Advanced Material

This Advanced Material contains a pre-seen case study provided to students prior to the exam date. Students should familiarise themselves with the Advanced Material before they sit the exam. The Advanced Material provides key information and forms the basis of the requirements set out in the exam day materials.

Exam: Developing Strategy and Data Analysis

Exam Sitting: December 2023
YOUR ROLE: You are a qualified CIPFA accountant living in the country of Sparlina. You work in the Finance Department of the Sparlina Postal Services Agency (SPSA), which is accountable to the Ministry of Communications. You are a key player in a multi-disciplinary team tasked with reviewing current and potential services offered by the SPSA.

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Exhibit 1 – Postal services in Sparlina: key information

**Overview**

Sparlina is a small country in Europe where English is one of the official languages and is widely spoken. Its currency is the Sparlina dollar ($).

There is a good road and rail network throughout the country and good links to other countries in Europe. There is a large international airport in the North near to the capital, Flipham, and another in the South near to the city of Bycastle.

The country is hilly in the North and the South, while there is a flat plain in the central area covering two thirds of the country. There are several inhabited islands about 20km offshore which are reached by ferry services. There are many forests and rivers, with some lakes in the North. There are numerous farming communities in the central area and small rural communities in the North and South. The climate ranges from snowy winters and rainy springs to extremely hot summers and balmy autumns.

**Postal services in Sparlina**

The Sparlina Postal Services Agency (SPSA) is an agency of the Sparlina Ministry of Communications. SPSA has a mandate to provide a universal postal service in Sparlina as the designated operator. This means that everyone in Sparlina, regardless of where they live, has the same access to postal services provided on the same pricing basis. The SPSA does not just enable its citizens to communicate with each other and support businesses; it enables the Sparlina government to communicate with all citizens and to provide postal voting in referendums and general elections.

SPSA is a member of the Universal Postal Union (UPU), a United Nations specialised agency based in Berne, Switzerland. UPU has 192 member countries and is the primary forum for cooperation between providers of postal services internationally. UPU helps to ensure there is an
international network of up-to-date postal services, and sets the rules for international mail exchanges. It makes recommendations to stimulate growth in postal services and improve the quality of postal services for customers.

In 2019 UPU issued its Integrated Postal Reform and Development Plan (IPDP), an instrument of cooperation for postal sector modernisation. It is in this context that SPSA has been considering its service offerings. In 2023 SPSA decided to conduct a formal review of all its current and potential services and how they are funded and delivered.

None of the services offered by SPSA has ever been privatised or outsourced, nor have they been delivered through the use of a strategic alliance. New legislation is being discussed that would enable SPSA to operate some services through strategic alliances and even to privatise some services. The exact nature of the legislation will be driven by the findings of the multidisciplinary review team that SPSA is establishing.

SPSA’s staff of over 169,000 people are all civil servants, most of whom are in the civil service trade union which is especially strong. In recent times the staff have benefited from higher than average salaries due to the strong involvement of trade unions.

Services currently provided by SPSA are:

**Core postal services**

- Sale of postage stamps at post offices
- Emptying of postboxes (United States: mailboxes)
- Collection of post (letters and parcels) from business premises
- Collection of international post arriving at airports
- Despatch of post from airports to international destinations
- Post sorting
- Delivery of post to households and business addresses
- Post redirection services
Ancillary services

- Acceptance of a selected range of payments on behalf of third parties e.g. for utilities
- International money transfers

Business services

- Direct mail
- Bulk mail
- Direct marketing
- Document storage
- Document shredding and disposal

Philatelic support services for stamp collectors

- Commemorative (First day covers for new stamp issues)
- Managing the sale of stamp collections

SPSA’s operations are structured into the following five functional areas:

- General postal services: postbox emptying and delivery of letters and parcels to households and businesses by postal delivery workers
- Sorting offices: sorting of letters and parcels at sorting offices
- Post offices: selling postage stamps and processing letters and parcels handed over by individuals and businesses
- Business services
- Philately
SPSA key revenue streams ($m)

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Challenges for the SPSA

- Decline in letter volumes due to increased use of email, texting and social media as communication tools.
- Growth in parcel volumes – this causes warehousing problems, has implications for sorting staff as parcels can be heavy, and requires larger vehicles to transport parcels.
- Poor relations with trade unions, leading to:
  - Increased cost of providing postal services due to higher wages required by a more heavily unionised public sector.
  - Strikes in sorting offices as staff, backed by the unions, demand better conditions of work.
- Competition from other parcel delivery providers - this started with the arrival of Amazon in Sparlina, followed by a number of international parcel delivery providers.
- Increasingly high costs involved in operating post offices and providing postal services in rural areas.
- Requirement to make greater use of digital technologies to streamline services and bring about cost efficiencies.
- The seasonal variations of the climate in Sparlina have always impacted on postal services, and these variations are becoming more extreme with climate change.
Collecting and delivering post (letters and parcels) in snowy conditions can be hazardous. An extremely hot summer on the other hand reduces the availability of electricity, which is needed for sorting offices where post is sorted so that batches of post for delivery can be directed to the appropriate postal delivery worker.

