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The dominance of e-commerce

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SWISS POST AT THE PHYSICAL AND DIGITAL INTERFACE

Swiss Post is the host sponsor of this year's World Mail & Express Europe conference and exhibition, to be held in Geneva between 21st and 23rd May. Review Editor John Modd talks to CEO Jürg Bucher

Introduction

Switzerland is one of the most prosperous countries in the world. Landlocked and relatively small (about 41,300 square kilometres), it is also very diverse, with four national languages (German, French, Italian and Romanish) and 26 cantons for just 7.8m people. 60% of the country comprises alps and glaciers.

Swiss Post is one of the most successful posts in Europe, with an enviable record of strategic diversification in Switzerland and abroad. In 2010 it had revenues of CHF 8.7bn (1 CHF: 1.23 Euro at the time of writing.) On these revenues it achieved an operating income of CHF 930m or over 10%. It handled

some 2.4bn letters in 2010 (down from 2.8bn in 2006) and 108m parcels (104m 2006). This interview was conducted before the cross border joint venture with La Post was announced.

Modd: Let's begin the discussion by exploring the relationships between the post and the Swiss Confederation.

Bucher: Swiss Post is an autonomous federal, public enterprise wholly owned by the Swiss Confederation. It will be incorporated in 2013 without any plans for privatisation. Its field of activity is laid down in the Postal Organisation Act. The Federal Council of Switzerland

defines the strategic objectives of Swiss Post every four years and elects the Supervisory Board which in turn elects the CEO. Within this governance model operational management is clearly separated from politics. The Federal Council's decisions are prepared by the responsible ministry, the Federal Department of the Environment, Transport, Energy and Communications (DETEC). Traditionally, Swiss Post enjoys a very good working relationship with its owner and with DETEC.

Modd: What is the role of the regulator?

Bucher: The new postal law transforms the current regulatory

authority into PostCom, an independent regulatory commission. PostCom will have competences to ensure a level playing field in the Swiss postal market and the provision of universal postal services of good quality. Swiss Post maintains a cooperative and objective relationship with the regulator, despite occasional differences of opinion.

One major topic of discussion is the development of the post office network. In Switzerland, 90% of the population must be able to reach a post office or postal agency within twenty minutes, either on foot or by public transport. Consequently, Swiss Post operates one of the world's densest networks of access points. The new Postal Act grants certain freedoms in the provision of the basic universal service, so, for the time being, the definition of the basic service is not an issue. In the longer term, we must keep a close eye on how customers' communication needs are changing. It may be that we will have to address issues such as the current definition of the universal service, alternative delivery formats, or how we are financed.



is intensifying the pressure on the posts to become increasingly internationally oriented and to specifically offset disadvantages in size or geographic distance through cooperative ventures. Finally, in a deregulated market, the challenge is to create the conditions that will make it possible to continue

market are greater than in the logistics market. However, executive management is endeavouring to ensure that the Group is supported by other strong pillars, as too much dependency on one business unit poses risks. During the financial crisis of two years ago, PostFinance had to make

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Modd: Please provide an overview of Swiss Post's mission and strategy. What are the key challenges over the next few years?

Bucher: In my opinion, five trends are currently impacting on the postal sector: changing customer needs, digitisation, sustainability, globalisation and deregulation. Increasing complexity is fuelling the demand from customers for simple solutions, hand in hand with greater emphasis on traditional values such as quality, reliability and security. The traditional physical postal and payment transaction services have in many areas come under pressure from new digital alternatives such as e-mail, text messaging, e-banking and social media. As natural resources become scarcer, customers, investors and legislators alike are becoming more aware of sustainability issues. Globalisation

to safeguard a high quality, self financing basic service. Swiss Post is pursuing several strategic objectives. We are constantly working on ways of offering customers first class and innovative services. At the same time those services have to be offered at prices appropriate to the market. Here, cost control plays an important role. All in all, it is a matter of finding a balance between cost efficiency, sustainable and profitable growth, and high quality of service at fair, market oriented prices.

Modd: In 2010 61% of the Group result came from the retail financial market. What does this situation signify for PostFinance and what could the future hold?

Bucher: For years, the PostFinance unit has contributed the most profit to the Group result. One reason for this is that margins in the financial

comparatively few writedowns, thanks to its conservative investment policy. However, all financial institutions are exposed to external risks due to the strong networks between countries, currencies and financial investments. The Swiss Parliament has therefore decided to place PostFinance under the supervision of FINMA. This new supervisory body will not change our current business model, and we will continue to pursue a safe investment policy.

Modd: Let's talk about the future for physical letters. Swiss Post has seen volume decline, like almost everyone else. For how much longer will this be a core business?

Bucher: We firmly believe that the letters business will continue to be a core business. The letter will have a clear and strong position in the communication market. I believe →



that the letter will be a premium product and will remain an attractive means of communication.

As a direct marketing tool, the letter offers many advantages. It is more durable; a personal letter makes the recipient feel valued; the probability that the information will actually reach the recipient is very high; and there is the possibility of sending items of intrinsic value with the information, for example. Therefore we intend to continue investing heavily in the letters business by further optimising our services, making our processes as efficient as possible and exploiting new opportunities for growth.

