially viable way, with the added benefit of Post Office branded products that make for a more consistent offering for our customers

Wholesaler route

Post Office utilises its buying power to offer PO-branded stationery products (including packaging and potentially greeting cards) for Postmasters at a low cost

Postmaster orders stock from Post Office portal online (future integration with Branch Hub feasible)

Order fulfilled by Post Office stock services and delivered through existing logistics model

Order fulfilled by supplier and delivered through new logistics model

Supplier-managed route

- Operating the fulfilment and logistics through existing channels i.e. stock services could be easier as the processes are already established, but equally could put a strain on existing resources and delivery routes

- Using a supplier to manage the process could relieve pressure on our existing systems and supply chain, but could come with unpalatable costs

- We will engage with the market to model both options to assess the attractiveness and commercial viability of each

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Tab 3.1 Commercial Growth Opportunities

How do we grow Post Office income for the benefit of the business and Postmasters?

Example of an opportunity that we have dismissed

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Tab 3.1 Commercial Growth Opportunities

Last year, we explored developing a transactional FX proposition. This option would require a banking licence or partnership with a current account provider. During market engagement, no parties were interested and so our focus for now remains on our pre-paid travel card

Background: Post Office presently does not have a debit FX product and competing in this price competitive segment will need a commercially viable partnership with a current account provider. In July 2020 GE, we took away an action to survey existing providers to test partner appetite. A survey of our Banking partners indicated no appetite for a white-labelled secondary current account. Our market engagement with Mastercard suggested that Prepaid cards are expected to continue as a more commercially sustainable FX card proposition

Banking Partners Survey on white-labelled Debit Card Product:

- We engaged with our current banking partners to understand the feasibility of a white-labelled agency model for a debit/current account FX card. Banks engaged were Barclays, HSBC, Lloyds, Nationwide, Natwest, Santander, TSB, Virgin Money, Starling Bank & Cashplus

- Our survey indicated a lack of appetite to invest into a white-labelled current account proposition. Reasons cited include:
  - Conflict of interest vs their own propositions
  - Lack of management bandwidth or commercial appetite at the current stage

MasterCard Engagement and Card Roadmap:

- Customer research suggests full current account/debit card features are not required to compete in the travel card market

- Our engagement with Mastercard further validated that while the Neobanks & some traditional banks have invested into FX current accounts to enable cross-sell of other banking products, none of these FX propositions are commercially viable on a standalone basis (which is the case with Prepaid)

- **In Summary,** given banking market responses and the low FX margins in the secondary current account, the Group Executive supported our recommendation to de-prioritise the current account proposition, and focus on aligning our portfolio to our Purpose

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Tab 3.1 Commercial Growth Opportunities

How do we improve Postmaster profitability?

A Post Office ecosystem - with Postmasters, for Postmasters

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Tab 3.1 Commercial Growth Opportunities

With Post Office's purpose centred around Postmasters, commercial opportunities are not just about growing Post Office income

Commercial opportunities are very much about **improving Postmaster profitability**. Post Office can support that in two main ways:

- Helping Postmasters run their businesses – whether Post Office or retail – with products and services they need, from insurance to utilities. We're envisioning an ecosystem for Postmasters that brings our purpose to life

- Helping Postmasters grow their business within the local community, such as support with local prospecting, going beyond the support Area Managers offer today – this topic is covered as part of the broader Postmaster engagement strategy, and as such we are not covering it here, but wanted to acknowledge the interlinkage between the two

On the following slides, we will set out what our ecosystem vision could look like, and the different ways in which we could bring it to life

Such an ecosystem can solidify Post Office's place on the high street and keep Postmasters at the heart of communities

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Tab 3.1 Commercial Growth Opportunities
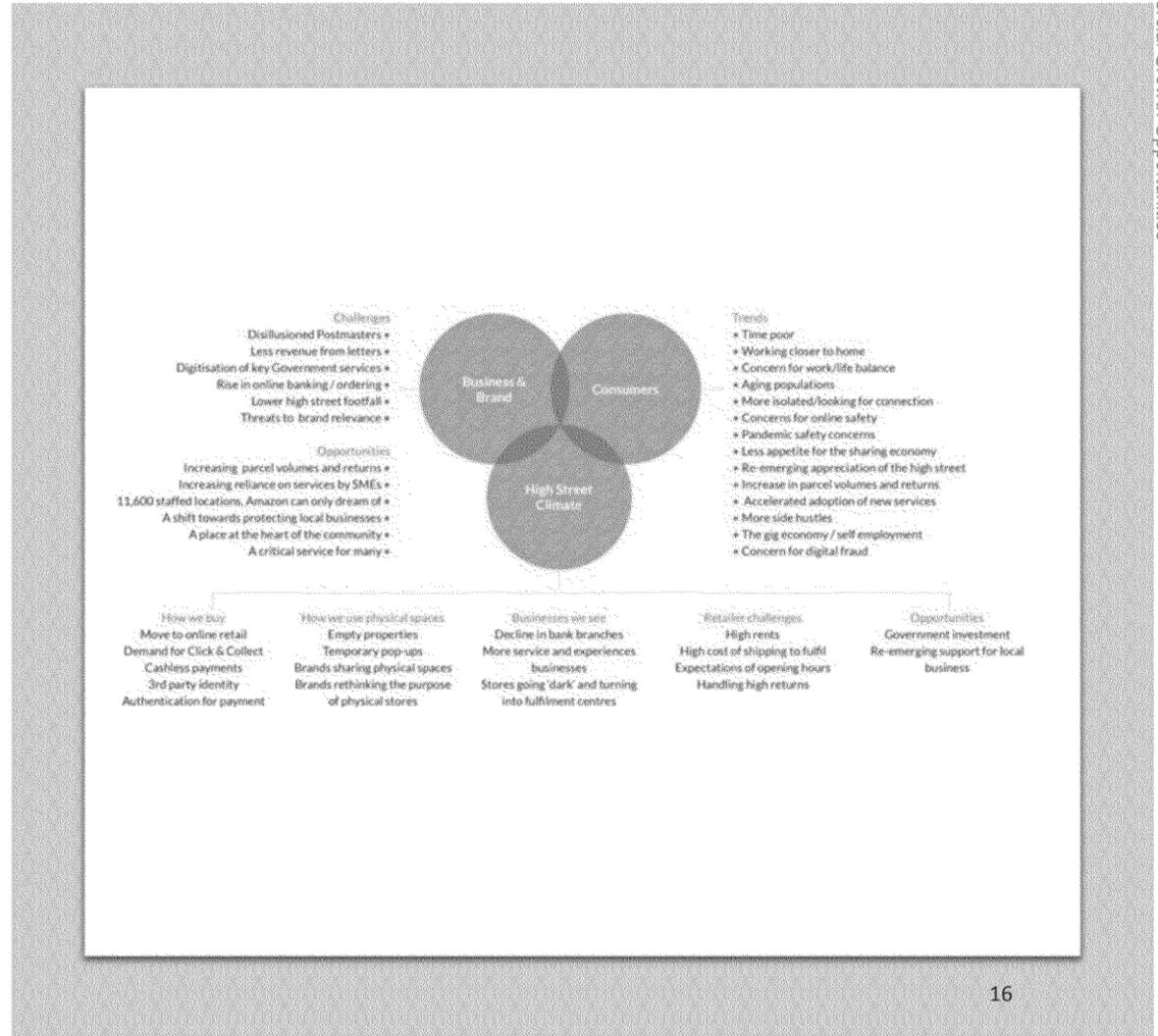
Post Office has an opportunity to support Postmasters in establishing their businesses as the cornerstones of the community, by leveraging its vast buying power and delivering an 'ecosystem' proposition

- Postmasters could benefit from access to support functions and central services that have been procured and negotiated using Post Office's buying power, thus reducing Postmaster costs whilst offering a uniform experience across the network

- Services could include:
    - Utilities: branches need energy, water, broadband
    - Branch fit-out: access to uniform, brand-compliant products i.e. shelving, signage, notice board with the local town crest, furniture – we do this today, but it could be improved
    - Insurance: premises, director's, etc.

- Products could include:
    - Nationally available products for customers such as stationery, confectionery, printing
    - Locally available products / products that are tailored to the local market

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Tab 3.1 Commercial Growth Opportunities
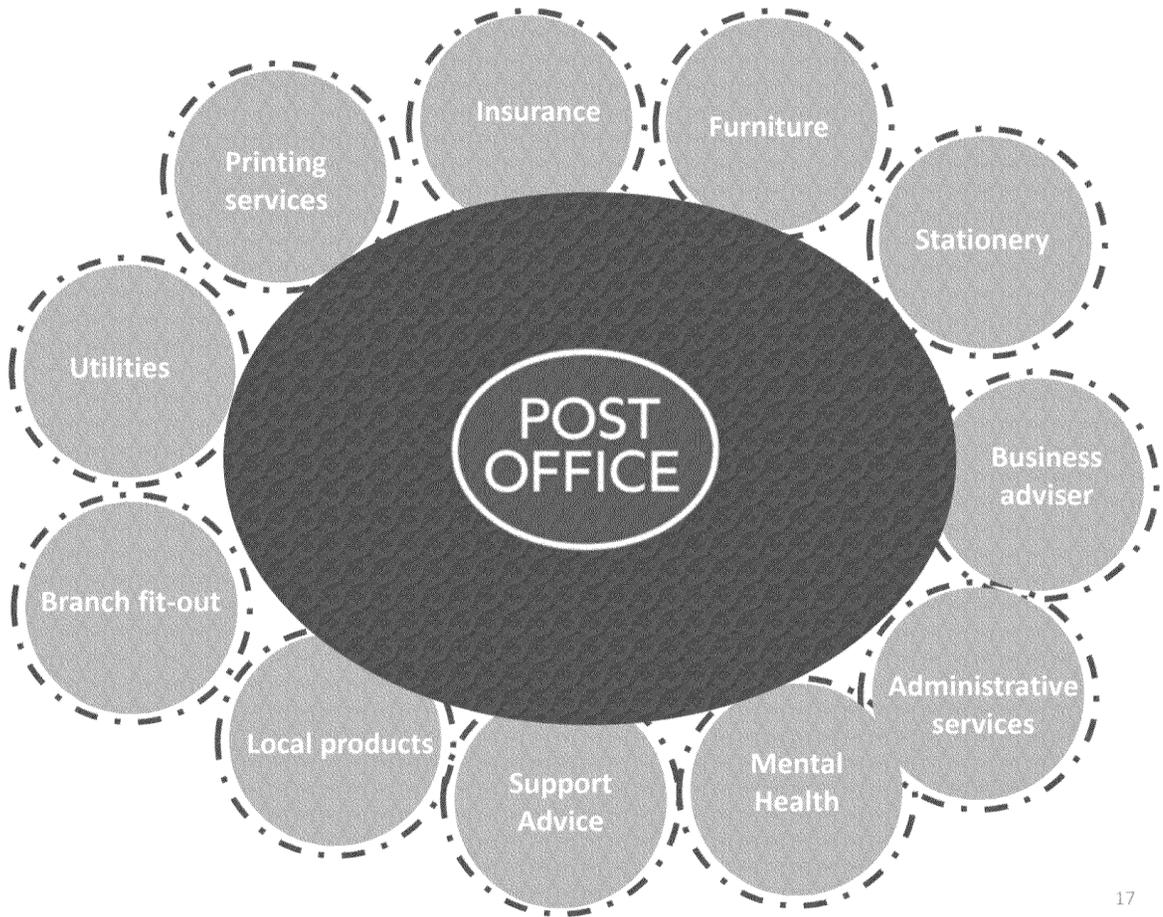
There are three routes to market, all of which are scalable and could be tested through an initial pilot, e.g. a small selective set of products or services rather than a full ecosystem. Post Office setting up the portal in-house would represent the biggest sunk cost

	Description	Pros	Cons	Cost	Ease	Speed
Option 1 - Fully Post Office managed	Post Office sets up the 'portal' using in-house capability, and manages the procurement of vendors and suppliers to plug into the ecosystem	✓ Post Office could maintain control of full end-to-end process and experience	✗ High resource requirements	H	L	L
Option 2 - Post Office managed with 3rd party technical infrastructure	A third party sets up the 'portal' and Post Office manages the procurement of vendors and suppliers to plug into the ecosystem	✓ Post Office could maintain control of procurement of products and services ✓ Would relieve pressure on internal teams to design and deliver technical portal	✗ 3rd party setting-up and managing technical portal is likely to be expensive ✗ Sourcing of portal is likely to be subject to public procurement	H	M	M
Option 3 - Fully managed by 3rd party i.e. buying group	A third party sets up the 'portal' and manages the procurement of vendors and suppliers to plug into the ecosystem, under Post Office's guidance	✓ Post Office would not require (much) internal resource to manage the ecosystem ✓ Post Office could continue to curate products and services and share these requirements with 3rd party ✓ Could be a white labelled "off the shelf" solution	✗ Post Office will not own the relationship directly with the vendors, and may therefore not directly control the negotiating levers ✗ Sourcing of buying group unlikely to be subject to public procurement rules, but could be subject to Concessions regulation depending on the degree of operational risk being transferred to PO	L	H	H

NB: Joint Venture between PO and Postmasters not likely to work due to vast number of Postmasters, and does not serve any benefit, so we have discounted this model at this stage

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Tab 3.1 Commercial Growth Opportunities

There are many instances of Option #3 in the market: we could procure 'off the shelf' capability which we could tailor by curating the products and services, and asking the buying group to procure them for us. Over time, we could deliver the proposition to Postmasters via Branch Hub

- Savewell is a not for profit organisation owned by its Members; by joining, members become part of a community of independent retailers who buy together and share the savings. Any profits are shared amongst its members by way of an annual reward

- Savewell partners with over 1000 Suppliers to bring great savings

- Savewell pays supplier invoices

- Members are charged £30 per annum

HOW IT WORKS

- When members buy, they get a discount made up of "off invoice" and "settlement" discount, that savewell negotiates on behalf of the retailer. Off Invoice is an immediate exclusive member discount taken directly off the invoice at source. The huge savings vary between supplier and product (Warburtons **22% discount** vs. Jacksons stationery **40%**). The settlement discounts are retained before savewell pays the supplier on the retailer's behalf.

⊜ savewell

The national buying group for independent retailers

"**This very special service to retailers has over the years saved us thousands of £'s**"
Savewell Member*

AG BARR INTRODUCTORY OFFER
INTRODUCTORY OFFER
AG BARR

LP WHOLESALE 5% OFF YOUR FIRST ORDER
INTRODUCTORY OFFER
LP WHOLESALE

THE FIRST 50 ORDERS RECEIVE AN EXTRA 5% DISCOUNT
INTRODUCTORY OFFER
BLU STEEL

UK GREETINGS NEW CUSTOMER OFFER
INTRODUCTORY OFFER
UK GREETINGS

UNCLE JOE'S FREE MIXED CASE
INTRODUCTORY OFFER
WILLIAM SANTUS & CO
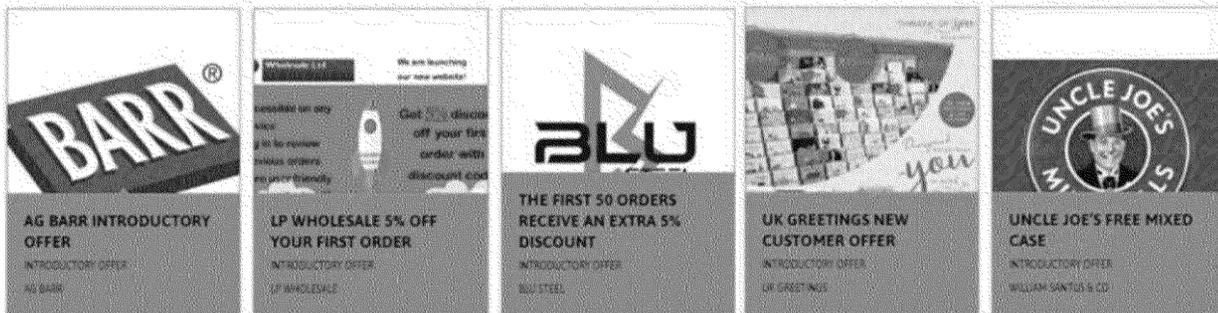
2 TYPES OF MEMBERSHIP

ASSOCIATE MEMBER
As an Associated Member you can join at no additional cost other than the credit check and enjoy the discounts at a slightly reduced rate to that of a full member with no share of the annual reward.

FULL MEMBERSHIP
With Full Membership there is an additional 'Share Purchase' of £50.00 for a single share, which gives you the full discounts available, voting rights plus a share of the annual reward

Source: *https://savewell.co.uk/why-join/

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Tab 3.1 Commercial Growth Opportunities

Other considerations we will need to work through…

- Careful consideration to how such a buying system would work alongside the NFSP, recognising Postmasters appear to see limited value in the Federation offering a proposition of this kind. Whilst legally there do not appear to be any restrictions to PO offering such an ecosystem, it will need to be considered carefully alongside the evolving relationship with the NFSP

- Given the multitude of buying groups already in the market, Option #3 (or a version of) would probably be the most sensible way forward

- Will this be a chargeable service to Postmasters (e.g. via a membership fee), or a value-add PO service?

  - To what extent do we see this as a cost of doing business, and how much of it are we prepared to fund?

  - Do we want vendors to pay a joining fee if we procure and run the ecosystem ourselves?

- We do not currently have the capability to build a proposition like this in-house so our assumption is that any development would be through partnership and outsourced expertise

- Some of these propositions, such as stationery and printing services, could be either a Post Office proposition, or part of a Postmaster ecosystem

  - ➢ Post Office proposition: Stationery as a Post Office product, sourced from a wholesaler and managed by Post Office, or sourced and managed by a third party supplier

  - ➢ Ecosystem: Stationery as one aspect of a wider 'ecosystem' in which Postmasters have access to a variety of products and services, either procured and managed by Post Office, or a buying group

  - ➢ We will lay out the commercials and considerations for each model, and establish the pros and cons for each. We might find that one model benefits Postmasters more, and another benefits Post Office more

  - ➢ **We welcome the Board's initial views on which should take priority**

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Tab 3.1 Commercial Growth Opportunities

Next steps

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Tab 3.1 Commercial Growth Opportunities

We propose the following next steps, subject to the Board's agreement, and will revert in the autumn

New Commercial Opportunities

✓ Market engagement on stationery and printing services to support the creation of high level assessments of commercial viability (as Post Office proposition or Ecosystem offering)

✓ Continue to assess new opportunities against the criteria set out and bring forward business cases as appropriate

Post Office ecosystem

✓ Engage with Postmaster representatives to flesh out the ecosystem and prioritise services within it

✓ Reach out to buying groups to understand what a set-up would look like, including commercials

✓ Work with procurement to understand the simplest route to market

✓ Work with Network to ensure progress is aligned with NFSP engagement

✓ Outline a pilot proposal, incl. setting out roll-out thresholds before we proceed (e.g. minimum % of Postmaster take-up, £max cost to PO, etc.)

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Tab 3.1 Commercial Growth Opportunities

Appendices

POST OFFICE

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Tab 3.1 Commercial Growth Opportunities

Potential customer proposition for document printing (See Opportunity 9 on slide 9)

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Tab 3.1 Commercial Growth Opportunities

Example buying group

If you're a member of Federation of Independent Retailers - than there are no costs to access several buying groups

Federation of Independent Retailers - Join today from just £5.95 per week plus VAT.
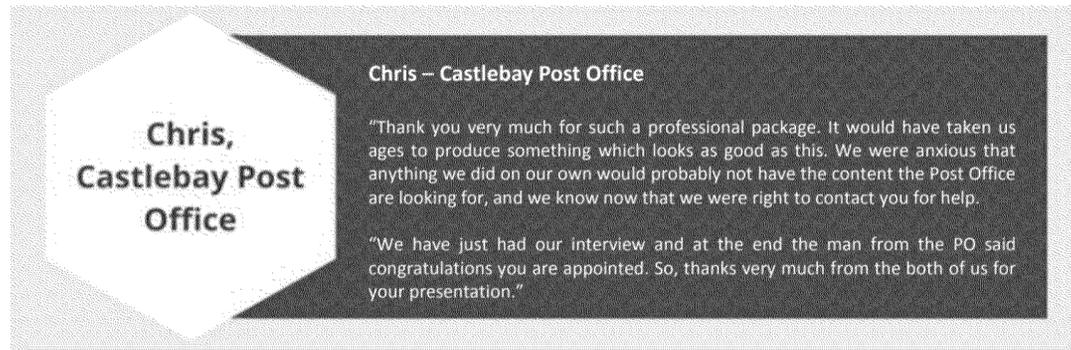
- Being part of the membership gives you access to a range of benefits, resources and support that can deliver an annual saving of **£3,897***

- Federation of Independent Retailers exists to help independent retailers compete more effectively in today's ever tougher market.

- Federation of Independent Retailers practical help, commercial support and exclusive deals are designed to make a measurable difference to a business. Businesses are also complemented by Federation of Independent Retailers training, expertise and support services.

- Circa 15,000 independent stores across the UK and Ireland have already joined up – making Federation of Independent Retailers one of Europe's largest retail trading associations.

A powerful voice for good

- Federation of Independent Retailers don't just offer great deals. They also represent retailers interests at governmental and parliamentary level. They are the official government referral body for the sector and a powerful voice for the independent retailer.

Our members are spread across a range of different sectors.
They include:

- Newsagents
- Convenience stores
- Confectioners
- Florists
- Petrol forecourts
- News deliverers
- Off-licences
- Post Offices
- Vape shops
- Coffee shops
- Card and stationery shops

Chris, Castlebay Post Office

Chris – Castlebay Post Office

"Thank you very much for such a professional package. It would have taken us ages to produce something which looks as good as this. We were anxious that anything we did on our own would probably not have the content the Post Office are looking for, and we know now that we were right to contact you for help.

"We have just had our interview and at the end the man from the PO said congratulations you are appointed. So, thanks very much from the both of us for your presentation."

Source: *https://thefedonline.com/

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POST OFFICE

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BOARD REPORT

3.2

Title:	Mails Strategy	Meeting Date:	28th July 2021
Author:	Chrysanthy Pispinis, Commercial Strategy and Planning Director	Sponsor:	Owen Woodley, Group Chief Commercial Officer

Input Sought

The Board is asked to review the pre-read materials and:

- Note the evolving market and competitive dynamics in the Mails market (Section II)
- Note the position around the Mails automation and process improvements for customers and Postmasters (Section IV)
- Discuss and provide its steers and challenges on the options laid out in Section III
- Support the proposed next steps (Section V)

Questions addressed in this report:

- What is the context for our review?
- How do we face into online migration and multi-channel mails?
- How are we enhancing our proposition for customers and Postmasters?

The Appendix sets out the questions raised by NEDs as part of our pre-engagement sessions.

What is the context for our review?

1. In the April 2020 Board meeting, an evaluation of Post Office's proposed new deal with Royal Mail ("MDA2") and a broader strategic assessment from McKinsey were presented. Both were approved and have moved to implementation
   a. **IRRELEVANT**
   b. **IRRELEVANT**

2. Over the last year, the strategic threats have not changed, but they have intensified:
   a. Covid has increased the PUDO market opportunity, with competitors accelerating the rollout of capability to match customer demand
   b. **IRRELEVANT**

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Tab 3.2 Mails Strategy

POST OFFICE

3. The PUDO scope to date has focused on opportunities at the final stages of E-Commerce customer journeys: Click & Collect, Undeliverables and Returns

4. Our strategic choices are within the context we have just laid out, i.e. PO will continue to sell RMG products in line with MDA2, and PO will continue to develop PUDO aligned to the scope above

3.2

How do we face into online migration and multi-channel mails?

5. We could choose to develop PUDO even further; this is what we have termed 'Full PUDO', i.e. including the acceptance of parcels where postage has been bought online

6. This is inextricably linked with a broader, existential question: Should PO offer to sell mails online, and if yes, how and when? PO has 3 options to sell postage online:
   a. Sell RMG products online
   b. Sell online for selected carriers, as an online aggregator
   c. Launch PO as a white-labelled Mails carrier (offering postage sales in branch and online)

We have dismissed selling RMG products online as it is value-destructive; the second and third options, Online aggregator and White label mails, have implications for Post Office income, profitability, and Postmaster remuneration, and they are interlinked with Full PUDO.

7. The pre-read materials set out the strategic options for Post Office to embrace multi-channel mails and key considerations, including directional financial implications, operational considerations and likely RMG reactions

How are we enhancing our proposition for customers and Postmasters?

8. We are digitising and automating our mails journeys to improve our customer and Postmaster proposition, and to support Postmaster profitability. This latter point links to the network sustainability challenge, also being covered at the Strategy Board away day.

9. We are enhancing the journeys using known Postmaster pain points to inform our prioritisation and recognising different Postmaster needs. Key areas of investment focus include:
   a. Improvements to our Drop & Go proposition, with a comprehensive change roadmap
   b. SPM implementation: we are using the opportunities offered by SPM to re-imagine the mails journeys and reduce transaction times, thus also supporting Postmaster profitability
   c. In-branch Automation: working with Network strategy, we are considering a segmented view of our network to enhance the mails proposition in the higher volume mails branches

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Appendix: Specific questions raised by NEDs

<u>On Mails:</u>
1. Explain each of the options in more detail, what the operational implications are, and the extent to which the options are mutually exclusive - we have considered this throughout the pre-read material and will expand in the session

2. Explain how we will price our different strategic options to carriers - more work will be required in this space, depending on the strategic direction we choose and ongoing carrier conversations: we will include full detail/rationale in any subsequent business case requests

3. Explain whether VAT receipts are included in the Drop & Go improvements roadmap - this has been identified on the Drop & Go backlog list alongside many other improvements: we are now undertaking research with marketplace sellers to establish how many are VAT registered and therefore to determine the prioritisation required for a fix via Fujitsu and RMG

<u>On broader PO commercials and sustainability</u>
1. We need to frame all our strategic options in the context and constraints we are operating within, i.e. limited cash to invest, maintaining 11,500 branches and the associated costs etc - this is being considered as part of our funding submission.

