Ascom hasler mailing system

Technology, Internet

Professor of Marketing and International Business and Director of the Institute for Global Business Strategy, Lubin School of Business, Pace University, New York. This case should be used as the basis for classroom discussion rather than to illustrate either effective or ineffective handling of the issues described in the case. Copyright © Institute for Global Business Strategy, Pace University History and Evolution of the Industry INTRODUCTION On a beautiful fall day in New England at the end of the millennium, Michael Allocca, president of Ascom Hasler Mailing Systems, Inc. as struggling with the question of how to move his company beyond its position as one of the three dwarfs of the postage meter industry.

Although his company had achieved the greatest share gain of any competitor in the U. S. between 1985 and 1997, he was not complacent. He was number three in the U. S. market, and number one still had more that 85 percent of the total market. Moreover, there were technological, market, and regulatory changes occurring that opened up entry possibilities for new entrants who had in effect been blocked from entry to the industry for the past half-century and longer.

Globalizationhad come to the sleepy postage meter industry with a vengeance, and Mr. Allocca was worried. He knew that he needed a strategy to improve his position, and questioned in his own mind whether he had one. He remembered the famous Von Clauswitz maxim: “ the best strategy is to be everywhere very strong: first generally and then at the decisive point. ” Easy to say, he thought, but how could he be strong as a dwarf in the industry? And, furthermore, what was the decisive point? HISTORY AND EVOLUTION OF THE U. S. POSTAGE METER INDUSTRYIn 1920, Arthur Pitney

and Walter Bowes received approval from the United States Post Office to market a device they had invented which they called a postage meter.

The postage meter was a complex mechanical device that provided the secure storing of fund information, the dispensing of postage, and the printing of indicia on envelopes or tape. It was a convenient replacement for the postage stamp in higher-volume mail applications. Pitney Bowes, Inc. was born, and a manufacturing and corporate facility was established in Stamford, Connecticut. At about the same time, similar companies were independently established in Europe. Today there are four major players globally. Pitney Bowes (PB), remaining the largest by far, has three European counterparts.

Since its beginning, PB has aggressively defended its market share. Today, after the infiltration by three foreign competitors, it still retains about 85 percent of the U. S. market. It has very effectively used its portfolio of over 3000 patents as a weapon and barrier to the entry of other competitors. In 1959, the U. S.

Justice Department challenged PB's monopoly. As part of the consent decree that resulted, PB was required to license its patents, royalty-free. This and other constraints were lifted late in the 1960s, however, it 1 Ascom Hasler Mailing Systems Inc. still offers its patents for a royalty fee to avoid further confrontation with the Justice Department and the U. S. Postal Service (USPS). While there has been substantial growth in electronic communications, facsimile, and other substitutes for the postal service, mail

continues to grow and to be a costeffective, major source of information transfer in the United States.

Each year the USPS delivers over 100 billion pieces of mail through over 38, 000 post offices, to over 130 million delivery points. The USPS handles 41 percent of the world's mail volume, over 630 million pieces every day. The next largest postal service market is in Japan, which handles 6 percent of the world's mail volume. With its budget of over $50 billion, and over 750, 000careeremployees, if the USPS were in the Fortune 500, it would be ranked number eight. While they have some presence in most developed countries around the globe, all postage meter manufacturers concentrate their efforts in five main markets: the U. S. , Canada, France, Germany, and the U.

K. THE MAJOR PLAYERS A significant measure of U. S. market share is the division of the installed base of postage meters on rental, published quarterly by the USPS. The following table is an indication of recent trends: 1985 Units 956, 987 52, 077 21, 007 15, 227 1990 Units 1, 156, 585 67, 277 64, 018 15, 227 1995 Units 1, 303, 106 87, 912 104, 412 23, 363 1, 518, 793 1998 Units 1, 399, 156 123, 367 118, 774 46, 497 1, 687, 794 PB Neopost Ascom Postalia Totals % 91. 6 5. 0 2.

0 1. 4 % 88. 6 5. 1 4. 9 1. 4 % 85. 8 5.

8 6. 9 1. 5 100 % 82. 9 7. 3 7. 0 2. 8 100 , 045, 29 100 1, 303, 107 100 8 Figures represent installed meters at year-end.