This includes developing innovative solutions and offers at the interface between the physical and electronic worlds. The future of the postal industry will be hybrid. Just as customers live in parallel worlds, so posts will have to have both a physical and an electronic presence

in the future.

Modd: I believe Swiss Post is doing some interesting things at that interface.

Bucher: Our Swiss Post Solutions unit is converting physical mail into electronic data or generating printed output from digital information, complementing these services with billing and a variety of customer dialogue solutions. These include, for example, in house postal services and document management for large companies. In this way letters can be handed in, electronically archived and delivered in either e-mail or letter form, as the customer prefers. The "Swiss Post Box" digital mailbox enables people who are on the road a lot to receive their physical mail on mobile phone or laptop. Staff scan the envelope and send it electronically to the customer, who decides whether to receive the

contents electronically. To ensure that Swiss Post stays at the forefront of technological developments, we have created the ePost Product House within Swiss Post Solutions. This centre of excellence drives development work forward with the aim of exploiting the potential of electronic solutions for the various Group units. These include the secure and verifiable sending of confidential e-mails, e-government and e-health, and e-commerce. We have also begun to sell white label products to other postal operators

Modd: Looking at Swiss Post's activities in the parcels sector, how important is e-commerce in growing volumes? What about your partnerships?

Bucher: E-commerce is an important growth market for Swiss Post. We already offer individual delivery points and times with our PickPost service. We also deliver e-commerce consignments between 5 and 8 pm. We are selectively developing new services in this area. We are involved in a joint venture with TNT which enables us to offer our export customers attractive international courier services. We have a partnership with GLS where we sell export parcel solutions to our customers in Switzerland on an exclusive basis. We also clear the parcels from the GLS network and deliver them using our own distribution network.

Modd: You have already explained the rules impacting the size of the retail network. Can you tell us something about its evolution and the range of services on offer?

Bucher: The network of post offices was built as a supply network, not a distribution network. The development of the network since 1997 has been dominated by cost reductions through converting or closing post offices, and by the development of additional lines of business to reduce deficits. In the past, the conversion of the post office network was handled on a project basis. Between 2001 and 2005, for instance, around 900 small post offices in rural areas were replaced with a home

delivery service. As part of the urban networks project, between 2003 and 2005 around fifty post offices were closed in the seventeen largest cities in Switzerland. Since 2007, a steady stream of small post offices has been converted to a home delivery service or agencies.

This system of agencies and home delivery services enables us to offer an economical and customer friendly alternative to small post offices. The conversion of the post office network remains an ongoing imperative.

The first third party products we introduced were lottery items, tax discs and tax cards for telephone calls. In addition, we have always sold the products of PostFinance (payments, investments, savings) or acquired customers for PostFinance. As a need developed for additional products, we gradually expanded our range. Today, we use hitherto underused floor space in the counter area to sell third party products. Our sales figures (current turnover of around CHF500m) illustrate that our customers value our range.

Modd: How do you offer services to retail customers?

Bucher: We use three channels for sales: the conventional post office,

the e-shop and home delivery. The decision as to which products are sold through which channel is made on an individual basis, depending on the product and demand. Post offices remain the main sales channel. Initially, the product line up for the online e-shop was guided by the basic principle of supplementing the existing product range with complementary products. For example, mobile phones are sold at post offices and the related accessories at PostShop Online. Home delivery was launched in 2007. The customer comes to the post office and orders and pays for the product which is then delivered to the customer's delivery address. This new sales channel combines the wide choice offered by online selling with the personal customer contact afforded by a physical point of sale, and directly addresses the needs of the traditional customer.

Modd: Swiss Post appears to have a carefully thought out and successful international strategy.

Bucher: Swiss Post engages in business activities abroad within strategic guidelines laid down by the Federal Council. For the period from 2010 to 2013, these

foresee that Swiss Post can pursue growth opportunities abroad that are attainable outside Swiss Post's obligation to provide a basic service. Swiss Post's directors and executive management are considering a potential expansion in business activities abroad, which today already contribute approximately 15% of total turnover. This has been achieved by organic growth, acquisitions and strategic partnerships.

Modd: Finally, please tell us something about human resource management in Swiss Post.

Bucher: Customer satisfaction surveys reveal that our customers are very satisfied with the care and advice provided by staff. Incidentally, these values correspond to the self perception of staff with regard to customer focus and commitment, as expressed in the annual employee survey. The aim of human resource management is to employ the right person in the right place, so that we can consistently offer our customers a high quality service. To achieve this, we rely on targeted employee development and training. ■

Jürg Bucher joined Swiss Post and Telecom in 1985, initially in the finance function. He moved into line management in 1994, with roles in both the postal business and PostFinance. He became a member of the Executive Board in 2003 and was appointed CEO in December 2009. He is married with one child. Interests include summer and winter sports, concerts and the theatre. He has a degree from the University of Bern, with supplementary training at INSEAD and other institutions. He will be retiring as CEO in September, and will be replaced by Susanne Ruoff, the Chief Executive of BT in Switzerland. Her appointment reinforces the strategy outlined in this interview: 'Swiss Post... wants to continue implementing its strategy of connecting the physical with the electronic postal world in a targeted manner. Thanks to her competencies, Susanne Ruoff will actively support this change' the Company stated.

