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**New Zealand Post - A success story**

**Jeffrey Kung and Rachel Foo**

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## ABSTRACT

This organisational history is one of several written during the 1995 course MMBA535 Business Policy II. The aim of these histories is to describe the process and content of strategic change in an organisation over a significant period of its history, and to explore the bases on which the organisation is seeking to build its future distinctive competence or advantage. The New Zealand Post story is one of the most successful examples of transformation of a former New Zealand government department into a commercial enterprise. The challenges of change to operations and business strategies, and in personnel and leadership are among several that have profile in this history. As the firm moves beyond this change agenda, it is now designing strategies that will apply its newly-acquired competencies to face new challenges, and new possibilities.

Colin Campbell-Hunt

## **INTRODUCTION**

The state of affairs at New Zealand Post Limited (NZ Post) back in 1987 was summed up in the words of the newly appointed Managing Director, Harvey Parker as "Going places, down the gurgler". This was not uncommon for Government agencies in those days when profitability and accountability were not the key issues of the day.

### **Pre 1987 position of NZ Post**

- > NZ Post was incurring trading losses as prices were not related to costs. In 1986, the postal service lost \$38 million.
- > When cross subsidisation from Telecom profits was removed, a 30% increase in core prices would have been required to achieve a break even position.
- > There was little money spent on upgrading facilities and equipment.
- > The Nationwide network was burdened by excessive fixed costs such as staff and property.
- > The department was failing to meet customer demands for service innovation and development.
- > Service standards were deteriorating.
- > NZ Post was losing ground to courier companies in the rapid/urgent mail market.

There was a lack of clarity of purpose due to conflicting political, social and business objectives within the management. Accounting systems were not business based. The company suffered an absence of key skills and there was no management reporting system to monitor the organisation's performance. Industrial action by staff was rife.

The state of affairs of the company was deplorable and if that position was maintained it was estimated that the first year's operating loss as a state owned enterprise (SOE) would have been in the vicinity of \$50 million.

### **The need for Change**

It took a crisis to focus the mind and trigger a change, and that is exactly what occurred within NZ Post as it moved from Government Department to SOE on 1 April 1987, charged, among other things, with being as profitable and efficient as businesses in the private sector.

Harvey Parker and his team brought into the company a management style that was clearly market focused and in less than 12 months transformed an accelerating loss-maker into a profit-winner. He initiated reforms that culminated in operational strategies that brought about a turnaround for the company in later years.

### **The Achievement**

In the years since 1987, NZ Post has positioned itself as a world leader in efficiency and in the use of mail handling, distribution and communications technology. Its core activities are postal communications and physical distribution (parcel mail and courier delivery) within New Zealand and internationally.

It also has managed warehousing, just-in-time fulfilment and direct marketing businesses, and is developing new products and services in electronic mail processing. It also provides retail financial transaction services, issues postage stamps, and operates a philatelic and collectibles business.

Notable achievements have been the following :

- > The price of a letter has been held at 45 cents and will remain at this level until at least 31 March 1995 (Since 1987 the price of a standard letter has been increased only once, by 12.5%)
- > Customers who dispatch large volumes of mails enjoy lower prices.
- > The price of a standard letter is the lowest of 15 major postal services around the world.
- > There has been increased reliability (including Christmas peaks and disruption due to weather).
- > 97.9 % of Fast Post delivered next working day
- > 99.2 % of Post delivered next working day across major cities
- > 99.9 % of Post delivered within three working days.
- > Latest growth indicates the volume of letter mail has increased by 5.9% between 1994 and the previous year.
- > There is greater volume handled at lower cost. Since 1987 NZ Post has handled 25% more items of mail at nearly 22% less real unit cost.
- > These operational gains have been supported by a self-funded \$200 million capital expenditure programme.
- > Since 1987, the company has paid \$190 million in taxes and dividends to the government. After-tax earnings for the year ending 31 March 1994 were \$66.7 million.

Major strategic initiatives occurred in 1989 when products and services were completely revised for improved delivery performance, and in 1991 when the Operations Group targeted cost structures by completely revising work and management practices, and introducing sound production systems and techniques.

The days of gut feel operational decision making were over.

By the Postal Services Act 1987, NZ Post was given the sole right to carry a defined standard letter of up to 200 grams. Under a Deed of Understanding with the Government, the company is required to charge a nationally-uniform price for standard letters, deliver six days a week, maintain a minimum number of retail outlets and maintain the price of postage for the standard letter in relativity with the Consumers Price Index.

How did NZ Post transform itself from a government department in 1987 to a successful business in 1994? What were the main influences of change? Where did change take place? And what were its main benefits?

### **The Crisis that Prompted Change**

In December 1986, the New Zealand Government passed the State Enterprise Act and listed 3 Post Office corporations as State Owned Enterprises. They were New Zealand Post, PostBank and Telecom. NZ Post was made an SOE on 1 April 1987. With the conditions that were prevailing in the organisation, NZ Post was not likely to survive, let alone be profitable in a deregulated environment.

Changes were needed. Clearly, the culture of "cost-plus" mentality was not going to bring NZ Post far. NZ Post needed to become commercial and competitive and be business-focused. A change in culture was needed badly.

Government and public commitment to the need for change provided a climate of acceptance for radical measures to be taken in a short space of time. NZ Post seized this opportunity and moved with speed. Fortunately for the organisation, middle managers proved effective at transmitting the changed culture to all levels of staff.

There was only one union for all postal workers - The Post Office Union. The Union understood the need for change and there were

few industrial disputes over issues of downsizing. The union saw that the survival of whole business was at stake. The Post Office Union, because of its association with the Labour Government was aware of the government's efforts to revitalise the country's economy so it co-operated with the change process because it came from 'within'.

The massive task of downsizing was carried out within a short span of time. Under the Staff Surplus Agreement, which was part of the conditions carried across from the Post Office, workers were redeployed wherever possible, or relocated, or took early retirement or voluntary severance if other options were not available. The casualties came mostly from the rural areas where re-deployment was difficult.

The company worked closely with the union and consulted the union on many issues.

According to Alan Hunt, General Manager, Operations Division

"One of the issues successfully tackled was the change of style in dealing with inefficiencies in the delivery of mail. In the old days (prior to 1987) when mail was not delivered on time, the company would put more labour to the job. This was in line with the government's policy of creating employment. The Rails and Post Office were always employing these soft options. NZ Post has taken out nearly 4,000 staff since 1987. The new approach to improving efficiencies was to invest in facilities and systems rather than increasing staff numbers."

## **THE PEOPLE BEHIND THE CHANGE**

### **Harvey Parker, CEO**

Harvey Parker took up the appointment of Chief Executive Officer, NZ Post on 23 February 1987, at the age of 43. Prior to this, he had been Director General of the Victorian State Department of Youth, Sport and Recreation.

Born in Mackay, Queensland, Mr Parker had enjoyed a distinguished career in Australian public administration. He started as a postal clerk in the former Postmaster General's Department and worked his way up through the organisation to line management positions in various district postal management

offices. Between 1980 and 1982 he was Regional Operations Manager in Victoria for Australian Telecom.

In 1982, Mr Parker joined the Victorian Public service, becoming General Manager of the Public Service Board later that same year. He holds a Diploma of Public Administration, Bachelor of Arts and Master of Business Administration degrees from Melbourne University and is a graduate of the Australian Industrial Mobilisation Programme.

### **Harvey Parker's leadership style**

The emphasis was on teamwork and managed commitment. In a statement to his managers, Harvey Parker set out his expectations.

"I require the Head Office Managers and Regional Managers to operate as a corporate team. Regional Managers, despite their geographical location, are part of this Head Office team.

I expect all Managers to co-operate in building a tight corporate team committed to achieving the goals specified by the Board of New Zealand Post. Expressions of opinion and debate should occur in the formulation of policies and goals, but once these policies and goals have been endorsed by the Board, I expect all Managers to support them fully.

I require New Zealand Post to work towards a positive profit performance in the short term. It will require a focus on controlling costs and making more effective use of our resources. Essentially it will require a huge commitment in terms of better management."

Mr Parker's immediate move was to develop a management information and reporting system which was put in place in April 1987, two months after his appointment as CEO.

A financial plan was produced to set company targets for 1987/88 and the organisation structure was to be revised. A series of management committees was established which included a Senior Management Committee, Resources Committee, Personnel Committee, Corporate Communications Committee, New Products/Pricing Committee and a Staff Consultation Committee.



He was committed to pursuing operating efficiencies vigorously within the first 12 months of NZ Post operations. Speaking to Regional General Managers, he said,

"I expect the full co-operation of managers in achieving these efficiencies. At the same time I do not want to see service standards slip. That gives you all a difficult management task, but that's why you have been appointed to these positions."

Harvey Parker also saw the need to control capital investments and initiate review programmes. As a result, any capital expenditure above \$250,000 is subject to Board approval and projects above \$25,000 are advised to the Board.

### **The Corporate Management Team**

Harvey Parker went on board with a top class executive team - an effective combination of public and private sector talent and experience. The best senior managers from the old Post Office were handpicked to direct the organisation's business operations, whilst top flight executives from large commercial organisations were recruited into strategic planning, marketing, finance and personnel roles.

### **FIRST FOCUS OF CHANGE: PEOPLE**

The company's core business was identified as the moving of mail. The more efficient and the lower the price for the standard letter the more competitive the company becomes. Hence the strategy was to work around cost cutting and improvement in services.

The initial task was to put in place an effective personnel system to effect the change process. From 1987 onwards, there was a deliberate process of decentralisation. The Human Resource Unit managed the process of restructuring which had a number of elements:

- > Downsizing of the entire staff.
- > A new emphasis on accountability and drive for profit by managers.
- > A recruitment policy that looks for the best match of skills rather than seniority.
- > Introduction of a performance review system for the management group.

### **Downsizing of staff numbers**

Downsizing programmes have reduced staff numbers by over 4000, above 40 percent of the 1987 staff level. The present level of staff consists of 500 managerial and specialist staff, 1,000 supervisors and postshop managers, and 7,000 staff, of which around 4,000 are either part-timers or casuals.

