

# Postal Corporate coherence

Quantitative expertise for  
Post group coherence

# What types of coherences are needed?

1. Since the Post provides universal services and public goods, its strategy has to be coherent with **the regulatory environment** of the coming years. This environment contains the opportunities and constraints of a stepwise liberalisation.
2. The policy decisions of the Post n.v./ s.a. are group decisions, defined in relation with the groups history and a vision for the groups future. One needs **coherence over time**.
3. **Group strategy coherence** means that the group strategy objectives and basic choices are common to all BU's and subsidiaries. They have to be stated first so that the group participants, BU's, service units and subsidiaries, can develop their parts of the strategy consequently. They have not to wait for the inputs from others, but can build on the group objectives and constraints.

# What types of coherences are needed?

3. **Coherence of quantitative figures:** one variable, one value, one owner! This requires a permanent analysis and control of the quantitative databanks used. Coherence prevails when different managers refer to the same figures when they write parts of a single document.
4. **Coherence of the use of detailed models:** models use the same data and produce results compatible with the strategic choices. Model complexity should never justify strategic incoherence! Arguments and models have to be well documented to guarantee full transparency.
5. **Coherence of forecasts and scenario's :** identical assumptions about the economic and regulatory future, identical strategic starting points (investments, pricing...), clear arbitrages about policy conflicts or conflicts between between BU's and subsidiaries (Mail, E-services, Taxipost...)

# Data coherence

- **Internal data**

*for all BU's SU's and subsidiaries*

- Volumes sold, prices per item, revenues...
- Costs, production factors used...
- Investments and cost initiatives...

- **External data**

- Macroeconomic (domestic and international)
- Market (domestic and international)
- Regulatory law
- Stake holder information

# Coherence of policy models

- Behavioural relations

e.g. customer demand function of price, quality of service;

- Technological relations

e.g. production is smaller or equal to production capacity (time t);  
production capacity is function of capital stock, working labour,  
electricity, other production factors...

- Institutional relations

e.g. access must be given to network (sorting center), item less than 100  
gram is reserved

# Coherence of forecasts and scenarios

- **Strategic scenarios (10 years)**  
e.g. development of E-mail product in different possible regulatory setups; development with or without the acquisition of some specific companies...
- **Business plan alternative developments (2-5 years)**  
e.g. alternative without and with planned investment, cost reducing initiative; alternative under different coherent pricing decisions of all group products...
- **Budgetary “forecasts” (1 year)**  
e.g. precise forecast of anticipated demand with decided prices, production capacity, regulatory setup, competitive environment...

# Corporate coherence

## Give

- coherence data owners
- coherence policy model owners
- regulatory levers
- regulatory model
- possible regulatory positions
- value of stakes for stakeholders
- impact of levers in action plans resulting from model

## Receive

- official data from data owners
- policy models from owners
- policy decisions of group (dom & internat): pricing, investments...
- regulatory law (dom & internat)
- competitor's costs and strategy
- preferred position of the post
- stakeholders analysis
- action plans implementation results

# Corporate coherence structure

## **Client oriented (demand side)**

- A market perspective (customers, competition)
- Care for the legal universal and public service provision
- Reasonable tariffs and pricing coherence (Mail, E-mail, Taxipost...)
- Growth: not in Mail but thanks to new products (service before collect...)

## **Production units are competitive (supply side)**

- Optimal technological choices are consequences of strategic decisions
- Social relations and technological choices are related
- Cost minimisation initiatives