- Climate change has also made deliveries to Sparlina’s islands more challenging as storms are more frequent.

**Opportunities**

- Make greater use of robotics and Artificial Intelligence (AI).
- Add additional services that will be of value to households and businesses.
- If legislation permits: privatise or outsource some services to, and establish key strategic alliances with, private sector entities.
- Make use of drones to make delivery to the islands more efficient and avoid the issue of ferries not operating.
Exhibit 2 – People involved with SPSA’s services

Ministry of Communications

Minister – Boris String

Sparlina Postal Services Agency (SPSA)

Director: Willow Smith

Head of Finance: Abi Patel

Business Development Director: Matt Amos

Head of Digital Technologies: Brendan Grant

Operations Director – general postal services: Mona Radi

Head of Sorting Offices: Fred Spindle

Manager – Post Offices network: Zeynap Tegin

Operations Director – Business Services: Carrie Evans

Head of Philately: Megan Albright
Meeting date: 5 September 2023

Topic discussed:

Terms of reference for the multi-disciplinary review team

Terms of reference include, but are not limited to, consideration of:

1) Strategic options for existing SPSA services:
   - Privatisation of every service at the same time
   - Staged privatisation of every service
   - Privatisation of some services at the same time
   - Staged privatisation of some services
   - Outsourcing of some services
   - Negotiation of strategic alliances for some services

2) Cost of postage stamps

3) Frequency of collections from postboxes, businesses and airports

4) Number of deliveries per day/per week to households and to business addresses
5) Development of a detailed questionnaire for a public consultation and subsequent analysis of findings

6) Identification and evaluation of other services that could be provided by SPSA, including services that are best suited to provision on a commercial basis. This might involve diversification from existing services

7) Evaluate how new technology could be used to make postal services more efficient

8) Make recommendations on:
   - what services to offer
   - which of these services could be kept in-house, privatised, sold off, outsourced etc and whether this would be at the same time or staged over time
   - How new technology could make services more efficient

The team must keep in mind the mandate to maintain universal postal service availability to all and maintain an acceptable level of control over core areas such as sorting and delivery.
Exhibit 4 – Lecture notes on postal services (extracts)

Professor Martin Josifek from the Department of Public Services at Sparlina National University of Economics has worked closely with UPU for many years. He delivered a lecture on 28 July 2023 about aspects of postal services.

The key points he made during this lecture were as follows:

- There are 661,000 post offices worldwide and 1.4 million postal delivery workers going door-to-door daily – so postal companies (both government-run and private entities) operate one of the largest physical networks in the world.

- In most countries, postal services operate on a monopolistic basis since historically this facilitated the provision of a Universal Postal Service. To take advantage of network economies most countries, including Sparlina, shielded their postal services from competition. This allowed them to fulfil a mandate to deliver post to all parts of the country and also to provide standardised pricing no matter the distance being travelled by, for example, a letter: the price of sending a letter from Berlin to Dresden is the same as sending a letter from one side of Berlin to the other. In addition, shielding more lucrative routes provided funds to a government to subsidise providing services to more isolated communities.

- Postal monopolies in many countries are declining in value because of: the rise of electronic communications; the mandate to deliver to every address in the country; caps on postage prices; borrowing limits; funding the often generous pension scheme for employees.

- Companies such as FedEx and UPS take advantage of the same network as a postal service in seeking to gain a large share of the both letter and parcel processing and
delivery markets without having to shoulder a postal service agency’s public service responsibilities and fixed costs.

- While competitors, notably in the parcel delivery arena, can outsource services to organisations which hire workers on very low wages, legislation in some countries does not permit government bodies from lowering labour costs by outsourcing to low wage companies.

- The UPU states on page 27 in its 2019 IPRD document:

> The first and foremost result of the gap between the de jure and de facto situation in the postal sector is the constant emergence of new operators haphazardly conducting business, without even the most basic regulations to, at a minimum, establish the rights and obligations of government, the general public, customers, the designated operator and private operators. This has undermined the economic and financial stability of the designated operator (the universal service provider), with private operators targeting the most lucrative market segments, or the very markets in which the designated operator generates the revenues needed to offset the cost of servicing those areas of the country in which it has an obligation to ensure universal access to postal service despite problems with structural deficits.

- Politics plays a role in any discussion around privatisation, as is evidenced in the US.

- In some countries, postal services have diversified by offering to businesses: document storage; document shredding and disposal; photocopying and printing services.

- In some countries they have moved into financial services, including foreign exchange, travel insurance etc. A good example is Malta Post.

- La Poste in France has moved into what they call ‘everyday services’ which includes ironing and house cleaning.
Postal services are also encouraging entrepreneurship in the sector. For example, Swiss Post has an initiative whereby new business ideas proposed by staff or external innovators are reviewed then selected entrepreneurs go on to create a prototype and develop a business plan. This can result in commercialisation of new services by Swiss Post.

Technology plays an increasingly pivotal role in postal services, acting variously as an enabler and as a driver for better services for customers. Nipost in Nigeria for example has reinvented itself by fully adopting digital technologies to drive operations and achieve an optimal level of productivity and efficiency. Capturing the digital market is vital.