PITNEY BOWES Pitney Bowes, clearly the world leader in the manufacture and sale of mailing equipment, in 1998 had total revenues that exceeded $4. 2 billion. Revenue from the sales and financing of mailing equipment, related supplies and services, and postage meters, exceeded $2. 7 billion. The remaining revenue comes primarily from its Office Solutions business, which includes the sale, financing, rental, and service of reprographic and facsimile equipment and related supplies and facilities management services. PB's historically-strong financial performance is based upon the foundation of its postage meter rental base and equipment leasing business. Fortune Magazine, in its April 27, 1998 issue, ranked PB number one in the Office Equipment Industry Group for Net 3 Neopost Operating Profit Margin, Return on Stockholder's Equity, 3-Year Total Return, and 10Year Total Return.

In its mailing equipment business, PB offers the most comprehensive product line, including postage meter machines, letter folders, inserters, openers, addressing machines, PC-based mailing and shipping systems. It offers more " one-stop-shopping" opportunities than any of its competitors. It prides itself on being a product innovator and uses its huge patent portfolio to defend its inventions and to provide an entry barrier to would-be encroachers in its highly valued and protected market. PB ranked among the top 200 recipients of U. S. patents for 13 years in a row. In 1998, it spent over $100 million in research and development, and was awarded 124 patents, with 44 percent more than in 1997, its highest year ever.

PB has a precedent for effectively using its patent clout when each of its foreign competitors attempted to introduce electronic postage meters into

the market. When competitors introduced new products into PB’s home market, its strongtechnologybase allowed it to respond quickly. It did so when Neopost introduced the first electronic postage meter, when Ascom Hasler introduced the first modular machines, and when Francotyp-Postalia introduced the first digital-printing meters. It is trying to do so again, as two California start-ups introduced the first web-based postage systems. A primary ingredient in PB’s formula for domination of the U. S. market has been its direct-sales organization, consisting of over 100 branch offices and thousands of sales and service representatives distributed throughout the country.

In 1998, it mounted a new distribution initiative to address the fast growing SOHO (Small Office, Home Office) market, with the creation of its “ Office Direct” business unit. It will provide channels for PB’s future web-based products and lower-ticket-items that cannot support direct sales. Channels include telemarketing, direct-mail marketing, television, the Internet, and retail office-supply store chains. For the first time in its history, PB has boldly turned to an “ outsider” (Brother of Japan) for the development and production of a core product, risking the potential creation of a formidable future competitor. It did so to produce a stand-alone meter product with very low cost to target a new market of very low mail volume users. It is using direct marketing and, again for the first time, TV advertising to convince these lowmail-volume users to switch from stamps to a cost-effective postage meter. PB very effectively uses its wholly-owned subsidiary, Pitney Bowes Credit Corporation, to lease its mailing systems products.

Once “ captured," a customer is continually revisited for lease renewal. NEOPOST Neopost, based in Paris, France, started in the mailing equipment business at about the same time as PB. Its U. S. subsidiary began in 1933 as Friden, a California- 3 Ascom Hasler Mailing Systems Inc. based calculator company. It later expanded into the mailing equipment business, becoming the second U.

S. supplier. It was later merged with Roneo, a British company that had been in the mailing equipment business since the 1930s. Neopost manufactures in France and in the U. K. The company prides itself on being a technical innovator in its new products. Friden had the distinction, in 1979, of introducing the first electronic postage meter, before PB.

At the time of the decertification of mechanical meters by the USPS, Neopost had mostly electronic meters in the U. S. market, and was therefore less negatively impacted than its competitors. It has a full product-line offering, manufacturing a line of letter folders and inserters and OEM'ing PC-based mail/shipping management systems to round-out its product line. It was quick to develop a digital thermal transfer meter after Francotyp-Postalia, and also got an early start in developing internet-based postageevidencing products. Neopost USA has its headquarters in Union City, California, where it employs about 250 people. It distributes its products through 22 direct field offices in major markets and over 150 independent dealers.

Total U. S. employment is over 1300. Like PB, it also has its own subsidiary that provides equipment leasing to its customers. ASCOM HASLER MAILING SYSTEMS Ascom A. G. (Ascom), a $2 billion corporation headquartered in

Bern, Switzerland, focuses two-thirds of its business in the telecommunications market in the areas of carrier access, PBX, paging, defense and security systems and terminals.