## **Organization**

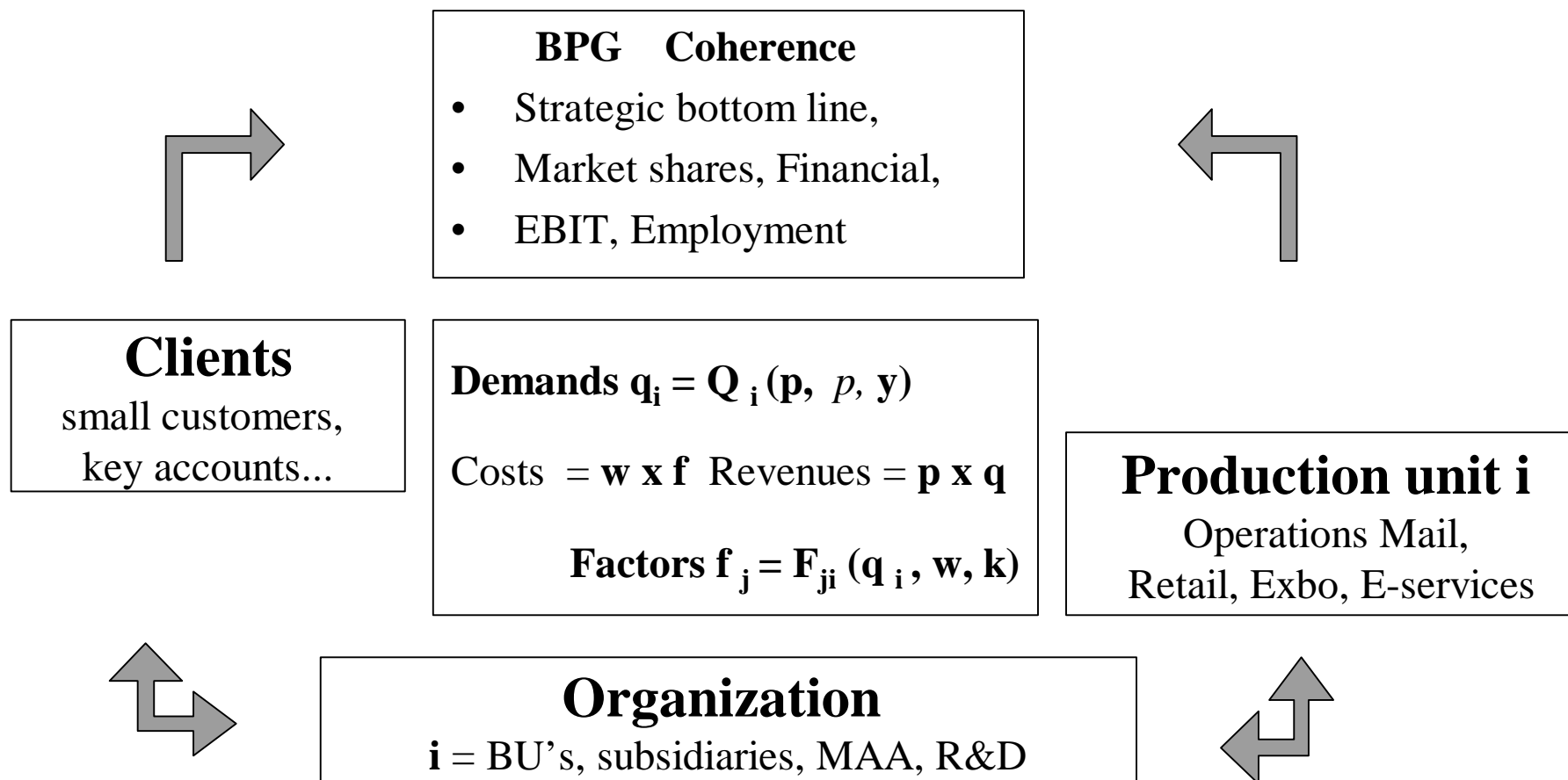
- Adapted structure and culture (civil servants and managers)
- Group EBIT maximisation (to solve conflicts between BU's)
- Budgets and business plans have to be perfectly compatible with the strategy
- MAA in line with strategy

## **Environment**

- Integrate regulatory perspective and uncertainties
- Use intelligence and external information: competitors, markets, technologies...