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Tab 3.2 Mails Strategy

Mails Strategy

Board Strategy Day

28th July 2021

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Tab 3.2 Mails Strategy

Preface: the mails value chain

I. Executive Summary

II. Market context and our competitive positioning

III. Embracing multi-channel mails
A. Full PUDO incl. online acceptance
B. Online aggregator and e-commerce integration
C. A different position in the value chain

IV. Enhancing our proposition for customers and postmasters
A. Drop & Go
B. SPM
C. Automation, incl. self-serve and adapting our proposition to formats

V. Option summary and recommendations

Appendices

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3.2

Tab 3.2 Mails Strategy

The stark context of our strategic review

- Mails represents **IRRELEVANT** of Postmaster remuneration

- Our **IRRELEVANT** with **IRRELEVANT** **IRRELEVANT**

IRRELEVANT

- Historically, the Post Office retail network has operated as a sales and acceptance network - exclusively for Royal Mail Group ('RMG') up until MDA2 - with knowledge of RMG products being a key differentiator

- Whilst social mails continue to decline in volume and value, the parcels market continues to grow in volume, fuelled by marketplace sellers and e-commerce

- Online customer migration in mails is attacking the core of our differentiator; with marketplace sellers buying postage online, **IRRELEVANT**

IRRELEVANT

- The 'acceptance only' ratio has doubled in two years; if the trend of the last year continues - and all other things being equal - **IRRELEVANT**

IRRELEVANT

Note: Commission per unit based on 2021/22 Wk1-8 data and product mix

IRRELEVANT
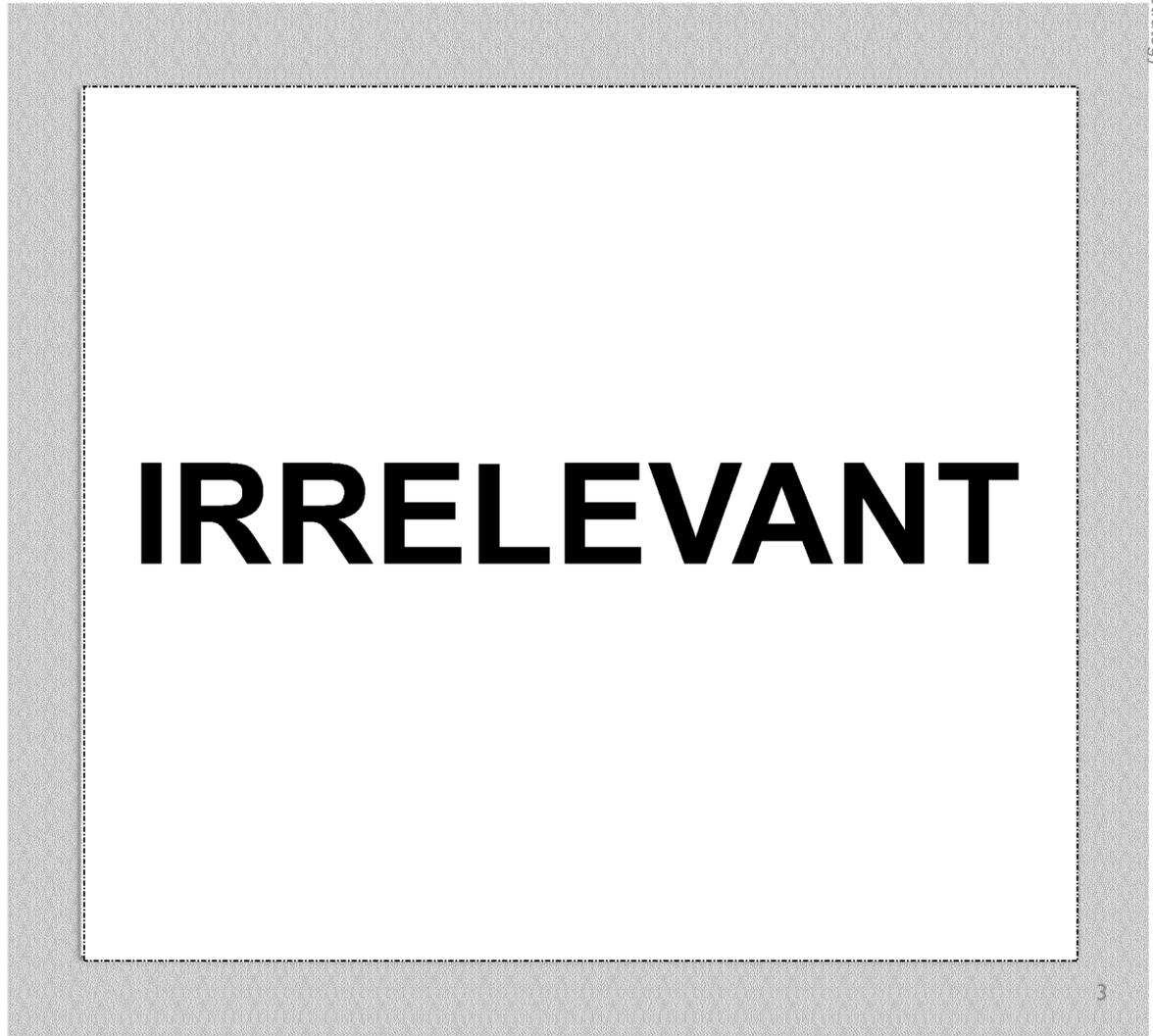
A reminder of our dual mails strategy: Maintain our market-leading positions in Social and Marketplace segments, and grow in attractive E-commerce services (PUDO)

Our dual mails strategy is to:

1. **Maintain market-leading positions in Social and Marketplace segments.** Achieved by:
   a) Embedding the MDA2 contract
   b) Ongoing improvements to our customer and Postmaster journeys
   c) Improving Marketplace drop-off acceptance services (via Pick Up Drop Off programme)

2. **Grow in attractive e-commerce services** where Post Office is under-represented, leveraging post MDA2 contractual freedoms. This requires:
   a) Maintaining our existing PUDO business, incl. RMG, Asos
   b) Expanding client base beyond RMG e.g. Amazon, Hermes
   c) Extending product range to include 'undeliverables'
   d) Increasing reach through more outlets
   e) Ongoing improvements to our customer and Postmaster journeys

IRRELEVANT
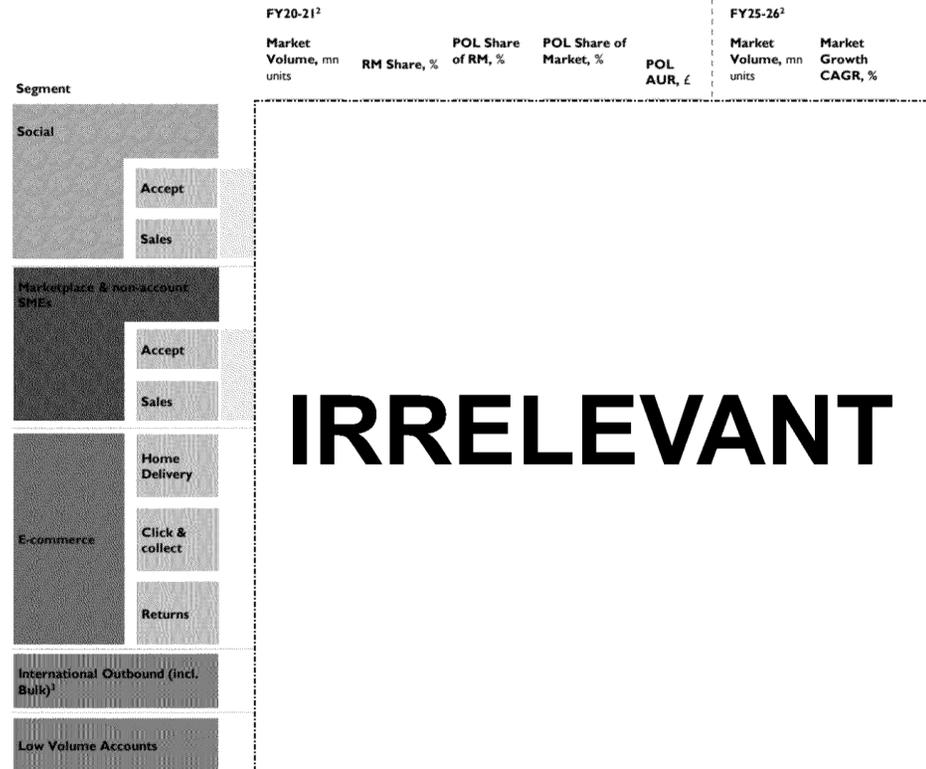
Notes:
1 Average Unit Retail (AUR) is the average £ amount spent for a particular type of item, calculated by dividing the total sales in £s by the number of items sold
2 Large Letters and parcels, excluding letters. Inflation modelled in AUR on CPI for accept and ½ CPI for Sales
3 International parcels not included as a growth strategy, but additional opportunities for future consideration
4 Model aligned to FY19-20 actual volumes and MDA AURs post deal implementation in FY21-22

Strictly Confidential   Source: Team analysis based on OFCOM, RM FY results, IMRG and POL Flightpath

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3.2

Tab 3.2 Mails Strategy

PO has the right to play in three segments of the Mails market: Social, Marketplace and E-commerce. To date, PO has focused on the journey stages that utilise the physical reach of Postmasters

Mails items are transported from physical locations 'A' to 'B' (and sometimes returned back to 'A'). Value is added at multiple stages

Mails carriers e.g. Royal Mail, Hermes, Amazon have ultimate ownership of E2E logistics, product, pricing and customer data

| Purchase postage | Drop off acceptance | Mails Logistics | Pick up • Click and Collect • Undeliverables | Drop off returns |

Physical location 'A'   **Physical location 'B'**
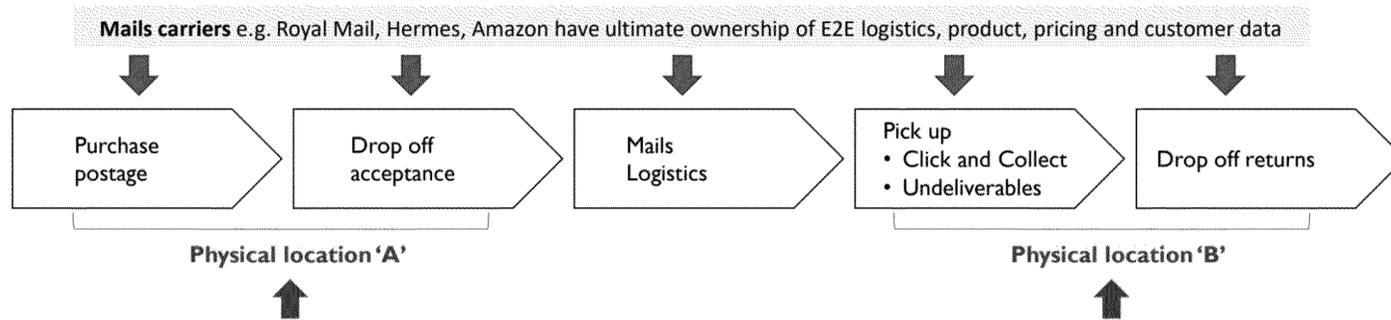
Network Providers e.g. Post Office, Collect +, Asda, Coop provide carriers with physical stores, lockers, pick up and drop off points (and, in the case of Post Office, sales support)

PO activities are focused on letters, large letters and parcels, utilising the physical reach of Postmasters, for the following key segments:

- **Social** - postage purchased and drop off on items sent by consumers to friends, family or businesses

- **Marketplace** - items sent by an SME or individual which include postage as part of the purchase, where the sender lacks sufficient scale to hold direct contracts with carriers and has therefore either purchased the postage online or in a physical location and has to drop the item off

- **E-commerce** - items sent by businesses which include postage as part of the purchase, where the sender operates at sufficient scale to operate a contract directly with a carrier including the delivery logistics, therefore with PUDO potential

Other segments exist where Post Office has limited or no 'right to play' e.g. the bulk Mails market, heavy parcels

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3.2

Tab 3.2 Mails Strategy

Our decisions last year focused on E-Commerce opportunities in the latter stages of the customer journey and our PUDO programme is delivering an expanded range of services through new carriers

	Purchase postage	Drop off acceptance	Mails Logistics	Pick up • Click and Collect • Undeliverables	Drop off returns	% of current PO Mails income 1
Social e.g. birthday cards				Undelivered only	n/a	29%
Marketplace e.g. eBay sales				Undelivered only	n/a	53%
E-commerce e.g. ASOS returns						18%
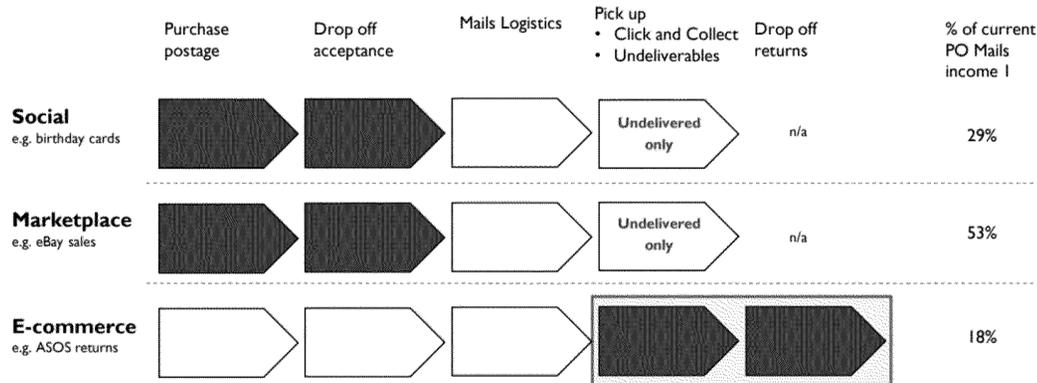
We are under-represented in E-commerce but have a right to play and we are seeking to deliver growth through our PUDO programme. The following three activities are <u>currently</u> in scope for PUDO - a Full PUDO proposition would also include Online Acceptance for Marketplace sellers which we are considering as part of our strategic options…

Click & Collect 1

- PO current market share 10%
- Operationally simple and consistent with existing offer
- Minimal impact on agent and improves agent proposition
- Economically and environmentally attractive to consumers, carriers and retailers

Undeliverables 2

- Operationally similar to accepting Click & Collect
- Large market in which PO currently does not operate
- Carriers can consolidate and avoid costly redeliveries

Returns 3

- Over 55% of market is currently non-RM
- Simple scan-in acceptance interaction
- Increases convenience and maintains relevance to younger demographic

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3.2

Tab 3.2 Mails Strategy

POL Board Strategy Day 2 - 28 July 2021-28/07/21

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Maintaining our share in Marketplace is an ambitious target, and our biggest challenge: customer needs are evolving, and our competitors have different business models, presenting opportunities and threats

	Purchase postage	Drop off acceptance	Mails Logistics	Pick up • Click and Collect • Undeliverables	Drop off returns	% of current PO Mails income 1
Social e.g. birthday cards	▶	▶	▷	Undelivered only	n/a	
Marketplace e.g. eBay sales	▶	▶	▷	Undelivered only	n/a	IRRELEVANT
E-commerce e.g. ASOS returns	▷	▷	▷	▶	▶	
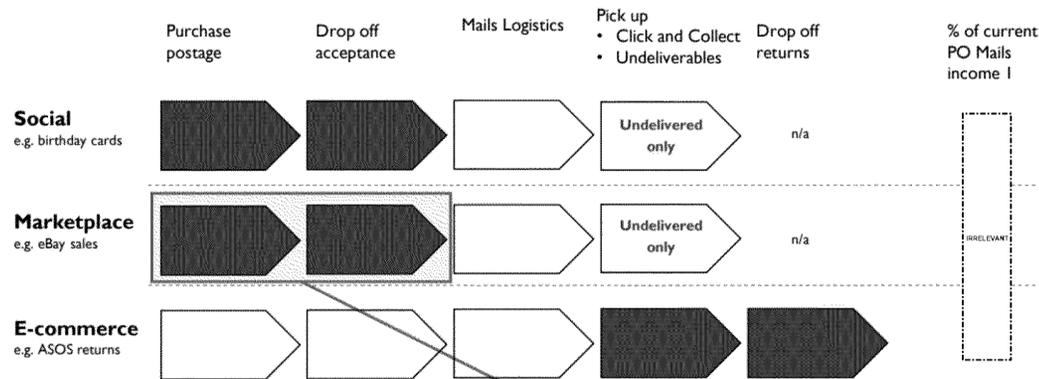
Marketplace customers are increasingly:
- researching pricing online
- establishing online accounts to purchase postage
- integrating customer delivery data with upstream platforms e.g. eBay, Amazon
- using online portals to manage parcel delivery tracking

PO's Drop & Go service reduces customer effort as weighing, sizing up and printing of labels is processed by branch staff and Postmasters. This service requires significant manual effort **and falls short of competitor processes and pricing**

This paper considers options to sell postage online and/or expand our PUDO plans to add new drop off acceptance carriers, as well as improving our processes for customers and Postmasters

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3.2

Tab 3.2 Mails Strategy

While still the market leader by revenue, RMG has lost share in the parcels segment of the Mails market in recent years, primarily to Amazon Logistics, Hermes and DPD

UK parcels market comparative share of revenue by carrier

Total market value 2013
£7.64bn

Total market value 2019
£11.09bn

	CAGR 2013-2019
Royal Mail Group (inc. sales through PO)	2.9%
Amazon Logistics	79.1%
UPS	5.9%
DHL Group	7.9%
DPD Group	12.9%
Fedex/TNT	-0.1%
Hermes	15.4%
Yodel	1.3%
Others	-12.0%
Total	6.4%
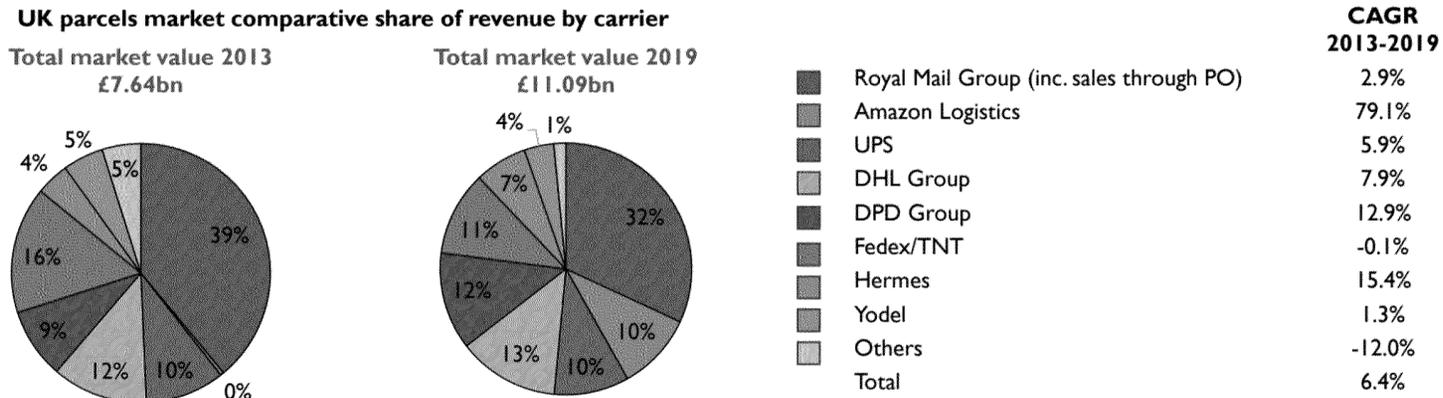
- As market leader, **Royal Mail's growth has lagged the overall parcels market. Growth has been constrained since 2013 by Amazon's decision to insource a significant proportion of its own volumes.**

- **PO represented** [IRRELEVANT] **of overall RMG parcels volume in 2020, but a lower percentage in terms of value**

- **Amazon Logistics has emerged as a leading carrier**, with its gains initially balancing RMG losses. Since 2015, **Amazon has opened its logistics network to Marketplace sellers**, offering them next day delivery for a competitive price of c.£2.50 / parcel. Amazon has recently taken **further steps towards being a full-service carrier**, launching Shipping with Amazon to medium-sized shippers such as eBay sellers sending more than 20 parcels a day. Although Amazon does not state its ambition with its logistics service, it **may become fully vertically integrated, managing all its own deliveries via its flexible network of third-party couriers, using external customers to maintain high utilisation**

- Hermes' **long-term success has been based on its low-cost delivery model**, which has positioned it as a **leading carrier at the economy end of the e-commerce delivery segment**. It has **grown its share with marketplace sellers through its ParcelShop network** and has won business from large online retailers primarily at the expense of Yodel. It is **increasingly providing premium features such as tracking, label printing and re-direction services as part of its economy service offering**

- DPD Group has positioned itself as the **leader at the premium end of the e-commerce parcel segment**, having pioneered the introduction of technology to enhance its service levels. These innovations and enhancements have enabled it to create a virtuous circle gaining market share, while its price premium has supported further investment enabling growth

Note: Apex Insight's definition of the Parcels market data includes all domestic and international parcels, but excludes Large Letters and downstream access volumes

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Tab 3.2 Mails Strategy

POST OFFICE

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Executive summary

Recap of our Mails ambition and strategy:
- Our ambition for mails is to **remain the #1 destination for mails & parcels for consumers and small businesses, and being the mails retailer of choice for Postmasters and Strategic Partners**
- Our dual mails strategy is to **maintain our market-leading positions in Social and Marketplace segments, and grow in attractive E-commerce services (PUDO)**
- McKinsey was engaged in 2020 for a strategic review of Mails; **the Board supported the trajectory we are on**:
  - the recommendation of 'winning in PUDO', which is now in implementation
  - the signing of MDA2, a 10-year distribution agreement with RMG

What has changed in the last year
- Externally, trends have accelerated: RMG, and as a result PO, are losing share amidst intensifying competition; the parcels market continues to grow in volume, but the winners are the players who can drive the best operational efficiencies
- Internally, MDA2 is now a reality, and we are implementing PUDO. Our purpose and reorientation towards Postmasters, and our 2025 strategic intent, all mean that what we have in plan is not enough to deliver our ambition
- We now need to focus further on **improving the mails experience for customers and Postmasters, and growing profitability for Postmasters**

The two truths we need to address:
1. Our Marketplace share is under threat
2. We need to face into online migration for the long-term sustainability of our business

The questions we need to answer:
1. **How do we embrace multi-channel Mails?**
   - Not embracing online is not a viable option for the long-term sustainability of the Post Office; but the transition will be difficult, with consequences for Post Office and Postmasters. The question for Post Office is when and how we do so
2. **How can we enhance our proposition for customers and Postmasters?**
   - Digitising and automating to improve our customer and Postmaster proposition, and improve Postmaster profitability
3. **What are our choices and recommendations?**

Whatever direction we take, it will be absolutely critical to ensure that we help Postmasters understand the wider market movements, the reasons for our strategic responses, and our plans to mitigate the impacts on our Network along the way.

The ask:
- The Board is asked to note the content and provide its steers and challenges; specifically, noting our proposed plans to digitise Mails journeys in Section IV, and providing its steers and challenges on the options laid out in Section III
- The Board is asked to endorse our recommended next steps

3.2

Tab 3.2 Mails Strategy

Although conceptually our options are not mutually exclusive, they are operationally and contractually inter-linked to the extent that Post Office will need to make choices

Please note: This decision tree denotes complexities of different directions of travel for Post Office's mails business, to highlight the decisions to be made, and the consequences of each outcome. This is demonstrated at a high-level; **there are different flavours and nuances within each of the three outcomes.** This does not show outcomes that are part of the 3YP, such as Drop & Go enhancements, or 'no regrets' activities that improve Postmaster profitability

MDA2: Constant over next 10 years (volume will partly depend on actions Post Office takes)

A **Full PUDO (incl. online acceptance)**
- Current PUDO scope, plus accepting parcels where postage has been bought online
- New carriers offset drop in Postmaster remuneration driven by an increasingly acceptance-only model

Post Office's current PUDO trajectory → Click & Collect, Undeliverables & Returns

Now

Options A and B are potentially complementary

Option C could establish significant practical and commercial barriers to delivering Options A or B

B **Offer an online mails aggregator**
- Online purchase of postage enables PO to compete more effectively for Marketplace sellers, but reduces PO income and Postmaster remuneration
- Adds a layer of complexity and requires multiple carrier relationships

C **Become a white-labelled mails 'carrier'**
- PO sets the product and price, and gets closer to customer 'ownership' - giving PO a different position in the value chain
- White-label partnership with a new carrier

● = decision point

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Tab 3.2 Mails Strategy

Online aggregator (Option B) is dependent on Full PUDO (Option A); in practice, white-labelled carrier (Option C) is unlikely to be optimal alongside Options A & B, although it will depend on the carrier

Option B (Online aggregator) is commercially dependent on Option A (Full PUDO)

- Option B would cannibalise existing PO in-branch business, earning PO a commission for selling online. If this cannibalised business does not subsequently result in significant drop-off acceptance volumes for Postmasters (via Option A – Full PUDO), the aggregator business model is highly unlikely to be commercially viable. In other words, PO would require a market-beating premium for selling online, to offset the opportunity cost of cannibalising PO branch volumes

Option C (white-labelled carrier) could be progressed in parallel to Full PUDO and Online aggregator, but the constraints Post Office is operating within mean that we are minded to recommend the business makes a choice for optimal return

Option C requires a significant up-front investment, to establish a book of valuable Marketplace customer relationships

- If PO launches a white-label mails proposition, essentially 'owning' product and pricing, then it would not want to also offer full PUDO or become an online mails aggregator, because the latter two would directly compete with the Post Office 'white label' mails products. This would dilute the return on our significant investment (and/or our partner's investment)

Option C also requires a partner with sufficient capabilities, willing to share more value than existing MDA2 product economics whilst ceding control of customer data to PO. Assuming such a carrier exists, PO could offer in return:

- Access to existing in-branch parcels volumes, currently provided by RM
- PO brand equity
- Access to 11,500 branches

If Full PUDO (Option A) was also available (rather than offering branch access), the potential partner would have a choice. Under Option A the partner could extend its existing distribution model, share less value with PO, reduce required investment and keep ownership of customer relationships. Whilst in theory a partner may still decide to choose Option C in this scenario for access to higher volume and brand, it would not need to do so for physical access. This will of course depend on the partner, so we will explore the likelihood of these options operating in parallel in our carrier discussions

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Tab 3.2 Mails Strategy

Covid has accelerated the market trends seen previously, but has not altered the direction of travel: competition continues to intensify, and parcels volumes are growing

PO progress on strategic implementation:

✓ MDA2 has now been signed and in implementation from March 2021

✓ PUDO is also in delivery with the Amazon pilot live since March 2021 and a second carrier, DPD, expected to go live by September 2021

External changes impacting our markets

* Covid has driven volume growth but also intensified competition - key dimensions are i) process and ii) price

* The post-Covid opportunity increased, with competitors accelerating the rollout of capability to match customer demand. In 2020, e-commerce grew 46% vs 2019, the largest annual increase since 2008. We are now seeing this growth taper (see following slide)

* Launched in October 2020, RMG's Parcel Collect service run rate is 5m items for 2021. RMG aims to grow the service to 50m items p.a. Additional cost (on top of postage) is 72p per parcel for a maximum of 5 parcels, dropping to 60p for pre-paid returns. The total addressable market for doorstep pick-ups is currently estimated by the company to be 61m items p.a.

