THE ROYAL MAIL GROUP
International purchasing project of the year

Royal Mail Group (RMG) is a UK based mail and parcels business, operating in a shrinking marketplace where core letter volumes are declining by around 5% per annum. To help counter this decline, one of RMG’s strategic objectives is to drive more profitable growth in the parcels sector and a key priority is to grow RMG’s market share of import and export parcel volumes.

Given the structural decline in the domestic marketplace for letters in particular, RMG have been looking at global opportunities to increase parcel volumes. A combination of external market research, local benchmarking and extensive qualitative and quantitative assessment was undertaken to validate potential market opportunities. The research revealed that the parcels market from China to Europe is growing at a rate of over 17% per annum but the RMG receives less than 10% of total volumes. The China Fulfilment Project was set up and its main objective was to build a pipeline of business to business courier express parcel services from China to the UK and Europe.

The procurement team formed a core part of the project team and they were identified as being able to:

- offer commercial insight to unlock this ‘sell side’ opportunity
- develop the appropriate sourcing strategies, and
- enable the deployment of a supply chain upon which the business could depend.

Senior organisational buy-in was gained for this project and the International Director was appointed as the overall sponsor for the programme.

Following extensive due diligence to validate the specific opportunity in China, various market entry strategies were considered to enable this parcels product to be offered to the marketplace. The strategy adopted was to create a China to Europe B2B supply chain through a low risk outsourced model, as outlined below. New partners would be required to provide the services under Legs 1 and 2, whilst Leg 3 would be undertaken using RMG’s existing operations within the UK and Europe:

Procurement had primary responsibility for sourcing activity across Legs 1 and 2 of the pipeline, to ensure that the optimal supply arrangements were put in place, whilst also managing risks to the business along the new end-to-end international supply chain. In order to ensure successful sourcing outcomes were achieved, close engagement between procurement and the rest of the project team was imperative, and a considerable amount of time was invested in working with the team in ensuring that the sourcing and contracting approach achieved the business and parcels service expectations.
It was decided a close partnership supply arrangement should be sought with the provider for Leg 1 services, given the critical role they would play in the success of the overall undertaking. Extensive research and analysis was carried out to select the right service provider in China. This included assessing cultural, business and strategic fit, as well as ensuring that RMG’s Corporate Social Responsibility standards could be met by the prospective supply chain partner.

Analysis undertaken demonstrated that the services required for Leg 2 were more transactional and a larger potential supply market existed. Procurement competitively tendered these requirements and awarded framework agreements to ensure the appropriate service capability and capacity were secured for air freight forwarding services.

The project team recognised from the start that in order to be successful in China cultural differences and ways of working needed to be addressed. The full project team undertook a two day programme of Chinese Cultural Training, led by a specialist in the field. As Chinese culture holds high regard for history and heritage, it became apparent that Royal Mail Group’s long history as well as links to the monarchy was respected by Chinese suppliers; which the team leveraged to position RMG as a very attractive partner during commercial negotiations. Early experiences on the project saw the RMG project team adapt its approach in building this business, including:

- Employing an interim General Manager of Chinese origin, who specialised in supporting Western organisations setting up new ventures in China

The sourcing strategy adopted enabled an innovative ‘asset light’ model to enable competitive advantage and a lower cost offering over competitors given their high fixed asset networks and cost base. This provided the opportunity to seek a cost advantage through an outsourced model using third parties’ capabilities across Leg 1 and 2 of the operation. This business model also enabled greater supply flexibility and agility for RMG, should the arrangements not meet business plan forecasts.

Best practice tools from RMG Procurement’s Journey to World Class continuous improvement Programme, our core Master Purchase Agreements and existing robust Category Management process were utilised. Specifically some of the areas of best practice implemented included:-

- Due Diligence – Undertaking extensive due diligence in China, as managed by Procurement, to ensure the supplier’s suitability and alignment against RMG’s CSR, responsible and sustainable procurement standards. This included using RMG’s Low Cost Country Sourcing CSR Standards, SEDEX questionnaire, and specialist risk management agencies such as Kroll to undertake financial, ethical and technical assessments.

- Use of Framework Contracts – The utilisation of Framework Contracts for Leg 2, building on Procurement’s previous benefits realised from adopting them elsewhere in the UK, has helped create flexibility whilst ensuring the ongoing use of competition to create leverage in the supply markets and secure supply.

- Cultural – RMG retained a Chinese native to deliver cultural training early on in the project. A balance of Chinese nationals as well as UK expatriates was also recruited so as to ensure the careful balance between RMG’s standards and local knowledge was maintained.
On the ground presence – The project team spent a considerable amount of time on the ground in China (including ensuring there was always some RMG project team resource present in China) to develop and foster the relationships necessary.

Entity creation – A new RMG entity (called EBP Consultancy Beijing Ltd) was established in China, to not only manage this new undertaking, but also enable future business development in this rapidly expanding market, and demonstrate RMG’s long term commitment there.

Through this project, a number of organisational benefits have been achieved:

- New business set up and fully trading from Q2 of 2012 which has required a low level of investment by RMG, yet forecasting an estimated £75m+ of new future revenue streams for RMG at a time of structural decline within the core postal (letters) business.

- Delivery of significant project savings through adopting appropriate sourcing strategies for each Leg of the pipeline based on business requirements, including over £8m saved against business case for the air freight forwarding (Leg 2) services (as signed off by RMG’s Sourcing Council – the senior executive board responsible for approving all RMG sourcing activity).

- Implementation of an innovative and agile supply chain solution, to enable a B2B parcels product to be offered to the market at c.20% cheaper than competitors’ prices through the creation of an asset-light model that leverages the capabilities of suppliers across the supply chain.

- Establishing a business framework to enable further business development opportunities including embedding a reverse trade route from Europe to China, as well as the opportunity to expand the service proposition globally.

- A greater understanding of working with suppliers from very different cultures; which has been shared across the Group Procurement team through Town Hall events and to the wider RMG Marketing and Commercial community.

- A wider awareness of procurement processes and capability in a part of the business (International) that had not traditionally engaged with Procurement for ‘sell side’ opportunities.

- Up-skilling the cross-functional project team outside procurement on contracting, sourcing, tendering, and other key commercial principles.

- Particular development benefits for the Procurement individual seconded to the project, with valuable knowledge developed around adapting a procurement approach suited to global sourcing requirements.

- Positioned Procurement as a true business partner and commercial change agent, with the ability to contribute to the wider business strategy in areas beyond the traditional ‘supply side’ including revenue generation solutions.

http://www.supplymanagement.com/analysis/features/international-delivery/