# Corporate coherence flowchart



# Corporate coherence flowchart

- $q_i$  product  $i$  or service  $i$  produced by BU  $i$
  - $p$  product or service prices per unit
  - $p$  product or service prices of competitors
  - $f_j$  production factor  $j$
  - $w$  production factor market prices
  - $k$  capital stock
  - $y$  market volume
  - $i$  index of products and/or producing BU's
  - $j$  index of production factors
  
  - $p$  determined by the pricing decisions (pricing and regulatory model).
  - $k$  determined by the capital stocks of the year before and the investment decisions.
  - $F_{ij}$  determined with the ABC model, including cost initiatives and capital stock ( $k$ ).
- $Q_i$  demand function for product  $i$ , representing tastes and client technology; explained by relative prices of all products and competitors, market growth...; product coherence is ensured. Results of conjoint analysis.
  
  - $F_{ji}$  factor  $j$  demand function in BU  $i$ , representing the production technology of BU  $i$ ; explained by the produced output, the relative factor prices, the capital stock... Includes the technical aspects of all cost initiatives in all BU's.

# Necessary coherence studies for the strategy

- ✍ **Mail quality** is 75% J+1: many customers adapt their choice and switch to competitors. A credible quality improvement plan is needed to keep market shares from January 2003 on.
- ✍ **Mail and E-services** deliver products which are strict **substitutes**. The cannibalising E-product projections have to follow group decisions to maximise profits from the reserved mail activity. E-activities are encouraged in segments of postal activity which are in open competition. The degree of substitution of various products has to be studied.
- ✍ **The tactical pricing project** proposes a new simplified Mail tariff and rebate structure. The volume forecasts have to be adjusted carefully.
- ✍ **The pricing decision** on tariffs, preferential prices and conventions have an impact on customers behaviour. The price elasticities of demand have to be studied in all market segments, in addition to conjoint analysis and small customer elasticity survey.
- ✍ **Conventions in Mail**, developed in a tailor made mode, will take into account the cost savings, conforming the law, and the overall contribution to the Post group EBIT drivers. The future improvements of productivity require a prospective ABC model.
- ✍ Regulators and the EU Commission develop **access-pricing methodologies** and access levels to the PPO's networks. Quantitative arguments have to be updated.

# Necessary coherence studies for the strategy

- ✍ Condemnations of the Post by **competition authorities** in areas of abusive pricing (predatory, squeezing, etc.) may impact a review of pricing levels and tactics.
- ✍ **Extra-territorial offices of exchange of foreign PPO's** being set up in Belgium requires a debate around access to the network and may lead to a review of Mail's pricing.
- ✍ DG COM (EU Commission) opens value added postal network services to competition via case-law decision (cfr. Hays case on the **B2B mail market** for closed user groups).
- ✍ Draft legislation establishing the **organisation of the postal sector** in Belgium is under consideration of the Belgian Cabinet. It is possible that some major regulatory levers have not been taken into account as expected for setting a level playing field.
- ✍ A competitor (Belgique Diffusion?) may launch an **attack on the Belgian Direct Mail** market.
- ✍ **eXbo** develops a separate network for collection, transport and distribution of postal items in the non-reserved universal service area : speed of market & QoS constraints of BPG may imply some substitution towards a subsidiary.
- ✍ **Mergers and divests** of foreign PPO's impacting BPG's domestic activities.

# Objectives of corporate coherence

- ✍ Quantitative knowledge of the objectives of the company when different decisions are taken or in front of competitors.
- ✍ It can bring corporate coherence and quantitative strategic analysis to the company in general/to regulatory in specific.
- ✍ Quantitative coherence is a basic requirement for all of the BU's, SC's, subsidiaries: strategy, business plan, pricing,...
- ✍ What do we expect from others : quantitative data, qualitative structural analysis, policy questions.
- ✍ Practical considerations (resources, processes)for management of ins and outs of coherence: quantitative data, structural analysis of invariant relations (behaviour, technology, institutions), coherent forecasts and scenarios into the future