Digitalisation has massively disrupted the postal services sector by accelerating decline in the volumes of physical letters being posted. This is translated into a continuous downward slide of revenue from postal services.

McKinsey has predicted that parcels will grow from a small fraction by volume of letters to 1:1 parity with letters by 2025. Managing parcel services is therefore vital.
Exhibit 5 – Blog post about parcel services by Waheeda

19 October 2023

Waheeda is a popular entertainer in Sparlina and an important Influencer. Below is a post from Waheeda’s blog.

**Parcel sorting and delivery**

So there I was in a cute coffee shop the other day and I couldn’t help but overhear the conversation between the two women on the table next to me. They were lamenting the appalling state of parcel delivery in the country. We all know that when we order something from Amazon it’s not always delivered by Amazon but by a delivery service used by the company selling on Amazon. Seems these ladies had had books delivered in cardboard packaging, left on the doorstep in the rain because the delivery person couldn’t be bothered to take them away and put a note through the door. On one occasion one of the women had seen the guy coming up to the house and he’d just dumped her package at the door – didn’t even ring the doorbell. Clearly these companies are hiring people who can’t be bothered or they’re not giving them adequate training. But then – if you’re not even making minimum wage maybe it’s sort of understandable. They both agreed that Sparlina Postal Services are the best even if they cost a bit more.

Then I realised that one of the women actually works in the local sorting office of SPSA! She told her friend that over 70% of the stuff they’re sorting is parcels these days, and some of them can be really heavy. It seems like it’s very manual work and really labour intensive. I think it must have been the rainy weather because this woman then started to moan because she manages to sort far more post during her shift than the man who’s on that delivery area with her. He’s quite a bit older but gets away with working really slowly so she ends up doing
part of his sorting work. So the first woman reacts by saying: “well better you complain about that than they bring in robots and all of you are out of work.” This took the discussion onto Artificial Intelligence, ChatGPT and so on.

Anyone want to share their thoughts and experiences on parcel delivery in Sparlina? Any thoughts on whether robots should replace people in our sorting offices? Just write it to me in the Comments section below.

Waheeda x

**Comments**

**Fred:** ‘Robots could perhaps assist rather than replace. People shouldn’t have to be manually lifting heavy items.’

**Jessie:** ‘I work in the sorting office and it’s really hard work. There does need to be more automation.’
Exhibit 6 – GE McKinsey Matrix for selected SPSA income-generating services

Prepared by Matt Amos, SPSA’s Business Development Director:

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<tr>
<td>Low</td>
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Business strengths relative to competitors

Key:

 Parcel delivery
 Direct mail for businesses
 Philately
Exhibit 7 – Briefing note on use of digital technologies in postal services (extracts)

Note prepared by: Brendan Grant, Head of Digital Technologies, SPSA

Date: 10 October 2023

My review of how postal services in other countries are harnessing the power of digital technologies brought to light the following:

- Digitalisation has become a strategic priority for postal services in many countries, both to achieve operational efficiencies and to be able to offer new services and products that will keep them relevant.

- Automation: fully and partly automated sorting of post; centralised automated sorting; automated scanning; sequencing of letter deliveries to street level; online tracking and tracing; email, hybrid mail and e-notifications for parcel services are the norm in many countries.

- Combining physical and digital channels can enable the postal services sector to differentiate itself from other players and create opportunities to attract new customers. In Sweden merging manual and digital processes was a quick solution to the declining postal industry. Sweden partnered with Posten AB to print out emailed letters and send them to recipients physically.

- The UK introduced barcoded postage stamps which facilitates operational efficiencies, enables the introduction of added security features etc. The barcoded stamps have a digital twin (a digital copy of each physical stamp) and the two are connected by the Royal Mail App.
• Parcel sorting machines introduced in several large sorting offices across the UK enable Royal Mail to edge closer to its aim to automate 70% of parcel sorting by 2022-23 and 90% by 2023-24.

• Robots can be used to assist in the handling of large, cumbersome, heavy packages in sorting offices and in some are replacing people.

• Technology can help parcel delivery become recipient-controlled, as it can enable customers to be informed of the status of their parcel delivery via tracking and can also change the delivery process by redirecting to a different delivery point or postponing the delivery until they can be at home.

• Last-mile parcel deliveries have been improved with technologies such as PDAs (Personal Digital Assistants) for signature scanning, which also have offer additional security for consumers.

• The most popular alternative delivery form is ‘click and collect’, where consumers pick up their online orders at ‘parcel shops’ or from self-service parcel lockers with 24/7 access times. These make delivery more efficient for the postal services, avoiding failed delivery attempts and enabling people to collect their package at a time that suits them. These work best in highly populated areas.

• Parcel delivery by drones has long-term potential as a niche service, especially parcel delivery to isolated and difficult-to-access areas such as islands.

• An Internet of Things (IoT) platform connecting physical assets to a central warehouse can facilitate monitoring and the optimisation of a service. This could include sensor-based management of a fleet of postal service vehicles, and the capture of location intelligence such as the digital mapping of postal vehicles or routes and customers’ actual locations. It can also help with analytics.