The remaining third of its business is in an area it calls “ Service Automation,” which includes cash-handling systems, payphone systems, transport revenue systems (ticketing), and mailing systems (Ascom Hasler Mailing Systems [AHMS]). For at least the past 10 years, Ascom has experienced difficulty in its core business due to the privatization of the Swiss Telecom industry, which began to privatize and open its market to foreign competitors in the late 1980s. As a result, AHMS took a back seat to the needs of Ascom’s telecom core business. In recent years, its core telecommunications business has also suffered from an acquisition that resulted in a significant cash drain on the company before it failed. Investments in its non-core companies were minimized while it struggled to return its core business to profitability. As a result, AHMS fell behind all of its competitors in new product offerings. In fact, in the mid-1990s, it found itself without a low-end meter product when its mechanical model was decertified by the USPS, and it had no electronic model to replace it.

Ascom Hasler can trace its origin back to the same era as PB, although it has been in the U. S. only since the early 1980s. Unlike its three competitors, it distributes exclusively through a network of independent dealers in the U. S. It has no direct sales offices in the U. S and the core of its product line consists of a range of electronic mailing 4 The Products machines

manufactured in Bern that still print mechanically, most of which have been installed recently to replace the USPS decertified mechanical machines.

These machines are vulnerable to a further decertification by the USPS, which will ultimately require that all meters in service print digital, encrypted indicia. It is the only manufacturer that has not yet introduced a digital-printing postage meter. It is also the only manufacturer that has not announced plans to market a PC-based postage product. Over half of AHMS's business is in the U. S. Their U. S.

organization consists primarily of customer and distribution support. In the past few years, an engineering organization has been formed at its headquarters in Shelton, Connecticut, to develop software-based products for global markets and to support development efforts in Bern, Switzerland. Engineering and manufacture of the company's core postage meter products are performed in Bern. Ascom uses a third party to lease its products. FRANCOTYP-POSTALIA Francotyp-Postalia, Inc. (FP) entered the U. S.

market in 1961. It is a subsidiary of Francotyp-Postalia, A. G. , of Berlin, Germany. The parent started in 1923 as a manufacturer of special machinery and office machines and as electric equipment wholesalers. It markets its mailing products in 86 countries. The U.

S. subsidiary, primarily a distributor, is located in Lisle, Illinois, and employs about 100 people. The Germanbased mailing equipment manufacturer, while a major player in its home market, has not made a noticeable impact on the market in the United States. Until recently, its product line was extremely

limited, causing it to market relabeled products manufactured by Neopost in England. Until the mid-1990s, FP was the only manufacturer that was not able to offer postage meter resetting by phone. At that time, FP appeared to mount a new initiative when it built a new, modern manufacturing facility in East Berlin and launched an extensive new-product development effort. FP was the first manufacturer to introduce a postage meter named “ Conquest,” which printed variable information digitally, using a dot-matrix print head and thermal transfer technology.

The introduction of Conquest, and later a higher mail-volume machine using ink-jet technology to print indicia, placed FP on a new market-share growth curve, making it the fastest growing meter supplier in the U. S. In July of 1998, FP entered into a strategic partnership with E-Stamp, a start-up company pioneering on-line postage. FP has two direct sales offices in the U. S. , but uses independent mailing and office equipment dealers as its main distribution network to sell and service its products. It uses a third party to lease its products.

THE PRODUCTS Early meters were totally mechanical and utilized an electric motor to drive a rotary drum containing a print die of the indicia. When cost-effective electronics and 5 Ascom Hasler Mailing Systems Inc. microprocessors became available in the mid-1970s, they were utilized in postage meter design to provide keyboard input, display, calculation, and control. A motor-driven print drum was still used to deliver the indicia to the envelope or tape. The transition from mechanical to electronic/software devices proved to be a challenge for all manufacturers. In addition to

postage meters, manufacturers also produce mailing machines that allow for the automatic feeding, sealing, and stacking of mail at various speeds. Postage meters are mounted on these machines to perform the printing of postage indicia within the mail feeding-stacking process.

In this configuration, the meter is rented and owned by the manufacturer (by U. S. postal regulation), while the mailing machine is sold. Other peripheral products, including postal scales that compute postage rates based upon weight, folders, inserters, and mail openers, as well as PC-based mail management systems are manufactured or sourced from OEM suppliers in an effort to provide a complete product line. AN AGGRESSIVE USPS CHANGES ORIENTATION A Congressional hearing in 1967 concluded that despite a huge growth in mail volume, with the exception of the ZIP Code, the mail was being handled the same way it was 100 years ago. Years of mismanagement, labor problems, poor control of operations, and transportation facilities resulted in a Post Office that was inefficient and piling up debt. Its heavily subsidized rates bore little relationship to its costs.