Managerial staff understood the need for change and downsizing but at the staff level, where the casualty rate was high, it was not well understood. Significant staff reductions resulted from the closure of 432 post offices when Government removed its subsidy, effective February 5 1988. A further 1,000 staff positions were cut over 1991 and 1992 with the introduction of new production control systems and shift structures.

The old culture of keeping a huge staff was replaced by one that emphasises efficiency and a lean workforce .

### **Recruiting Excellence**

The centralised controls of formal appeal procedures that existed under the New Zealand Post Office were replaced by delegation of authority to the local manager to select and appoint the best person for the job.

Managers were given the flexibility to decide how widely they wish to advertise a position and from the pool of candidates select the person they determine has the most suitable skills, knowledge, experience and attributes to meet their specific job requirements.

Unlike the old system, managers now have the flexibility to select an internal applicant who is several grades lower for the job if that person is deemed suitable. Managers are also free to select an external candidate. This system opened opportunities to younger and brighter staff who were denied this in the old system. It also brought in high performers from outside the organisation.

Managers were given the "two-edged sword" of accountability. The new recruitment policy defined clear standards of excellent management in the recruitment context and gained managers' commitment to the process. The whole exercise of putting in place the recruitment policy took three months.

### **Accountability and drive for profit by managers**

A new decentralised style and form of management was instituted, vesting accountability for operational decisions and resources at a local management level, at the closest point to the customer.

The labour intensive business that NZ Post was in necessitated the delegation of personnel management accountabilities. This was a key motivator of the thrust for decentralisation, giving managers the ability to improve efficiency and effect significant cost reductions by changes in local work practices and conditions.

Local managers were given authority to hire, promote and discipline their own staff and also clear accountabilities for managing, developing and recognising staff performance and for communicating the company's business directions to their teams.

### **Performance review system for the management group**

Members of the NZ Post management group, which covers all positions above the supervisory level, are on individual employment contracts. A performance review system was set up for this group. It consists of two major components, undertaken between the individual and their manager.

- 1) Objective setting - which spelled out the results required from the job, the standard to be achieved, and the means of measuring achievement.
- 2) Performance appraisal - the appraisal of actual performance and the allocation of a performance rating.

A merit review system was put in place for all managerial salaries to ensure that they remain competitive according to individual performance. The overall movement to the salary scales is based on alignment with market rates. The overall merit budget is then distributed on the basis of individual performance.

### **Training**

The first phase of change in the Human Resource area was to put in place a series of training programmes aimed at starting to change the culture of the organisation.

The *Caring for Customers* programme was introduced for all staff working in retail outlets and areas of postal operations involving direct customer contact. About 2500 staff participated in the programme. Along with this, all retail outlets were refurbished

and this was accompanied by the issue of a corporate wardrobe for staff. These moves were aimed at improving customer service.

All operational staff in sorting, delivery, transport and mail handling functions were put through an educational/motivational programme entitled *Winning Ways*. Coaching sessions to show efficient work practices at each stage of the postal process were carried out with various teams. Each team member had to play their part in these programmes.

Senior managers were sent overseas to broaden their perspectives in the international market. Since 1987, various new programmes have been put in place to develop staff. One of these is the Post Development Programme. This is a fast track programme to develop promising young graduates and internal staff of high calibre for senior supervisory positions and consolidate that experience in readiness for appointment to the management group.

With the new personnel system put in place, Harvey Parker was able to move on to new objectives. His theme for 1988/89 was "Service". The goal of the company was to hold standard letter prices and to offer customers an efficient, uniform and low cost postal service, "improving service performance to the point where customers have total confidence in our service delivery promise". A base of modern, large mail processing centres and mechanised mail handling equipment would be necessary for NZ Post to meet these goals.

But the outlook for the year ahead was not bright. With modest economic growth and increased competitive pressure, the company expected volumes and revenues to grow only at modest rates. Net profit after tax for 1988/89 was \$31 million, down from \$72 million the previous year (see Appendix A, Financial Summary).

## **SECOND FOCUS OF CHANGE: OPERATIONS**

### **Investing in facilities and systems**

In 1990, the company made further gains in service standards by putting in place measurements to identify problem areas and resolve complaints. The company also commissioned independent surveys of delivery performance. Periodic measurements by way of "phantom shoppers" surveys were also carried out.

The price of the basic letter was maintained at 40 cents for the third successive year, absorbing a 2.5% increase in Goods and Services Tax. The company continued with its strategic goals of being market focused and modernising and upgrading to compete in a continually deregulated and highly competitive environment.

NZ Post embarked on extensive automation projects. By 31 March 1990, \$120 million had been spent on the modernisation and capital investment programme. \$6.5 million had been invested in culler facer canceller machines at the new mail service centres. (Culler facer canceller are machines that separate the long and short envelopes and face them the correct way round so that the stamp can be cancelled.)

A critical strategy was the establishment of modern and efficient mail handling centres. New improved mail handling methods were introduced. These included the use of containers and the replacement in high traffic areas of mail bags with loose letter trays designed to stow securely within containers.

Mail service centres are the points throughout the country at which mail is collected and sorted for dispatch. In 1990, NZ Post made the decision to adopt far reaching and radical structural changes to its mail centres throughout the country to improve efficiencies in mail handling.

Two new mail handling centres were opened, in North Shore, Auckland and in Hamilton. Preliminary work also started on planning new centres in Palmerston North, Auckland Central and Petone, Wellington. The company now has a total of 22 mail service centres throughout the country. The principal centres are in Auckland, Wellington, and Christchurch.

More Culler Facer Cancellor machines were purchased and tenders were called for optical character reading equipment - machines which can read machine-addressed mail and sort it to postal delivery rounds.

### **Changing work systems**

In 1991, difficult general business conditions led to another year of decline in revenue, even though efficiency of mail delivery improved. The percentage of letters delivered on time was 97.1% for Fast post; for Post across town the next day: 96.6% in Auckland, 95.2% in Wellington, and 96.9% in Christchurch. Delivery across New Zealand within 3 days was 99.5%.

The Operations Group embarked on crucial reforms targeting cost structures by completely revising work management practices, and introducing sound production system and techniques. The consultancy firm of Alexander Proudfoot was engaged to analyse cost efficiencies at mail centres. Their finding was that mail centres were overstaffed by 25 percent. The "schedule expectancy" - the number of tasks divided by the number of hours put in - was not satisfactory.

The company decided to re-schedule shifts and introduced new handling procedures. Rotating shifts for the sorting of mail were gradually replaced by fixed shifts in all mail centres.

Rotating shifts operated in the following way: there were four main shifts operating (five and six day shifts) on a five week cycle. Employees would work the same hours each day for the first week of the cycle, and they would then work a different shift the following week, and so forth for the five weeks of the cycle, when the original roster would begin again. Shifts were set by roster posted at least two weeks in advance.

The fixed shift system operated on the basis that employees worked the same shift each week. In Wellington, for instance, there was a rationalisation of work hours following the move to fixed shifts and the number of shifts was reduced from four to three, and ultimately to two: 4.30pm - midnight, and midnight - 6.15am. Mail centres now operate in the late afternoons, at night, and in the early mornings. The sorting of mail is now handled by part timers as well as full time staff.

New production control systems were put in place in all mail service centres to reduce cost, improve service performance, and set the framework for further efficiency. The "one-mail" batch process system was added to the company's operation, improving matching of mail volumes with crew levels and shift times. This system processes mail only once a day in place of the multiple sorts required with previous systems. In addition, a "Clear Floor

Policy" required that mail is cleared through every Mail Service Centre, and all documentation is cleared, by the end of the last shift. Operating costs were reduced and the reliability of postal delivery improved.

Technology was an important part of these changes: an electronic mail tracking system and electronic letter sorting were introduced. The installation of Optical Character Reader/Letter Sorting Machines (OCR/LSMs) in Auckland, Wellington and Christchurch revolutionised letter sorting. Each machine could sort more than 30,000 machine-printed letters an hour, at a cost of about \$2 million each.

### **Logistics improvements**

Between 1987 and 1993, line haul services, the large-truck network operating throughout the country, was extended to include Napier and New Plymouth. Following removal of regulatory limits on road transport, new road services were started between Auckland, Hamilton, Palmerston North and Wellington.

Difficulties in maintaining service performance through commercial airlines were solved when NZ Post invested in a joint venture airline in 1991. The company purchased a fleet of five planes which cut the time for the inter-island mail flow by 24 hours. This enabled an extension to the cut-off time for Fast Post and other priority mail.

Courier Post International extended its network from 56 to 100 countries, including several countries in Eastern Europe. Speedlink, a door to door parcel delivery business, was purchased from New Zealand Rail and was integrated into the NZ Post network. Service performance under the Courier Post division was improved through the franchising of CourierPost drivers as owner-driver contractors. There was increased motivation and productivity through ownership.

The entire logistics network was coordinated from Wellington Control Centre. In total, the network comprised:

- > 22 mail service centres;
- > a fleet of 600 vans and 100 trucks, including 20 Scania line haul big rigs;
- > 1,447 postal delivery rounds using motor cycles, bicycles and foot;

- > a 50%-owned (with Airwork NZ Ltd) airline, Air Post Ltd, operating two Friendship F27s and three Metroliners to carry mail, mainly overnight, between cities and the two islands;
- > 97 contractors carried mail by road between certain provincial towns and 530 rural mail contractors provided a pick up and delivery service to farmers and remote localities by car, bus and boat.

Information systems were in place to measure and understand what was happening at each level of the network and contingency plans were available for each part of the system.

### **Organisation structure**

To improve the company's ability to compete in an increasingly aggressive environment, a new organisation structure was introduced. The new structure had three operating divisions: Letter Post, Commercial Services and Property. (Refer to Appendix D, Organisation Structure). Each division took care of their particular area and had their own marketing support.

The Letter Post Division managed the core business, the regulated part of the letter post market. The focus of this division was on improving service standards, speeding the modernisation of the network and improving financial systems.

