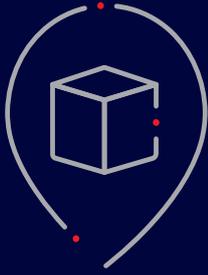


escher

Customer Engagement Workshop





Contents

4 Introduction

5 Agenda Topics

- Trends
- Behaviour
- Innovation
- Challenges
- Metrics

7 Workshop Overview

- Key Themes & Topics to Be Discussed
- Workshop Q&A

9 The Industry

- The Postal Industry Landscape

10 Trends

- Challenges of Postal Operators
- Why Do Some Posts Delay or Put off Postal Digital Transformation?
- How Posts Can Become Game Changers Rather Than Followers
- How Else Can Posts Win?
- How Posts Can Adopt Technology to Stay on Top of Their Game
- How can Posts win?
- What should they be doing now to better position themselves for success?
- Other Ways Posts Are Reacting or Adapting to Recent Trends or Changes in the Industry



INTRODUCTION

Our Message

Escher is transforming postal and courier operations worldwide, enabling posts to engage today's digitally savvy customers across all points of engagement. With Escher's unique, purpose-built customer engagement platform, posts drive superior customer experience with greater speed and better economics.

Postal leaders around the globe rely on the Escher platform to deliver exceptional quality of experience, expanding and deepening points of engagement to meet customers on their terms. With Escher, every customer interaction happens exactly as intended, across every channel, service, engagement mode and physical location.

Escher enables posts to serve customers at new levels of speed. Posts can now deploy new physical touchpoints at short notice, streamline day-to-day operations, and accelerate the rollout of new products and services – including third-party offerings. Escher's continuous stream of platform advancements means posts can innovate quickly and always stay ahead.

With Escher, posts realize new economics by optimizing costs at every point of engagement while rapidly activating new revenue streams. Escher also stretches the postal IT budget, reducing costs through centralized administration and lower capital expense.

With Escher, posts can now profitably engage customers anywhere, anytime.

Agenda Topics

As part of the workshop, Escher will be sharing information on our brand-new Pick-up Drop-off (PUDO) bundle, and our new Optimization Recommendation Engine, Shipment Tracking, and Taxes, Duties & compliance solution capabilities. Escher is taking the next step in transforming postal and courier operations worldwide by providing cost-effective solutions that offer greater POS data analysis across their entire network, more control over shipments worldwide and the ability to stay ahead of all the cross-border regulatory requirements.

Trends

Digital transformation is opening many opportunities for innovation in the postal industry for cost efficiencies and for new revenue opportunities. For example, USPS innovated “informed delivery”. Informed delivery provides end customers with insight into the mail that will be delivered to their mailbox. While this might not appear to be a game-changer, this technology could potentially open advertising opportunities for posts (e.g. If the end customer will be receiving a bill from a department store, a relevant digital ad could be served up to that same customer on their mobile device or laptop). Thus, mail delivery could serve as a catalyst for digital advertising.

Discussion Points: *Changing nature of the Post Office | eCommerce | Environmental & Sustainability | Expanding through partner networks*

Behaviour

With new trends and innovations come changes in customer behaviour. The roll-out of new technologies creates new opportunities for customers to interact with the services postal workers provide. The rise of eCommerce and the steady increase in small packages and

parcels has brought with it a plethora of new developments in apps and platforms, that are predominately focused around consumer behaviour, consumer preferences, how to optimize the interaction between merchants, final mile delivery companies and the consumer.

Discussion Points: *Millennials | Interactivity | Customer Loyalty | Convenience | Alignment*

Innovation

The last decade has seen the postal landscape change dramatically, with posts forced to adapt to an increasingly connected society and ever-evolving customer expectations. And as customer expectations fall closer and closer into alignment to nascent technologies, innovating is becoming integral to the postal industry. And while demands from the always-on customer undoubtedly create new pressures, the need for innovation is also creating new opportunities for the postal industry.

