

# Uncovering Value in the Middle Eastern Postal Market

With over six million employees and 700,000 post offices, postal companies across the globe deliver more than 430 billion letters and parcels each year and provide a wide array of products and services to billions of people. Nevertheless, postal markets in most regions have remained “under the radar”—their potential to generate significant value overlooked. A case in point is the Middle East’s postal market, where a range of social, cultural, and economic factors have created favorable conditions for postal companies to expand profitably. As discussed herein, these factors, when combined with improved business design strategies, could unlock the hidden value in the Middle Eastern postal market.

## Capitalizing on Postal Company Reach

Postal companies are unique in single-handedly offering to individuals and businesses both competitive retail products as well as providing logistics, financial, and government services. Traditionally, postal companies were public employers, with huge work forces, strong unions, and heavily regulated services (e.g., direct mail, cross-border international mail). Over the years, however, many postal companies have continued to expand their networks and service offerings, since as government-owned entities, they are generally not subject to trade license restrictions. Not all of this expansion has been good—as postal authorities’ loss-making operations are often government-supported and there is little call for transparency. But in other cases, postal companies have capitalized on opportunities to build and sustain profitable operations.

The German postal company, Deutsche Post World Net (DPWN), for example, has implemented strategies that have allowed its various divisions to grow globally, with enormous success. During the 1990’s, it successively adjusted its strategy and business design in response to changing competitive conditions, including restructuring the company, splitting services into business units, and focusing on internationalization. Today, the company has revenues of over €60 billion and has positioned itself as an integrated logistics services provider; in addition, its Postbank banking unit has revenues of close to €10 billion.



Postal companies in the Middle East similarly could capitalize on the opportunity to expand from standard mail offerings to embrace financial, retail, and government services, generating strong new revenue streams. They could also benefit from their large, integrated customer bases to develop cross-selling propositions—for example, DPWN’s Postbank was able to capitalize on synergies with its non-financial parent to develop an offering to its customers that combined logistics chain management with financing solutions for the underlying goods.

**Poised for Growth**

Middle Eastern postal companies can take advantage of a number of key attributes and trends that can be expected to feed expansion and cross-selling opportunities in the region, including large existing post office networks, recognized brands, a large local population and growing immigrant population, highly regulated markets, and low personal computer & Internet penetration.

*Networks and Brands*

Across Egypt and the GCC countries, there are seven postal companies with nationally recognized brands (Exhibit 1). The type and scope of services offered varies greatly from one company to another. For

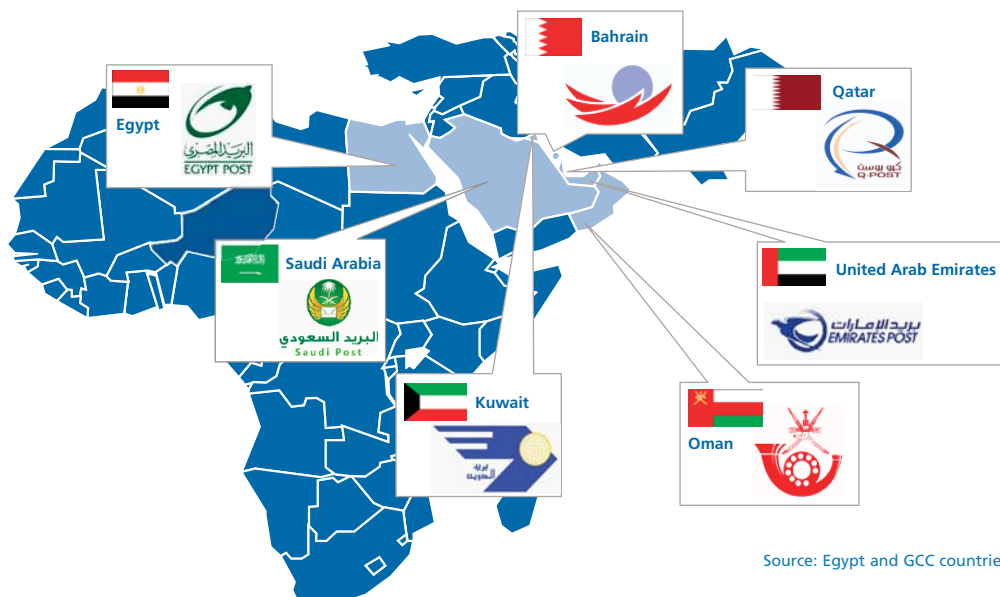
example, Egypt Post, with a network of 3,400 post offices, offers mail, retail, financial, and government services and has distribution agreements with mobile and fixed operators. Its banking base includes 13 million savings accounts and it offers cash management services for medium and large corporations via checking accounts and money market funds.