* ## IRRELEVANT

Royal Mail: a new dynamic in a non-exclusive world
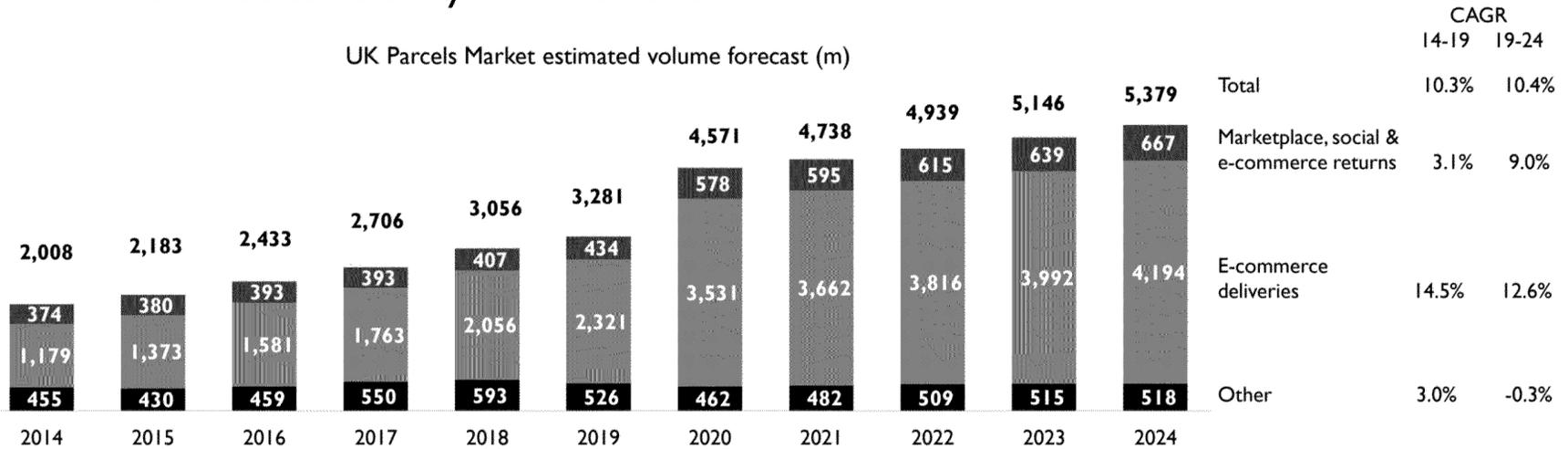
* RMG responses post-MDA2 agreement are now 'real' rather than theoretical. Applying MDA2, on a like-for-like volume basis, PO has earned **IRRELEVANT**

* In an effort to reduce its costs, **RMG has stepped up its** **IRRELEVANT** RMG is migrating high-volume customers online, thus only paying PO for in-branch acceptance, rather than sales and acceptance.

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Tab 3.2 Mails Strategy

Marketplace & Social market segment growth has lagged the wider E-commerce delivery market, despite the growth of online shopping returns. Following a significant uplift during Covid, the market outlook remains uncertain due to volatility in online demand

UK Parcels Market estimated volume forecast (m)

	CAGR 14-19	CAGR 19-24
Total	10.3%	10.4%
Marketplace, social & e-commerce returns	3.1%	9.0%
E-commerce deliveries	14.5%	12.6%
Other	3.0%	-0.3%

Chart data (stacked bars, m):

Year	Total	Marketplace/social/returns	E-commerce deliveries	Other
2014	2,008	374	1,179	455
2015	2,183	380	1,373	430
2016	2,433	393	1,581	459
2017	2,706	393	1,763	550
2018	3,056	407	2,056	593
2019	3,281	434	2,321	526
2020	4,571	578	3,531	462
2021	4,738	595	3,662	482
2022	4,939	615	3,816	509
2023	5,146	639	3,992	515
2024	5,379	667	4,194	518

- During the pandemic, significant e-commerce parcels and returns growth has been driven by government lockdown measures. Volatility has meant that in-year and longer-term forecasting is extremely difficult. **On the one hand, significant spending could revert to a reopened high street, but on the other, the high street may never recover from 2020 closures, with online growth being more rapid than predicted**

- **Year-on-year growth comparisons from industry bodies such as IMRG and BRC indicate a slowing of online sales growth from May 2021 onwards**. This is partly due to lapping exceptionally high online growth in the first lockdown of 2020 when all but essential physical stores were shut and stay-at-home measures were first implemented

- Apex Insight's parcels model assumes that parcels volume growth will moderate from the second half of 2021 onwards as lockdown eases. However, due to the ongoing market dynamics, all data should be used indicatively

- **Parcel volumes, rather than price increases, are expected to be the main driver of growth for all segments** – historically there has been little like-for-like price movement and changes in mix leading to an **overall reduction in average revenue per parcel**

- Apex Insight forecasts growth in the Marketplace & social segment based on a larger volume of e-commerce returns. Note that e-commerce returns exclude items that are returned directly to the retailer in-store. Other categories of the Marketplace & social segment are likely to either remain at similar levels (Marketplace sales) or decline (social parcels)

Source: Apex Insight UK Parcels Market, 2020

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Tab 3.2 Mails Strategy

Heavy sellers represent an increasing share of overall Marketplace volumes, while light sellers make up more of PO volumes compared to last year - there is a shift towards newer, younger sellers with higher delivery expectations, as they are more reliant on Marketplace selling as their primary income source

Marketplace Parcels / Large Letter share by seller profile Q4 20/21 (vs Q4 19/20)

Heavy sellers (>11 items / month)
Moderate sellers (6-10 items / month)
Light sellers (1-5 items / month)

Note the mean number of parcels / LL sent is with the individual provider
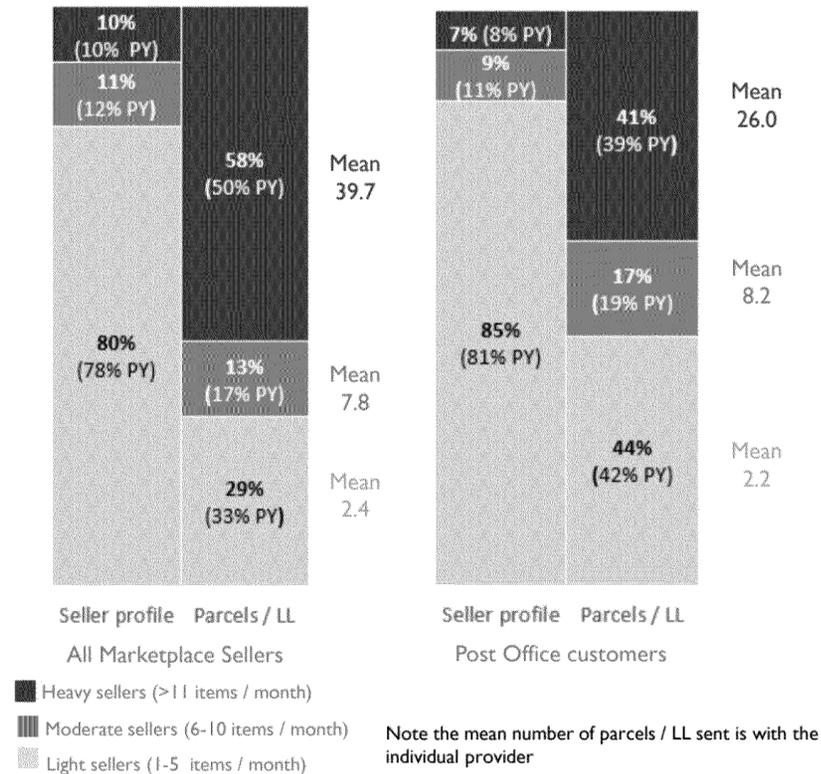
Importance of delivery provider features

Newer MPS (<1yr)   Total MPS

Source: Royal Mail MPS Q4, May 2021

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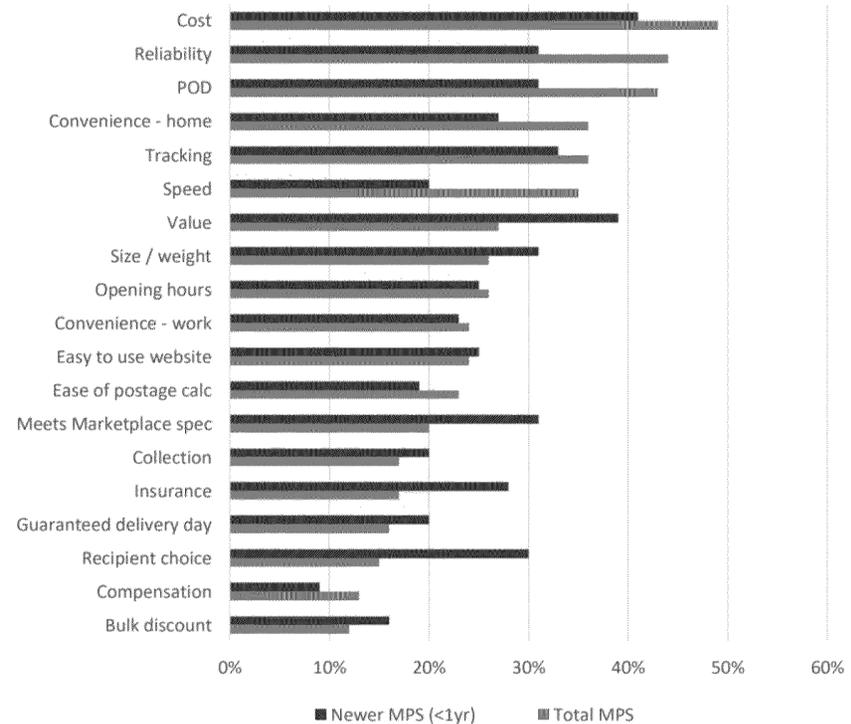
Our flagship proposition for Marketplace sellers, Drop & Go, is not competitive on process or price: it offers less digital functionality, with higher entry price points and less incentivisation to grow volumes

	Drop & Go	Click & Drop	myHermes	collect+
Purchase Postage	- Create account in-branch or online - Upload CSV to manifest - Auto account top-up if enabled	- Create account online/app - Payment via PayPal / CC or OBA account - Upload CSV to manifest - API with several marketplace platforms	- Create account online/app - Payment via CC or Hermes credit account - Bulk upload CSV - API with several marketplace platforms	- Send service either via Parcel2Go or Delivered by Yodel - Delivered by Yodel only - create account online, upload CSV to manifest, integration with eBay & Amazon platforms
Drop off process	- More complex in-store process - Dedicated fast-track counter - No parcel collection - Label creation in branch only - No self-serve option - PO opening hours	- Less complex drop-off process - Drop off at parcel post-box, RM CSP or Post Office or RM collection - Label creation online/print at home - Labels to go QR code /print in branch - Postboxes 24/7, CSP & PO opening hours	- Simple in-store process - Drop off at parcel shop or InPost Locker - Label creation online/print at home or in-branch	- Simple in-store process - Drop off at Collect+ store serviced by selected carrier - Label creation online/print at home or in-branch - Open 7 days/week
Delivery services	- Entry price/parcel £3.20 - Untracked, signed-for and Special Delivery, International - Royal Mail labels	- Entry price/parcel £3.00 (online) - Untracked, signed-for, Special Delivery, Tracked 24/48, International - Manage product catalogue online - Live chat / helpdesk	- Entry price/parcel £2.66 (postable, no signature) - Postable, Economy, Next Day, International - Divert parcel in-flight - Helpdesk with local call-back	- Entry price/parcel £2.79 (Yodel) - Next day or 2-3 day - 24hr customer service
Tracking	- Tracking number shared on account if selected - Signature / POD	- Orders with tracking numbers visible in Order page with link to Track & Trace	- Free parcel tracking on all service	- Free parcel tracking on all services
Discount	- No bulk discount	- OBA bulk discounts on multiple orders manifested at once	- Business account discount >150 parcels/week	- Up to 10% discount Yodel volume rewards
Locations	- 11,000	- 14,000	- 5,000	- 10,500

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See Appendix for a more detailed analysis of Drop & Go against RMG's Click & Drop

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Tab 3.2 Mails Strategy

Operational efficiency and network economies are the key drivers of success in the UK Mails market; given legacy costs, incumbents have a major handicap vs. low cost attackers

- The UK Mails market is characterised by tight profit margins and limited product differentiation. In this context, growth in profitability is primarily driven by:

  1. Growth in overall market segment volumes e.g. Marketplace and e-commerce

  2. Technology-driven operational efficiencies combined with network scale, where costs are particularly concentrated in delivering the first/final mile[1]

- Royal Mail and Post Office hold an inherent advantage of brand recognition and network economies. However, neither organisation meets the highly automated, lean benchmark set by competitors (e.g. Amazon). In this context, both organisations have lost market share

- **As part of a broader value chain, Post Office constitutes an operational cost to RMG. Unsurprisingly, RMG is looking to reduce this cost**

- For PO to compete effectively, we need to deliver highly-efficient, automated first/final mile solutions. Alternatively, options may exist to move into the broader Mails value chain

EBIT margins – overall UK sector weighted average

2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
-1.2%	0.8%	2.3%	0.0%	1.2%	2.8%	4.1%	4.8%	5.5%	4.1%	3.8%	3.9%

International comparison of labour cost between incumbent and attacker, Labour costs per hour, selected global markets, EUR

■ Incumbent ■ Low cost attacker
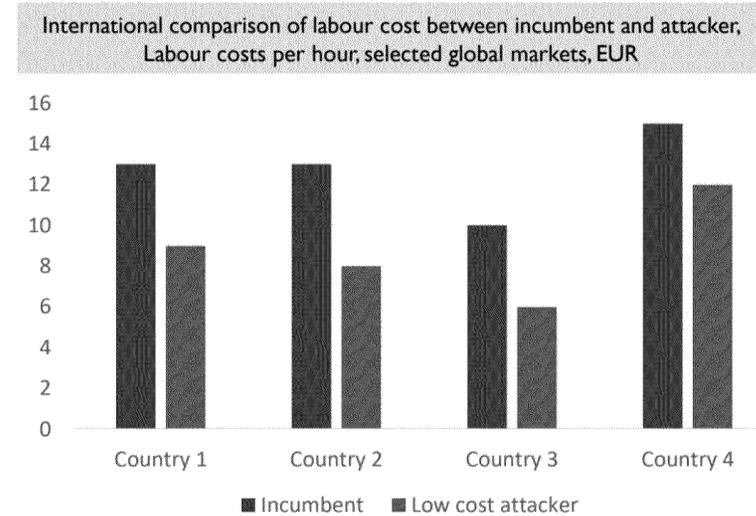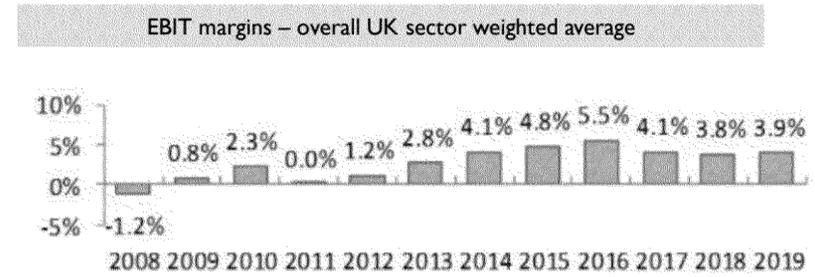
Source: Company accounts (data not available for all carriers); Apex Insight 2020
Note: 1 Final mile delivery costs comprise estimated 53% of total shipping costs. Business Insider 2021
https://www.businessinsider.com/last-mile-delivery-shipping-explained?r=US&IR=T

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Competitors with asset-light business models have grown market share, based on high automation/low-cost bases, while RMG is investing to reduce costs and grow in higher value E-commerce segments

Market disruptors such as Amazon Logistics and brokers such as Parcel2Go have been quicker to capitalise on technology-led market opportunities than more constrained incumbents

- **Amazon Logistics** now handles 15% of the UK parcel market volumes and is focusing on mid-sized eBay sellers sending more than 20 parcels a day. The vast majority of its parcels are delivered by third party contractors, helping to keep final mile delivery costs low

- **DPD** sees continued strong growth on the back of is Predict timed-delivery service and systems enhancements. Its focus on premium market segments and self-employed courier network have resulted in margins that are far higher than any other UK carrier

- **Hermes** is utilising new Private Equity investment to rapidly expand its capacity and introduce new technology-enabled processes, driving double-digit revenue and profit growth. With volume growth of 66% in 2020, Hermes has grown its market share by more than any other UK carrier in the past year. See the following slide for a spotlight on Hermes

As the USO provider, RMG's product mix has been disproportionately exposed to the low-value, declining social market, whilst having a delivery density advantage in light-weight parcels and a VAT advantage on tax-exempt USO products

- Royal Mail is actively pivoting towards higher value e-commerce segments with parcels now making up 59% of revenue vs 48% in 2019/20

- Accepting more parcels from large retail customers into its network later in the day and delivering parcels on Sunday

- Reducing cost to sell by automating sales online / via app and paying PO 'acceptance only' commission – targeting 10m app downloads, up from 4.5m currently

- Increasing parcels sorting automation from 33% - significantly below industry benchmarks - to 90% by the end of 2023/24

Parcel sorting automation – international operator comparison						
	Deutsche Post	La Poste	PostNL	PostNord DK	PostNord SE	Royal Mail[130]
Automated sorting of parcels (all sizes)	●	●	●	●	●	◑
Automated sorting of small parcels	●	n/a	●	●	●	◑
Sorting of parcels to the drivers' round	◑	◑	●	●	●	○

Notes: ○ - *not applied,* ◑ - *partly applied,* ● - *largely applied (>90% of parcels).*
n/a: information not available.

Source: Ofcom research November 2020 Annual Monitoring Update, (using WIK Consult GmbH)
See Appendix for further detail

Tab 3.2 Mails Strategy

Hermes

Aim: Become the carrier of choice for every end consumer

Revenue YE Feb 2020
£860m
+15% YOY

Volume FY 2020
630m
+66% YOY

Operating Margin
5.5%
+50bps YOY

Network
>5,000
ParcelShops

Ownership (Aug '20)
Advent 75%
Otto Group 25%

Strategy
Increase scale, invest in new delivery capacity, support the business processes necessary to maintain controlled growth and an industry-leading courier doorstep experience

Positioning
"Send cheaper and easier with Hermes – download our app"

Market Share	Latest estimate
Overall UK parcels market revenue share	c.10%
Share of Social & Marketplace segment	c.8%
Proportion of company sales from Social, Marketplace & E-commerce	c.15%

Strengths	Weaknesses
High percentage of variable costs High degree of parcels automation Winning price-sensitive marketplace sellers Integration with major marketplaces Primarily urban & suburban locations; long opening hours Label printing in-store	Relatively low operating margin despite high % variable costs Weak on trust & reassurance Poor coverage in rural areas
Issues	**Actions**
Ongoing gig-economy status enquiry – heightened public focus during pandemic Increasing final mile delivery costs as volumes surge Pressure from large customers for better customer experience within existing price points Rising labour costs	Converting 20k (c.70%) of couriers to new self-employed+ status with new benefits this year Creating additional 10K roles to cope with increase in demand Adding further automated processing capacity Developing app and in-flight preferences, e.g. ParcelShop/locker Partnering with InPost lockers for send/return and pick-up

See Appendix for further carrier profiles

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Tab 3.2 Mails Strategy

RMG is repositioning its product set as it pivots to the fastest growing, higher value segments. Having lagged the market, it is repositioning itself as the most innovative and greenest carrier…

Existing product set in Post Office	Implementation of new product set

The regulatory review of postal services is underway and concludes in **Spring 2022**, but even if Ofcom instigates the inclusion of tracked parcels in the USO, it is unlikely Royal Mail will launch any new products prior to **April 2023.**

Royal Mail will roll out its **Parcel Collect** service (currently in pilot) to marketplace sellers and launch a new portal for returns.

USO products, constituting a large proportion of PO sales, have seen little innovation in a decade and do not meet the hygiene factors required to compete (e.g. tracking)

At this point, Royal Mail aims to implement products aligned to a 'good', 'better', 'best' approach:
* **Good** - include some tracking, but no signature (currently Tracked 48)
* **Better** - tracking and signature (currently Tracked 24)
* **Best** - tracking, signature, specified timing and in-flight delivery options i.e. reschedule or redirect (currently Special Delivery by 9am or 1pm)

In 2023, Royal Mail's automated parcel hubs will be delivered allowing it to offer its new e-commerce services to smaller customers.

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PUDO: we have an ambitious and directional roadmap which we continue to validate but which is all driving towards PO being the primary PUDO network for carriers in the UK

2021-22 (included in PUDO business case and 3YP)	2022-24	2024+
Increase market penetration	*New products and services*	*Diversification*

Products

Customer Experience

Postmaster Experience

Network

Client Management

IRRELEVANT

Key: (Dependencies) that are linked to introducing online acceptance to the PUDO proposition – see following slides

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Tab 3.2 Mails Strategy

Option A: We could expand the drop-off proposition in PUDO to include online acceptance from other carriers, to offset decline in income from online migration

Investment required | Opportunity size | PO Capability | Execution / Commercial Risk

Description

Customer proposition

Operational Functionality

Key levers and value

Postmaster considerations & benefits

Execution capabilities and risk

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Tab 3.2 Mails Strategy

There are operational and commercial risks of the expansion of PUDO which PO would need to find ways to mitigate

- If Post Office delivers full PUDO and has multiple carriers onboarded, the following challenges will arise:

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Tab 3.2 Mails Strategy

POL Board Strategy Day 2 - 28 July 2021-28/07/21

High level financial modelling of the option to expand PUDO to include online acceptance presents Post Office with a choice around improving gross income and Postmaster remuneration, or improving Trading Profit

Assumptions

- Launch date for PUDO online acceptance in FY22

- Overlay on existing cumulative 3YR plan volumes and revenue

- **IRRELEVANT**

Conclusions

- **IRRELEVANT**

- Additional on-site segregation of new carrier partners would increase complexity and alternative logistics capability would be required in order to compete

- Acceleration towards Acceptance-only model will impact Postmaster remuneration – though **as with the other options outlined in the paper, there is a natural trigger for a review of Postmaster remuneration**

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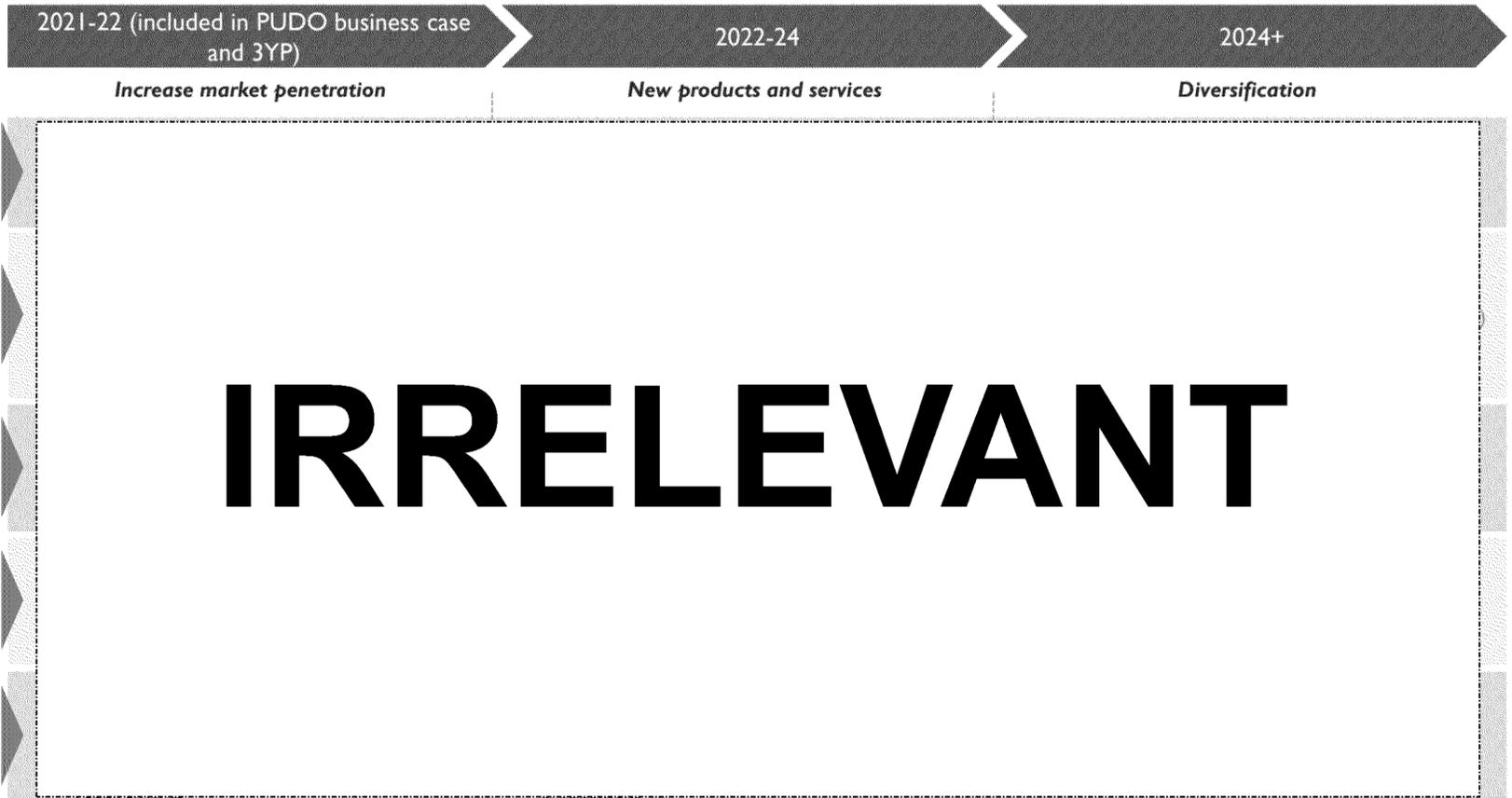C. Automation, incl. self-serve and adapting our proposition to formats

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Tab 3.2 Mails Strategy

Given both its legacy and its future as a mails business, Post Office needs to answer an existential question: Should PO offer to sell mails online, and if yes, how and when? It is highly nuanced, and will come with challenging trade-offs that intersect business sustainability and Postmasters

The direction of travel is clear: **marketplace sellers are buying postage online.** If Post Office sells mails online, it will cannibalise its income and Postmaster remuneration. Should we cannibalise ourselves to maintain market share in the long-term, and if so, how and when?