Discussion Points: *Technology | Solution Capabilities | Peer 2 Peer | PUDO Bundle Solution | Future Ready 5G | Partner Ecosystem | API's | Cloud Migration | POS | EDGE Computing | Mesh Technology | Cross Platform | Machine Learning & Artificial Intelligence*

Challenges

Some of the biggest challenges for postal operators in developed countries where there is high-speed internet penetration is coping with the declining mail volumes, the pressure on cost-cutting, and rationalizing the postal network while anticipating further declines. While growth in the parcel market is very promising, the growth does not fully offset the decline in revenues and profits from the letter mail market. This is why many postal operators are also looking for other areas for growth. Keeping customers engaged now depends on precisely balancing growth, profitability and customer expectations.

Discussion Points: *Incremental versus transformational | Wider environmental forces | Privacy | Security | Reliability | Last mile*

Metrics

One of the natural consequences of the shift towards digital innovation is the increased opportunities to capture consumer interactives with their postal transactions. Postal providers now have access to extremely lucrative data, which would otherwise be hidden or know only

by the customer's frontline postal worker. If Amazon and Facebook have thought us anything, it's that data regarding consumer behaviour is very lucrative. One distinct advantage post hold over eCommerce sites and social platforms is the innate trust people place in their postal provider.

Discussion Points: *Reporting | Realtime data capture | Customer Survey*

Workshop Overview

1. **Key Themes & Topics to Be Discussed**
2. **Workshop Q&A**

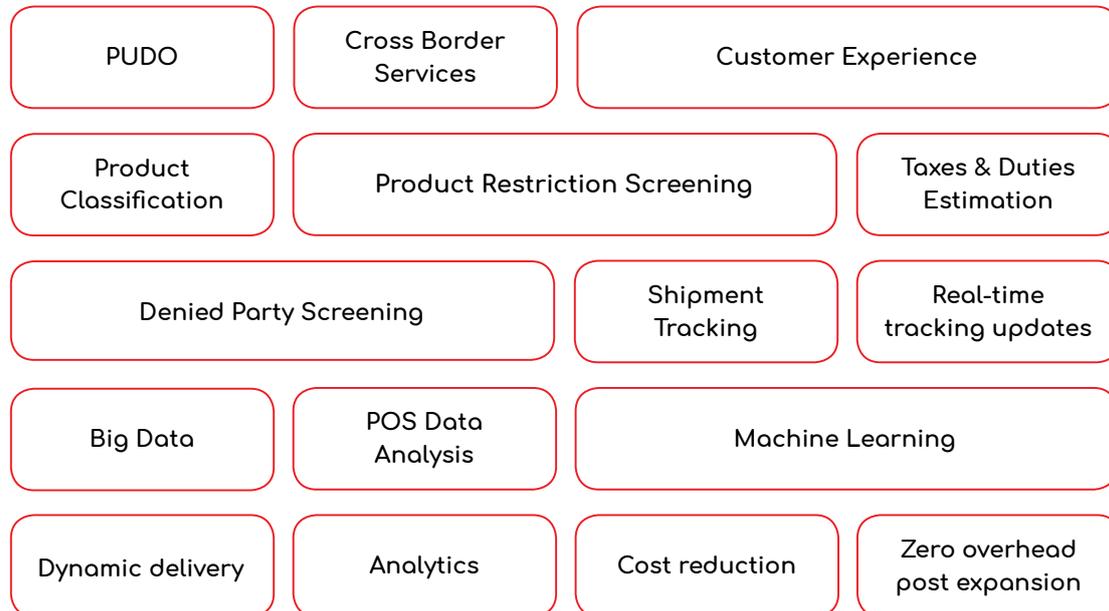
Workshop format:

- ✔ This will be an interactive workshop, moderated by author and international postal professional Derek Osborn. The panellists already confirmed are Escher CTO, Wayne Haubner, and Escher Senior Advisors Pieter Kunz and Kevin Gilliland.