The Commercial Services Division dealt with value-added products and services. These included parcels, Fast Post, BoxLink, unaddressed circulars and transaction-based retail contract activities for clients such as PostBank, Telecom Corporation, the Ministry of Transport and the Ministry of Justice.

An important contract with the Ministry of Justice was the maintenance of electoral rolls. Senior electoral positions have been created around the country and a new computerised system of electoral reporting was being introduced.

In 1992 NZ Post restructured the organisation again to establish a Central Marketing Group.

Heading the new unit as Group Manager, Marketing, was Elmar Toime. He had joined NZ Post in 1987 as Business Planning Manager. He is a graduate of Melbourne University (Bsc mathematics and physics and BA economics and statistics), specialising in planning systems and organisational change. Mr. Toime, like Harvey Parker an Australian citizen, had worked with Telecom Australia before coming to New Zealand.



The new Marketing Group was given profit responsibility for all businesses. Costs centres were the Sales and Retail, Courier and Parcels and Letters groups.

The Marketing group provided crucial strategic and marketing direction for all other groups. It specified standards, set revenue and cost targets and reported profits by products.

### **Retail Operations**

A great percentage of the cost trimming exercise was focussed on the retail operation. Nearly 27% of cost was to be taken out. Unprofitable outlets were replaced by agencies. There was to be a 25% cut in labour- one of the important cost drivers.

While making progress on costs, the Retail and Agency sector suffered a decline in revenue in 1991 due to the withdrawal of agency business by PostBank and Telecom. The lost counter work for these two organisations reduced revenue by nearly \$50 million.

Meanwhile, the size of the total retail network (both NZ Post's own Post Shops, and its agencies) grew from 1,234 in 1987 to 1,445 in 1991. NZ Post remained New Zealand's largest single retail network. The composition of the network was changing however, with greater use being made of agencies. In 1991/92 there were 269 staffed post shops with full range postal, merchandising and agency services, 617 postal delivery centres offering stamp sales and delivery mail, 858 stamp retailers and more than 2,300 stamp booklet sellers stocking 45 cents stamp booklets. (Appendix B shows the composition of NZ Post's retail network 1990-94). Growth in postal sales gradually made up for much of the loss in revenue from Telecom and PostBank agencies.

The company also continued with the programme of divestment of inappropriate and surplus properties with the sale of 99 properties in 1991 netting a return of \$2.9 million. Since 1988, 243 properties were sold for a total of \$36.9 million.

## **ENTERING THE ERA OF COMPETITION**

In March 1989 the Government announced that over the next three years it would progressively reduce the protection available to NZ Post. Beyond October 1991, statutory protection would continue only for the standard letter.

"By 1991, we will be operating with the lowest level of statutory protection available to any postal service in the world. Clearly, we are entering an era of competition which demands positive customer-responsive strategies."

... Michael Morris, Chairman, NZ Post 1989 annual report.

### **Marketing and Product Strategies**

The price of the standard letter was maintained at 40 cents until 1991. (Appendix B, chart 3 shows comparable cost of a standard letter in 9 OECD countries).

Inland mail services were redeveloped into two streams, Post and Fast Post, and delivery promises were clarified: Post would deliver across town the next working day, and between major towns within three days; Fast Post would deliver between major towns the next day. (See Appendix B for NZPost performance against these promises).

Weight classes were replaced by 3 customer-friendly envelope size classes. Pricing by size rather than weight was not only easier for customers, it was also improved efficiency by eliminating the weighing procedure. The practice was a world first.

BoxLink was also introduced. BoxLink is a commercial mail service developed for medium to large businesses which post a high proportion of mail to private boxes and private bags. It uses the extensive national network of private boxes and private bags, eliminates the need to weigh, stamp or frank mail and gives significant savings in delivery costs.

As part of the drive to improve services, the programme of office automation was continued. More funds were directed to computer enhancement and development.

Information systems support and integration within the company were upgraded and fully utilised. A key development is PostLink, which is a Post Shop front-counter support system that automates

transactions to improve service to agency clients such as the Ministry of Transport.

Through PostLink, vehicle registration and licence plate fees can be paid at Post Shops. The agency clients are relieved of the burden of managing these transactions themselves. Other agency transactions will be undertaken via PostLink as the system is developed further.

FaxLink was introduced in April 1990. The service provided same day delivery for telegrams, greetings and other urgent messages (normally within four hours by Courier).

There was an increase in merchandise sales, particularly through the development of the Handi range of products.

#### **"Customer re-focus"**

A customer management programme was put in place for the small percentage of customers that were generating high percentages of the company's revenue.

Major customers were offered lower rates for bulk mails. New services were also created for these customers. NZ Post has developed facilities management services to run customers' mail operations and so free them to take care of their core businesses.

The Marketing Group introduced the "Partnership plan" whereby a contract is set up in advance with major customers based on forecast and surveyed mailings. There was also an option for equalised monthly billings. All these services were available for an agreed annual fee.

Datamail New Zealand was established in 1988 after joint ventures with Datamail Australia in direct mail services. Datamail New Zealand offered electronic data-base, customised laser printing, automated enveloping and mail sorting services to about 100 clients, including major financial institutions, direct marketers and the Electoral Commission. Soon, Datamail was feeding more than one million envelopes each month into NZ Post's delivery system. By 1993, the business had grown to 50 million pieces of mail per year.

### **Expanding core business beyond mail**

A new Courier Post business was introduced. This service extended the company's contract pick up and delivery service that had operated only for larger customers. The acquisition and integration of SpeedLink from New Zealand Rail, and of The Package Express Company had enabled the company to compete effectively in the Courier and fast post market. CourierPost's "track and trace" barcoding system had enhanced their courier services and this technology has been extended to improve management of letters and parcels.

The company continued to upgrade its service performance and customisation strategies by holding stakes in a number of subsidiary and joint venture companies (See Appendix C).

Datanet, jointly owned with Datacom Group operated a private electronic communications network linking Post Shops. It also provided value-added network and voice communications services to many corporate clients.

Synet Communications , a fully owned subsidiary of NZ Post was selling products and services that included electronic mail, electronic data interchange, traditional telegrams, facsimile, voice mailbox, broadcast fax, discount fax and never busy fax.

By 1993, 70 percent of NZ Post's revenue came from competitive markets.

NZ Post was also finding a market for its experience offshore. Postal services in Papua New Guinea, Vanuatu, Western Samoa and the South African Post Office engaged NZ Post to advise on their own postal reforms. In a more ambitious proposal, Czech Post was exploring with NZ Post and Dutch PTT the feasibility of operating a mail system for the surrounding countries based in Prague. Hungary's Magyar Posta was looking at manufacturing NZ Post-designed mail-sorting equipment for surrounding markets.

### **Continuous pursuit of cost/ service improvements**

As a result of restructuring and modernisation in the pursuit of cost/service improvements and customer service excellence, the company incurred heavy abnormal costs amounting to nearly \$43 million for the two years 1991-1992. Total operating expenditure was up by 5% to \$482 million. 1991 was the year of crucial changes when a number of new programmes were introduced.

Some of these modernisation programmes took a number of years to complete.

For the first time in four years the company had to increase the price of the standard letter to 45 cents on 1 July 1991.

Thus far, the company's core business has been in the core letters area and the revolution in strategy (upgrading services, modernisation, cost cutting etc) has been focusing on this.

However, the company was aware of the electronic revolution that was sweeping the business world. It embarked on a programme to ensure that it would be prepared for tough competition from electronic mail, electronic data interchange, facsimile and so on.

In the words of Harvey Parker, Managing Director, 8 June 1992,

"While we expect the economy to remain rather weak in the coming year, New Zealand Post will go forward; otherwise we will be bypassed by our competitors. We will advance by enhancing relationships with existing customers, connecting new agency customers to our automated counter system, refining and developing our information systems, implementing comprehensive quality assurance, fully using our technology advantage, and further stretching the reach of the New Zealand Post brand. Communication is the world's fastest-growing industry; it is vital to New Zealand's strategic and economic future. New Zealand Post will play a very positive role in this exciting environment."

The theme of the company's direction for 1992 was "Consolidation". Although NZ Post had good reasons for some optimism, having come out of the crisis of 1987, the company had to remain vigilant against complacency.

### **THE MILESTONE YEAR 1993**

1993 was a milestone year for NZ Post. It was the year the company attained its goal of providing an efficient, quality postal service after completing its major modernisation programme. The company had gone through a major restructuring at a cost of \$31.4 million, incurred on staff restructuring, including severance payments and non-recurring costs for upgrading management information systems and postal systems. In addition, 21 surplus and inappropriate properties were sold.

Feature events for the year were :

- > Earnings after taxation increased from \$5.3 million to \$36.7 million and earnings per share rose to 30.5 cents from 4.5 cents in 1992. (see Appendix A).
- > The completion of the modernisation and automation programme started in 1989. This included the installation of 7 AEG Electrocom optical character reader/letter sorting machines (OCR/LSM) in Auckland, Wellington and Christchurch. Each sorts up to 30,000 letters an hour. The 7 together handled more than 60% of all mail.
- > The extension of "Track and Trace" to all mail containers on the national network. The system identifies the location of bar coded consignments 24 hours a day.
- > New contracts were achieved for the management of mail rooms of companies with large mail volumes such as financial institutions. New participants were added to the "Partnership Plans".
- > Simplified pricing was introduced for inland parcels and new registered mail services on 1 May 1993.
- > The Managing Director, Harvey Parker resigned on 31 March 1993 to take up a senior management appointment in Australia. He was replaced by Elmar Toime, who hitherto was the Manager, Marketing Division. This signaled a change of leadership.

Harvey Parker had achieved a major turnaround in the business. He had avoided the large-scale losses predicted when NZ Post became an SOE, and had successfully initiated wide-ranging changes in the business that ensured that it continued on a profitable path. All this was achieved in an economic environment that was less than encouraging.

## **THE FUTURE FOR NZ POST**

### **Market trends**

To NZ Post, the letters market remains the major sector for the company. The future size of this market will depend on the amount of substitution by electronic media, and the continued efficacy of direct mail for advertising.