The trade-off decisions will partly depend on how we choose to balance the following criteria: long-term commercial sustainability vs. a shorter-term view; and the role of our network and Postmasters (sales vs acceptance).

Example of a trade-off between process and Postmaster remuneration:
* Our marketplace Drop & Go proposition is labour intensive for Postmasters but provides remuneration for both sales and acceptance in branch
* Our competitors, such as Hermes, are offering an increasingly attractive proposition for Marketplace customers with online-purchase and self-service functionality
*
*

IRRELEVANT

Example of a trade-off between RMG chasing high volume PO customers and PO losing income
* Over recent years, RMG has won high volume/value customers to its online platform, and thereby reducing its costs by pushing PO into acceptance-only
*
*

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Tab 3.2 Mails Strategy

Selling mails online can take different forms, all allowing us to meet the needs of Marketplace sellers

Sell RMG products online	**Accelerates the migration of RMG products to online sales**, with no significant additional PO ownership or control of value chain • Under IRRELEVANT • Customers would still need to use RMG portal for online tracking etc. Product range and pricing managed by RMG. • Given these constraints, PO online functionality would provide a poor substitute vs existing RMG online functionality. Migrated in-branch sales to PO online could, in turn, migrate to RMG online sales • **Value destructive model** as it accelerates existing in-branch sales commission decline. Therefore **this option has not been quantified further**
Sell online for selected carriers, as an aggregator (Option B)	**Helps PO maintain market share by providing a range of non-RMG alternatives**. Meets Marketplace customer needs, giving choice and migrating to 'online sales & acceptance' model **IRRELEVANT**
Launch PO as a white-labelled Mails carrier (Option C)	**Allows us to take ownership of end-to-end customer journey** as a white-labelled carrier providing online sales, acceptance, tracking and delivery • PO determines the product and price, • Postmaster journey based on online sale and acceptance **IRRELEVANT**

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Tab 3.2 Mails Strategy

Option B: Selling online for selected carriers as a Mails aggregator would potentially, but not necessarily, drive additional footfall to PO branches and accelerate the migration to Acceptance only

Investment required ◑   Opportunity size ◕   PO Capability ▲   Execution / Commercial Risk ▲

Description	• Use fully outsourced software solution provider capabilities (e.g. Parcel2Go) to sell Mails from additional carriers already using the PO PUDO network • Functionality could include price comparison, marketplace and eBay integrations and management information (MI) for Postmasters • Provides a complementary strategy to maximise PUDO acceptance by driving volume to branch, with PO acting as a carrier agent
Customer proposition	• Helps social customers and marketplace sellers purchase online postage from the top UK carriers through a simple-to-use PO branded website • Online solution for PO customers who are too small to have a direct contract with carriers and benefit from better pricing • Simple integration with online marketplaces with batch processing tools • Parcels can be dropped off at nearest PO branch
Operational Functionality	• Simple scan-in acceptance interaction, with potential to replicate drop-off process already used for home shopping returns • Potentially multiple collections by multiple carriers and additional segregation cost and complexity. • This could be mitigated by off-site segregation by a single logistics partner and out-of-branch carrier collection
Key levers and value	• Relatively low cost customer acquisition channel • Potential drop from 'in-branch sales & acceptance' rates currently applied to Drop & Go to 'online sales & acceptance only' rates from new carriers • Potential to capture incremental business volumes and increased market share. Opportunity to build customer relationships and data insights, facilitating targeted retention measures
Postmaster considerations & benefits	• Customer data enables better CRM and network efficiency; to date, PO has not established CRM as a core competency • Reduces in-branch processing requirements compared to 'in-branch sales & acceptance', particularly important for Strategic Partners with tight resource capacity utilisation • Accelerates migration of PO customers online, potentially with a negative impact on Postmaster remuneration • New carriers may push for alternative, non-Postmaster acceptance points, reducing PO branch traffic
Execution capabilities and risk	• Closes functionality gaps vs competitors. Potentially partnering and competing with the same white-label partner. Product ownership, tracking and customer relationship could still be owned, or taken, by new carriers • Potential to cause customer confusion and additional operational complexity. Alignment required with PUDO regarding carriers already onboarded • Medium term commercial viability uncertain. For example, Parcels2Go mainly drive profits from selling top-up insurance rather than postage. Barriers to entry are relatively low for new Mails aggregators

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Tab 3.2 Mails Strategy

High level financial modelling of the option to become an Mails aggregator presents Post Office with a choice around sharing additional contribution with Postmasters

Assumptions

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-

IRRELEVANT

- Overlay on existing cumulative 3YP volumes and income

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IRRELEVANT

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Tab 3.2 Mails Strategy

As the market digitises further, and E-commerce integration becomes standard, Post Office may be left behind due to its risk appetite, with commercial implications

- Marketplace sellers use e-commerce platforms such as eBay, Amazon, Etsy and Shopify as a virtual shop for their customers

- Managing multiple online 'shops' creates logistical complexity for marketplace sellers and therefore the market is moving towards e-commerce integration. This supports marketplace sellers with operational activities such as billing and payments, fulfilment, distribution, and postage and shipping.

- Royal Mail's 'Click & Drop' proposition unites multiple individual sales channels on a single platform, providing marketplace sellers with shipping and tracking reports and giving their customers a choice of delivery options.

- Post Office's ambition is to deliver a similar service as part of the Drop & Go roadmap

- An industry-standard contractual feature required to connect with platform APIs is agreement to unlimited liabilities. This is not within Post Office's risk appetite, therefore has not been implemented to date

- Unless it is reconsidered, Post Office's risk appetite regarding unlimited liabilities may also prevent us from launching an online aggregator

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C. A different position in the value chain

IV. Enhancing our proposition for customers and postmasters
A. Drop & Go
B. SPM
C. Automation, incl. self-serve and adapting our proposition to formats

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Option C: Launching PO as a white-labelled mails carrier for labelled parcels would give PO greater control over the customer proposition, but comes with high execution risk

		Investment required ●	Opportunity size ◑	PO Capability ▲	Execution / Commercial Risk ▲

Description

- **New white-labelled PO product range** IRRELEVANT targeting **Marketplace sellers. New carrier agreement provides greater control of price and product development capability.** IRRELEVANT
  IRRELEVANT
- Greater PO customer ownership through outsourced CRM capability, marketplace integration, mails delivery logistics and tracking
- Option to brand as Post Office or separate sub-brand, with ramifications on opportunity size and risk exposure

Customer proposition

- Customers can select from a range of new PO parcels products, available both in-branch and on PO's website
- Greater visibility of parcels in the network and a more comprehensive sales and support package (CRM)
- IRRELEVANT

Operational Functionality

- **Platform development: construction of a postage selling element of PO website & CRM capabilities**
- Required capabilities include: Customer interface for customers to view, track and manage all their parcels; Data integration with partnership operator; branding to launch and advertise the new products
- Potential to simplify processing of parcels in-branch

Key levers and value

- **IRRELEVANT**
- Increased customer retention if customers buy into new PO proposition as a carrier

Postmaster considerations & benefits

- Improved control over marketplace proposition and defence against current migration to RMG online
- Additional operational complexity: requires parallel management of new PO products alongside RM products
- Enables PO to provide Postmasters with richer data and more timely insights about their customers

Execution capabilities and risk

- **IRRELEVANT**
- Full PO proposition ownership required (e.g. setting price points and customer support wrap) which is not core PO competency. Additional competencies, from digital product design to multiple-carrier commercial management, would be required
- Horizon/SPM dependency if products sold in-branch
- Carrier ownership of customer increasingly at risk as marketplaces build stronger up-stream capabilities e.g. Amazon, eBay

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Tab 3.2 Mails Strategy

High level financial modelling of the option to become a white-labelled carrier is highly dependent on the value a partner is willing to share

Assumptions

- IRRELEVANT

- Overlay on existing cumulative 3YP

  IRRELEVANT

Conclusions

- IRRELEVANT

Cumulative impact of white labelled mails carrier on Trading Profit

IRRELEVANT

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Tab 3.2 Mails Strategy

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Tab 3.2 Mails Strategy

We are digitising and enhancing our proposition in multiple areas, using known Postmaster pain points to inform our prioritisation and recognising different postmaster needs

A. Drop & Go enhancements

B. Journey improvements leveraging SPM

C. Automation & Self-serve

Technical improvements

Currently drop and go is not centralised with ebay or Amazon, to provide better service it would be good to synchronise with ebay or amazon. In addition as the branch then has to print the label they then lose out as it costs them to print- by linking it then customer service will improve and it will minimise the cost

The QR codes are working well for the returns (e.g., Amazon). Can we have more of this, as it makes things go faster

Logistics

The Branch has requested a regular Royal Mail collection on a Sunday. At present, staff have to turn away customers with Parcelforce packages on Saturdays & Sundays, as they don't have any available space in-branch to accept these.

The right tools for the job

Drop & Go: very small branch with only one counter. D&G business is rising but PM is finding it very challenging to manage volumes while also serving customers. Customers are reasonable on this point and understand their post won't always go out the same day but PM would like a second Horizon option in order to avoid suspending a transaction, settling, printing receipts etc; in order to service a new customer. She'd really like this as a "pop up" option so it isn't a permanent fixture. A PM mobile Drop & Go app would be perfect. Would like to understand what's on the technology roadmap for next Christmas and how it will benefit PM's.

Label printing

The Postmaster commented on the quality of the printers and the fact that they break down or are slow on a regular basis. He queried why we use ink and thought that there should be thermal capabilities now. Often dust gets into the printers which clogs up the mechanisms and prevents printing. When the postmaster is faced with bulk business posting, the printers work successfully for the first 20 or so labels and then go slow or stop. This can be embarassing when a customer is waiting.

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Tab 3.2 Mails Strategy

A. Drop & Go: the vision is to reduce friction along the customer journey, automate processes and reduce Postmaster effort. Outcomes will include protected Postmaster income, sped-up customer transactions in branch, reduction in queues and promotion of Drop & Go adoption

Customer selects postage for items in a new Drop online	Customer Drop is submitted into CDP ready for branch visit	Customer arrives in branch to Drop items off with account no.	Postmaster checks items in Drop & prints labels after weighing	Postmaster sticks postage label onto Drop items	Drop is confirmed with tracking auto shared to customer online

Customer logs into Drop & Go account, creates a new Drop, selects items from their product catalogue with preselected postage product	Once customer has added all items to Drop, the list is sent into CDP where the Postmaster will be able to retrieve when Drop in branch	Customer will take items to designated Drop area, all items will have delivery address and customer account number on parcel	Postmaster will check in items, use account number to retrieve Drop details, check postage selections, weighing items and print labels	Postmaster sticks postage labels onto Drop items whilst processing, items in Drop will then be ready to be collected from branch and delivered	Whilst the Postmaster is processing the Drop items, confirmation of processing and tracking will automatically shared with Drop account

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A. Drop & Go: in addition to process improvements, we could consider improving our price point to maintain share with Marketplace sellers, with potential consequences on margin and remuneration

Investment required	Opportunity size	PO Capability	Execution / Commercial Risk

Description

Reprice Post Office marketplace proposition to reduce attrition to online channels. Either:

1. customer specific loyalty pricing targeted at high volume / value customers or

2. general reprice of Drop & Go products to establish parity with RMG online pricing

Key levers and value

- Attrition to RMG (or online providers) reduced

- Reduction in product margins borne by PO (and Postmasters) potentially at a loss-making rate

- No changes to core processes, therefore continued attrition driven by non-price factors: competitor online journeys, pre-population of labels due to integration with marketplace platforms e.g. eBay

Postmaster benefits and considerations

- Addresses a key area of Postmaster concern, reducing (but not eliminating) attractiveness and migration to RMG online proposition

- Targeted, loyalty pricing is a potential relationship-building tool for Postmasters

- Postmaster remuneration may be impacted if seeking to maintain commercial alignment with PO

Execution capabilities and risk

Option 1. Targeted loyalty pricing

- Potential to embed within existing Drop & Go account functionality, addressing a sub-set of marketplace sellers

- PO already runs a loyalty scheme for MoneyGram customers, targeting frequent users. Alternatively, PO could use existing Gift Card reward scheme, currently applied for selected insurance products

Option 2. Reprice to match RMG online

- Potential significant commercial mis-alignment. Subsidised Marketplace products likely to be loss-making for PO. Unless impact on PO and Postmaster remuneration is shared, this translates to a mismatch in incentives to provide the product

- Limited execution risk as systems apply existing label pricing systems

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Tab 3.2 Mails Strategy

B. Three key changes through SPM for customer and user experience

1. Label printing

Description
- Provide functionality and hardware to print labels on-demand, in-branch to remove reliance on delivery of pre-printed rolls of RMG labels

Key levers and value
- Reduced RMG cost to produce and provide labels
- Easier for customers to self-serve (e.g. SSKs)
- No wasted labels due to human error

Postmaster impact
- **Saving 3-5 seconds per transaction**
- Easier and more simple processes – no need to find the correct label for the product or service
- **Reduces printer breakdown/jamming, a common paint point**

Execution capabilities and Risk
- **Hardware enhancements** required for SSKs and counters in current format
- Requires **RMG agreement** and support

2. Journey modernisation

Description
- Simplify journey for customers and Postmasters making them as intuitive and streamlined as possible, i.e. removing unnecessary data validation fields

Key levers and value
- Enable customers to fill information in online, either at home or in the queue
- Improve compliance through reduced complexity

Postmaster impact
- Customers are able to self-serve which reduces queues in branch
- Quicker transaction times
- Easier and more simple process

Execution capabilities and Risk
- **New interface or e-commerce platform** for customer data capture at home/in branch queue
- Requires **RMG agreement** and support, particularly for changes impacting compliance processes

3. Online proof of posting

Description
- Customer can receive proof of posting via email or online

Key levers and value
- Reduced cost (no printing of often multiple receipts)
- Marketplace sellers can forward proof electronically onto their customers
- Environmental benefits to reduced waste
- Customer data captured

Postmaster impact
- **Easier and simpler processes – no need to waste paper or time printing a receipt**

Execution capabilities and Risk
- **Customer interface required** to view proof of postage online
- **API integration** to allow customer to log into platform/interface using third party account i.e. Facebook or Google
- Post Office can't execute this without **RMG agreement**, although we expect they will be supportive

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Tab 3.2 Mails Strategy

C. Our segmented analysis of the network highlights some key priorities for the mails strategy, all geared to driving growth and/or improving Postmaster profitability. The first area of focus will be the in-branch automation of RMG products

	Host is primarily a RETAILER	Host is primarily a POST OFFICE
HIGHER VALUE & VOLUME mails post office	**1 ACCELERATE AUTOMATION** • Branches in this quadrant need to balance their busy retail shop with high mails volumes which drive staff cost pressures and potential challenges for customer queues • Key requirement is for **more in-branch automation** enabling them to retain high sales value, while managing queues and reducing labour costs	**3 SUPPORT HIGH VALUE SALES** • Mails is of existential importance to these branches. They have the time & skills to grow their business, but we need to give them the right tools to win and retain Marketplace sellers. • **Key requirement is a significant strengthening of Drop & Go, including platform integrations**, access to better pricing, tools, more MI on their customers, etc.
LOWER VALUE & VOLUME mails post office	**2 DRIVE PROFITABLE PUDO GROWTH** • This is the segment we see shifting to the 'Express' format, enabling parcels to be managed as quick, simple transactions alongside the main retail counter • **3rd party PUDO growth should strengthen our proposition to retailers**, but it would be further boosted if we could increase accept-only fees through our own digital channel	**4 LEVERAGE SPARE CAPACITY** • Small, low volume branches which are primarily required to meet network coverage requirements • Opportunities for growth and automation may be more limited, but they are likely to have the space to deal **with greater PUDO volumes and be in locations where our competitors have weaker coverage**

The separate 'Network Strategy background materials' deck provides further segmented analysis of the network and the key requirements for each group – we will continue working together to ensure the strategies evolve in parallel and complement each other

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Tab 3.2 Mails Strategy

C. Network Strategy vision is clear about what Post Office's next generation automation must do for Mails

Postmasters want genuine 'self-service' automation, and the device needs to be cheaper to buy and run. If we can deliver a low cost solution with reduced requirement for staff supervision, we believe mails automation could benefit around 3,500 of our largest branches*

SPMP has been investigating options for devices, one proposal is the Mails Multi-Function Device

10" Tablet

Scanner

Scales

Receipt Printer

Label Printer
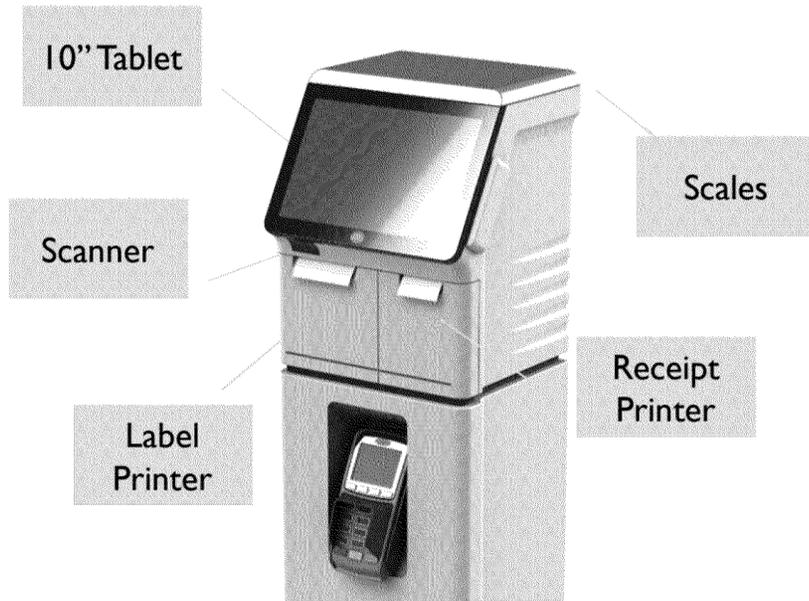
Future vision for automation

Self-service, no staff intervention required at all

Kiosk paired with an acceptance kiosk (i.e. Dropbox)

Shorter and Intuitive customer journey, encouraging customer migration

Smaller footprint

Design the commercials to enable us to deploy at scale (5k+ kiosks)

Better customer data capture and possibly integration with eCommerce platform such as eBay

* Please refer to 'Addressing the Network Sustainability challenge' paper
See Appendix for locker analysis

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Post Office has some tough choices which challenge its business model, remuneration policy and risk appetite

Proposition	Option A: Expand PUDO to include online acceptance	Option B: Sell online as a parcels aggregator	Option C: White-labelled Mails carrier
Customer proposition	• Drop off parcels purchased online from a range of carriers at a convenient PO branch • Simple scan-in acceptance interaction similar to home-shopping returns process	• Buy non-RMG Mails online via a PO branded site at competitive prices - existing PUDO carrier partners • Facilitates price comparison, batch processing, marketplace integrations and reporting capability	• PO provides online and in-branch sales and acceptance for a new customer-centric range of parcels products (non-RMG parcels) • Interface for customers to view, track and manage parcels with CRM support package
Key benefits	• Future-proofs income streams against RMG decline • Third party price points IRRELEVANT higher than RMG • Natural extension of PUDO strategy	• Meets Marketplace customer needs around choice, integration, process and price • Closes digital functionality gap vs. competitors • Reduces in-branch processing requirements	• Allows PO to take ownership of end-to-end customer journey • Improved margins on RMG MDA2 rates due to PO brand and reach
Key risks	• Accepting other carriers' items sold online removes our competitive advantage if we want to sell online also • Could create capacity issues, particularly at peak • Time consuming increased carrier collections • Mis-segregation and SLA penalties would apply	• Could drive footfall to non-PO acceptance points **and** cannibalise sales & acceptance • Ownership of customer relationship still lies with partner carriers rather than PO • Segregation, capacity and increased complexity issues also apply • New digital capabilities required	• Could result in RMG retaliation with aggressive customer online migration • High execution risk as not core PO competency / would require significant additional capabilities • Intensely competitive and dynamic market – carrier ownership of customers increasingly at risk from Marketplaces building upstream capabilities
Postmaster considerations	• Additional complexity in managing multiple carriers • Segregation may need to be removed from branches	• Potential to cause customer confusion, e.g. why RMG is not included • Multi-carrier complexity • Potential for double cannibalisation	• Additional operational complexity - parallel management of new PO products with RM • Richer data and more timely insights into customers
Financial impact against 3YP	**IRRELEVANT**		
Our choices	• Do we improve our gross income and Postmaster Rem, or improve our Trading profit? • If delivered at scale, moves network towards acceptance, with implications for branch format, technology investments and Postmaster Rem • Alternative off-site segregation with logistics partner	• Further acceleration towards acceptance-only will impact Postmaster Rem and feeds into the broader strategic debate around how income generated from the online channel is shared • Risk appetite around industry-standard commercial features, e.g. unlimited liabilities	• Significant investment required and an agile, flexible and technology-driven approach to compete • Improved PO margins are highly dependent on finding a partner that is willing to share significant margin with us in exchange for volume and brand • Option to brand as PO or separate sub-brand, with ramifications for opportunity size and risk exposure

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Tab 3.2 Mails Strategy

Our choices will also impact our relationship with RMG. We can expect our relationship to shift significantly as we compete for the same mails volumes even if their response is costly for them

POL Board Strategy Day 2 - 28 July 2021-28/07/21

	Description	Best case	Worst case
A - Full PUDO including online acceptance	• Current PUDO scope, plus accepting parcels where postage has been bought online • Moves PO to an acceptance-only model • New carriers offset drop in Postmaster remuneration		
B - Online aggregator	• Transfers PO's reputation as a trusted advisor to an online market player • Online purchase of postage enables PO to compete more effectively for Marketplace sellers, but reduces PO income and Postmaster remuneration • Adds complexity and requires multiple carrier relationships		
C - Become a white- label mails 'carrier'	• PO sets the product and price, and gets closer to customer 'ownership' – giving PO a different position in the value chain • White-label partnership with a new carrier. We have assumed one carrier for the purposes of modelling		

IRRELEVANT

Under MDA2 PO has a non-exclusive relationship with RMG. However, depending on the option taken/variances within each option, PO contractual considerations may include advance notice requirements to RMG, particularly relating to the introduction of new carriers and 'Renegotiation Events' triggered by Material Changes to our existing agreement

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Tab 3.2 Mails Strategy

Our recommendations and proposed next steps

Recommendations:

- Launching a white-label option ⌐ IRRELEVANT ⌐ More fundamentally, we would have to believe we could transform our capability, and find a partner ⌐ IRRELEVANT ⌐ whilst ceding control of customer data and processes. We will explore it further, but the ⌐ IRRELEVANT ⌐
- Continuing the PUDO trajectory to include acceptance of carriers' online sales is a natural next step, and the one that makes the most of our physical reach - our biggest attribute given our current position in the mails value chain
- Our current instinct is to complement our full expansion of PUDO with:
  - The Drop & Go, automation and SPM improvements we have laid out
  - Drop & Go e-commerce integration, subject to PO risk appetite
-

IRRELEVANT

Carrier next steps

- We are in regular conversations with all the key carriers in the UK market - the scope of these conversations covers, but is not limited to, PUDO
- Our broader conversations with several carriers are exploring how additional value can be created by joining forces (not just moving existing volume from one carrier to another)
  - Bias towards higher-margin carriers that can share value with PO
  - Bias towards complementing the gaps in our existing product set
  - Bias towards complementing any regional gaps
- We will use our carrier conversations to validate and refine our assumptions on volume, price, cost, the optimal multi-channel model and appetite to partner, e.g. in practice, a white-label approach might require multiple carriers
- **We will then revert with more detailed business cases for Options A, B and C**

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D. Adapting our proposition to formats

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Tab 3.2 Mails Strategy

Aim: Build a more balanced and diverse parcels-led, international business

Revenue YE Mar 2021
£8,649m
+12.0% YOY

Operating Margin
4.0%
+250bps YOY

Parcel Volume
2020/21
1,735m
+32% YOY

Local Collect
Network
10,000 Post Offices &
1,200 RM Customer
Service Points

Ownership
Free float 100%

Strategy

Create a more agile parcels business that is laser focused on the customer
Improve and simplify the customer offering through great quality of service and easy to understand and simple to use products
Grow the business, its share and the market through greater capacity and new innovative products and services

Positioning
"Postage that fits around our customers"

Market Share	Latest estimate
Overall UK parcels market revenue share	c.35%
Share of Social & Marketplace segment	c.65%
Proportion of company sales from Social, Marketplace & E-commerce	c.20%

Strengths	Weaknesses
Customer trust in brand Ubiquitous hyper-local delivery capability due to USO Investing in parcels automation and digital services e.g. Drop & Go, Parcel Collect, Same-day prescriptions Parcels market leader by volume and revenue	Playing catch-up and losing market share Automated parcel hubs not due to open until 2022/23 Letters, where the company makes its money, have seen steep declines during C19 and UK parcels are currently not profitable