Workshop Objectives:

- ✔ Our aim is to create a knowledge-sharing environment full of diverse points of view where discussions naturally flow and evolve.

Key Themes & Topics to Be Discussed:



Workshop Q&A

- ✔ What are the pressures to the first and last mile for retailers?
- ✔ What is a PUDO strategy? How can it help businesses?
- ✔ Is the trend moving away from home delivery to PUDO?
- ✔ How can PUDO solutions help postal operators and post offices?
- ✔ What is the uptake for PUDO globally?
- ✔ Which countries are utilising PUDO effectively, Which countries/sectors could benefit from it?
- ✔ How can Escher help postal operators with transformation?
- ✔ How can it help them with data overload?
- ✔ How can it help with accelerating cross border
- ✔ What is innovative about what Escher is doing and how did the company come up with the concept?
- ✔ How can PUDO enhance customer experience?
- ✔ What is PUDO bundle solution when will it be released, What are the benefits?
- ✔ Which postal operators are using the cp technology for their PUDO network?
- ✔ What is the future for PUDO?



The Industry

Letter volumes are declining, at a rate of 6-8% year-over-year. 

The Postal Industry Landscape

Letter Market:

- ✔ This has traditionally been the domain of postal operators.
- ✔ In most countries around the world, the postal operator still has a monopoly. In Europe, the European Union tried to liberalize the markets in 2000. And while any competitor can now enter the market across Europe, the reality is that liberalization actually failed. Today, nearly 20 years later, there are still very few competitors in the letter market as the postal operators still have a monopoly.
- ✔ The **main threat** in the letter market is **substitution** caused by:
 - Conversion of physical mail into digital solutions.
 - Rationalization of value chains resulting in the decline of letter mail volumes.
- ✔ In most developed countries where **high speed Internet** penetration is high, mail volumes are declining by 5% and 10% or even more per year. Furthermore, in the developed countries across Europe, many postal operators have lost 50% of their mail volumes over the last 10 years, and this trend will only continue for the next 10 years.
- ✔ As we'll explore in greater detail below, some of the biggest challenges for postal operators in developed countries where there is high speed Internet penetration, is coping with the declining mail volumes, the pressure on cost cutting, and rationalizing the postal network, while anticipating further declines.
- ✔ Many postal operators are also facing fierce pressure on their profitability (or increased losses) because letter volumes are disappearing very quickly.



Trends

The parcels business is growing at an annual rate of over 10%

New Revenue Opportunities: Digital transformation is opening many opportunities for innovation in the postal industry for cost efficiencies and also for new revenue opportunities. For example, USPS innovated "informed delivery". Informed delivery provides end customers with insight into the mail that will be delivered to their mailbox. While this might not appear to be a game changer, this technology could potentially open advertising opportunities for posts (e.g. If the end customer will be receiving a bill from a department store, a relevant digital ad could be served up to that same customer on their mobile device or laptop). Thus, mail delivery could serve as the catalyst for digital advertising.

- ✔ **Greater Flexibility:** Post offices have been built on letter mail operations (e.g. post office mail boxes hold letters, not parcels). Consumers will increasingly expect parcels to be sent and received with ease, parcels can be picked up at residential or business locations, and simplified tracking.
- ✔ **Consumer is now in control:** We are now in a digital world and consumers want the choice of using many channels to conduct their business. Customers want more control and choice of when and where their items are delivered.
- ✔ **Brick and mortar retail shops are in decline:** Similarly, the traditional (standalone) post office with its high fixed cost base, is simply an outdated model.
- ✔ **Voice commerce:** Like e-commerce, voice commerce enables purchases to be made through the consumer's voice commands through such devices as Alexa.
- ✔ **Omni-channel engagement:** Consumers will increasingly expect more ways to engage with their posts, rather than a visit to the traditional post office during normal business hours. Posts should provide self-service options like printing ship to/from labels at home before they even get to the post office.
- ✔ **Competition in parcel deliveries:** Competition will continue in this segment and improve

delivery times, and overall adoption of new technologies and methods by customers.

