



Before making business decisions, we needed to understand fully the sources of cost in our distribution business. Applying Gravelroad's economic modelling principles and information we have made decisions to ensure the sustainability of our postal delivery network.



New Zealand Post Group is in the process of reviewing its postal network to ensure it is fit for purpose and economically sustainable into the future. Business changes include a combination of reconfiguration and efficiency improvements. Because of the medium term outlook and expected changes in future postal volumes, the changes are likely to be substantial.

The Business Challenge

Over many years there has been a significant decline in New Zealand postal volumes due to substitution by digital communications. This trend is expected to continue. However physical delivery of mail is part of the requirements of the 1998 Deed of Understanding between New Zealand Post and the Government. While this deed is likely to be reviewed, the physical delivery service is expected to continue for some time.

The Group is facing a number of challenges as its business continues to evolve, particularly how to concurrently manage bank growth and postal volume decline. In 2012, Gravelroad were asked to build an economic model of the New Zealand Post Group businesses. The model focused on supporting executive decision-making.

The Gravelroad Solution

Gravelroad built on their initial economic modelling project that supported NZ Post's Retail Transformation Programme, analysing the long run marginal impact of changes to product delivery and retail network configuration. This project delivered the marginal distribution cost structure generated in the retail area.

From this basis Gravelroad modelled the NZ Post Core Network to accurately determine the impact of changes in activity volumes for Postal Services on NZ Post's future margins and profitability.

NZ Post are now able to see how each part of the business contributes to the profitability of the whole group. Gravelroad built all models in such a way so that they can easily be combined to form a total Group economic view that informs decisions on:

- Pricing
- Demand
- Capital return optimisation
- Network efficiency

The Outcome

As a result of Gravelroad's Economic Cost Modelling process, a clear understanding of the Postal Products and Services being provided was derived, where its strengths lay and weaknesses were located.

The project revealed business issues that the Senior Leadership Team were able to consider to improve efficiency and optimise the network.

Client understanding has developed in relation to:

- The long run marginal cost of delivering a service
- The trade-off between centralised and distributed network platforms
- What groupings of products and platforms are most volume dependent

Gravelroad is an independent professional change management consulting firm with a difference. What sets us apart is our customer centric culture, which drives our collaborative approach. The combination of our teams' deep and practical industry experience, our ability to work in close partnership with our Clients, and our independence from any one solution, enables us to provide Clients with advice that is aligned to their strategic direction.

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