

A New Era for Postal Organizations: Capitalizing on Small and Medium Enterprise E-commerce Growth

Abstract

As national postal operators (NPOs) across the globe undergo deregulation and liberalization, digital services will play a key role in driving a more meaningful transformation of postal organizations. To compensate for the fall in volumes of their core, high-margin mail business, postal organizations are looking for diversification opportunities and digital innovations that can create new business avenues.

At the same time, small and medium enterprises (SMEs) are looking for delivery partners with integrated end-to-end digital platforms. They can leverage their delivery partners' networks, reach, and brand value to effectively meet the requirements of the end customer. The unique convergence of the needs of postal companies and SMEs creates significant opportunities for the two entities, which can be leveraged using a robust digital platform. In this paper, we discuss the various aspects of such a platform-based solution.

Mismatch between E-commerce Growth and Postal Volume Decline: Seizing the Opportunity

Over the last five years or so, the e-commerce business in Europe has grown significantly. Parcel delivery has therefore emerged as a focal point in the overall business landscape. With the e-commerce sector booming, parcel volumes are only going to increase. This opens up a plethora of opportunities for parcel delivery operators, including postal companies. This holds true for the Western European, Nordic, as well as Asia-Pacific regions. However, amid stiff competition from niche logistics companies as well as delivery networks established by e-commerce companies, postal companies are yet to establish themselves in this space.

This raises some tough questions. How can postal companies grow under these circumstances? How can they use digital technologies to differentiate themselves in this competitive market? A clear opportunity for postal companies is to cater to the needs of the untapped and underserved SME e-commerce market segment. With a set of value-based offerings, postal companies can target SMEs to drive higher delivery volumes and expand their services portfolio (see Figure 1).

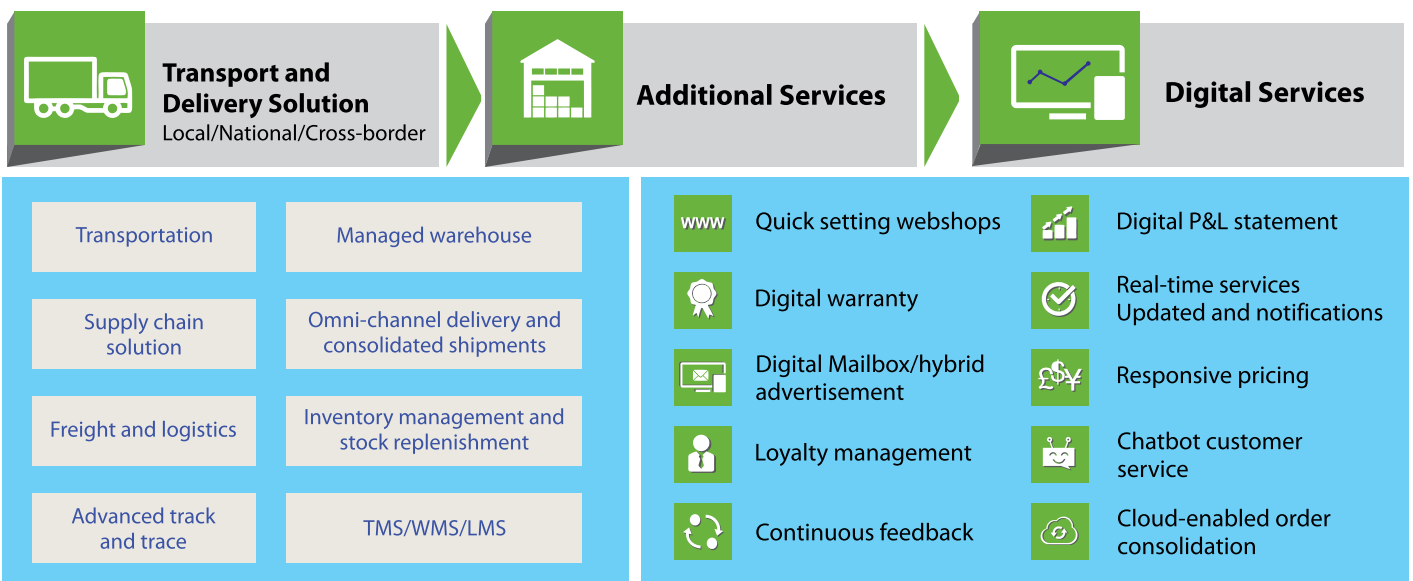


Figure 1: The evolving role of postal organizations as digital partners to SMEs

Ideally, the logistics company that has the largest network should also carry the largest volumes. But, that is not the reality for postal organizations which typically have large networks. So what will it take for postal companies to win the parcel delivery game? Targeting a higher utilization rate for underutilized assets and resources such as delivery network, warehouses, hubs, terminals, vehicles, and business correspondents is essential. Developing unique, non-replicable solutions to gain a definite edge against established players will also help the cause. Finally, introducing SME-friendly products and services can help postal companies' carve out a niche segment from this underserved market, which they can dominate.