- ✔ **More Fulfilment Centers:** With the increased volumes from packages and parcels from e-commerce, you will begin to see more and more fulfilment centers to help with last mile delivery challenges. This could assist vendors like Amazon, or perhaps even facilitate shipments from retail stores.
- ✔ **Financial services:** Across many countries, one area that many postal operators are moving into is financial services. Posts are leveraging their large retail network, their knowledge of a mass consumer market, offering retail banking and insurance products and services.
- ✔ **Express parcels and logistics:** Express parcels and logistics is another business that postal operators are expanding into. Deutsche Post expanded in the express parcels and in logistics via DHL, and today, they are a worldwide leader in global express and logistics. (Note: this is a rare example as many posts are limited to their domestic markets).
- ✔ **Congestion alleviation:** This is a trend in countries where e-commerce is highly developed, congestion builds in cities, with up to 15 parcel operators who are delivering parcels every day. So they are queuing in streets to deliver the parcels, and that will put pressure on consolidation and creating smart solutions to reduce pollution, reduce waste, and create more joint networks.
- ✔ **Privatization:** Privatization is a growing trend. 20 years ago, there were very few publicly traded postal operators. But over the last 10-20 years across Europe, we now have many more postal operators listed on the major stock markets, meaning that they also had to go through a restructuring process - separation process from the government - and the shares are now in the hands of investors. And in some countries, the government is no longer involved in the postal operator's business at all.
 - Today, approximately 50% of the postal operators are now privatized including Royal Mail, Deutsche Post DHL, Belgian Post, Austrian Post, Portugal, and Italy.
 - The privatization process creates a new dynamic since there is no longer a single owner (government). Now, there are multiple shareholders who own the company, and that also puts pressure on management to perform and to deliver results for the shareholders.

- ❑ **Posts as “The Trusted” Provider:** Google, Facebook, Amazon and other social media giants, really own consumer profiles and are essentially dictating consumer behavior. This has created immense public backlash and distrust. This has created a great opportunity for postal operators to position themselves in most countries as a trusted provider. Posts deliver mail (which is also protected in terms of integrity of the mail item). Even by law, a lot of things are organized to protect the integrity of the message and privacy.

However, posts have not successfully translated their Trusted Provider position into products like Facebook, Whatsapp, or Google nor have they leveraged the data they have from consumers. This was a missed opportunity, and is a threat in the future because if you own the data on consumer behavior, consumer preferences and so forth, this has tremendous value as we've seen giants like Facebook and Amazon unlocking such value. This represents a huge threat for postal operators moving forward.

- ❑ **Big Data Opportunities:** Similar to the above example, there still exists an opportunity for postal operators to leverage more and more consumer data and profiling information. For example, a database of consumer delivery time preferences (when they are at home, or the office) could be leveraged by the postal operators to optimize the delivery experience, optimize the ordering process for merchants, or also optimize the delivery process.

Postal operators could also build and leverage order history and become a platform for consumers as a starting point to place a new order, linking all retailers/merchants providing the consumer with many more options.

- ❑ **Partnerships with merchants:** Postal operators have access to consumer data such as home and work, items they have delivered, retailer or person who delivered them, preferences, income, composition of family, age, etc. Therefore, several opportunities exist. As an example, upon placing an order online, the parcel could be available for pick up by the consumer (at a locker or PUDO location), along with a sample of a new product based on the consumer's preference. There are a limited number of postal operators who are capturing this opportunity but those who do could create a value towards retailers/merchants to make e-commerce more effective, to create greater intimacy toward customers, and to generate additional revenue streams.