In the GCC countries, the UAE’s postal system is by far the most diversified, offering retail and government services that include global money transfer, labor and emigration assistance, utilities bill payment, driving license issuance, and airline ticket sales in partnership with Air Arabia. UAE Post also has announced plans to establish a holding company and to compete in the global logistics industry. Most of the other GCC postal companies still offer primarily mail services (with the exception of Bahrain, which offers a money order service), but Egypt and the UAE set an example of initial options for better leveraging these networks and well recognized postal brands.

*Demographics*

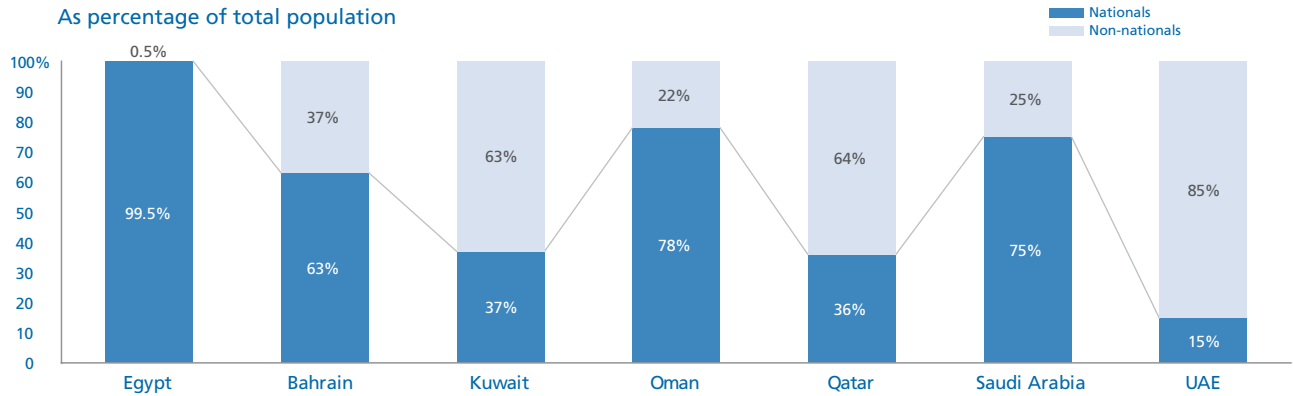
Regional demographics create favorable conditions for postal companies to cross-sell mail and financial services. GCC countries have a substantial number of immigrants, from laborers working on construc-

**Exhibit 1 Major postal companies in Egypt and the GCC countries**



Source: Egypt and GCC countries’ postal websites.

**Exhibit 2 Egypt and the GCC countries: ratio of nationals to non-nationals**



Source: Oliver Wyman analysis.

tion projects and young professionals to top executives running multi-national companies (Exhibit 2). All require basic services that are usually available at the local post office, including mail, money transfer services to send remittances back home, and government services such as labor cards and license applications and renewals.

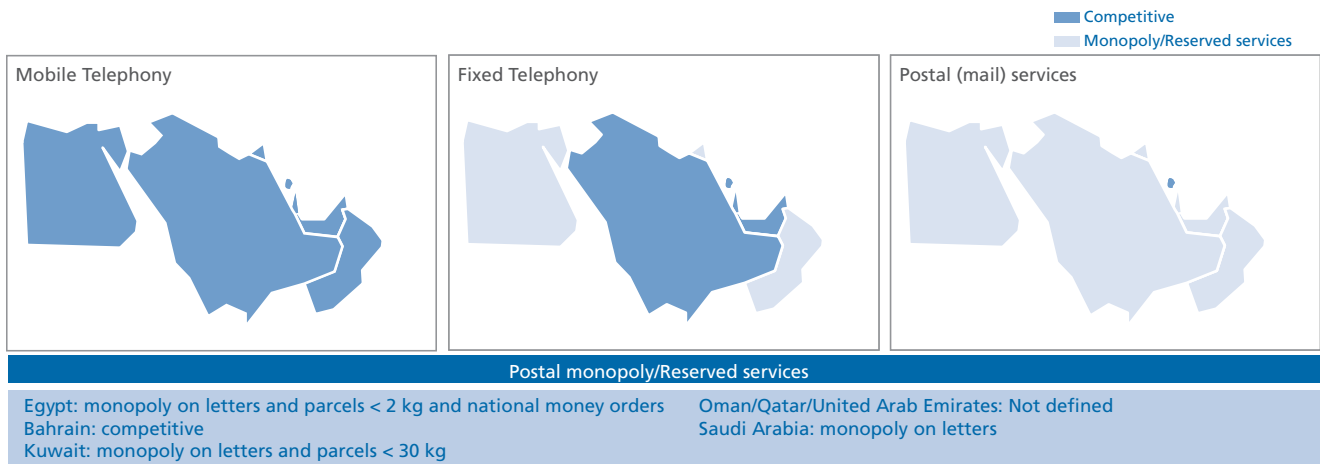
In Egypt, although immigration is low, rural to urban migration is very high; families rely on letters to stay in touch and on local money orders for