The depth and breadth of key SME markets present significant opportunities for postal companies. In the Nordics region alone, 99.8%¹ of businesses (Norway – 99.8%, Denmark – 99.7%, Sweden – 99.8%, and Finland – 99.7%) are classified as SMEs and the area is home to an unaddressed market of two million SMEs. Similar figures for Belgium and New Zealand stand at 99.8%² and 95%³ respectively. The regional governments envisage a key role for SMEs in nation building and this often translates into policies conducive to the empowerment of these businesses. There is a diverse set of SMEs present in the market (see Table 1), and postal companies need to rise to the requirements of this diverse set.

Country	Category 1	Category 2	Category 3	Category 4
Nordics	Machine components Auto components Spare parts	General merchandise Sports goods	Apparel Accessories Furniture Toys	Omni-channel electronics Leisure Items
Belgium	Machinery and equipment	Transportation equipment	Chemicals	Food items
Australia	Telecom equipment and parts Associated services	Sports equipment	Cosmetics and apparels, elderly care, and health care	Luxury goods Accessories Watches Jewelry
New Zealand	Machinery	Fruits and food items	Personal care Products	Clothing Footwear Beauty

Table 1: Key SME categories across regions

Challenges SMEs Face in their Growth Journey

SMEs face several challenges in taking their products and services to both domestic and international markets. Customer trust is limited and they require the support of a trusted brand for logistics support. They need to adopt industry best practices for their product, pricing, and consumer strategies. A one-stop shop for transportation management, supply chain, logistics, fulfillment, consulting, and commerce enablement can considerably ease their organizational challenges. The logistics partner should be capable of servicing a nationwide network and provide access to cross-border transportation and overseas markets.

Using e-commerce marketplaces and their associated delivery networks is not an easy task for either. An SME's individual brand is diluted due to their dependence on the marketplace. The allegiance of customers to the marketplace inevitably leaves SMEs vulnerable. They risk being under-represented and marginalized on established platforms. While the threat of their products being easily replicated is real, the fees to access the platforms are also prohibitive in nature. Moreover, unmoderated negative feedback on the platform can significantly impact new entrants, unlike larger sellers. The complexity of seller policies typically favor the buyers and put SMEs at a disadvantage. To top that, the design of most marketplace platforms is optimized for retail consumers – not sellers. SMEs also face the challenge of lower than expected volumes and low brand recognition on such marketplaces.

Designing a Next-generation Digital Platform for SMEs

The opportunity for postal companies lies in offering a next-gen digital platform that addresses the key business challenges that SMEs face in their transformation journey and prepares them for the digital era (see Figure 2). Such a solution can help postal organizations extend digital capabilities and auxiliary services to the SMEs and their customers, using a quick to implement, end-to-end IT platform.