To capitalize on big data trends, posts will need to shift from using technology for their

internal back end and logistic processes, towards becoming more active in the customer interaction, and creating value in that process.

✔ **Parcels Market:**

E-commerce is driving growth in the parcels market. This trading of goods between merchants /retailers and consumers is creating very high growth in parcel volumes, especially from B2C activity.

In most cases, the postal operator is best positioned to take advantage of this opportunity.

Why?

- They have a network.
- They have the people in place.
- They have a retail network for pick-ups and drop-offs.
- They understand how to operate in a mass consumer market.

Given their position, postal operators are well-positioned to become the leader in the B2C e-commerce parcel market.

However, as we've just mentioned, Posts are operating in **two very different markets:**

1. **Letter market:** A quickly declining market, that is leading to all kind of cost cutting projects and restructurings.

vs.

2. **Parcel market:** A fast growing market that requires investments so posts can reinvent themselves in a completely new environment.

While growth in the parcel market is very promising, the growth does not fully offset

the decline in revenues and profits from the letter mail market. This is why many postal operators are also looking for other areas for growth.

Challenges of Postal Operators

- ✔ Declining revenues: Posts' letter mail business, which is their profit engine, is declining.
- ✔ Parcel and package volumes are increasing exponentially but managing this growth is challenging because of greater competition, package and parcel optimization and logistic challenges, low margins, and last mile/first mile challenges.

- ✔ Post office customer experience is still very much transactional.
- ✔ Posts are operating from a fixed-cost, overhead business model. Shifting to a variable cost model is important, but they struggle with this transition, with a lot of room for improvement.
- ✔ Limited budgets.
- ✔ IT infrastructure is antiquated, and their business models are outdated.
- ✔ Government regulation and universal service obligations (USO), whereby posts have to be able to reach every citizen of each country. Organizations such as the UPU and UPC give guidelines that describe how a country should operate in order to fulfil this universal service obligation. One of the many things they monitor is prices to avoid monopolies.
- ✔ Pop-up shops (in malls) to handle excess packages for pick up by customer. Without the right technology, posts have challenges managing this.
- ✔ Growth in franchise stores
- ✔ Personalization of delivery challenges (giving customers choice of parcel pick up date, time, and location).

Why Do Some Posts Delay or Put off Postal Digital Transformation?

- ✔ **Money:** Every postal operator has a different ownership structure. While some are privately owned, others may be government entities and this later situation can create some uncertainty or hesitation to allocate capital for digital transformation.
- ✔ **Risk:** Government owned and operated posts are typically more risk averse than their privately owned peers. To win in these situations, Escher must (and rightly so) demonstrate that the higher risk path is actually doing nothing.
- ✔ **IT Home Grown Solutions:** Some posts believe their operations to be so unique that a solution can only come from within the IT department

How Posts Can Become Game Changers Rather Than Followers

✔ **The Postal Operator Advantage**

Posts already have a national infrastructure in place, and have existing mindshare already established with the consumer as THE organization that will deliver their items from one location to another, and provide locations where consumers can collect their parcel. Of course, posts already deliver to almost any home or business and have a strong network of post offices. But, this is a double edged sword. If posts only rely on this existing infrastructure and model, they risk becoming obsolete, going bankrupt, relying on heavy subsidies from their parent organization or government, and progressively scaling back their business. Radical changes and new working practices will be required along with embracing digital and multichannel, and a movement towards a variable cost base.