Although the market for bulk mail is growing, it is a market in which competition will increasingly challenge NZ Post's position. However, international comparisons suggest that the potential for growth is considerable:

"In New Zealand last year there were 286 letters sent per person. In Europe the figure is around 400; in the US it's around 650."

(Elmar Toime, Evening Post, 27 March, 1995)

The market for basic letters has continued to decline, eroded by the increasing affordability of long-distance telephone and fax communication. Mindful of future trends in electronic alternatives to postal services, the company expected reduced revenues over the long term. Added to this were uncertainties over the regulatory environment of the business.

### **Uncertainty over future regulatory conditions**

In 1992 the government began a review of the regulatory regime under which NZ Post had been established. Company officials participated in the review, and the company's retiring Managing Director, Harvey Parker, took an active part in public discussion on the future of the business.

Options under consideration included complete deregulation of all postal services, allowing competitive processes to determine the frequency and price of postal services in various markets. NZ Post told the review that it was "ready and able" to operate under these conditions, but that this option would have "a number of nasty political outcomes". It would almost certainly mean an end to the uniform national postal service and bring reductions to rural services.

A second option would couple market deregulation with obligations on NZ Post to continue a uniform national service for standard mail. Parker estimated that the impact of deregulation would be \$90-\$100 million of lost revenue in the first year or so:

"This revenue loss would come from the loss of business to competitors and from price reductions the company would have to make to business mailers . . ."

(Dominion, 27 April 1993)

Parker was scathing of any suggestion that NZ Post still had enough fat in it to compensate for these losses, and could continue to support a uniform national service, with further efficiency gains. He believed the company "could not survive as a business" under this option. The company, and the union representing its employees, agreed. More likely, social obligations would be undermined by economic pressures:

"Our viability, to some extent, is threatened and as soon as that happens, there will be pressure, not necessarily from us, to relax those social obligations"

Elmar Toime, CEO NZ Post (Dominion 7 July 1993).

A complicating factor is the possibility of privatising NZ Post. Obviously, the government would receive a lower price for the business if it came encumbered with loss-making obligations. The company estimates that it loses \$8.6 million annually on rural delivery; a further \$11 million on NZ Post's 240 staffed post shops; and \$15 million on "casual" mail - the standard letter and mail from small businesses. This includes the network of post boxes which are cleared every day, and the processing of hand-addressed mail that cannot be electronically sorted. The total cross-subsidy from NZ Post's profitable businesses was estimated at \$34.6 million in 1993. The company's competitors disputed the size of these losses.

A third option would have government recompense NZ Post for the cost of supporting uneconomic services. The company did not favour this alternative. In its view, "experience shows that subsidies are seldom to be relied upon for long".

Alternatively, the company could continue under current regulations, with or without some modification. The obligation to support a uniform national service would be continued in exchange for a continued monopoly over mail under 80 cents. NZ Post was relaxed about the monopoly limit being reduced to 60 cents.



Whichever regime the government chose, Toime believed the issue of cross-subsidy would have to be dealt with eventually:

"Over the long term there is definitely a cross subsidisation from the business sector to the casual mail user. Over some period of time that really has to be looked at". (Dominion, 7 July, 1993)

### **The consequences of ownership**

The company's ability to develop strategies for its future will depend importantly on its long term ownership. Some responses to the threat of electronic substitutes would involve considerable investment and risk. In the view of Harvey Parker, the company will need a less risk-averse owner than the government if it is to survive beyond the year 2000.

Meanwhile, continued government ownership may place politically-determined constraints on the company. In the view of one commentator:

"Government reluctance to complete the logical step of deregulating and privatising NZ Post is due in large part to the pressure of groups such as Federated Farmers contradicting their own philosophy of backing the running of government agencies as a business, and having people pay proper costs."

"Continued state ownership of goods and services inevitably blunts the incentives to cut costs, improve services and fight for new markets. Being hampered by political overlords will in future be no asset to post offices in a world where markets are changing fast, and where the focus of many businesses must be not just national but international."

(Agnes-Mary Brooke, Dominion, 5 July, 1995)

### **New Strategies at NZ Post**

With restructuring behind it, NZ Post began to develop strategies for a long-term future. Key elements were:

- > to protect the core mail business by continuing to look for ways to lower cost, and by expanding in the direct marketing and bulk mail and mail processing business.
- > to seek economies of scale through the distribution network. Vehicles for this included managed warehousing, just-in-time services, and fulfillment, through a subsidiary established

during 1992, The Total Logistics Company Ltd, or "TLC"; and the joint venture, GMS Fulfilment Services Ltd.

- > to build, within New Zealand and overseas, on the foundation of skills, knowledge and experience, through expansion in consultancy services and joint-ventures with other postal organisations. Target areas included the growth economies of Southeast Asia, some Eastern European nations, and the Pacific islands. In most of these, the opportunity for growth was considerably greater than in New Zealand.
  
- > to protect the portion of market being eroded by electronics, and support the efficiency of their core businesses, including retail financial transactions, through further development in electronic communications services.

The focus was clearly still on attaining better and better quality service and performances at reduced cost. The theme for 1993 was "Lifting our Game". At Courier and parcels operations sites in Auckland, Wellington, Hamilton and Christchurch, and marketing and management operations at corporate office, tangible recognition of this drive came from the attainment of the company's first ISO9001 certification. The company's medium-term goal is to attain ISO9001 certification progressively in all other processing and delivery areas.

The company's guiding principles are outlined in 5 principal steps by the CEO, Mr Elmar Toime:

- > to provide a diversity of reliable and efficient postal services to meet customer needs at the lowest possible price and cost
- > to achieve sustained profitability at a level that provides good commercial returns on shareholders' funds
- > to make business investment decisions that protect and add to shareholder value
- > to demonstrate they care for New Zealand by embracing their social obligations
- > to show they value their people and that they are a fair and equitable employer.

### **Company of the Year!**

First results from the new strategies were very positive. In the year to March 1993, after-tax earnings lifted from \$5.3 million to \$43.6 million, and again to \$66 million the following year, representing a 30% return on shareholders funds. Furthermore, as NZ Post's CEO said with justifiable pride: "the company got the Fastpost through on time despite hideous weather and closed airports all over the country".

In 1994, NZ Post won the Deloitte/Management Magazine "Company of the Year" Award.

### **SOURCES**

The Deloitte/Management Magazine Company of the Year, *Management*, December 1994, p83

Post-paid and ready for delivery, *The Dominion*, February 27, 1993

Keeping NZ Post in business, *The Dominion*, 27 April, 1993

Culture shock ahead as mail chief gears up, *The Dominion*, 7 July, 1993

Mary-Agnes Brooke, A Political Compromise, *The Dominion*, 5 July, 1994

## APPENDIX A

### Summary of Performance

TABLE 1 : Summary of Performance

	1988	1989	1990	1991	1992	1993	1994
Turnover	579,025	498,588	477,899	500,643	526,403	588,478	620,154
Operating earning before abnormal items and taxation	141,349	71,904	51,940	42,763	44,456	96,586	99,714
Earnings after taxation	72,101	31,172	44,099	27,469	5,375	36,665	65,986
Operating margin before abnormal items and taxation	24.4%	14.4%	10.9%	8.5%	8.4%	16.4%	16.1%
Earning per share	60.1c	26c	36.8c	22.9c	4.5c	30.5c	55.0c
Total assets	459,245	374,871	379,789	396,439	393,185	419,017	424,910
Average shareholders' equity	134,442	158,192	185,254	212,556	215,133	210,631	221,499
Return on average shareholders' equity (operating earnings before abnormal items, after taxation and before extraordinary items)	70.4%	30.5%	18.8%	13.5%	13.8%	30.7%	30.2%
ROA -earnings after taxation	53.6%	19.7%	23.8%	12.9%	2.3%	17.4%	29.8%
Net asset backing per share	\$1.24	\$1.40	\$1.69	\$1.85	\$1.73	\$1.78	\$1.92
Equity percentage	32.4	44.7	53.4	56	52.9	50.9	54.1
Dividend per share	36.05c	10.39c	14.7c	9.05c	9.85c	26.96c	41.7c
Dividend paid			18.18	11.82	11.82	32.73	50.00
Tax paid			5.45	7.27	-3.64	20.00	34.55
Free cash flow 1(Cents per share)			-2.73	-0.91	12.73	36.36	76.36