Issues	Actions
Need to accelerate the pace of change to cope with sustained parcels volume increase Deliver increased operational efficiency Complex product offering More agile, lower cost, technology-led competitors are getting stronger and growing share faster e.g. Amazon, Hermes, DPD	Introducing seven-days a week parcel delivery service Migrating customers away from higher-cost channels to digital-first ones where they have more control over the customer experience

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Tab 3.2 Mails Strategy

dpd

Aim: Become the international reference in sustainable delivery and a leading enabler of e-commerce

Revenue 2020 c.£1,416m +37.7% YOY	
Operating Margin c.18% +560bps YOY	
Volume 2020 c.211m +39% YOY	
Network >4,500 DPD PickUp shops	
Ownership La Poste Group100%	

Strategy
Be the most innovative premium X2C player, growing 15% p.a. to 2025
Densify parcel shop and locker network to 90% of population and grow presence in burgeoning C2C segment
Commit to sustainability in all DPD's actions
Expand through partnerships ("federator model")

Positioning
Combining innovative technology and local knowledge to provide a premium, flexible and user-friendly service for both shippers & shoppers

Market Share	Latest estimate
Overall UK parcels market revenue share	c.10%
Share of Social & Marketplace segment	n/k
Proportion of company sales from Social, Marketplace & E-commerce	n/k

Strengths	Weaknesses
Market-leading customer-centred innovations, e.g. Predict Investing in capacity and digital capability due to the surge in e-commerce, which it does not see abating PickUp partnerships with key retailers, e.g. Sainsbury's / Curry's PC World; recently joined the Collect+ network Wider company well positioned in e-commerce growth sectors including food and healthcare Strong operational performance and brand reputation	Underpenetrated in SME space – focus to date has been on B2C / B2B
Issues	**Actions**
Gig economy scrutiny	New lifestyle courier contracts Strengthen data intelligence to continuously improve customer experience and revenue management

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Tab 3.2 Mails Strategy

collect+

Aim: Deliver best-in-class customer journeys for e-commerce brands over the first and last mile

Revenue YE Mar 2021
£3.6m
-10.1% YOY

Volume YE Mar 2021
26.6m
+8.3% YOY

Paypoint Operating
15% Margin
-2,000bps YOY

Network
>10,000
Parcel sites

Ownership (Apr '20)
Paypoint 100%
Acquisition cost £6m

Strategy
Establish Collect+ as the pre-eminent technology-enabled e-commerce delivery platform
Leverage the trends accelerated through Covid-19, including the growing demand for online shopping fulfilment and the increase in shopping local

Positioning
Re-positioned as a B2B2C multi-carrier e-commerce delivery platform

Market Share	Latest estimate
Overall UK parcels market revenue share	<1%
Share of Social & Marketplace segment	c.1%
Proportion of company sales from Social, Marketplace & E-commerce	100%

Strengths	Weaknesses
Comprehensive range of carrier partners, e.g. eBay, Amazon Agile IT development capability - scalable proprietary software New Zebra thermal printers improving in-store label printing Re-launched Collect+ website Scope to grow within PayPoint One network of 17,800 sites	Weak send proposition Lagging overall e-commerce market growth Poor coverage in rural areas
Issues	**Actions**
Reduce time and cost to serve Improve the in-store consumer and retailer partner experience Overall transaction growth diluted by lower-margin print-in-store service Simplify and speed up carrier onboarding	Introducing enhanced StoreScan app to replace terminal functionality ahead of peak Scaling Send service in H1 2021/22, supported by significant marketing investment Expanding print-in-store services to existing partners Adding further partners (TBC) in 2021

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Tab 3.2 Mails Strategy

Parcel2GO.com

Aim: To be the leading parcel delivery marketplace for SMEs and "prosumers"

Revenue YE Mar 2020
£100.6m
+12.7% YOY

Volume not disclosed, estimated at 13.6m

Operating Margin
4.7%
+20bps YOY

Ownership
EQT private equity acquired majority stake for undisclosed sum; Mayfair and P2Go management retain minority stakes (June '21)

Strategy
Accelerate expansion through investment in new platforms and products
Ambitious plan for growth and penetration of new customer segments and international markets, organically and via M&A

Positioning
Market-leading technology platform offering quick and easy low-cost parcel delivery alternatives to the Post Office and white-label websites

Market Share	Latest estimate
Overall UK parcels market revenue share	<1%
Share of Social & Marketplace segment	c.7%
Proportion of company sales from Social, Marketplace & E-commerce	100%

Strengths	Weaknesses
New private equity investment to support growth plans Wide range of domestic/international parcel delivery services Low-cost business model operating at significant scale and in a highly efficient way Volume-driven competitive pricing in all markets Integrations in to leading marketplaces Turnkey shipping software, hosted websites & customer service Strong balance sheet with no third-party debt Track record in double-digit profitable growth	Does not offer parcel market leader Royal Mail's services Relatively thin margins and reliant on selling insurance
Issues	**Actions**
Increased competition in all markets Raise awareness of brand	Continued investment for growth Focus on service Leverage scale advantages Marketing campaigns to drive awareness / customer acquisition

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Tab 3.2 Mails Strategy

Intensifying competition: Amazon case study

- Amazon is actively recruiting marketplace sellers to its Fulfilment by Amazon service whereby products are sold on Amazon's marketplace, stored in its fulfilment centres and shipped via its carriers

- Last year almost half (46%) of Amazon UK's shipments were from Marketplace sellers using Fulfilment by Amazon, with sales growing by 35% on average year-on-year

- Amazon's fulfilment centres are highly automated for inventory stowage, picking and shipping, with high end technology increasing storage capacity and speeding up processing time

- It's parcel shipping label system, dubbed "Slam" (Scan, Label, Apply, and Manifest) produces shipping labels at a rate of one package per second

- The algorithm "decides" on the carrier at the point of labelling - factors include the size, weight, destination, speed, customer delivery choice and carrier capacity

- Amazon owns the item and customer data throughout the end-to-end customer journey

Show a clip of shipping labelling from

https://uk.amazonfctours.com/ukvideotour

At 7.34 mins – 8.31 mins

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3.2

Tab 3.2 Mails Strategy
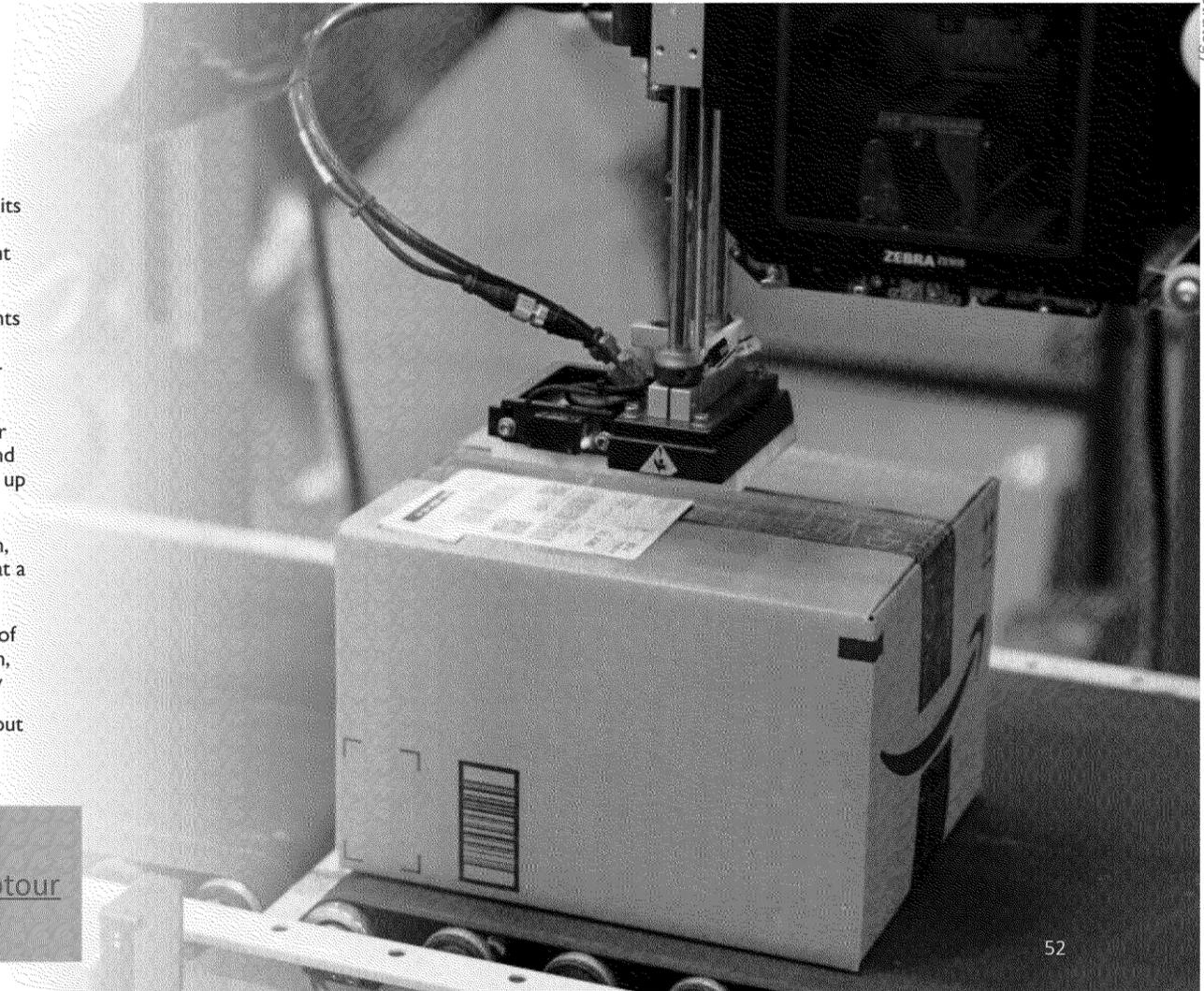
B2C competitor and customer demands have driven more efficient ways of working, more technology-enabled services and increased automation. Parcel operators have accelerated their investments and implemented further cost reduction and productivity measures

Parcel operator	Planned new capacity	Degree of parcels automation	Technology enhancements	PUDO network developments	Other service enhancements	Change in profitability (latest results)
Royal Mail	• Two automated parcel hubs announced in Warrington (up to 1.5m parcels/day by 2022) and Daventry (up to 1.5m parcels/day by 2023) • Parcel sorting machines processing up to 180k parcels/day installed in 20 Mail Centres; 4 further sites announced	• 33% in 2020/21 and targeting >50% by end 2021 • On runway to 90% (industry benchmark) by 2023/24	• App-enabled Augmented Reality parcel sizer • Automatic notifications, live tracking and in-flight re-routing of parcels • Barcoded 2C stamps pilot (Viking Direct)	• 1,400 Parcel Postboxes rolled out from 2019	• Parcel Collect launched Oct 2020 • By March 2021, >1m parcels had been collected by posties on their rounds • Collect up to 5 parcels at a time for 72p per parcel and 60p for pre-paid returns	• 32% parcel volume growth enabled margin to grow to 4% to 5.6% and adjusted operating profit to increase to £344m in 2020/21
Hermes	• Third hub announced in Barnsley for 1.3m parcels/day from 2022 • 10 new depots also opened during 2021/21	• Close to 100% (small items)	• API with PostTag to improve delivery accuracy • New LAC returns sorter increases capacity to 76K / day	• Doubled InPost parcel locker estate to 830 in 2020	• HermesPlay label QR code advertising / messaging	• Profit increased 30% to £29m in year to end Feb 2020. Accounts for 2020/21 to be released later in 2021
YODEL	• Announced strategic investment in the creation of a new Northern super-hub to support long-term growth (Oct 2020). Further details to be announced	• Close to 100% (small items)	• New driver app improves efficiency, leading to a better customers delivery experience	• Sold 50% share in Collect+ to Paypoint	• Customer service improving from a more integrated approach to technology, reducing operational costs	• Expected to return to being strongly profitable (PBT) in its results to June 2021, to be issued later 2021

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3.2

Tab 3.2 Mails Strategy

Drop & Go is Post Office's flagship proposition for Marketplace sellers. Compared to Royal Mail and other providers, it is not competitive on process or price

Standard functionality of key competitors (PO in red)

- Integration into e-commerce platforms
- Purchase online/through app
- Auto top-up
- Bulk discounts
- Tracking
- Next day delivery
- Signature/ Proof of delivery
- Parcel pick-up
- Drop-off points
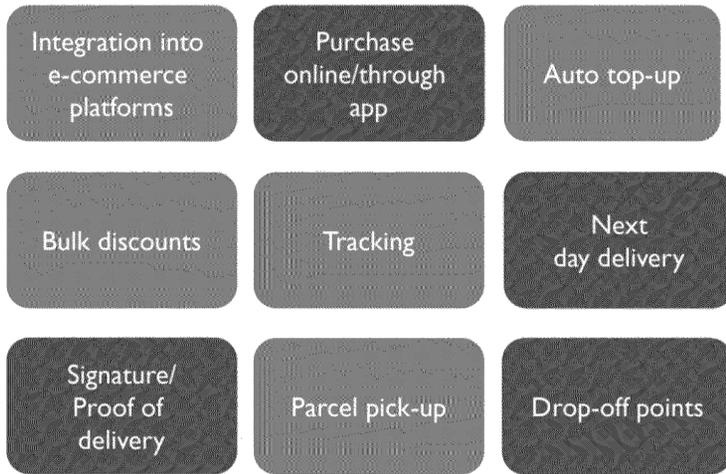
- A Drop & Go account can be set up online or in-branch
  - The service allows customers to prepare a manifest and top-up at home before they visit a branch to drop off items.
  -

IRRELEVANT

- Competition in the Marketplace segment is primarily from couriers or logistics companies.
  - Apart from Parcel pick-up, the key features are all technology-based rather than logistics-based.
  - Royal Mail offers two affordable tracked products for companies shipping more than 1,000 items a year (Royal Mail 24 and Royal Mail 48). We do not have access to these products.

Royal Mail's online and offline pricing differential is increasing. Competitors are pushing into lower weight parcel categories

Next Day Services

- DPD Local £7.79
- Hermes Next Day £6.50
- RM 1C SP & SF £4.85
- RM T24 £5.46
- RM 1C SP £3.85
- RM 1C 500-750 £2.39

Later Than Next Day Services

- RM 2C SP & SF £4.20
- RM T48 £4.74
- Hermes Standard £4.40
- RM 2C SP £3.20
- Hermes 2-day postable £2.66
- Collect+ 2-day £2.79
- RM 2C 500-750 £1.99
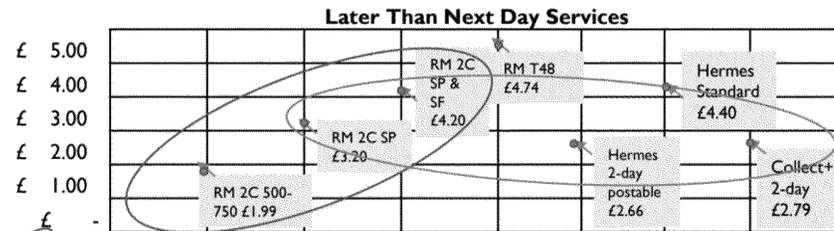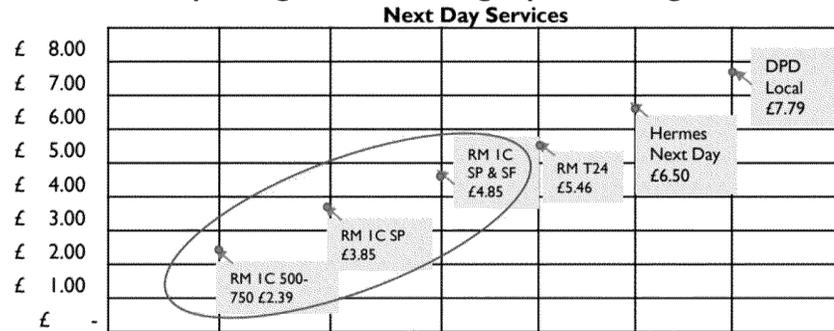
Indicates VAT exempt USO products

Primary area of price/service competition

- Royal Mail's stamp parcels price competitiveness has been underpinned by legacy advantages in lighter weight formats
- Recent price increases have widened the gap between Royal Mail's online and offline parcels pricing.
- Competitors, including Hermes are taking share in previously unattractive lower weight categories

Note: LL = Large Letter, SP = Small Parcel, SF = Signed For, T24 and T48 = Tracked Next Day and Tracked 2-day. VAT included where applicable. Includes seller protection, but excludes RM online pricing discounts

3.2

Tab 3.2 Mails Strategy

18 areas of opportunity were identified in the McKinsey 2020 analysis. With the exception of PUDO, they were dismissed by the Board based on key criteria. In light of emerging market dynamics, online sales options have been reconsidered in this paper; the remaining options are still not desirable or viable

Nature of Play

☐ Current gameboard – i.e., existing market where POL plays   ◯ Incremental contribution[1] from play[2]   ■ Offensive   ▨ Defensive

Market	Margin	Share	Current gameboard	Growth	Extended gameboard
Marketplace sellers & non-account SMEs	2. Launch online channel for marketplace sellers (a. single carrier, b. multicarrier, c. price aggregator, d. expand drop & go to include upfront integration with platforms)	1. Become ubiquitous acceptance point for online sales of postage			18. Provide on-demand collection / delivery service between Post Office & customer IRRELEVANT
		3. Offer value added marketplace services e.g., Smart Send, advisory	IRRELEVANT		
		4. Grow Drop & Go SME Club			
	5. Sell domestic POL-labelled parcels and LL online (a. white label a product and/or b. Buy FTL from operators)		IRRELEVANT		
	6. Sell international POL-labelled parcels and LL online (e.g., white-label a Delivery Duty Paid product)				
Social		7. Launch online social channel (a. stamps, b. all postage, c. multi carrier)			
eCommerce (PUDO)	8. Launch consumer e-commerce "receipt hub" to offer consolidated view of e-commerce parcels TBC	9. Strike PUDO partnership deals with operators / retailers/ marketplaces IRRELEVANT		15. Campaign to convert home deliveries to collections (influencing carriers and local government) IRRELEVANT	
		10. Improve quality of PUDO network (e.g., opening hours, CX)			
		11. Increase size of PUDO network (e.g., counters in retailers)			
		12. Accept and consolidate in-flight and undeliverable parcels IRRELEVANT			
Other	13. Optimise operating costs as exclusive agent for RM TBC			16. Enable same day / hour click & collect through hyper-local warehousing IRRELEVANT	
	14. Offer services to under-served RM LVA IRRELEVANT			17. Increase rural asset utilisation (a. Trans-shipping, b. consolidated multi-carrier final mile) TBC	

1 Incremental contribution margin generated in 2025 as a result of enacting strategy (POL gross income net of agent fees, excluding startup investment an(
2 2018/19 contribution baseline = £166.9m (i.e. POL gross income minus Agent Variable pay) from Finance team; Not finalised – subject to change

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3.2

Tab 3.2 Mails Strategy

Drop & Go: Improvements and Opportunity Roadmap

From now until Q4 2021/22	Future areas for investigation (outside of 3YP)	
Current improvements within upcoming Business Case	**Investigating for future Business Cases**	**Opportunities & Issues to be investigated**

Replacement of Digidentity user authentication service	Postage Price Service & Automated Feeds	Postage Finder & Quote within Drop & Go platform	D&G referral to business liabilities insurance	Assist D&G users claiming compensation with missing or damaged items	D&G referrals to new partners aimed at Business customers & offers
CX update across Drop & Go Platform	Mails customer journey & routing tool	New Drop & Go user signup with SMS, WhatsApp or FB messenger	Customer Drop Off boxes for Drop & Go items in branch	Access VAT receipts for past drops in online account	Alternative RMG Mail top-up insurance
On-boarding experience with Auto top up push	UK & International Postage Finder	Digital customs form auto populate D&G Manifest creation	Review branches with specific drop off space, promote locations	Refund from Drop & Go account online	Premium & new postage products with new partners
Prepare for a Drop & Product Catalogue	Prohibited & Restricted Items Tool	New D&G and Mails online help & support centre	D&G card version for mobile phone wallet	Customer use of postage product barcode in branch from preparation online	D&G multi carrier selection & comparison of products
Link from and back to Marketplaces (eBay)	Postage Basket & Share	Add RMG API Pricing & Tracking into Drop & Go	Postmaster guides on why Drop & Go is important for retaining regular income	Digital D&G Manifest scan from phone in branch when dropping off items	Automatically send confirmation & VAT receipt
Notification & Content centre	Personalised preparation actions prior to branch visit	Link to Marketplaces (Amazon, Etsy, Shopify, e-commerce platforms	D&G branch terminals review, volumes & expand	Pilot Selling Postage Products Online & Printing labels	Automatically send tracking code for items
		Pause D&G in branch transaction to pick up later	Audit inactive D&G users, will require updated version of Drop & Go terms & conditions	Incentivise loyal customers – Discount Top-Ups, Flash Sale, Loyalty Scheme	Express D&G fulfilment of drops in branch
		Extended D&G user life cycle with Post Office	Close Drop & Go account online and refund	Drop & Go / Mails App	General Mails Customer/Consumer/one-off Drop & Go proposition

DRAFT

3.2

Tab 3.2 Mails Strategy

Parcel locker operators are investing heavily in the UK market, targeting densely populated high footfall areas where PO does not have a competitive advantage. They are unlikely to drive additional footfall due to accessibility requirements; rural locations are unlikely to be commercially viable and would cannibalise our existing business

Customer proposition
- Provide customers with a secure and convenient low-touch 24/7 parcels collection and drop-off facility
- Strategically sited in high footfall, high population density areas with unrestricted access
- Typically used by younger male consumers for parcel collection, not marketplace sellers

Operational Functionality
- App-enabled
- Open infrastructure for retail partners and carriers
- Re-route missed delivery
- Commercial operators offer 48hr max. Holding time for collection before returning parcel to sender, postal operators longer

Market & competition
- Launched in the UK in 2012, there are now 5.5k lockers: Amazon has 4k (closed network) and InPost 1.5k (open network)
- After new IPO investment, InPost plans to expand to 10k UK sites. Quadient and Lockars also planning new locker networks

Key levers and value
- Could provide coverage in place of non-commercially viable rural outreach branches
- Increases migration of existing business to acceptance-only, with corresponding fall in commissions
- Potential new revenue stream - popular with younger e-commerce customers, driving new repeatable footfall
- Potential advertising revenue

Postmaster considerations & benefits
- Requires significant retail floor space if sited in-branch, reduces Post Office branch footfall if sited out of store
- Easy for customers to self-serve, reducing queueing and processing time
- Retail density hurdle rates for different formats unlikely to be met if sited in-branch

Execution capabilities and Risk
- High SPM dependency, especially for 24/7 access commitment
- Environmental benefits of multi-drop deliveries (B2B) vs. delivery to individuals (B2C)
- App and software API dependent
- PO may require RMG agreement to execute (tbc)

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3.2

Tab 4.1 Cover Paper

POST
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POST OFFICE LIMITED
BOARD REPORT

Title:	POL Board Away Day: Technology session	Meeting Date:	28th July 2021	**4.1**
Author:	Zdravko Mladenov, Business Transformation Director	Sponsor:	Nick Read, Group CEO	

Input Sought:

The "Technology" part of the Away Day will seek input on the future of the main three platforms that make up the core of our technology strategy.[1] These platforms are:

- **The Horizon Replacement platform (currently known as SPM)** – the core POL trading platform in-branch

- **Branch Hub 2.0** – this is the main digital platform POL aims to use for its interactions and support to Postmasters, ranging from training to IT support to community-building

- **POL Data** – this is the programme of work focused on modernising the data infrastructure of the organisation, augmenting POL's ability to generate value through its data

Questions addressed?

1. **What are the core technology platforms for POL:** Introduce briefly the scope of the 3 main technology platforms;

2. **How will Technology support Vision 2025:** Link the three technology platforms (SPM, Branch Hub, POL Data) with the overall strategic vision of the organization;

3. **How will Technology enable other programmes (PUDO, Network Strategy) to deliver critical business objectives:** Link the technology platforms with the key business programmes of the organization;

4. **What strategic technology choices are coming to the Board:** Provide an overview and set the stage for the main strategic decisions that will come in front of the Board in the coming 6 months with regard to this technology agenda.

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[1] What will not be covered in this discussion, because it is addressed in other parts of the Away Day, are two other key strategic technology choices – (a) the choice whether and how to sell Mails online, and (b) the choice how to approach the automation of in-branch customer journeys for core products such as Mails and Banking.

1

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Tab 4.1 Cover Paper

POST OFFICE

Report

What are the core technology platforms for POL?

4.1

1. The three technology platforms covered in this briefing represent **POL's core Postmaster- and In-Branch-Customer-facing technology**, including the supporting 'data engine'. There is a range of other core technology platforms and systems that POL deploys. Those are 'POL Colleague-facing' (e.g., the core enterprise IT of the organisation) or 'back-office facing' (e.g., the main financial system CFS). Those platforms are not covered in this briefing.

2. A brief description of the three platforms follows:

   a. The Horizon Replacement platform, currently labelled **Strategic Platform Modernisation (SPM)** until christened with a long-term name, is the sole IT platform for Post Office in-branch trading. As such, it allows Postmasters to serve customers for ~7 million transactions daily, but also provides a range of critical, non-customer facing business functions for POL and the Postmaster (e.g., branch accounting and cash management functions; acts as the foundation for most other back-office processes; serves as the communication tool between Post Office and Postmaster)

   b. The **Branch Hub platform is an online, Postmaster-facing portal**. It is currently one of several channels used to serve Postmasters with some daily business needs (e.g., stock ordering), but its current scope is somewhat limited as it has evolved organically. Our strategic intent behind Branch Hub 2.0, the programme of work intended to evolve Branch Hub, is to make Branch Hub the primary channel for Postmaster service. As such, it would cover the large majority of relevant daily activity for the Postmaster (e.g., onboarding and training staff, receiving IT support, viewing and interrogating branch performance data, conducting two-ways communications with POL 'HQ', etc.)

   c. The **POL Data platform** is the underpinning data infrastructure and data/MI reporting tools that enable POL and Postmasters to leverage data for commercial or operational gains (e.g., increasing sales for a Postmaster or optimising POL's ability to detect fraud). It is a nascent portfolio of work that joins up currently fragmented components into an end-to-end data function, with the main elements being (a) stabilisation and modernisation of the existing very old data systems, (b) implementation of robust data governance and data ownership framework, (c) enhancing our data exploitation/value realisation methods, and (d) embedding more broadly a data culture across the organisation.