✔ **Move to a Variable Cost Base**

In most businesses, including retail, and particularly logistics, a variable cost base is important. In the digital era we live in, as consumers switch service channels from physical to online, there is a risk that postal operators will be left with an extensive network of high-fixed cost, post-owned retail locations. This risk can be mitigated by partnering with retail outlets (such as convenience stores) and assisting with their set up as a PUDO location. When posts extend their network through PUDO locations, they move toward a more variable cost structure. Posts pay the PUDO partner on a per transaction basis, and eliminate retail store overhead costs and extra staff salaries that they would have to pay had they opened a new post-owned retail location. In summary, moving to a variable cost base, helped postal operators in the following way:

- **Lower costs online:** It is less expensive to service customers through online channels as opposed to servicing customers at the post office.
- **First-time delivery:** Significant cost-savings will come from successful first-time deliveries, achieved through PUDO locations or to the customer's front door.
- **PUDO locations:** Moving away from physical post-owned retail locations to a network of PUDO locations is the single best initiative a post office can take on to reduce costs. It will improve first time deliveries (lowering delivery costs) and will move the post towards a variable cost structure where posts no longer have the large overhead costs of post-owned locations but instead only pay PUDO location on a per transaction basis.

✔ **More Postal Access Points with Extended Opening Hours**

Posts also need to move away from the traditional operating model of 9-5 and move towards having more postal outlets that are nearer to the customer's home or office, as well remain open for longer hours. Consumers today are busy, and want posts to remain open on evenings and weekends, or alternatively, to have their parcels delivered directly to their home or office at a time of their choosing. It is incredibly appealing to a customer to be able to drop into a local shop on the way home in the evening and pick up some groceries, a bottle of wine, and their parcel, and then be on their way. Also, it's important to note that if posts don't provide this service, a competitor will. This can easily be achieved by leveraging a PUDO network.

✔ **Evening and Weekend Deliveries**

Posts that can provide evening and weekend deliveries will gain a competitive advantage in this increasingly crowded delivery market. To achieve this, posts will require far lower costs and greater flexibility of workforce. Introducing this modern working practice might be difficult in some countries (possibly due to union issues). However, collaboration with third party food delivery companies (like Just Eats, Deliveroo, Uber Eats) and local couriers might be a way to accommodate evening and weekend deliveries. These companies have a low-cost base and flexible workforce that can accommodate just-in-time deliveries.

✔ **Environment and Sustainability**

This is a big trend and movement and consumers will strongly consider giving their business to organizations who have sustainable business practices that are 'good' for the environment. Is it really necessary in one evening to have your dinner delivered by one company, groceries dropped by another, and your parcel delivered to your door by yet another delivery driver?

Consumers will favour those organizations or services who collaborate to consolidate their deliveries. While it's better for the environment, it's also more convenient and likely less expensive to have your groceries, hot food, and packages all delivered to your home at the same time.

How Else Can Posts Win?

✔ **Solve the decline in mail:**

If you want to have a winning post, then postal operators should first manage the decline

in their letter mail business. This could be done by anticipating the declines per year, and reducing costs, and then changing your network almost on a yearly base. Another way to manage this is split the company into a mail company (which is dying and will end sometime), and then have a separate business to fully focus only on parcels and perhaps financial services, and leave the postal business as a kind of community service to the government. So if posts want to win, then one method could be managing cost and decline on one hand, and then managing investments and growth on the other.

🔴 **Expand Service Offering:**

In the end, the world we know today of postal operators, they will become more and more parcel-related companies or they'll become more financial services-related.

- For example, of the €20 billion per year revenue from Italian Post, more than 17 billion is financial services revenue.
- For Deutsche Post, the postal business (German Post) the company generates billions of euros in revenue. But most of their business is in express and logistics, and they only have a mail service still in Germany, which is now also in decline. If you look to Deutsche Post DHL, it had a very, very limited postal business, and that's why their move towards express and logistics was their winning model because they immediately were a global player, and they really are now one of the global leaders in express and logistics, and still having a home market in mail in only Germany, which is in decline and in the end, will disappear.
- Overall, it's quite a journey, there's a big spread between German Post being a global leader in express and logistics and having some mail in Germany. Many postal operators are still operating in both parcels and mail, and remain government-owned and have to deal with political interference.