1 NOPAT plus depreciation, interest and goodwill minus net capital expenditure and working capital

Dollars in thousands unless otherwise stated

Chart 1

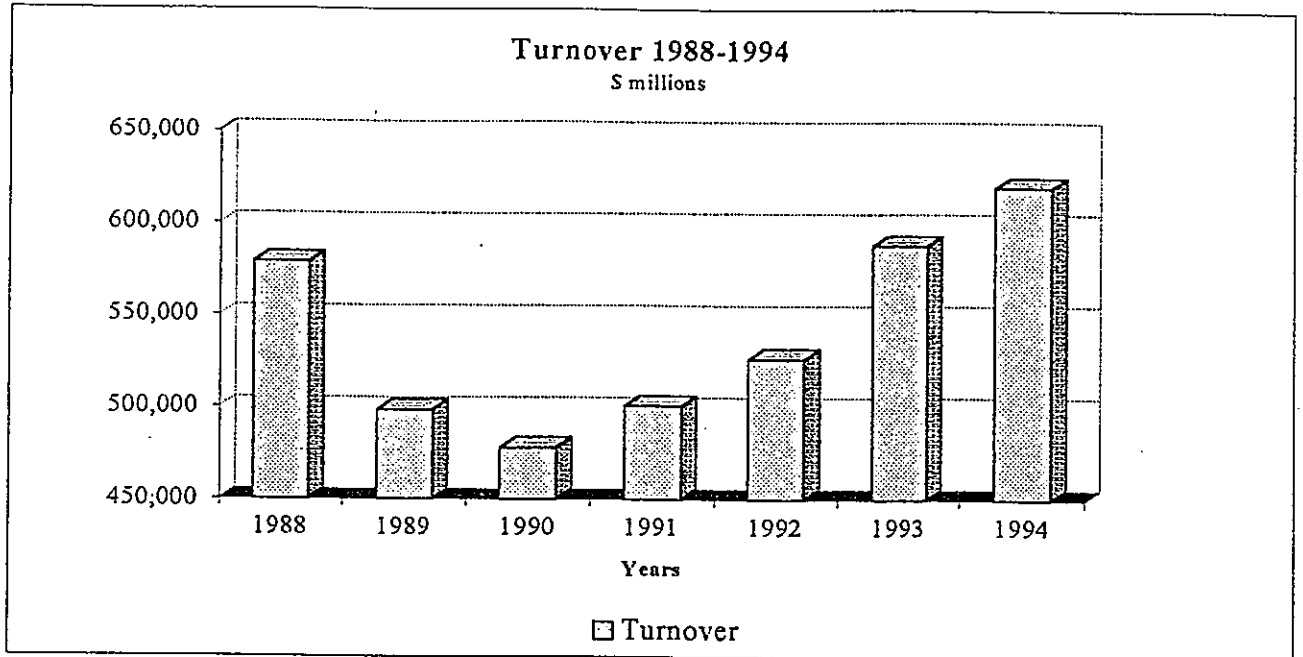


Chart 2

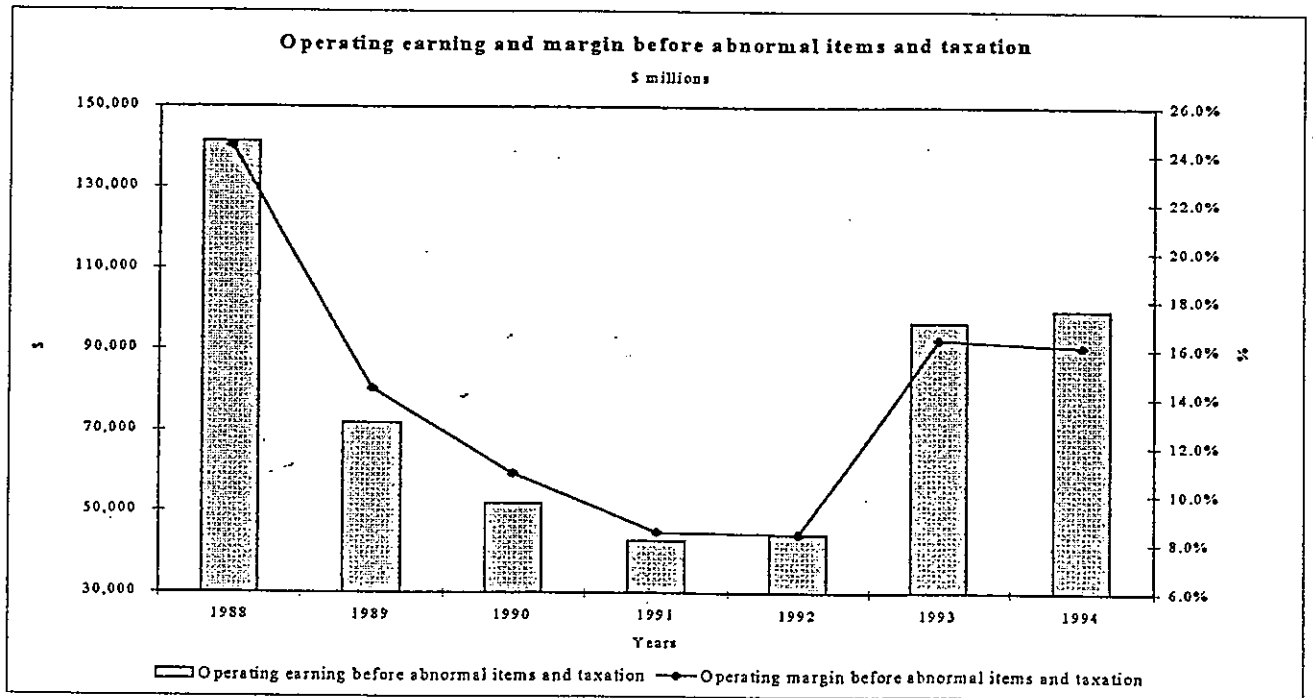