How will these platforms support POL's Vision 2025?

3. POL's Vision 2025 is anchored on 7 key themes: (1) We will prioritise strong, trusting and rewarding relationships with all our Postmasters; (2) We will strengthen our network; (3) We will innovate in Mails; (4) We will secure free, convenient and reliable

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access to cash in every community; (5) We will build commercial partnerships; (6) We will invest in new branch technology; (7) We will create value for our shareholder.

4. Collectively, the three technology platforms discussed in this briefing deliver item 6: *"We will invest in new branch technology"*. They also enable POL's business and operations with the achievement of the other six items, particularly contributing towards item 7: *"We will create value for our shareholder"* and item 1: *"We will prioritise strong, trusting and rewarding relationships with all our Postmasters."* More specifically:

4.1

a. The **Horizon Replacement platform (SPM)** delivers directly Objectives 6 and 7 (invest in new branch tech and improve the financial sustainability of the business) by reducing IT costs. SPM also enables Objectives 1,2,3 and 5 (Postmaster relationships; grow the network; innovate in Mails; launch new products) by providing the technology underpinning the achievement of those objectives.

b. **Branch Hub 2.0** delivers directly against Objectives 1 and 6 (Postmaster relationship; new branch tech). It will also eventually deliver towards Objective 7 (creating value for the shareholder) by allowing a rebalancing of future costs across service channels and, thus, reducing overall spend on training, onboarding, IT support, etc.

c. **POL Data** also delivers directly against Objectives 1 (Postmaster relationship) by allowing POL to provide robust, easy to consume data to Postmasters. It also delivers against Objective 7 (creating value for the shareholder) by reducing our spend on data systems and FTEs working on data.

How will these platforms enable other programmes to deliver critical business objectives?

5. The platforms provide the critical technology foundation to achieve a range of commercial and operational objectives across Post Office. Specifically:

a. **Network Enablement:** The Horizon Replacement programme present the major 'unlock' for the ability of Post Office's Network team to deploy different formats (e.g., Drop and Collect). In turn, the new formats offer reduced targeted product sets and lower operating costs to Postmasters, thus improving critically the profitability and long-term sustainability of branches;

b. **Integration with Strategic Partners:** The new technology will enable the future integration of the Post Office product set into the electronic Point-of-Sale (POS) platforms of strategic partners such as WH Smith. Currently, this is not possible in Horizon. As a result, our ability to expand the strategic partners footprint will improve significantly as it becomes materially easier for a strategic partner to onboard staff and operate Post Office services;

c. **Mails and PUDO:** The new platform allows for expanding the multi-carrier PUDO offering across the full network. Prior to the go-live of the SPM platform, this functionality is achieved via Horizon and via additional portable devices, which adds

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costs to the PUDO proposition. Those costs will significantly reduce with the arrival of SPM;

d. **Postmaster Experience:** The different tech platforms represent a key 'ingredient' for the overall business objective to improve the day-to-day Postmaster experience. This includes enabling improvements in the processes and software to train and onboard staff, consume data on branch performance, communicate with POL 'HQ', receive IT support, etc.

4.1

What strategic technology choices are coming to the Board?

6. The majority of the Away Day discussion will focus on the impending strategic choices that the Board will have to make with respect to the three technology platforms.

7. For the Horizon Replacement platform (SPM), the main strategic decision points of the next 12 months are:

   a. **Plan B:** When, how and at what cost should we starting preparing for a "Plan B" (i.e., in-sourcing Horizon to accommodate SPM delays)? What does that mean for our Fujitsu strategy? For our Horizon Improvement strategy? (Decision expected in H1 of 2022)

   b. **Devices:** What is our Device and Peripherals Strategy? How much are we willing to invest in customised, best-fit devices vs. off-the-shelf (but, therefore, imperfect fit and not space-saving) devices? (Decision expected in H2 of 2021)

   c. **Automation**: This decision is part of a larger discussion, so is only noted here for completeness.

   d. **Base EPOS:** Should we 'buy and customise' our Base EPOS (i.e., the core functions of a counter such as recording a transaction or managing cash in the till), or should we 'build' our own? (Decision expected in H2 of 2021)

   e. **Sourcing Strategy:** Should our longer-term IT sourcing strategy rely on a more diversified supplier base or on a more concentrated (but, therefore, better "knowing POL") one? (Decision expected in H2 of 2021)

8. For Branch Hub, the major questions are whether the Board approves of the direction of travel with this platform – i.e., aiming to render it into the main (but not sole!) portal for communication and support for Postmaster. If the answer is affirmative, the remainder of the discussion will be around the prioritisation of the main pillars of Branch Hub 2.0, illustrated below. This prioritisation, in turn, will drive funding recommendations.

9. For the POL Data platform, the main strategic question is around the scope of investment the Board is willing to make in data. The discussion will present the "must do" elements and a matrix of options (e.g., invest in the 'Gold package' for Data Governance, but only the "Do minimum" for Exploiting Data).

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Tab 4.2 Executive Summary: Pre-Read on Technology

Overview of the Business Transformation Unit (BTU)

Covered in this session

Objectives

Deliver ≫ Modernise POL's customer- and Postmaster-facing technology and information

Support ≫ Serve the POL business as a 'force multiplier' and cross-functional enabler for a broader transformation agenda, covering core POL commercial, operational and back-office journeys

Select projects and programmes

Strategic Platform Modernisation Programme

- **Horizon replacement platform**, which is the sole IT platform for Post Office in-branch trading.
- Provides a range of critical, non-customer facing business functions (e.g., branch accounting and cash management; foundation for most other back-office processes)
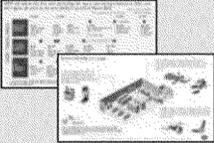
Branch Hub 2.0

- **Our online, Postmaster-facing portal.** Currently one of several channels used to serve Postmasters with some daily business needs (e.g., stock ordering)
- Strategic intent behind Branch Hub 2.0 to make it the primary channel for Postmaster service.

POL Data Programme

- **The underpinning data infrastructure and data/MI tools** that enable POL and Postmasters to leverage data
- Covers modernisation of legacy infrastructure; implementation of data governance; enhancement of our data exploitation methods; embedding more broadly a data culture across the organisation.

Project BAFTA

- **BAFTA stands for "Branch Accounting and Financial Transaction Activity"**
- This projects focus on overhauling the finance, business and tech processes that underpin how branches conduct their regular accounting and manage their cash

Key additions to the BTU team

GRO — **Woody Ruane, Finance Strategic Partner** Woody spent 14 years at the John Lewis Partnership (incl. Waitrose) where he held the Transformation Programme Director and Finance Director role

GRO — **David Steed, Chief SPM Solution Architect** During his 16 years at PayPoint, David architected and built the PayPoint One platform, and designed their Collect Plus

GRO — **Gareth Clark, SPM Product Director** Between 2015-20, Gareth built and deployed the Ministry of Defence's core IT platform, holding a rank equivalent to a 1-star General

GRO — **Brian Hogg, Head of Technology Strategy** Brian (joining on 5 Oct) is the current Head of Technology for EasyJet, leading their software development, self-service and digital channels

GRO **GRO** — **Zoscha Partos, Dani Ball** Previously veteran consulting managers at McKinsey, Zoscha and Dani are now the programme 'engines' behind Data and BHub

4.2

Tab 4.2 Executive Summary: Pre-Read on Technology

Topic 1 – SPM: Upcoming major strategic decisions

Oct 21 **Dec 21** **Mar 22** **Jul 22**

Decision: Base EPOS

Option 1: 'Buy and customise' our Base EPOS (i.e., the core functions of a counter such as recording a transaction or managing cash in the till)

Option 2: …or 'build' our own?

Key considerations:

- **Time** from 'flash-to-bang', including procurement time

- **Total cost of ownership**, i.e., including long-term EPOS license costs

- **Trade-off between dependency on external supplier** for any changes vs. risk of reliance on POL capability

Decision: Devices

Option 1: Invest in customised, best-fit devices and peripherals

Option 2: Go down the route of off-the-shelf products (but not space-saving or "cool")

Key considerations:

- **Counter space** comes at a high premium for retailers

- **High cost and time** for the design of customised options

- **Higher long-term support costs** for integrated devices

- 'Once in a generation' **opportunity to win Postmasters** with new device

Decision: Sourcing Strategy

Option 1: Seek a longer term IT strategy that relies on a fairly diversified supplier base

Option 2: …focus on a strategy of max 2-3 large-scale partners

Key considerations:

- **Accelerated ability to 'get things done'** with smaller subset of supplier who 'know POL' + lower transact costs

- **Better access to niche 'best-in-class'** capabilities with more diverse footprint

- **Vendor lock-in** with smaller subset of long-term partners

- **Public perception** concerns

Decision: Plan B

Decision: When, how and at what cost should we starting preparing for a "Plan B" (i.e., in-sourcing Horizon to accommodate SPM delays)? What does that mean for our Fujitsu strategy? For our Horizon Improvement strategy?

Key considerations:

- Having a viable 'insource Horizon' option is likely a **critical insurance policy** against SPM challenges

- Impact from an active Plan B on the **Fujitsu relationship** and motivation to support POL is highly uncertain

- Focusing on Plan B spreads even further an already **thinly spread management and subject matter expert capability**, while the costs add up a high total already

4.2

Tab 4.2 Executive Summary: Pre-Read on Technology

Topic 2 – POL Data: Overview of main components (1/2)

Pillar	Description
1 Legacy stabilisation	**Focus is on the POL legacy data infrastructure** – data warehouses (Credence, Arrow) and master data management (MDM. For all, POL is operating at risk and experiencing failures since the systems are partially or fully past end of life, with significant costs for third parties for support. The decision of how to progress here is connected to the future data infrastructure decision below.
2 Future data infrastructure	Future data infrastructure has two components: a) Building a **new POL Data Lake (AWS)**. The initial focus will be to decommission Credence, POL's primary data warehouse, by replicating data feeds to the data lake and supporting the build of equivalent output reports. Following this, the project will move onto decommissioning Arrow (additional data warehouse) and meeting business pain points and requirements, improving functionality b) Replacing existing **Master Data Management solution**, referenced in HIJ and significantly outdated, with data quality isuses
3 Data Management Data Quality Data Governance Data Ownership	Data Management as a pillar is an agglomeration of a several elements, partially also covered by HIJ findings: a) **Data Governance**: Create the policies/standards/principles and mechanisms/processes to regulate and enforce how data is managed across POL, ensuring we collectively comply with internal policies and external legislation b) **Data Ownership**: Develop and implement a model to ensure accountability for data components is held at business level, with single point of accountability where appropriate and clarity of what data owners and data stewards are expected to do c) **Data Quality**: Drive a data clean-up and long-term ability to measure, report on data quality, ultimately driving trust in data
4 Data Value Realisation / Data Exploitation	The first part of data exploitation will be **optimising reporting** to drive both efficiency and effectiveness across POL, rationalising the vast number of reports and pushing self service capabilities In addition, we will develop a **centre of excellence for data science (an agglomeration of modern tools – Machine Learning, Artificial Intelligence, Advanced Analytics)**, starting small and scaling, to drive the exploitation of data across POL, leveraging it for competitive advantage. Additionally, it requires a **business process reengineering capability** to support these changes and facilitate greater, faster business adoption
5 Data Culture	To underpin the above pillars and transform POL into a data-centric organisation, a data culture and literacy programme will be established to drive a **data centric culture** across POL, and **facilitate the learning and development** of POL's colleagues in an increasingly data oriented world

4.2

Tab 4.2 Executive Summary: Pre-Read on Technology

Topic 2 – POL Data: Overview of main components (2/2)

Project costs over 3 years, £M

Mgmt Rec

Pillar	TOTAL[1]	Legacy stabilisation	Future data infrastructure	Data management	Data value realisation	Data culture and literacy	
Bare minimum	1.7	-	-	0.8	0.2	-	• No stabilisation for legacy systems and no new data infrastructure (POL Data Lake) • Minimum required upgrades to improve future data governance and ownership; no action on quality • Rationalisation of existing report 'estate'
Fix foundations	5 – 7	0.1 – 1.6	2.7	1.5	0.2	-	• Assessment of legacy stabilisation options • Slow 'build' of Data Lake with internal resources, resulting in eventual ability to retire legacy systems • Addresses HIJ findings on data governance and data ownership
"Silver"	8 – 10	0.1 – 1.6	3.6[2]		0.9	-	• Adds more dedicated resource and scope to the infrastructure modernisation effort • Expands data management efforts minorly into addressing data quality issues • Adds basic layer of data science (AI, ML, etc.)
"Gold"	12.9	1.6	4.3	3.5	1.5	0.4	• Invests fully in stabilisation of legacy systems • Adds external support for the Data Lake • Expands scope of data quality fixes; adds data stewardship resources going forward • Includes small-scale data culture and literacy effort
Best-in-class	15.6	1.6	4.3	4.1	2.1	1.2	• Adds extensive focus on data quality and long-term data stewardship at the business level • Expands scope of data science capability (ML, AI, etc.) into a POL Centre of Excellence, including support for the business to boost adoption • Expands the scope of the data culture effort

1 Total number includes additional central team and overheads which scale with project size, hence is larger than sum of five pillars; 2 £500k of this is for MDM upgrade and is likely to be duplicative with 1.6M in legacy stabilisation – if full legacy stabilisation needed this likely will not be needed - TBC   Notes: DM = Data Management

4.2

Tab 4.2 Executive Summary: Pre-Read on Technology

Topic 3 – Branch Hub 2.0: Overview of strategic pillars and projected costs

Pillar		Description
0	**Platform availability and ease of use**	Boosting **adoption** to 100% and driving **improvements in NPS** (to be established)
1	**Branch Performance and MI**	Providing Postmasters with the **full slate of branch data** (e.g., sales, remuneration, conformance) to maximise their effectiveness and profitability
2	**Training and onboarding**	Consolidating and greatly **simplifying the training and onboarding journeys** for Postmasters in one location – Branch Hub
3	**Knowledge, comms and community**	Consolidating and greatly simplifying **access to help and support materials**; and creating a **stronger Postmaster digital community** and **robust connection with POL**
4	**Branch operations**	Digitising select **paper-based processes** to ease the administrative burden on Postmasters; consolidating other relevant **web-based branch activities** in one location
5	**IT support**	Provide more **seamless interactions with IT** for Postmasters (e.g., enhanced self-service and chat functionality) alongside a digital space for the provision of IT related information

IRRELEVANT

4.2

Tab 4.3 Pre-Read on Branch Hub

POST OFFICE

Branch Hub 2.0

A brief introduction

4.3

Tab 4.3 Pre-Read on Branch Hub

What is Branch Hub?

- Branch Hub is an online platform that is accessible by Postmasters and their staff, with **93% of enabled branches[1] currently registered**

- Users can **conduct a number of activities** on the Branch Hub platform including ordering coin and stock, making declarations and receiving help and support

- Users are also able to **suggest new features** for Branch Hub which we have used to shape our roadmap going forward

- Postmasters have shared generally **positive feedback** about Branch Hub, with many excited for its expansion and engaged in helping us to shape the platform's future
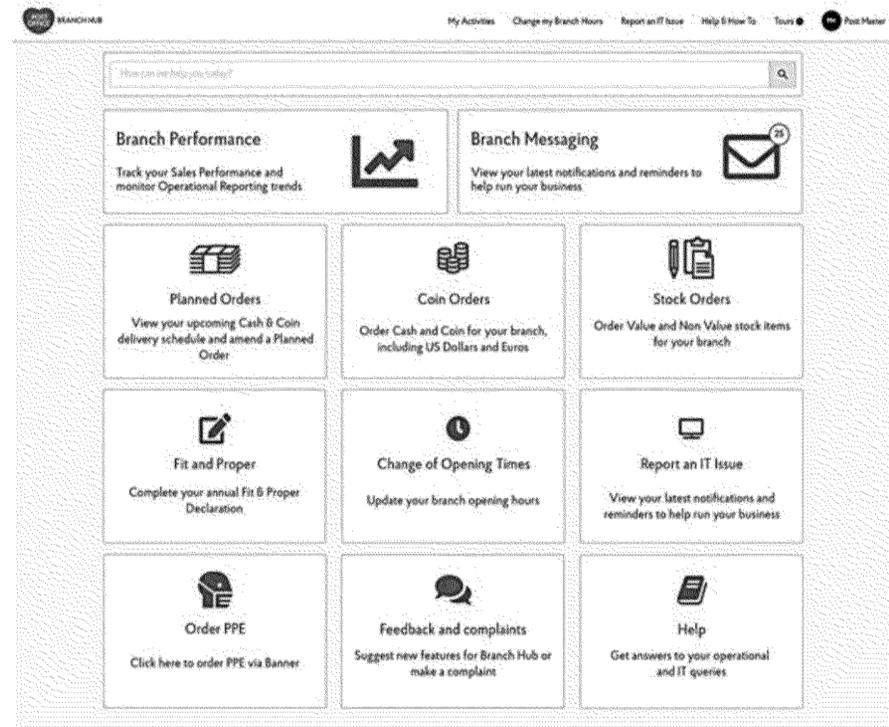
1 93% of enabled branches (10.15K) are registered; branches not yet enabled include multiple and agency branches

2

4.3

Tab 4.3 Pre-Read on Branch Hub

Branch Hub's vision for the future:

To create a connected Postmaster community and improve the day-to-day lives of Postmasters by providing them with information, data, services, help and communication channels in an easily accessible, simple to use format

4.3

Tab 4.3 Pre-Read on Branch Hub

What are the six main pillars behind our strategic intent for Branch Hub 2.0?

Branch Hub 2.0 expands the ambition for the Branch Hub platform to become the main Postmaster portal for a range of information and services

We have worked with Postmasters to identify capabilities across six strategic pillars which will deliver a range of outcomes and benefits for Postmasters

	Pillar	Description
0	Platform availability and ease of use	Boosting **adoption** to 100% and driving **improvements in NPS** (to be established)
1	Branch Performance and MI	Providing Postmasters with the **full slate of branch data** (e.g., sales, remuneration, conformance) to maximise their effectiveness and profitability
2	Training and onboarding	Consolidating and greatly **simplifying the training and onboarding journeys** for Postmasters in one location – Branch Hub
3	Knowledge, communications and community	Consolidating and greatly simplifying **access to help and support materials**; and creating a **stronger Postmaster digital community** and **robust connection with POL**
4	Branch operations	Digitising select **paper-based processes** to ease the administrative burden on Postmasters; consolidating other relevant **web-based branch activities** in one location
5	IT support	Provide more **seamless interactions with IT** for Postmasters (e.g., enhanced self-service and chat functionality) alongside a digital space for the provision of IT related information

4

4.3

Tab 4.3 Pre-Read on Branch Hub

Deep dive on Pillar 0 (Platform Adoption): Only 93% of branches are registered on Branch Hub and 36% of visitors only visit once per week, thus making further adoption one of our priorities

Branch registrations

93% registered

(9,419 branches)

Percentage of visits from visitors who have already visited in week

36% new visitors

64% returning visitors

Weekly visits #

8000
7000
6000
5000
4000
3000
2000
1000
0

01 May 20 01 Sep 20 01 Jan 21 01 May 21

Click here for a more detailed view of Branch Hub usage metrics

5

4.3

Tab 4.3 Pre-Read on Branch Hub
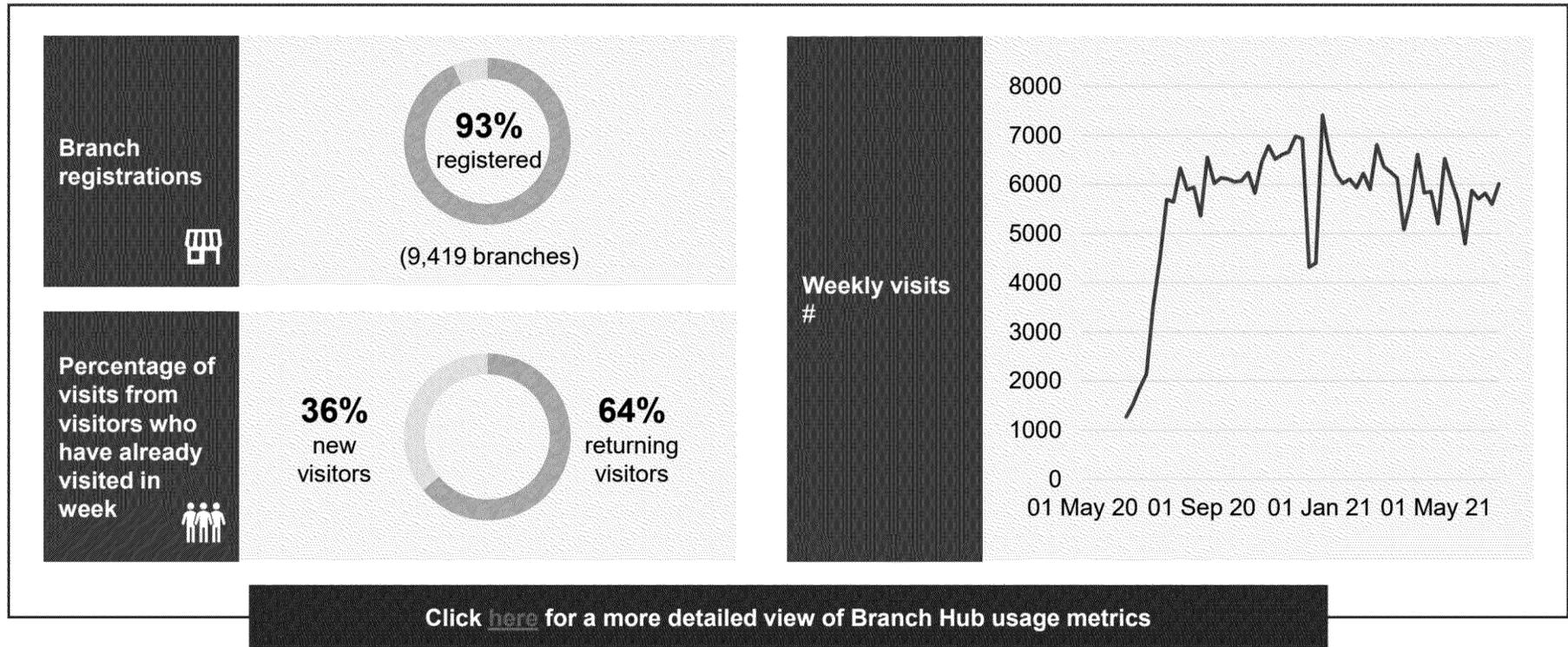
How have we engaged with Postmasters to design Branch Hub 2.0?

We have engaged with Postmasters in a number of ways to shape our vision for Branch Hub 2.0:

- Discussed Branch Hub with **focus groups** of 5-10 Postmasters

- Spoke with the "very positive" and "excited" **NFSP** about the future of Branch Hub

- Conducted Postmaster **interviews** to gain insight into how they use and would like to use Branch Hub

- Used **surveys** hosted on Branch Hub to capture Postmaster preferences for the future of Branch Hub

- Connected with the **Postmaster NEDs** (via Zdravko Mladenov) on what we are doing to explore his requests for Branch Hub expansion

- Presented Branch Hub to >100 Postmasters in the **IT Working Group** and other sessions to gain feedback and suggestions

- Worked with the **BTU's Postmaster Engagement team** to capture comments and concerns related to Branch Hub raised by Postmasters in other interviews and forums

GRO

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4.3

How does this scope support other POL aspirations, commitments and programmes?

Branch Hub underpins and enables a number of POL's aspirations, commitments and programmes

PSIP — Branch Hub will surface many of PSIP's core deliverables; it is a critical enabler for many of PSIP's benefits – they are inextricably interlinked

SPMP — SPMP will leverage Branch Hub as a main channel for support / communication with Postmasters as it builds a solution that best meets Postmaster needs

IDG — Branch Hub was called out in the CIJ legal analysis multiples times as part of the solution to deliver compliance, and is delivering against this

Deloitte report — Branch Hub was mentioned throughout the Deloitte report, with Branch Hub 2.0 prioritising its recommendation that Branch Hub surface remuneration data

Vision 2025 — POL's 2025 vision includes prioritising "strong, trusting and rewarding relationships with our Postmasters"; Postmasters have asked for the expansion of Branch Hub and so Branch Hub 2.0 supports the delivery of this vision

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4.3

Tab 4.3 Pre-Read on Branch Hub

What have we learnt from Branch Hub 1.0, giving us confidence that Branch Hub 2.0 will be successful?

We have learnt from the past...