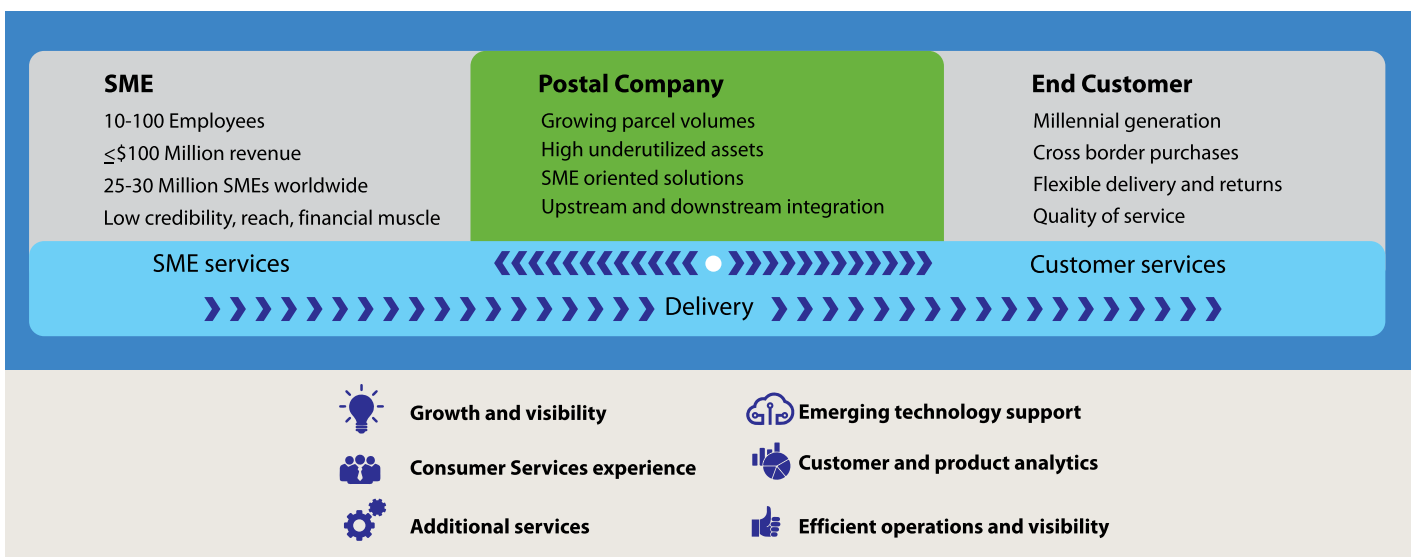


Figure 2: Emerging possibilities for postal organizations to serve SMEs

The platform can be designed to support innovative digital services including digital warranty, order consolidation, loyalty management, digital address, and other solutions, increasing the scope of services (see Figure 3). It can also be equipped to push real-time updates as well as receive continuous feedback on products, services, and features from customers.

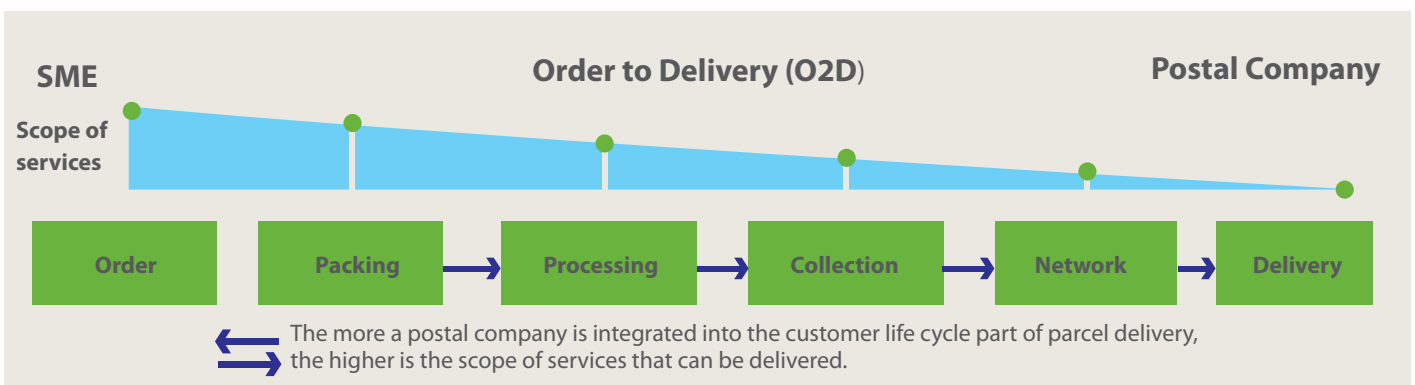


Figure 3: Integration of the postal company into the product delivery cycle

The key capabilities of such a platform could include the ability to publish live prices in near real-time, and send hybrid marketing communication to customers through both physical and digital channels (see Figure 4). In essence, such a platform would deliver personalized experience to SMEs’ end customers through individualized and customized customer connection programs.