Chart 3

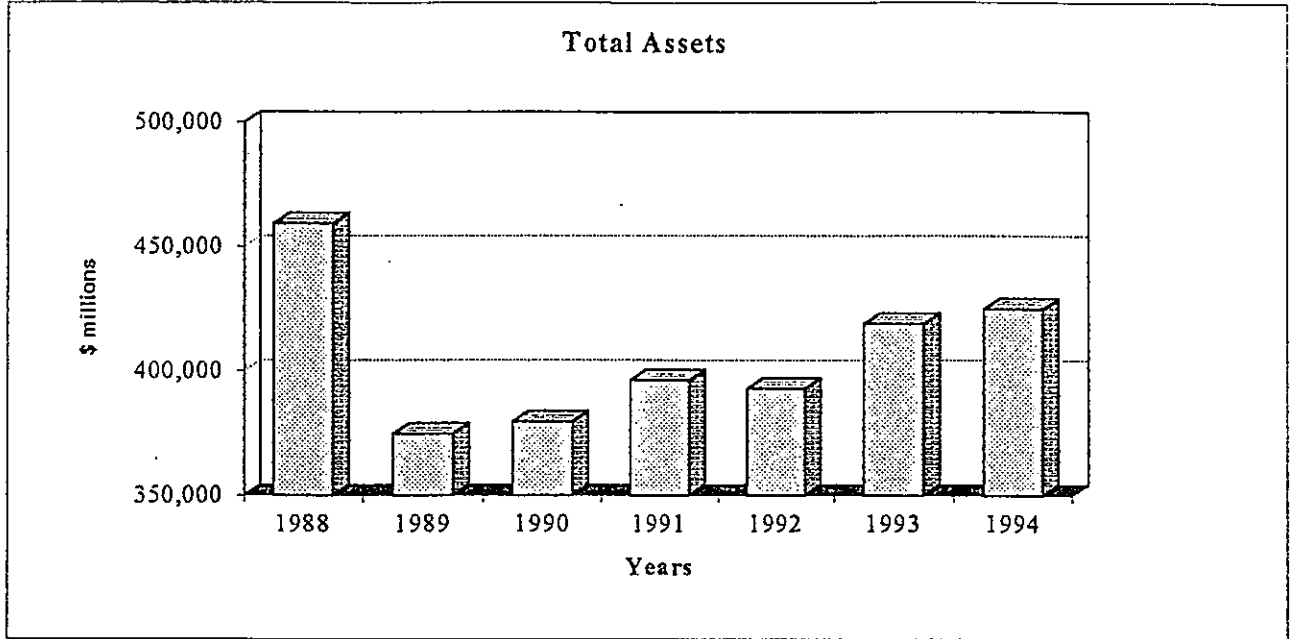


Chart 4

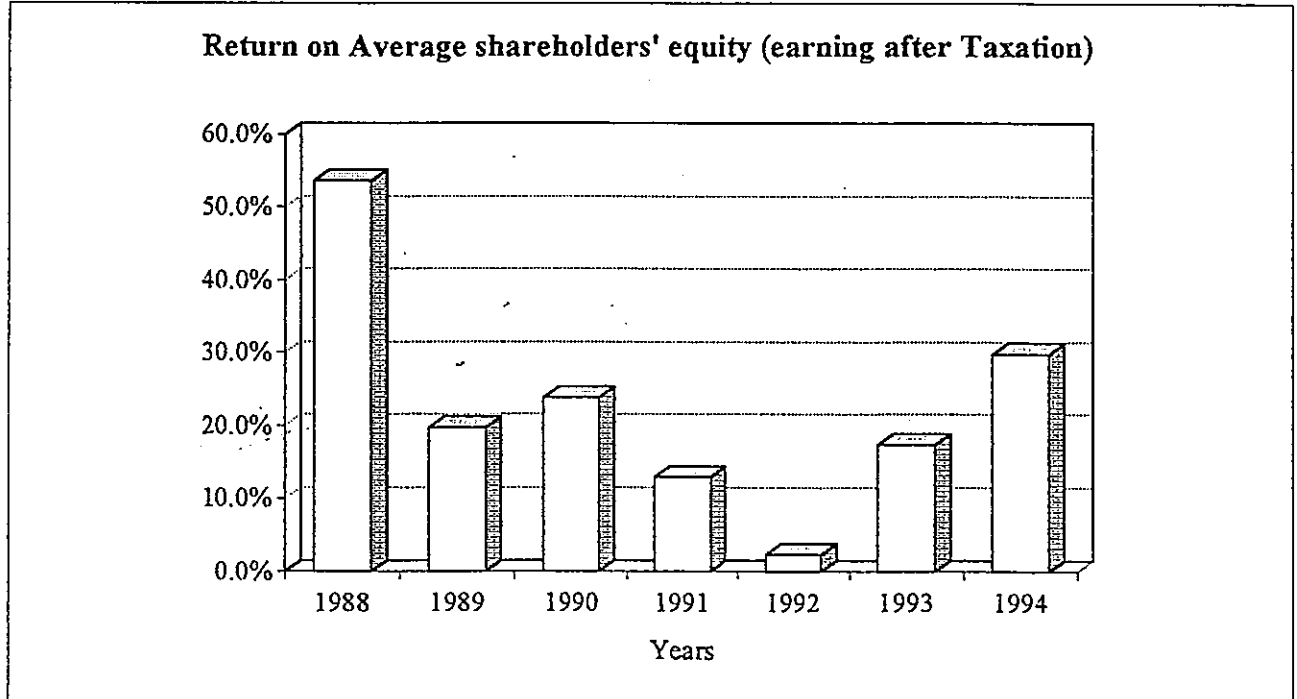


Chart 5

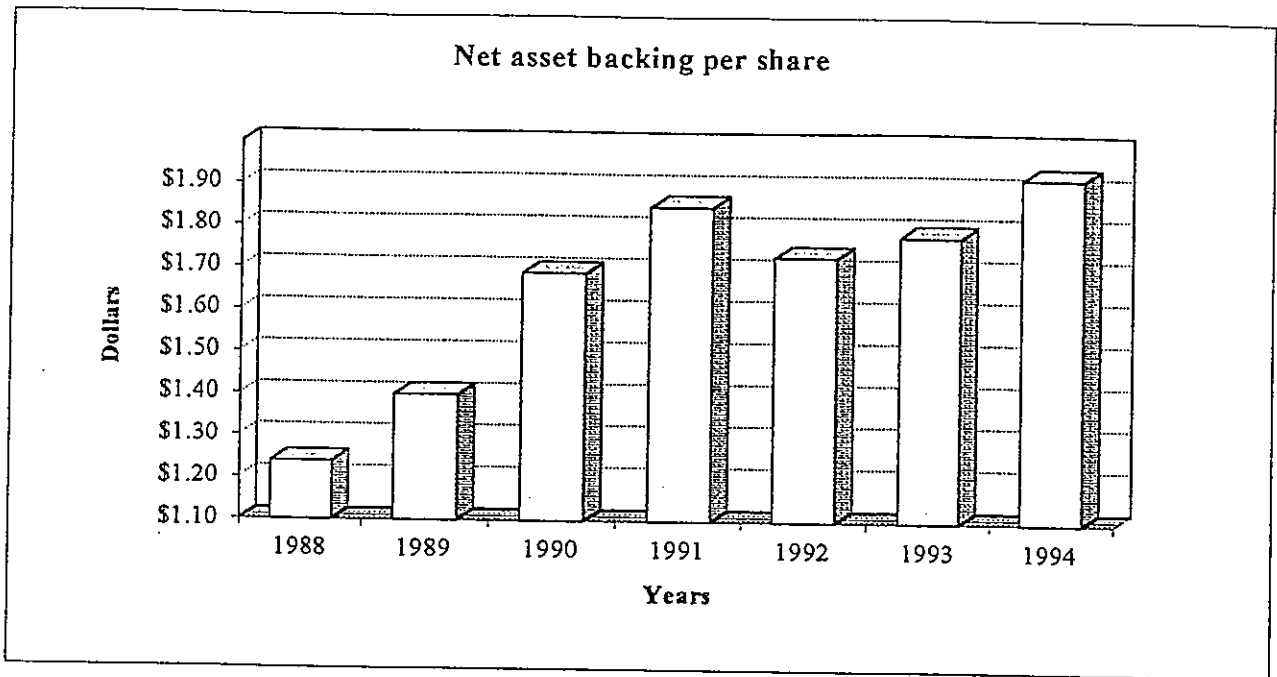


Chart 6

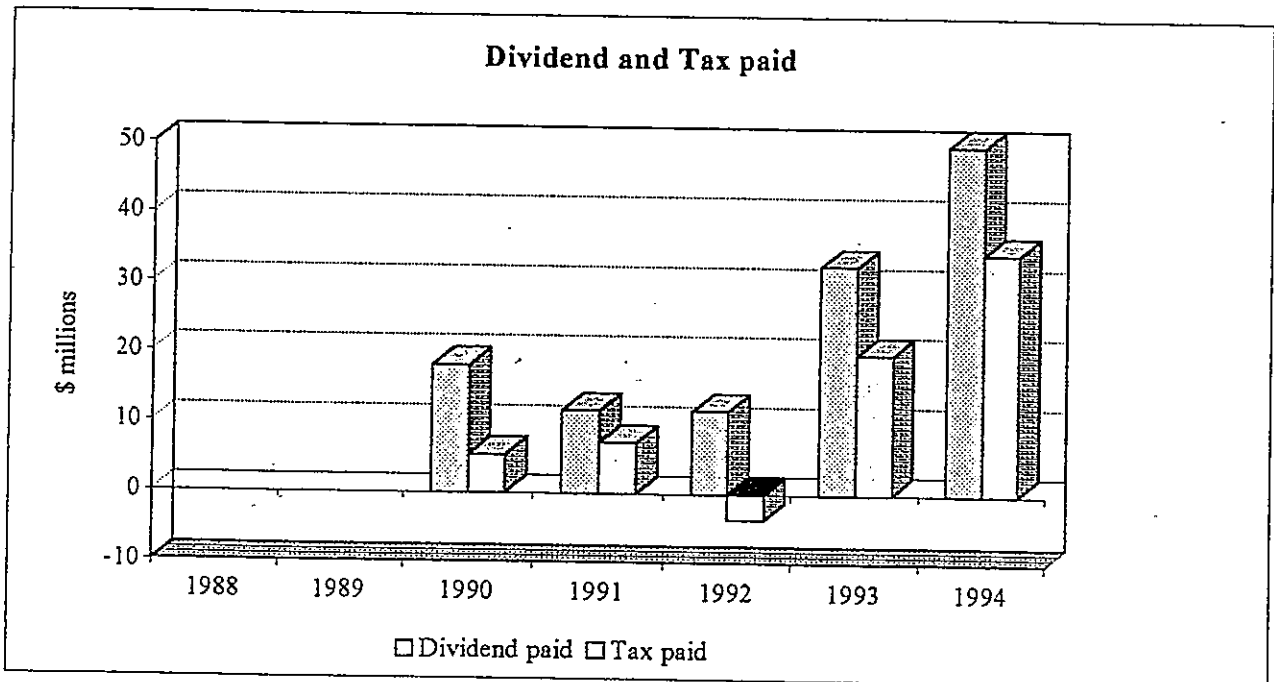
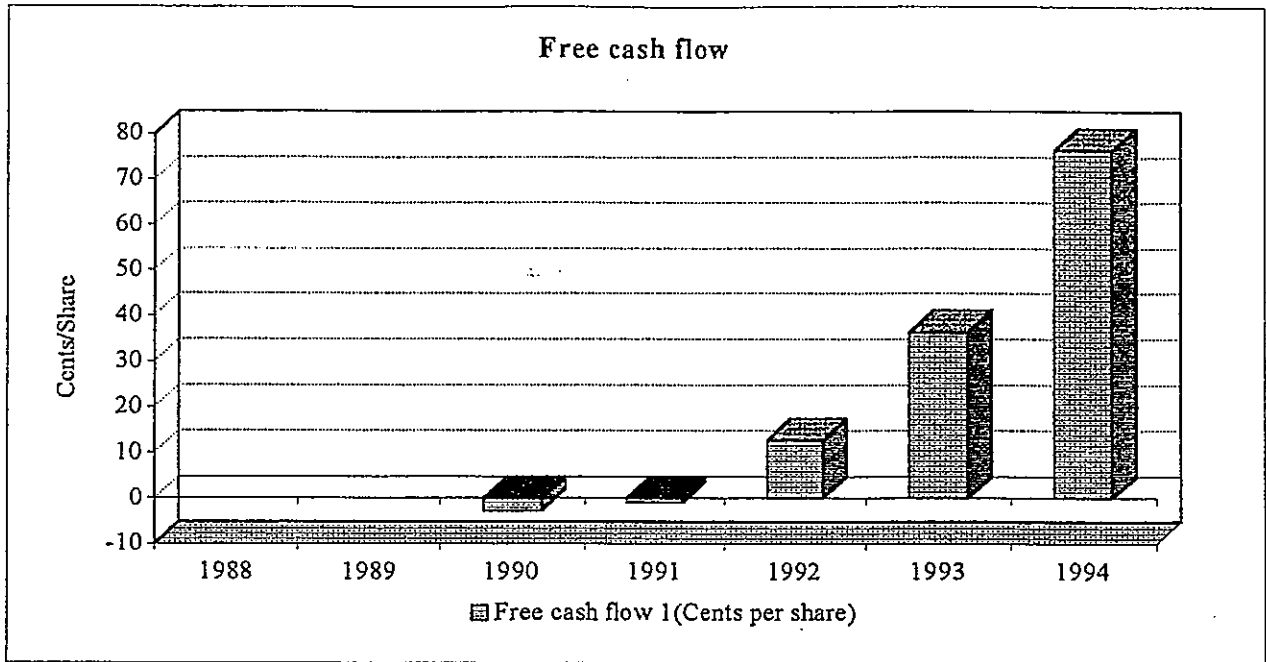