In Branch Hub Phase 1, The time and cost to deliver features in the backlog was underestimated

For Branch Hub 2.0, We calculated time and cost to deliver based on a bottom-up view of the resources needed (on a days needed basis) to deliver each of the items in the roadmap triangulating input from Accenture and POL resources

Branch Hub Phase 1 received many unanticipated demands last minute from business

We have introduced a fortnightly Branch Hub Product Forum (with representatives from major interdependent programmes, Service Centre, Branch Ops etc) to capture requirements earlier, with a more transparent demand management process in place

Branch Hub Phase 1 did not deliver all benefits captured in the change request and finance model

We are working with those in the business to ensure alignment on the size of benefits in the Branch Hub 2.0 business case and are not committing to financial benefits until ownership of benefits has been agreed

Branch Hub is not used on a regular basis by all Postmasters

The Branch Hub 2.0 business case budgets for an FTE dedicated to Postmaster engagement and adoption and are leveraging the BTU's fortnightly focus group ("IT Working Group") to engage with a rotating group of Postmasters

...and set ourselves up for success

New home

Branch Hub 2.0 is part of the Business Transformation Unit (BTU), enabling it to benefit from easy access to the required partnership from all parts of the business

New team

Branch Hub 2.0 brings together expertise from industry with experience with Post Office, including seconding an Area Manager into the team to focus on Postmaster engagement and adoption

New vision

Branch Hub Phase 1 focused on delivering benefits for POL, Branch Hub 2.0 has adopted a clear change of direction to focus on building Branch Hub with Postmasters for Postmasters

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4.3

Tab 4.3 Pre-Read on Branch Hub

Branch Hub 2.0 is forecast to cost **IRRELEVANT** but at this stage is only in the process of requesting the first half of the FY21/22 funding

IRRELEVANT

4.3

Tab 4.3 Pre-Read on Branch Hub

The benefits of Branch Hub 2.0

POST OFFICE

4.3

What benefits will Branch Hub 2.0 deliver? (1/2)

Branch Hub 2.0 will deliver a long list of benefits to both Postmasters and the business

Many of the benefits are non-financial benefits related to meeting and exceeding Postmaster expectations, improving their day-to-day experience and building a stronger relationship with them

Given we are at an early stage, most of our benefits are not yet quantified – in the Business Case we have only called out financial value where a benefits owner has been identified

Pillar	Benefit	Benefit owner
1 **Branch Performance and MI**	• Uplift in revenue as Postmasters will be given data (e.g., sales by employee) enabling them to make changes in branch and improve efficiency • Freeing up of Area Manager time currently spent giving branches access to data relating to their branch	Andy Kingham
2 **Training and onboarding**	• Potential reduction in training costs as Postmasters access training online, reducing reliance on lengthy classroom training • Potential reduction in time to onboard new members of staff due to streamlining on onboarding journey • Improvement to Postmaster and employee experience driven by digitisation of journeys	Tracy Marshall
3 **Knowledge, comms and community**	• Potential reduction in costs related to existing channels (e.g., One Site) being subsumed by Branch Hub as the first point of contact for Postmasters • Streamlining of Postmaster experience as they are able to access information in one place, making it easier for them to find the support they need	Richard Taylor

4.3

Tab 4.3 Pre-Read on Branch Hub

What benefits will Branch Hub 2.0 deliver? (2/2)

Branch Hub 2.0 will deliver a long list of benefits to both Postmasters and the business

Many of the benefits are non-financial benefits related to meeting and exceeding Postmaster expectations, improving their day-to-day experience and building a stronger relationship with them

Given we are at an early stage, most of our benefits are not yet quantified – in the Business Case we have only called out financial value where a benefits owner has been identified

Pillar		Benefit	Benefit owner
4	Branch operations support	• Reduction in costs driven by in-house digitisation of outsourced or paper-based services (e.g., payslips, P250 vetting form, contract signing) • Reduction in Postmaster time and effort needed to complete tasks in branch	Tim Perkins
5	IT support	• Financial benefit from a reduction in dependency on a human-heavy support model as Postmasters are able to access self-serve help and support from Branch Hub • Improvement to Postmaster experience as Postmasters are able to get the support they need in a convenient manner at a time that suits them (especially key if serving customers in parallel)	Gary Walker
6	Platform availability and ease of use	• Generation of IRRELEVANT annual savings in reduced SMS cost (Grapevine) • Provision of quicker and smoother user journeys and improve issue resolution	Tim Perkins

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4.3

Tab 4.3 Pre-Read on Branch Hub

POST OFFICE

Delivery plan details

4.3

Tab 4.3 Pre-Read on Branch Hub

We adopted a bottom-up approach to the development of the Branch Hub 2.0 plan, deriving insights from a number of inputs

Inputs	Deliverables	Resources needed	Cost of resources

Inputs:

Branch Hub vision

Postmaster input (e.g., via workshops)

Other programmes (e.g., PSIP, Digital Enablement)

Deloitte Report

Internal Audit Report

Deliverables:

We translated the insights from these inputs into a set of deliverables which we prioritised and mapped against six pillars:

1 Branch Performance and MI

2 Training and onboarding

3 Knowledge, communications and community

4 Branch operations

5 IT support

6 Platform availability and ease of use

Resources needed:

We worked with a range of parties to develop a bottom-up view of the resources needed (on a days needed basis) to deliver each of the items in the roadmap

This included seeking input from:
- Accenture
- Solution Architect
- Senior Product Owner
- Head of IT Service and Operations

Cost of resources:

We translated these requirements into the resource cost for the Business Case and sought further input on non-resource costs (e.g., for integrations) to determine the total cost of delivering the full set of deliverables

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4.3

What are our target timescales for delivery?

PRELIMINARY

		By December 2021	By June 2022	By mid-2024
0	Platform availability and ease of use	• Mobile app • Home page / navigation improvements • PM-managed staff use of Branch Hub	• Branch Hub on more devices in branch • Improved experience for multiples	
1	Branch Performance and MI	• Expansion of Branch Performance to include data about more products, branch remuneration and operations more generally	• Branch Performance for pluralists (i.e., aggregated data) • Tips for branches on improving their sales performance	
2	Training and onboarding	• Access to various forms (e.g., agent vetting form) via the Branch Hub platform • Improvements to the onboarding journey	• Further improvements to the onboarding journey (e.g., before receipt of Smart ID) • Improvements to the offboarding journey	There are a range of other features we are aiming to deliver by 2024, with the full list and associated timescales to be determined based on Postmaster feedback and suggestions and business requirements
3	Knowledge, communications and community	• Improved ability for Postmasters to give feedback and make complaints • Branch Hub forums to allow Postmaster community to share best practice	• Ability for Postmasters to access support with improving their digital presence on Branch Hub • Targeted branch messaging	
4	Branch operations	• Web chat / virtual agent • Stock ordering improvements • Improved access to help and support (e.g., Knowledge Articles)	• Improved end-to-end case management journeys	
5	IT support	• Improved experience for branches when seeking support with IT	• Improved end-to-end case management journeys for IT	

4.3

Tab 4.3 Pre-Read on Branch Hub

The Business Case is structured around six pillars developed based on what we've heard from Postmasters and the business (1/2)

What did the Postmasters say?	Which pillar addresses this? (Business Sponsor / Owner)	What are the target deliverables for FY21/22?	How do these deliverables meet the Postmaster need?
We do not have access to the data we need to run our branches and are reliant on Area Managers for this information	**1** **Branch Performance and MI**	• Expansion of Branch Performance to include wider data set and to inform enhancement of sales performance • Digital remuneration advice forms and information on remuneration calculations • Branch Performance for pluralists	Branch Hub will host dashboards and datasets that Postmasters need to optimally run a branch; this is a feature that 90% of Postmasters say they would use In particular this will contain information relating to remuneration and compliance, data that Postmasters have articulated demand for repeatedly (reducing need for printing)
We find the onboarding and training processes long and onerous, both when opening branches and for onboarding new staff	**2** **Training and onboarding**	• Digitisation of the agent vetting form • Onboarding journey on Branch Hun • Offboarding journey on Branch Hub	Digitisation of the onboarding and training journeys will accelerate those journeys and allow Postmasters and their staff to access them in a way and at a time that suits them Introduction of a smooth onboarding journey (i.e., from before receipt of Smart ID onwards) will also foster Postmaster familiarity with Branch Hub, driving its use in the future
We find it difficult to find the information we need and are overwhelmed by the number of communication channels with Post Office	**3** **Knowledge, communications and community**	• Branch Hub forums for Postmasters • Improvements to formal feedback avenue for Postmasters on Branch Hub • Boosting your digital presence section[1] • Targeted branch messaging • Migration of One Site onto Branch Hub	Branch Hub will be the start point for Postmasters when they need information meaning that they are able to find all of the information they need in one place Branch Hub will strengthen connections across the Postmaster network and build engagement, including via with forums, a feature that 86% of Postmasters said they'd use

1 This was a request from the Digital Enablement team for Branch Hub to host content to support Postmasters with improving their digital presence through tools such as Google My Business

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4.3

Tab 4.3 Pre-Read on Branch Hub

The Business Case is structured around six pillars developed based on what we've heard from Postmasters and the business (2/2)

What did the Postmasters say?	Which pillar addresses this? (Business Sponsor / Owner)	What are the target deliverables for FY21/22?	How do these deliverables meet the Postmaster need?
We cannot access support with running our branches at times that suit us We want to do more on Branch Hub	**4 Branch operations support**	• Virtual agent / web chat • Case management • Stock and coin ordering improvements, including forecasting cash holdings and providing insight on item availability	Postmasters will be able to connect with a larger number of teams (e.g., IT, Legal, …) at a time that suits them via virtual agent and web chat on Branch Hub Branch Hub will be a "one stop shop" for Postmasters to easily conduct a range of critical branch activities (see full set of roadmap deliverables in Appendix)
We are unable to access IT support in a convenient manner and at a convenient time	**5 IT support**	• Enhancement of IT virtual agent • Case management (IT)	Postmasters will be able to access IT support via Branch Hub, including answers to questions about common problems, immediate support from a virtual assistant and contact details for human support
We want to use Branch Hub but cannot access it in branches (e.g., because we don't have the appropriate hardware)	**6 Platform availability and ease of use**	• Mobile app and addition of Branch Hub to devices in branch to improve access • Postmaster-managed RBAC (role-based access) solution for Postmasters • Journeys for multiples • Journey / process optimization / SEO	Branch Hub will be accessible on a wider range of devices, including on a mobile app, to increase Postmaster availability Challenges with adoption for less technical will be addressed through UX improvements (e.g., refresh of interfaces to make them easy-to-use and highly accessible, with simple navigation and clear language to support Postmasters)

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4.3

Tab 4.3 Pre-Read on Branch Hub

What will we deliver in the first tranche of FY21/22?

Pillar	Target deliverables
1 **Branch Performance and MI**	• Branch sales data (by branch, by Smart ID) to all branches • Branch customer sessions data to all branches • Operational reporting to all branches • Branch messaging • Ability to export to excel • Sales support information, information on sales campaigns • Digital remuneration advice forms
2 **Training and onboarding**	• Portal on Branch Hub for Postmasters to access a range of forms needed to run a branch (e.g., P250) • Digitisation of some aspects of the onboarding journey (working with PSIP)
3 **Knowledge, comms and community**	• Improvements to Branch Hub as a formal feedback avenue for Postmasters (e.g., creation of digital discrepancy form) • Creation of Branch Hub forums for Postmasters to connect on Branch Hub, share best practice etc.

Pillar	Target deliverables
4 **Branch operations support**	Deliverables postposed for 2022 onwards
5 **IT support**	Deliverables postposed for 2022 onwards
6 **Platform availability and ease of use**	• Branch Hub home page refresh and optimisation of journeys from home page • Creation of mobile app • Postmaster managed role-based access, allowing Postmasters to select what their employees can see • Addition of Branch Hub to ID tablets (feasibility currently being explored)

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4.3

Tab 4.3 Pre-Read on Branch Hub

POST OFFICE

Early progress on Branch Hub 2.0

Tab 4.3 Pre-Read on Branch Hub
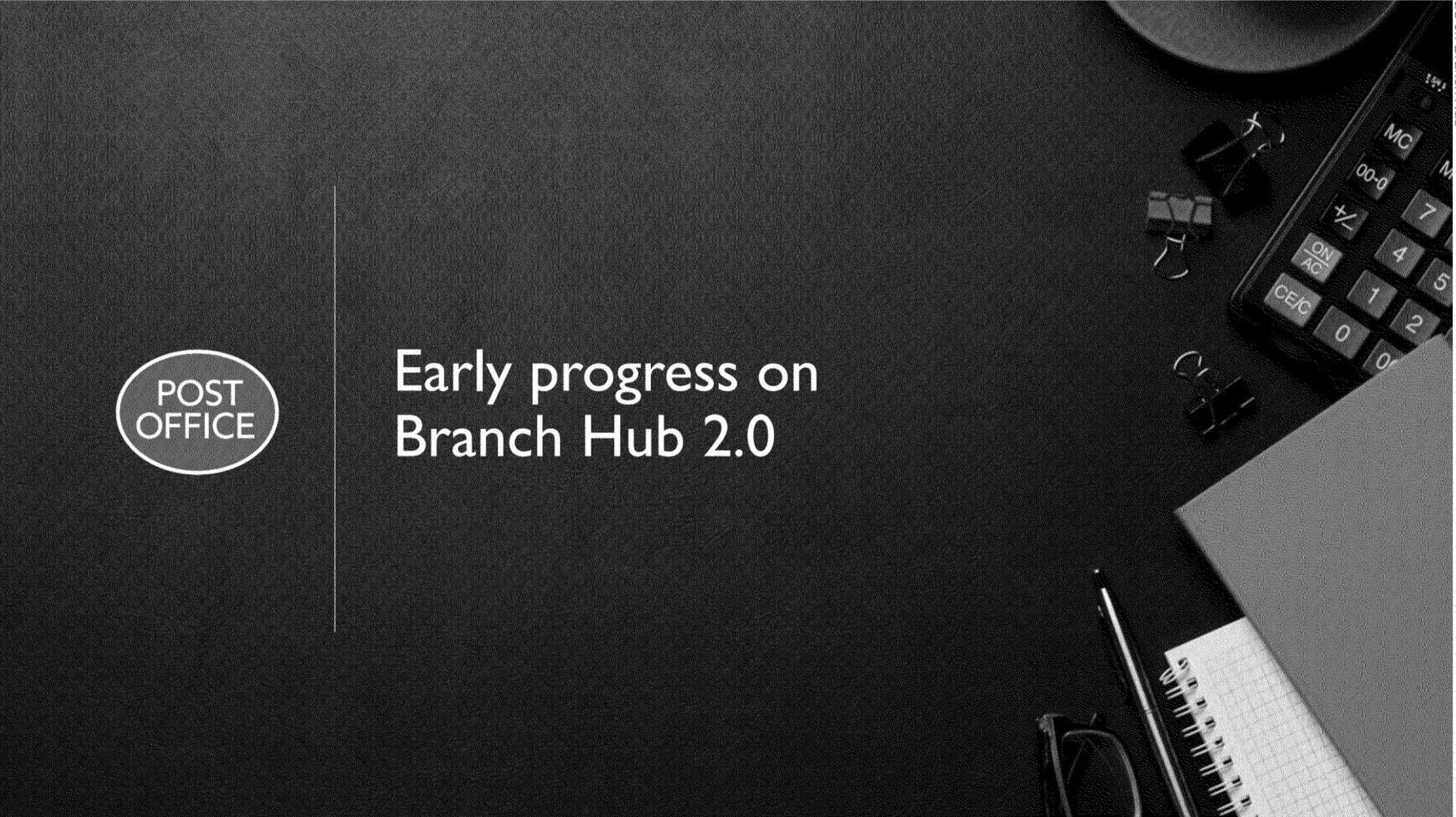
What has Branch Hub 2.0 delivered to date?

To date, Branch Hub has driven **improvement in platform fundamentals** (e.g., registration, single sign on, search improvements) as well as delivering a number of new features for Postmasters

Branch Hub responded quickly to the COVID-19 pandemic, releasing a number of new features to provide Postmasters with **operational support throughout the pandemic** (e.g., the ability to order PPE)

Non-exhaustive overview of capabilities delivered to date

	What do Postmasters want?	What have we delivered?
Core branch support	Postmasters shared that it was often challenging to conduct activities (e.g., report IT issues, update opening hours) through existing available channels which often required the Postmaster to dial in	We've added a range of **digitised journeys** to Branch Hub, allowing Postmasters to do many **critical activities** (e.g., report IT issues, complete Fit & Proper self-declarations, give feedback, access Knowledge Articles, update opening hours) in one easily-accessible place
Ordering	Postmasters reported that the ordering process on Horizon was cumbersome, with over 20 screens for stock ordering and an inability to amend their planned orders	We have created tools to allow Postmasters to **order both coins, currency (USD, Euros) and value and non-value stock items** on Branch Hub (with just 3 screens), as well as allowing Postmasters to amend their planned orders
Branch Performance	Postmasters asked for the ability to self-serve information about their branch, with 90% saying that this was a feature on Branch Hub they would use	We've developed **Branch Performance** (currently in pilot form), giving Postmasters a range of information about their branch/es including sales data (by staff member), transactions data and customer sessions data; feedback from Postmasters on this feature has been overwhelmingly positive to date

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4.3

Tab 4.3 Pre-Read on Branch Hub

What are Postmasters saying about the early versions of Branch Hub 2.0?

We are committed to building a Branch Hub that works for those who will be using it – Postmasters

To build Branch Hub with Postmasters, we engage with them through a number of channels, from surveys to interviews and workshops

Feedback from Postmasters on Branch Hub has been resoundingly positive – they are enthused by progress to date and excited for future expansion, with many suggestions for what we can do

" Branch Hub is **the way forward** "

" It's **great** that you can easily access the information **whenever you want** "

" It's a **great tool** and would **recommend to everyone** to use "

" Branch Hub is **the future** – I like it "

" Branch Hub is **brilliant – keep it coming** – I use it for all my stock, all my currency, all my ATMs – it's brilliant! "

" Branch Performance looks **fantastic** – I'm 62 years of age and I can easily understand it "

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4.3

POL Board Strategy Day 2 - 28 July 2021-28/07/21

Tab 4.3 Pre-Read on Branch Hub

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Appendix

4.3

Tab 4.3 Pre-Read on Branch Hub

FY21/22: We worked with a range of parties to develop a triangulated view of the resource time needed to deliver the deliverables in the roadmap

Deliverables (through to Mar'22)	Priority	Sprints	Developers
Mobile app	Very high	3	2
Journeys f	Very high	3	4
Postmaster-managed RBAC solution	Very high	3	2
Multiples registration and log-in	High	4	4
Branch Hub on devices in branch	Medium	2	2
Pluralist Branch Performance	Very high	2	2
Sales performance enhancement	High	3	2
Branch Performance for Area Managers	Medium	4	2
Onboarding journey	Very high	2	2
Agent vetting form	Very high	4	2
Branch Hub forums	High	1	2
Migrate One Site	High	3	2
…	…	…	…

Priority based on value to Postmasters and POL and time / effort to deliver

21/22 days by pillar	Solution Architect	Scrum Master	Developer	UX	Tester
Branch Performance and MI	74	74	296	59	56
Training and onboarding	74	74	262	49	47
Knowledge, comms and community	37	74	262	59	56
Branch operations support	37	118	210	49	47
IT support	37	30	52	30	28
Platform availability and ease-of-use	37	74	580	49	47

Pillar	Resource	Non-resource	Total
Branch Performance and MI			
Training and onboarding			
Knowledge, comms and community			
Branch operations support			
IT support			
Platform availability and ease-of-use			
Total			

IRRELEVANT

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4.3

Tab 4.4 Pre-Read on POL Data

POL Data
Board document, pre-read

July 2021

4.4

Key messages

1 | **The current 'state' of data at POL** shows a fragmented overall function, with a number of outdated and out-of-support legacy systems, [IRRELEVANT] [IRRELEVANT] and limited organisational ability to extract business value out of available or future data
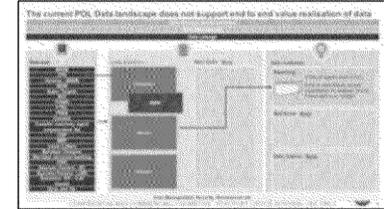
2 | **The proposed "POL Data Programme" body of work both addresses immediate challenges and establishes the foundation for an end-to-end data function.** This includes:

– Stabilising and retiring legacy systems, replacing with a modern "data lake"

– **IRRELEVANT**

– Building capabilities, mechanisms and culture to better leverage data for POL and postmaster benefit (e.g., through advanced analytics capabilities)

3 | **The mid-point of the proposed funding envelope is** [IRRELEVANT] (ROI of ~9 years compared to current costs). The discussion at Board level will offer a menu of further options to choose from, ranging from 'Do Nothing/Minimum' to 'Best in Class'

Tab 4.4 Pre-Read on POL Data

POL Board Strategy Day 2 - 28 July 2021-28/07/21

Contents

- What are some of the current challenges with POL Data?

- What is the proposal for a "POL Data Programme"?

- What are the underlying financials?

POST OFFICE

4.4

The current POL Data landscape reflects significant challenges (1/5)

Data Strategy and Architecture - Limited

Data Management - Limited

Data Lineage - Limited

Data sets

BRDB
CFS
Horizon / BRDB
MDM
Sales Targets
BOI
POMS
FTEL
FRES
Camelot
Camelot matching agent remuneration file
CDP
BRP
Local Collect
Barclays Cheques
Barclays personal banking
CWC
Success Factors - EC
Success Factors - LMS
Dynamics 365 – Call Centre
Drop and Go

Data platforms

Credence

MDM

Arrow

Horace

Data Marts - None

Data realisation

Reporting

1000s of reports are currently generated by POL with unclear usage. Most areas then manually process data via Excel exports

Self-Serve - None

Data science (e.g., Machine Learning, Advanced Analytics, Artificial Intelligence) - **None**

User Management, Security, Permissions etc

OFFICE 4

4.4

The current POL Data landscape reflects significant challenges (2/5)

Data Strategy and Architecture - Limited

Data Management - Limited

Data Lineage - Limited

Data sets

- BRDB
- CFS
- Horizon / BRDB
- MDM
- Sales Targets
- BOI
- POMS
- FTEL
- FRES
- Camelot
- Camelot matching agent remuneration file
- CDP
- BRP
- Local Collect
- Barclays Cheques
- Barclays personal banking
- CWC
- Success Factors - EC
- Success Factors - LMS
- Dynamics 365 – Call Centre
- Drop and Go

Data platforms

- Credence
- MDM
- Arrow
- Horace

Data Marts - None

Data realisation

A

Legacy data warehouses require stabilisation: Credence and Arrow are beyond end of life, out of support, and frequently fail – causing systems to be offline, which leads to business disruption

User Management, Security, Permissions etc

5

4.4

The current POL Data landscape reflects significant challenges (3/5)

Data Strategy and Architecture - Limited

Data Management - Limited

Data Lineage - Limited

Data sets

| BRDB |
| CFS |
| Horizon / BRDB |
| MDM |
| Sales Targets |
| BOI |
| POMS |
| FTEL |
| FRES |
| Camelot |
| Camelot matching agent remuneration file |
| CDP |
| BRP |
| Local Collect |
| Barclays Cheques |
| Barclays personal banking |
| CWC |
| Success Factors - EC |
| Success Factors - LMS |
| Dynamics 365 – Call Centre |
| Drop and Go |

Data platforms

Credence

MDM

Arrow

Horace

Data Marts - None

Data realisation

Reporting

B

In addition, Legacy systems do not meet the needs of POL for the future; they:

- Drive very high costs for legacy support
- Cannot be scaled for greater business use and are very hard to modify
- Limit data available to the business (e.g., relying on batch processes and offering only 90 days of data)
- Do not easily support self-serve or advanced analytics capabilities
- Are architecturally suboptimal (e.g. Credence feeding CFS)

User Management, Security, Permissions etc

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4.4

Tab 4.4 Pre-Read on POL Data

The current POL Data landscape reflects significant challenges (4/5)

Data Strategy and Architecture - **Limited**

Data Management - **Limited**

Data Lineage - **Limited**

Data sets

BRDB
CFS
Horizon / BRDB
MDM
Sales Targets
BOI
POMS
FTEL
FRES
Camelot
Camelot matching agent remuneration file
CDP
BRP
Local Collect
Barclays Cheques
Barclays personal banking
CWC
Success Factors - EC
Success Factors - LMS
Dynamics 365 – Call Centre
Drop and Go

Currently at POL we have little overall Data Management: limited Data Governance and Data Quality Measurements in place and a lack of single points of accountability (Data Ownership)

This restricts POL's ability to measure, report and trust the quality of our data, which is critical to becoming a data driven organisation

Arrow

Horace

1000s of reports exist in POL

Excel is used largely across organisation for analysis (fed by Credence/Arrow reports)

- **None**

Data science - **None**

User Management, Security, Permissions etc

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4.4

The current POL Data landscape reflects significant challenges (5/5)

Data Strategy and Architecture - Limited

Data Management - Limited

Data Lineage - Limited

Data sets

- BRDB
- CFS
- Horizon / BRDB
- MDM
- Sales Targets
- BOI
- POMS
- FTEL
- FRES
- Camelot
- Camelot matching agent remuneration file
- CDP
- BRP
- Local Collect
- Barclays Cheques
- Barclays personal banking
- CWC
- Success Factors - EC
- Success Factors - LMS
- Dynamics 365 – Call Centre
- Drop and Go

Data platforms

Credence

Data Marts

Data realisation

Reporting

1000s of reports exist in POL

Excel is used largely across organisation for analysis (fed by Credence/Arrow reports)

Self-Serve - None

Data science - None

D

POL lacks the capabilities to systemically exploit data for strategic advantage:

POL has no effective self-serve MI capabilities - Credence is not an intuitive system; most teams use Business Objects (Credence MI) to export to Excel and work from there

POL has no data science capabilities - There is a lack of AI and Advanced Analytics which could be used to drive strategic insights and capture value

User Management, Security, Permissions etc

4.4

Tab 4.4 Pre-Read on POL Data

Contents

POL Board Strategy Day 2 - 28 July 2021 - 28/07/21
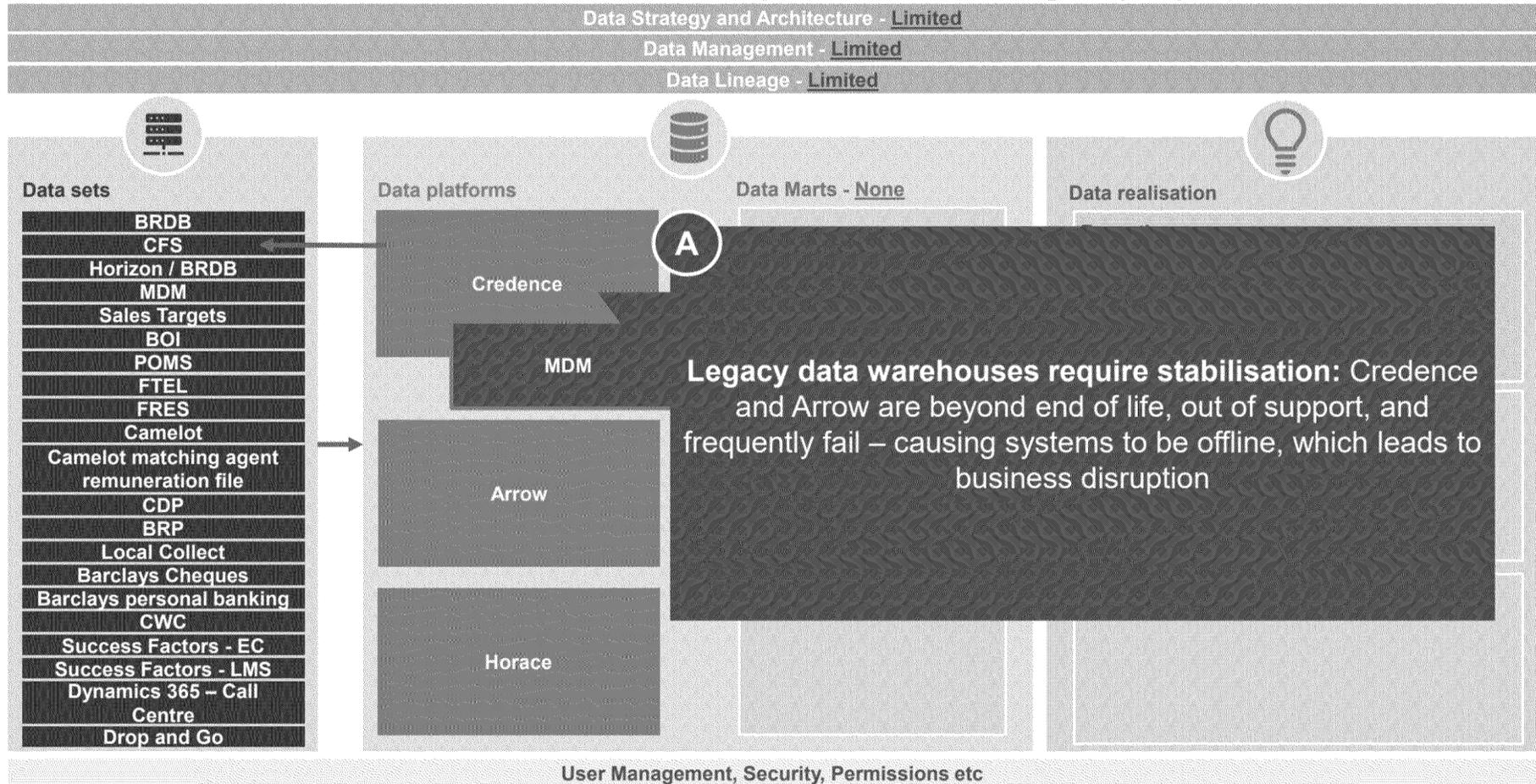
- What are some of the current challenges with POL Data?