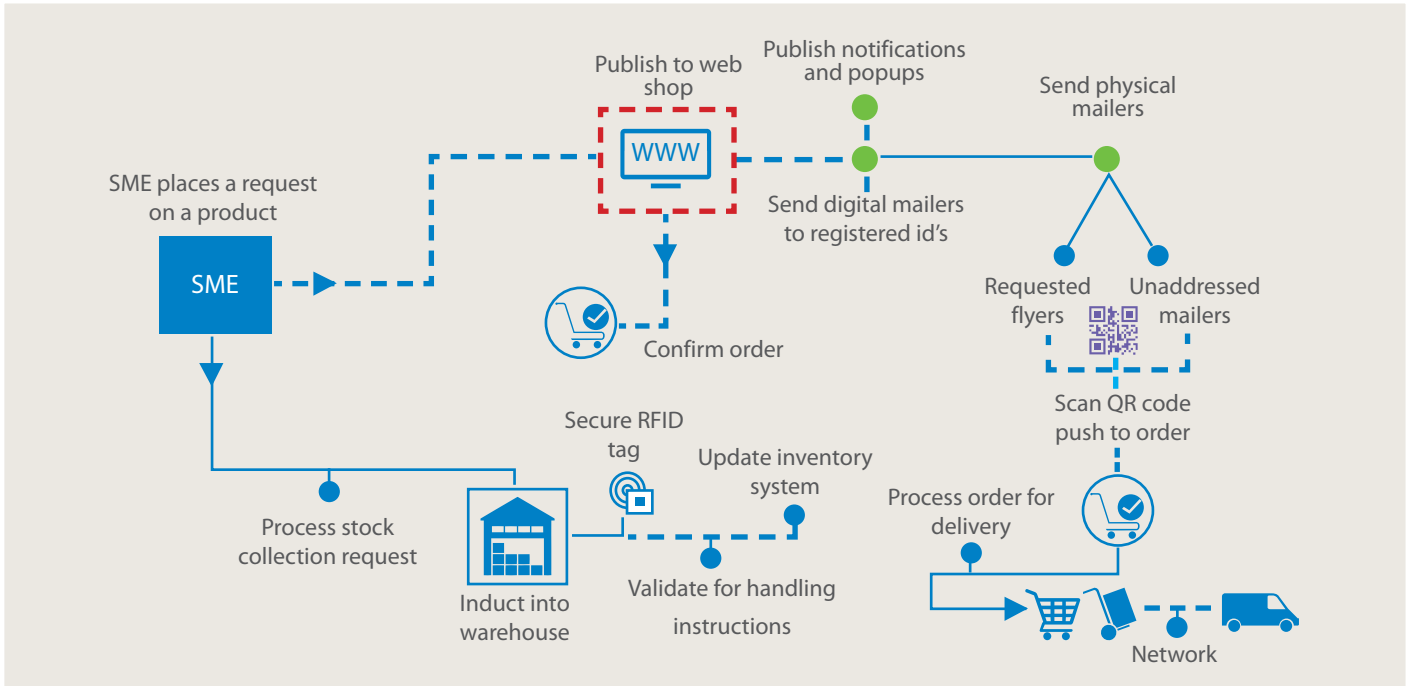


Figure 4: How the digital parcel solution works by integrating physical and digital services

The features of the solution can be varied based on the SME’s industry segment. Table 2 lists some possible services that can be incorporated into the solution for different categories of SMEs.

	Scenario -1	Scenario -2	Scenario -3
Industry Category	Auto components and spare parts manufacturer	Manufacturers of chemicals	Garments manufacturer
Illustrative SME	Online car accessories retailer	Chemicals manufacturer	Contract manufacturer of unbranded clothing
Size	Small	Medium	Small
Product	Shock absorbers, strut top mounts, coil springs, hand brake shoes, wire sensors, cables, thermostats, ignition coils, and washer pumps	Basic metals, rubber, and plastic parts	Unisex clothing, winter wear and accessories, industrial uniforms and safety wear, apparel fabrics

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	Scenario -1	Scenario -2	Scenario -3
Services	<p>Delivery: Overnight delivery, including special delivery to break-down location</p> <p>Managed warehouse services: Warehouse space to hold inventory and inventory management services</p> <p>Quick web shop service: Online space for promotion of products such as replicable components and professional services such as repair services.</p>	<p>Warehouse services: Online solution to demarcate separate hold area for chemicals and handling instructions. Co-allocated warehouse</p> <p>Quick web shop service: Online space for promoting private label household consumable items such as water-repellent products and professional services such as building cleaning services.</p>	<p>E-fulfillment services: Finished goods inventory management, pick and pack</p> <p>Branding Services: Packaging and branding of clothing as per order specification</p> <p>Product Cataloguing Service Product listing, product analytics, product lifecycle management</p> <p>Customer Analytics</p> <p>Customs Management Cross-border returns</p>
Service model	Product delivery, logistics, and promotion of professional services using digital capabilities		

Looking Ahead

A mutually beneficial business relationship between postal companies and SMEs, underpinned by a digital platform, will catalyze growth for both these entities. Starting out as logistics partners, postal companies can finally become digital enablers for small and medium businesses. A digital platform offering an elaborate array of services will allow postal companies to address the varied demands of SMEs. In doing so, postal organizations can carve out a differentiated position in the marketplace, extend their existing delivery capabilities, and further develop innovative digital services for SMEs in the future.

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