Chart 7





## APPENDIX B

TABLE 1: Number of Retail Outlets

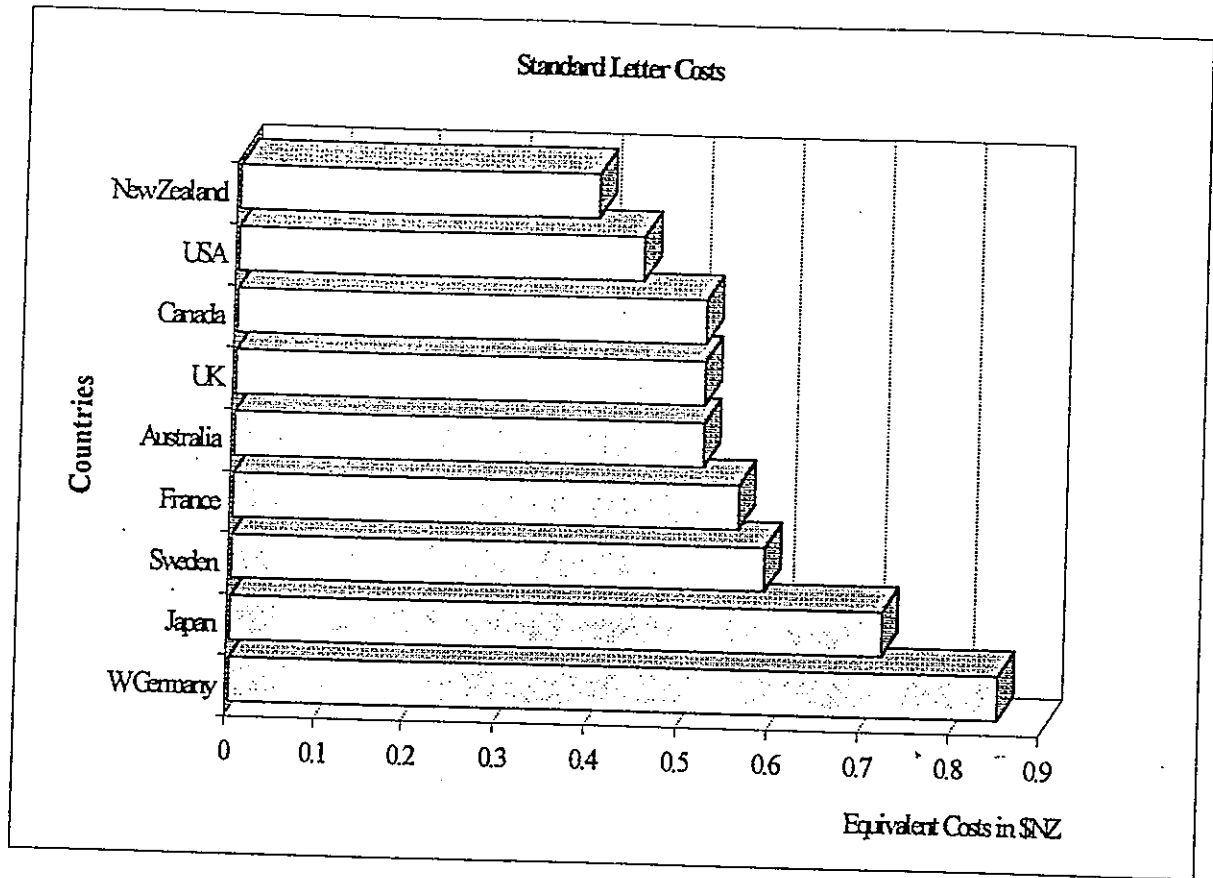
	1991	1992	1993	1994	1995
Post Shops & Agencies	288 88	269	252	245	259
Post Centres	513	617	633	644	705
Stamp Retailers	795	858	823	1026	
Stamp Book Outlets	-	2368	2867	2823	3589
Total Retail Outlets	1684	4112	4575	4738	4553

TABLE 2: Mail Delivery Performance

Year	1990	1991	1992	1993	1994
Post delivered next working day between major towns & cities	97.1%	97.0%	97.0%	97.4%	97.9%
Post (standard letter) delivered next working day across major cities	96.2%	97.4%	96.3%	98.5%	99.2%
Post delivered within 3 working days between major towns & cities	99.5%	99.1%	99.0%	99.7%	99.9%

With the exception of the measurement for Post-delivered next working day across major cities - the above are full-year averages weighted to reflect regional volume differences. All measurements include the Christmas peak when mail volumes increased substantially. They also include period of disruption during some of the worst winter and spring weather for several decades.

Chart 3



## **APPENDIX C: Subsidiaries and Associates**

Subsidiary and associate companies listed below operate as stand-alone businesses with their own boards and management structures:

**New Zealand Post Properties Ltd** (100%) manages owned (225 at 1994 balance date) and leased (136 at 1994 balance date) properties on contractual fees and fair market rentals, and manages New Zealand Post's property-related capital expenditure programmes and the sale of inappropriate and surplus properties.

**Datamail NZ Ltd** (100%) is a specialist company in the electronic printing and mailing of data. Datamail provides high-speed laser printing, security mailing, intelligent mail processing, and billing, response processing and debt follow-up systems. Under a contract with New Zealand On Air, it collects annual broadcasting fees, and maintains a national database of licence holders.

**Synet Communications Ltd** (100%). Formed in 1986 to provide an electronic media network, as a substitute for hard copy mail, within New Zealand and internationally. On 1 April 1993, it was merged with Datanet Ltd, operator of a digital network. Services include: telegrams, voice mail, file transfer services, electronic data interchange, and enhanced facsimile.

**The Total Logistics Company Ltd** (100%). Formed in February 1993, this company offers managed warehousing and just-in-time delivery from bases in Auckland, Palmerston North and Christchurch, and a transfer depot in Rotorua. Its customers are manufacturers who seek a partnership arrangement for the holding of stocks and delivery of orders to their customers.

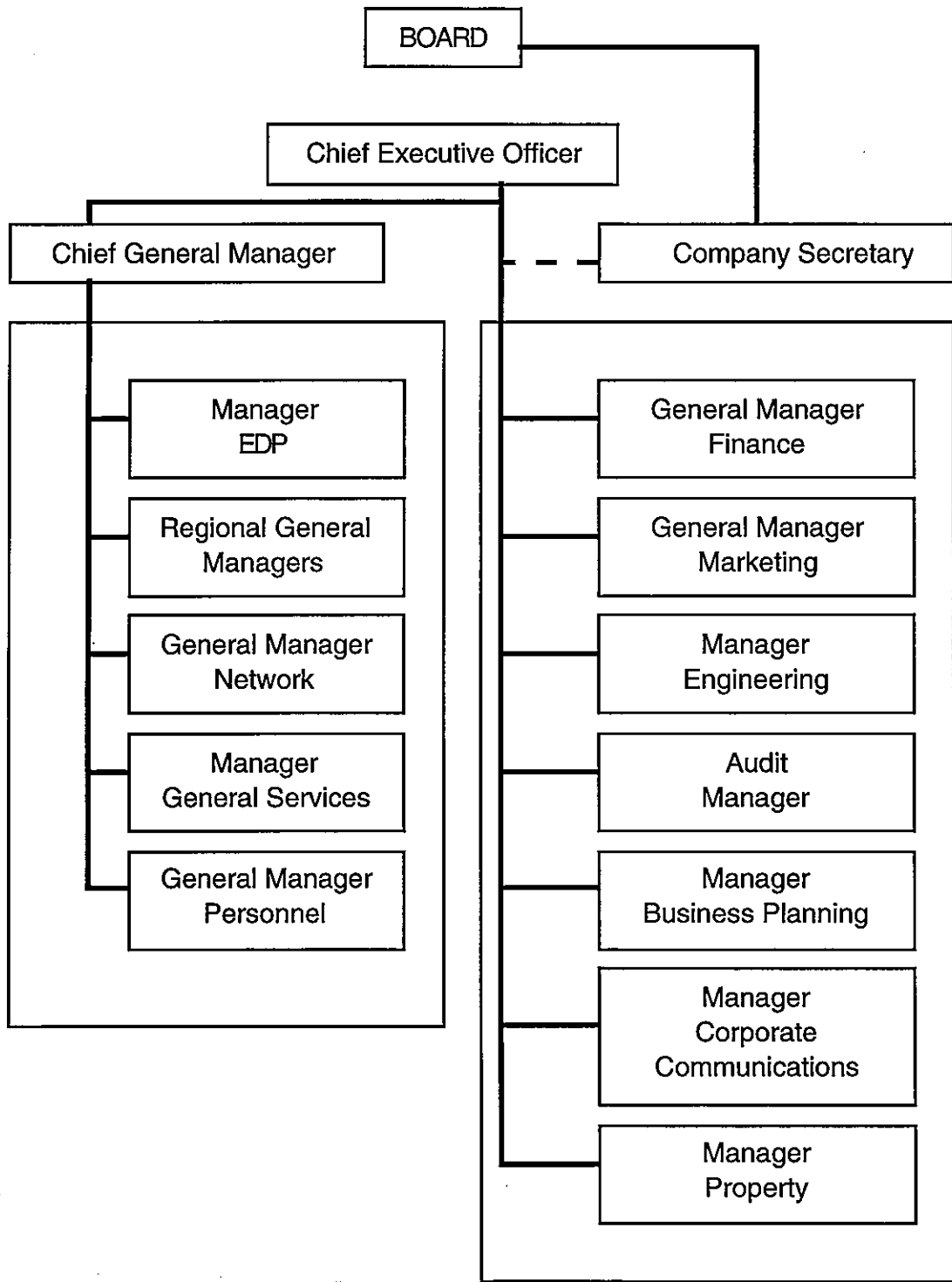
**GMS Fulfilment Services Ltd** (50% owned with Gallagher Mailing Services Ltd) provides packing and despatch warehousing services on a just-in-time basis from premises in Auckland, Wellington and Sydney.

**Air Post Ltd** (50% with Airwork Ltd) provides dedicated air transport services to New Zealand Post for the carriage of premium products such as CourierPost, BoxLink and FastPost.