- What is the proposal for a "POL Data Programme"?

- What are the underlying financials?

4.4

Tab 4.4 Pre-Read on POL Data

POL Data Programme's vision is to create a consolidated, best-in-class data function, and to transform Post Office into a data centric organisation, where data driven business decisions are the norm and robust data governance is part of POL's DNA, enabling Postmasters and POL to unlock the commercial value of our data.

4.4

Tab 4.4 Pre-Read on POL Data

POL Data – core principles

PDP's core principles

PDP will exist for the purpose of **making analysis and reporting easier** across POL and for postmasters

PDP will create a **'single source of truth'** for data across Post Office, through building a **Data Lake** and breaking down silos to increase validity of data and **drive trust**

PDP will develop cross-POL **data driven ways of working and a data centric culture**, where colleagues are encouraged to develop their data skills and make data driven decisions in all areas of their work

PDP will build **data management into our DNA,** adopting a **governance framework** and accompanying policies and accountabilities for the ownership and management of data

PDP will increase the availability of **easy-to-use data provided to postmasters** to accelerate their businesses, working closely with Branch Hub

PDP will drive data exploitation, using **advanced analytics and AI** on our data to generate strategic or tactical advantages

4.4

Tab 4.4 Pre-Read on POL Data

The POL Data programme will focus on addressing four key areas

A

Legacy systems stabilisation

- Legacy system stabilisation, upgrading the out of support components of Credence (and connected: MDM), would take **IRRELEVANT**

- The decision in principle (depending on external assurance) is to **continue operating at risk and accelerate the Credence decommissioning** aspect of the POL Data Platform – aiming for ~ October 2022 for Credence decommissioning

B

POL Data Platform

- The initial focus of building the POL Data Platform will be to **build the POL Data Lake (AWS)** and replicate the data source feeds and output feeds / reporting feeds of Credence, so that **Credence can be decommissioned**, replaced by the Data Lake and Power BI front end

- The data lake build will then move onto **replacing Arrow**, and meeting **business pain points and requirements**, improving functionality beyond that of Credence and Arrow and removing the need for federated MI

C

Data Management

- The initial pillars of data management to be driven forward are:
  - **Data Governance**: **IRRELEVANT**
  - **Data Quality**: Drive the ability to measure, report and trust the Quality of data
  - **Data Ownership**: Transfer accountability for data to the business; a single point of accountability

D

Data exploitation

- The first part of data exploitation will be **optimising reporting** to drive both efficiency and effectiveness across POL, rationalising the vast number of reports and pushing self service capabilities

- In addition, we will develop a **centre of excellence for data science**, starting small and scaling, to drive the exploitation of data across POL, leveraging it for competitive advantage

... Underpinned by a comprehensive Data Culture and Data Literacy programme, enabling the above projects and facilitating POL in becoming a data driven, data centric organisation

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Tab 4.4 Pre-Read on POL Data

A **Legacy systems would take** IRRELEVANT **to stabilise – we are therefore seeking instead to replace them as soon as possible**

Before we invest we will investigate what the minimum we need to spend is to fit with our replacement plan for Credence/MDM and Arrow

Stabilisation / upgrade costs [Estimates]

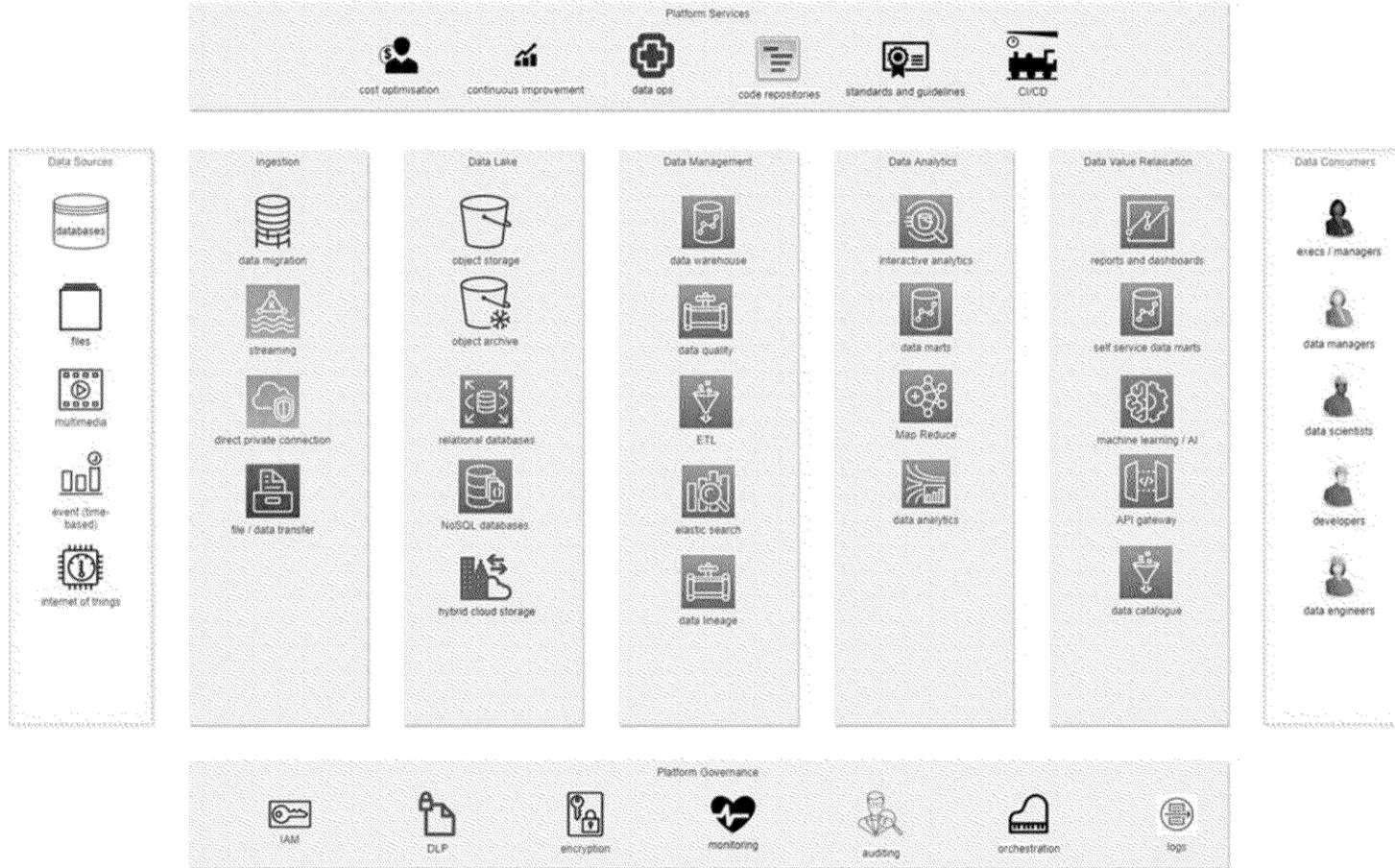**This would take ~8-12 months**

IRRELEVANT

IRRELEVANT

1 Accenture cost estimate from Aug 2020, Accenture portion only – internal costs in internal line

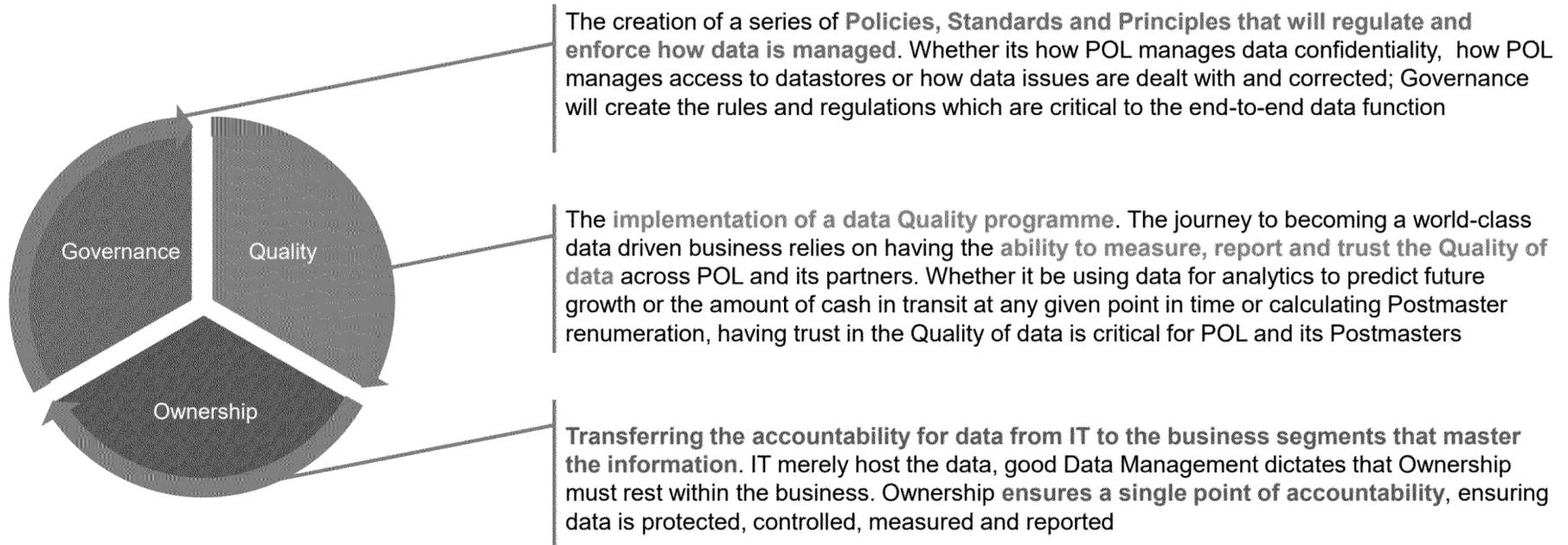CONFIDENTIAL AND COMMERCIALLY SENSITIVE - FOR POST OFFICE INTERNAL USE ONLY

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Tab 4.4 Pre-Read on POL Data

B Vision for POL Data Platform

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Tab 4.4 Pre-Read on POL Data

Ⓒ Our aim is to create a world-class data driven business through Data Management, which includes Data Governance, Quality and Ownership

With the **publication of the HIJ and subsequent analysis** by both POL and external consultants, **the need for a clear and coherent plan around Data Management** and subsequent deployment of appropriate capabilities **has never been greater**. Currently at POL we have little to no Data Management in place – we need to resolve this to build a POL with world class data in our DNA

Initial three pillars of Data Management

The creation of a series of **Policies, Standards and Principles that will regulate and enforce how data is managed**. Whether its how POL manages data confidentiality, how POL manages access to datastores or how data issues are dealt with and corrected; Governance will create the rules and regulations which are critical to the end-to-end data function

The **implementation of a data Quality programme**. The journey to becoming a world-class data driven business relies on having the **ability to measure, report and trust the Quality of data** across POL and its partners. Whether it be using data for analytics to predict future growth or the amount of cash in transit at any given point in time or calculating Postmaster renumeration, having trust in the Quality of data is critical for POL and its Postmasters

Transferring the accountability for data from IT to the business segments that master the information. IT merely host the data, good Data Management dictates that Ownership must rest within the business. Ownership **ensures a single point of accountability**, ensuring data is protected, controlled, measured and reported

Governance | Quality | Ownership

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Tab 4.4 Pre-Read on POL Data

Ⓒ Data Governance roadmap to April 2022

Full project start, *October 2021*	**January 2022**	**April 2022**	**Onwards**
Data Governance	◆ Data Governance Framework and accompanying artefacts deployed ◆ Data Council stood up	◆ Data Governance reporting (including compliance reporting) established ◆ Data Governance zone / training stood up	
Data Quality	◆ Data Quality requirements published ◆ Data Quality programme established	◆ PoC Data Quality Tool stood up and longer term tooling selected ◆ Data Quality Zone/Training stood up	*Data Quality dashboard*
Data Ownership	◆ Light touch data ownership model published	◆ Full Data Ownership/Steward Model ◆ Data Ownership Zone/Training stood up	
Cross-pillar	◆ Draft RFP for Data Management tooling complete		*Tooling integrated*

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Ⓓ Reporting will become more based upon self-serve principles, reducing churn and driving data capabilities across the business

In the future, we will have 3 stages of reporting / MI functionality:

Increasing data capability, driven by data culture and literacy

Rationalised set of reports, including dashboards that meet multiple business users' requirements

Self serve dashboards in Power BI – MI team 'pre can' data into commonly used structures which business users can then pull cuts from (reports)

'Superusers' across the business will have the option to receive training Power BI and build their own dashboards / reports fed from the data lake (with guardrails such as data catalogues, a clear data ownership model etc)

This will be supported by an MI team aligned to the demand cycle, with colleagues in 4 roles:

- **Demand:** gather requirements, identify sources

- **Governance:** works with data owner to agree usage and KPIs

- **Delivery:** build dashboards

- **Sustain:** maintain reports, manage user access

… and underpinned by an **increasingly data-centric culture**, and **increased data literacy** across POL. These are key enablers to ensure colleagues are using the systems in the optimal way (e.g. as opposed to downloading to excel and processing there, or using federated MI)

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Tab 4.4 Pre-Read on POL Data

D **Our approach to data science capabilities at POL will be to start small and build, to drive increased value realisation from our data**

To build data science capabilities at POL, we will start by introducing off the shelf tools, building on the data lake through AWS. We will then stand up a data science team in future years, and work with the wider data culture transformation to embed data science

Plan for data science at POL

FY 21/22

- Bring in **AWS data science tools (e.g. Metrics)**
- These tools enable **data science capability without POL data scientists**
- To run these tools, we plan to **train a member of the existing MI team**

FY 22/23

- Once we have the POL data platform stood up we will build a team of data scientists (~2-3 SMEs)
- This will be a core unit to **leverage AI and Advanced Analytics**, working with the business
- This will include investigating how POL can **monetise our data** for postmasters and POL

FY 23/24

- We will have a **data science centre of excellence** established, leveraging AI and Advanced Analytics
- We will have established a data **culture and increased level of data literacy** across POL which facilitates the leveraging of our data to drive competitive advantage

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The future POL Data landscape will reflect significant changes from today

Data Strategy and Architecture

Data Management

Data Lineage

Data sets

BRDB
CFS
Horizon / BRDB
MDM
Sales Targets
BOI
POMS
FTEL
FRES
Camelot
Camelot matching agent remuneration file
CDP
BRP
Local Collect
Barclays Cheques
Barclays personal banking
CWC
Success Factors - EC
Success Factors - LMS
Dynamics 365 – Call Centre
Drop and Go

Data platforms

POL Data lake

MDM replacement

Data Marts

Sales Reporting

Branch Detail

Master Data

Anti Money Laundering

etc

Data realisation

Reporting

Dashboards

Periodic reports

Operational reports

Self-Serve

Ad hoc queries

SQL interfaces

Data science

Machine Learning

Artificial Intelligence

Notebooks

User Management, Security, Permissions etc

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4.4

Tab 4.4 Pre-Read on POL Data

Contents

- What are some of the current challenges with POL Data?

- What is the proposal for a "POL Data Programme"?

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Tab 4.4 Pre-Read on POL Data

POL Data Programme is seeking to unlock significant financial and non financial benefits, for both POL and postmasters

Financial

Direct financial

1. Reduction of **'run costs'**: running the new platform will be cheaper than continuing to run the current platforms

Indirect financial

2. Improved data quality and governance will drive increased **trust in data**, enabling data led strategic decisions

3. More **sustainable and efficient business processes** within POL, reducing time spent on analysis and reporting

4. Improved **fraud detection and prevention** due to more detailed 'one source of truth' view of branch activity

5. Opportunity to prevent **remuneration breaches** and to prevent contractual reputation damage, avoiding overcharging bank clients

6. Improved **knowledge of customers** to facilitate personalisation and targeting and to improve customer experience and satisfaction [TBD]

Cost avoidance

7. Avoidance of cost incurred if **Credence breaks down**, and avoidance of significant reputational damage

8. Transparency of information on **Anti Money Laundering (AML) activities** in branch avoids potential cost

Non-Financial

Business continuity

9. Reduction of risk from **existing systems failing and preventing BAU activities**

Capability Building

10. Significant increase in **data and analytics capability (and scalability)** in POL, including introduction of Advanced Analytics and AI on our data

11. Improved ability to analyse and forecast **Postmaster remuneration**

Response to HIJ

12. Support **data management improvements** which emerged from HIJ requirements

Postmaster satisfaction

13. Greater **clarity and transparency for postmasters** of branch data and management information (i.e. supporting Branch Hub in delivering MI to postmasters)

14. Improved **management of, and support for, postmasters** stemming from improved visibility of branch transactional data (real time and historic data)

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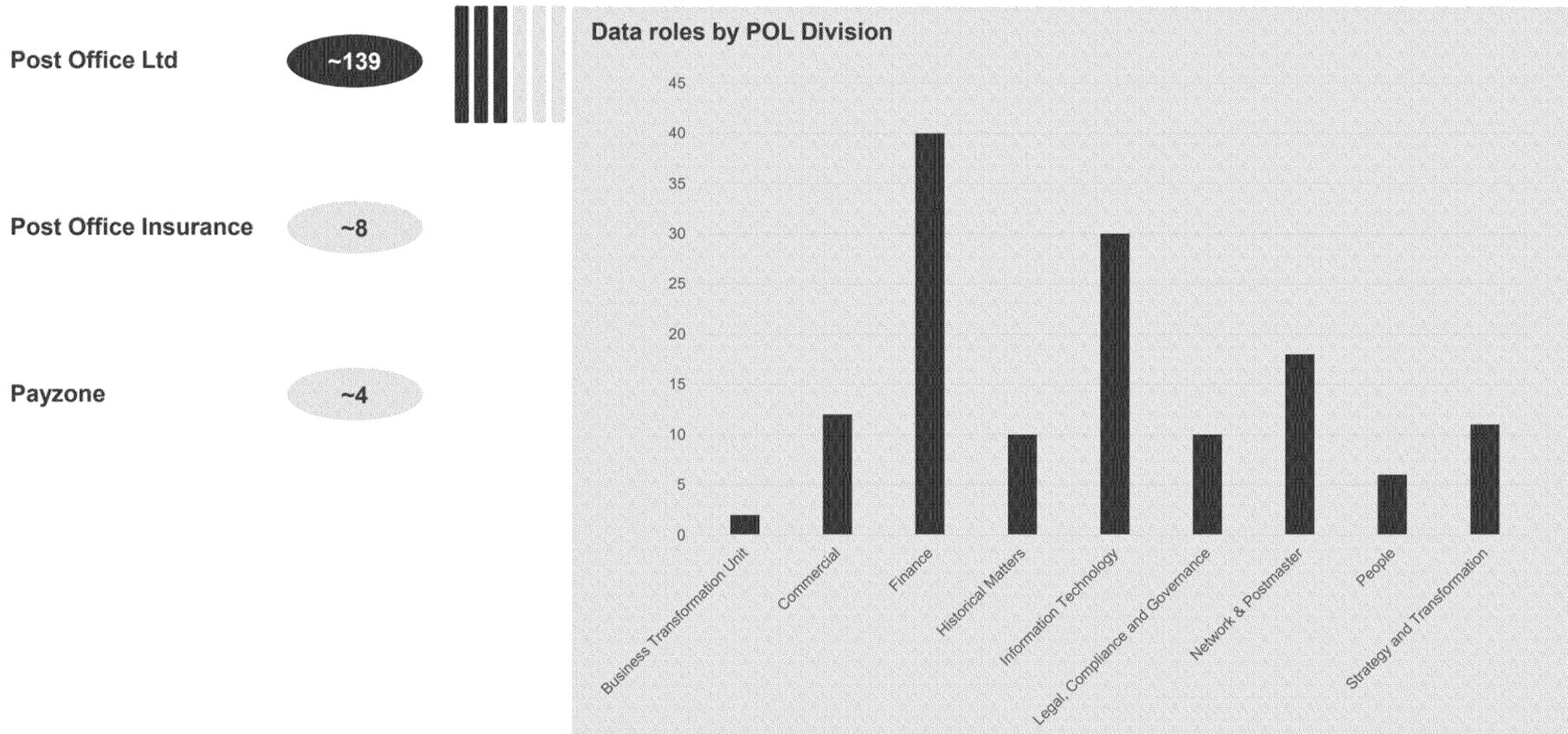
4.4

As a baseline, POL currently spends **IRRELEVANT**

Notes:

Credence operating costs *(excl. licenses)*

Arrow operating costs *(excl. licenses)*

MDM operating costs *(excl. licenses)*

Horice operating costs

Credence/MDM License costs

Arrow Azure spend

TOTAL

IRRELEVANT

Source: Budget FY 21/22, Head of IT Service-Finance, LCG & People – 25/05/21

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Tab 4.4 Pre-Read on POL Data

POL currently has ~139 Data roles across the business

Post Office Ltd — ~139

Post Office Insurance — ~8

Payzone — ~4

Data roles by POL Division

Bar chart showing data roles by POL Division:
- Business Transformation Unit: ~2
- Commercial: ~12
- Finance: ~40
- Historical Matters: ~10
- Information Technology: ~30
- Legal, Compliance and Governance: ~10
- Network & Postmaster: ~18
- People: ~6
- Strategy and Transformation: ~11

Source: FTE baselining analysis as of 04/05/2021, Organisational Design team. Excludes contractors

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Tab 4.4 Pre-Read on POL Data

POL Data Programme is seeking for ⌐IRRELEVANT¬

Cost breakdown

Incl. in ROI	Legacy stabilisation
	MDM replacement
	POL Data Platform (replacing Credence and Arrow)
	Data value realisation (incl. POCs already approved, £125k)
	Central team (incl business change)
	TOTAL

Excl. from ROI	Data Quality
	Data Governance
	Data Ownership (incl. stewards)
	Data Culture and Literacy
	TOTAL

TOTAL

IRRELEVANT

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Tab 4.4 Pre-Read on POL Data

APPENDIX

POL Board Strategy Day 2 - 28 July 2021-28/07/21

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We have three Proof of Concepts underway to demonstrate the ability to exploit data from the POL Data Platform
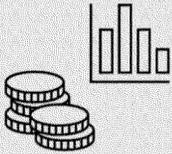
1 " As a **Postmaster**, I want to **view Horizon transactional information** related to my branch so that I can **investigate potential reasons** for accounting **discrepancies or shortfalls** and try and to **resolve them myself**, without having to engage the Branch Support Centre and the investigations teams "
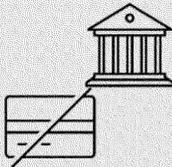
2 " As a **Banking Product Manager**, I want to **identify branches** where debit cards are being used to **inflate remuneration** and **contact** the branches to correct behaviour "
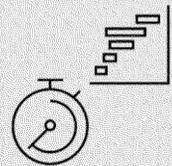
3 " As the **Head of Postmaster Experience**, I want to receive **KPIs in near real time** – there is an existing dashboard, which receives data from excel and other batch processes "

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Tab 4.4 Pre-Read on POL Data

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BOARD REPORT

Title:	POL Board Away Day: Technology session	Meeting Date:	28th July 2021
Author:	Zdravko Mladenov, Business Transformation Director	Sponsor:	Nick Read, Group CEO

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SPM video demo

Web address: https://vimeo.com/577066141

Password: **GRO**

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BOARD REPORT

Title:	POL Board Away Day: Technology session	Meeting Date:	28th July 2021
Author:	Zdravko Mladenov, Business Transformation Director	Sponsor:	Nick Read, Group CEO

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Branch Hub video demo

Web address: https://vimeo.com/578169120/603b5caac3

Password: **GRO**

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