remittances from the city (which usually end up in postal savings accounts). Egypt also is one of the top three sources for non-national workers in other GCC countries, who then remit money home.

*Regulation*

Until recently, competition was not an issue in most postal markets, but the sector has begun to liberalize, even in the Middle East: Bahrain has a fully liberalized postal market and Egypt has committed to liberalization by 2009 (Exhibit 3).

**Exhibit 3 Liberalization of telecommunications and postal markets in the GCC countries and Egypt**



Source: Universal Postal Union, Oliver Wyman analysis.

The market remains highly regulated in most GCC countries, however, and liberalization is expected to be somewhat slow, at least in comparison to industries such as telecommunications, where governments are under pressure to liberalize. Nevertheless, regulated markets are becoming a thing of the past. By developing expanded services and cross-selling opportunities now while they have the competitive edge, Middle Eastern postal companies will set the barriers to entry much higher for new entrants when deregulation occurs.

*PC/Internet Usage*

Physical delivery costs are continuing to increase at the same time that PC usage and Internet penetration are surging worldwide. The result is the expanding replacement of demand for postal services by electronic communication. In much of the Middle East, however, this process has been slower and more piecemeal to date, due to lower PC and Internet penetration and credit card use (with the exception of the UAE), as shown in Exhibit 4. Cash transactions still predominate—it is estimated that

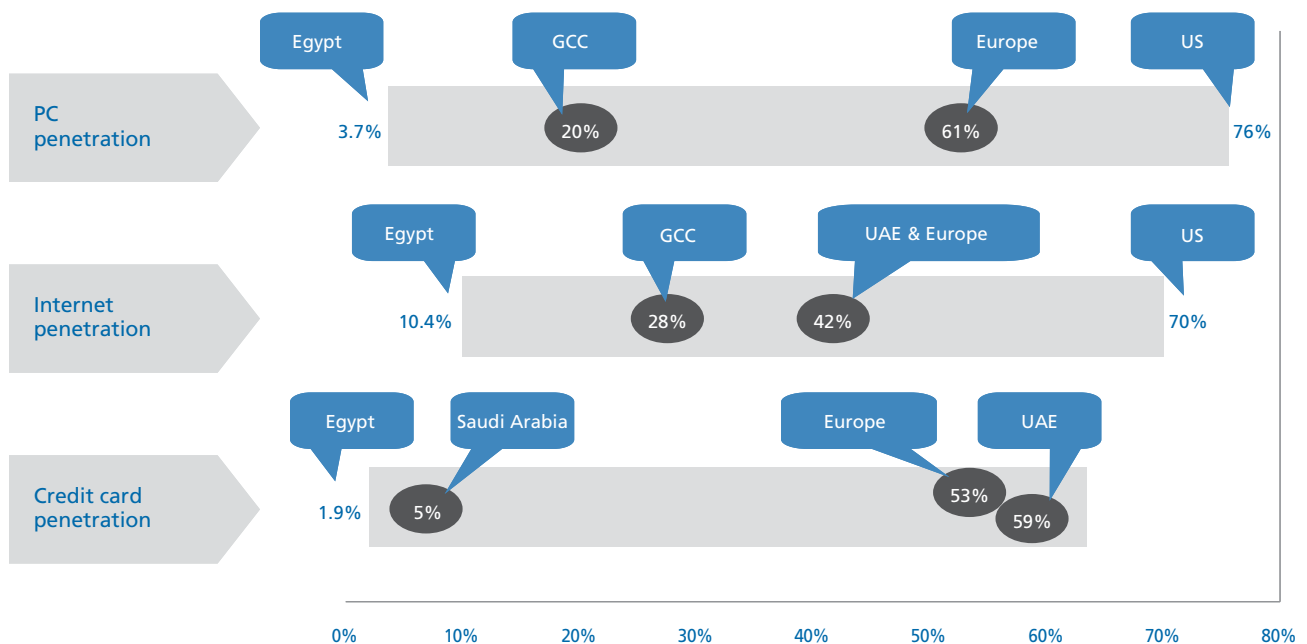
on average payment card transactions account for only 10 percent of consumer spending. Most consumers in the region also remain skeptical about online security and the risk of fraud.