How Posts Can Adopt Technology to Stay on Top of Their Game

Posts really need to think differently about technology and should be:

- 🔴 Enabling more pickup and drop off locations
- 🔴 Enabling track and trace.
- 🔴 Making greater use of handheld, self-service machines, and point of sale/service transactions that can be put into convenience stores where customers can serve themselves or get assisted self-serve from the clerks in the convenience store.

How can Posts win? What should they be doing now to better position themselves for success?

✔ **Embrace change:**

The best thing posts can do now to be positioned for success is to embrace change. Many posts are comfortable making incremental changes, but in this quickly changing world, incremental changes will not be sufficient. Right now, posts are seen as the leading provider of parcels and letters. If they wait until the changes are just embedded by other organizations and they're no longer the market leaders, they will fail.

Other Ways Posts Are Reacting or Adapting to Recent Trends or Changes in the Industry

✔ **Open Systems and Networks:**

This is another way posts are reacting to these trends. In Belgium, Belgian Post created a platform (similar to eBay) where consumers sell items as a private consumer to others. And like any product sold online, there is a requirement for it to be shipped. Through the platform, an auction takes place where transport companies or parcel operators can bid to take that order and deliver the item.

✔ **Increase in PUDO locations:**

To move away from the high fixed costs of a traditional postal retail network, posts will be expanding points of service with more pick up and drop off locations. By partnering with retail/convenience stores, postal service centers can be set up directly within these convenience stores, and will also serve to improve customer experience by being nearer to the customer, and open for longer hours of service (some 24 hours).

- ✔ **Technological advancements in PUDO technology:** We'll see greater advancement in PUDO technology that enable more cost-effective setup and operations for PUDO points. This will only make it easier for posts to expand their postal network using PUDO locations and move to a variable cost structure.

Implementing last mile solutions is going to be key, as this is where the consumer notices it, and that's where the competition will really heat up. Posts who have the foresight to look ahead, and act now rather than play catch up, stand a solid chance at maintaining their leadership position.

- ✔ **Timed-Deliveries To Doors:** This will require collaboration and radical changes to existing working practices as well as updates to existing technology that posts use. Timed-delivery has been successfully adopted in other sectors of the economy, such as in food delivery with Deliveroo and many others around the world. Businesses are already delivering fast food, groceries, and parcels to customers at a time of their choosing. This trend will lead to more consolidation and collaboration in the industry. Looking to these innovative food and groceries delivery companies (Amazon, eBay couriers, etc.) timed-deliveries in the evening just make sense. Linking parcel delivery with food or groceries, would be one step in the right direction toward providing customers a service they would truly value.
Some posts will not be in a position to adapt to these trends for political reasons, changes in working practices, or trade union pressures. These changes will also require out-of-the-box thinking, and a completely new working model (e.g. PUDO, timed-deliveries, collaboration, partnerships with retailers or logistics companies or couriers).
- ✔ **Improvements in Post-owned Warehouses and Distribution Centers** attributed to AI and robotics. Over next five years, robotics and AI will lead to even greater process improvements, cost reductions, and improvement in efficiency. Software enhancements and other technology investments will lead to efficiencies for delivery.
- ✔ **Route planning improvements**
- ✔ **Drones and Driverless Vehicles:** We'll see significant advancement in this area over the next 5-10 years, assisting with deliveries and returns for customers.
- ✔ **Analytics:** We will see a big increase in the use of analytics over the next 5 years as this technology will help drive down the last mile costs.
- ✔ Increased Collaboration and Partnerships between posts, couriers, retailers, last mile providers, groceries and food delivery companies.
- ✔ **Environment and Sustainability:** A priority will be placed on lower emissions, electric vehicles, and greater efficiencies in deliveries.
- ✔ More stores will be used as parcel and letter distribution centers for pick up and drop off.
- ✔ **Data usage improvements** and software development to improve tracking.
- ✔ **More efficient and effective delivery** (for example by partnering with Uber and Deliveroo and Just Eats).



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