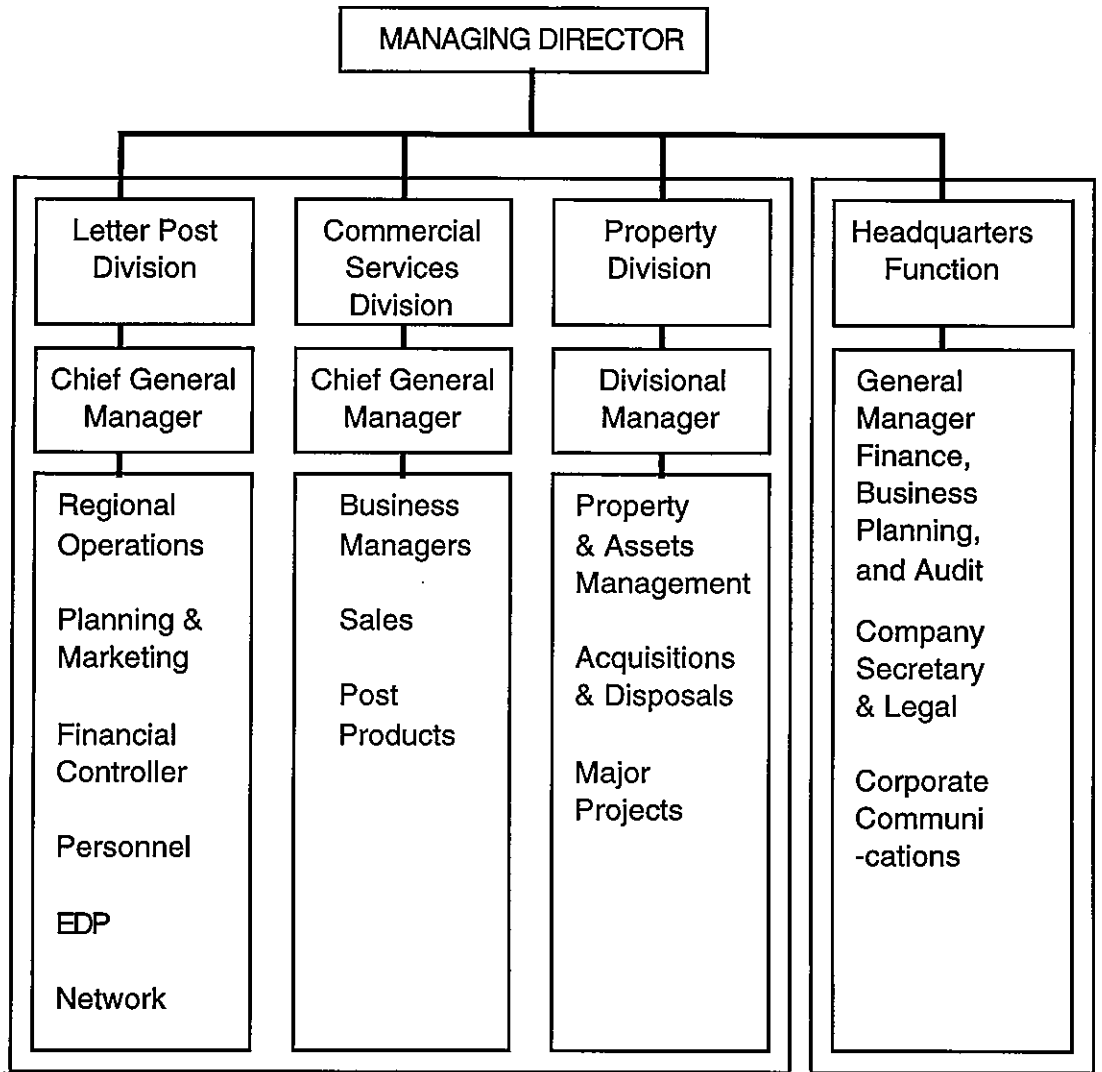
**Circular Advertising Nationwide Ltd** (100%) an unaddressed circular distribution business, integrated within the company's AdPost division.

**APPENDIX D**  
**Organisation Structure**

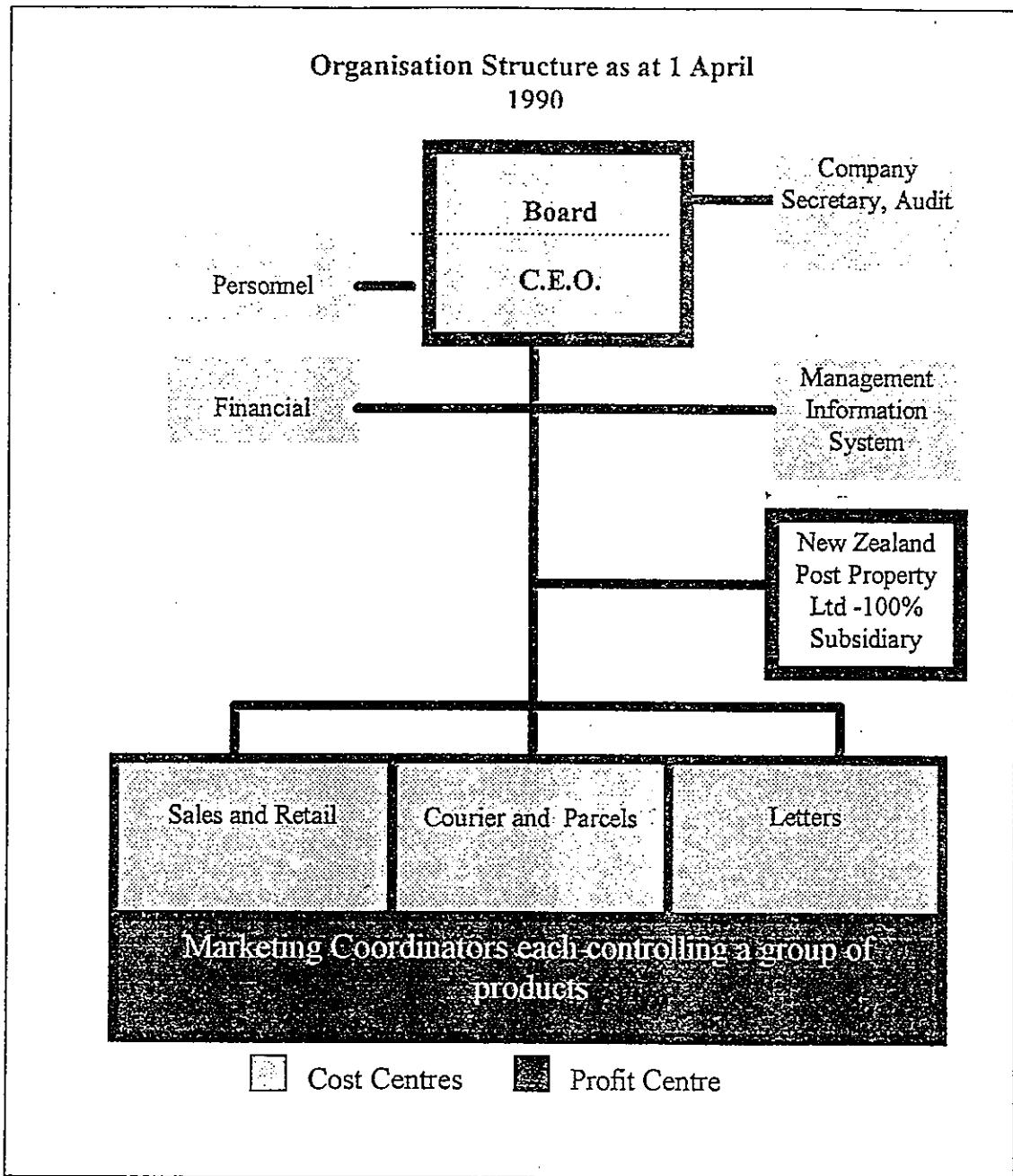
**NZ Post - Organisation Structure - 1987**



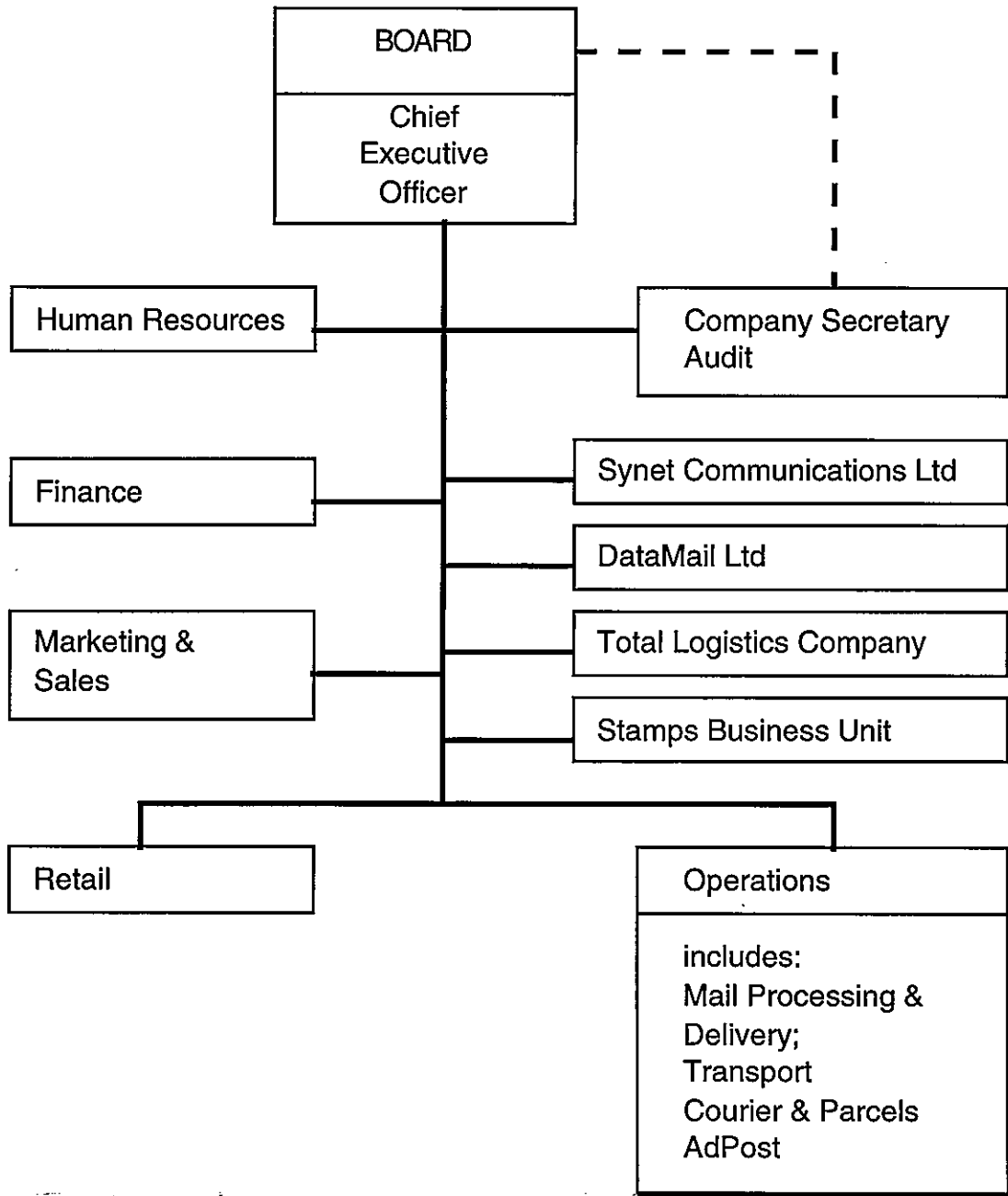
**NZ Post - Organisation Structure - 1988**



**NZ Post - Organisation Structure - 1990-1993**



NZ Post - Organisation Structure - as at 2 June 1994



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