With e-commerce still in its infancy in the Middle East, postal companies for the time being have the opportunity to utilize their retail and distribution networks to act as a “middleman” in G2C (government to consumer) and B2C (business to consumer) transactions. Moreover, postal companies could potentially get in front of expanding e-commerce (online payments for the GCC countries rose by 600 percent from 2004 to 2005) by leveraging their brands in several ways—such as developing online value-added services linked to their distribution networks or becoming certification authorities (CA’s)—national repositories of electronic identities—that authenticate and secure transactions for businesses and individuals.

**Rethinking Postal Business Design**

Postal companies in the Middle East have particularly enviable positions in their home markets—

Exhibit 4 **Comparative PC, Internet, and credit card penetration**



Source: Oliver Wyman analysis. Note: GCC numbers are aggregate. European credit card penetration represents average credit and charge card penetration for nine Western European countries.

large networks, good reputations and brands, a loyal customer base, and the potential to offer many services beyond simply letters and packages. Most prized of all is the “last-mile” capability of these companies, which makes them of prime interest to a wide range of third parties:

- **Telecoms and airlines** recognize that postal networks can be used as retail channels for distributing their products and offering customer care services.
- **Government agencies** understand that postal companies, which are often well recognized, trusted brands, can be effective intermediaries between citizens and government, especially where PC and Internet penetration is low.
- **Global logistics companies and 3PLs** are interested in the ability of local postal offices to provide pick-up and sorting services.
- **Insurance companies** see the selling of policies as a natural extension for postal companies with an existing banking base.
- **Global money transfer companies** view extensive post office networks as an ideal source of leverage.

- **Private businesses** are considering outsourcing mailrooms to postal companies to lower overheads.

For postal companies to capitalize on this interest, as well as the attributes and trends discussed above, they will need to develop business designs that align the organization, products/services, network, and delivery systems to ensure they can deliver top-line performance and reliability, without also adding process inefficiencies or running up costs. Efficient operation of these businesses will be essential to building customer retention, countering competition in liberalizing markets, and realizing enhanced earnings.

### **Oliver Wyman’s Approach to Adding Value for Postal Companies**

Through its work with postal companies in Europe and elsewhere, Oliver Wyman has developed an understanding of which options and business designs can provide break-through performance enhancement, as well as implementation-focused approaches to business redesign. Oliver Wyman believes that the state of Middle Eastern postal companies today is comparable to their European counterparts in the 1990’s: Thus as the region’s postal companies chart a path for the future, they can benefit from the experience of other markets to avoid common mistakes, flatten the learning curve, and understand which strategies are most likely to succeed.❖

For more information on Oliver Wyman’s perspectives on the postal industry, please contact your Oliver Wyman account partner or one of the following partners.

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## About Oliver Wyman

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## Oliver Wyman's Supply Chain, Integrators, Logistics, and Postal Practice

Oliver Wyman is a leader in providing expertise in business design, restructuring, merger and acquisition strategy, and operational and commercial effectiveness for firms in the third-party logistics, supply chain, logistics integration, and postal/parcel service sectors.

Oliver Wyman has conducted dozens of engagements over the past five years for global integrators and expedited parcel delivery firms, national and regional third-party logistics services providers, and North American and European postal services.

From its office in Dubai (UAE), Oliver Wyman services clients in the UAE, Oman, Kuwait, Bahrain, Qatar, Saudi Arabia, Lebanon, Jordan, Egypt, and beyond.

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