In 1969, Congress passed the Postal Service Act, removing the Postmaster General from the President’s Cabinet, and creating a self-supporting postal corporation wholly owned by the federal government. The Post Office Department became the United States Postal Service [USPS], an independent establishment of the executive branch of the U. S. government. Operational authority transferred from the Congress to the USPS executive management and the Board of Governors. Despite this new orientation, the USPS continued to face mounting financial and competitive pressures.

Substitutes for mail, including facsimile and electronic messaging and funds transfer threatened to reduce the volume of mail.

Private companies, such as Federal Express, dominated the market for urgent delivery of mail and packages. On May 5, 1992, Marvin Runyon became the 70th Postmaster General of the United States. Unlike several of his predecessors, Runyon was not a postal career employee. Following a 37-year career with Ford, he became CEO of Nissan, U. S. A. In 1988, he left Nissan to take the top job at the Tennessee Valley Authority, where he was responsible for a major turnaround of the organization, achieving cumulative savings and efficiency improvements of $1.

8 billion and stable rates for the first time in 20 years. Runyon wasted no time in implementing similar cost-cutting changes at the USPS. Within six months, he built a leaner management structure, improved customer service, and increased efficiency that resulted from 47, 000 voluntary employee Technology Driven Changes retirements. His actions essentially eliminated a $2 billion deficit the USPS faced in 1993, and set records for on-time performance and customer satisfaction. In 1993, Runyon targeted the postage meter as a device subject to tampering, claiming that losses to the USPS exceed $100 million annually. Meter manufacturers were criticized for not incorporating state-of-the-art technology, particularly microprocessors, making the devices inherently more tamper-proof. The new technology was not embraced because previous USPS administrations discouraged its use, and the rental business model favored the lower-cost, longer-life attributes of the simpler mechanical meters.

As part of Runyon's initiative, the USPS started a campaign to " decertify" mechanical meters and demand that they be removed from the market and be replaced by safer, electronic meters. For postage meter manufacturers this meant that their existing, profitable rental base of meters would have to be replaced and recapitalized at great cost. Compared to their mechanical counterparts, electronic meters are significantly more costly to design, produce, and maintain, and have much shorter life cycles, both factors having negative impact on the meter rental financial model. USPS Decertification Schedule announced in May of 1996: • • • June 1, 1996: Placements of new mechanical meters would no longer be allowed. March 1, 1997: Mechanical meters used by firms processing mail for a fee would have to be removed from service. December 31, 1998: Mechanical meters mounted on machines that automatically feed, seal, and stack mail would have to be removed from service. This resulted in a onetime windfall for manufacturers whose customers were required to upgrade their automatic machines to handle the newly mandated electronic meters.

March 1, 1999: All remaining mechanical meters (stand-alone meters), would have to be removed from service. • The new, financially oriented USPS openly encouraged the use of new technologies, promising a expedient certification process. At the same time, it used its power to start a process that would lead to the decertification and phasing-out of all mechanical meters by March 31, 1999. It also aggressively took over the funds that manufacturers were holding in trust for its customers to allow for the resetting of postage meters by phone. Manufacturers lost the interest on those funds, which they claimed helped cover costs of operating the system.

PB sued the USPS for breach of contract and settled in mid-1999 for $52 million. It is expected that the other manufacturers affected will follow PB's lead.

TECHNOLOGY DRIVEN CHANGES Today, growth in the use of computers for Electronic Funds Transfers (EFT) has led to the development of technologies to ensure the safety of such transfers. Microelectronics, software, and communications technologies provide systems that are 7 Ascom Hasler Mailing Systems Inc. virtually impossible to infiltrate. Elaborate systems that encrypted data before transmission were developed to ensure security. Working closely with Carnegie Mellon University in its Information-Based Indicia Program, the USPS defined its own criteria for a system that would result in the secure printing of postage indicia. The system, developed and announced by the USPS in May 1995, is based upon encrypted Information Based Indicia (IBI). The IBI contains the following information: readable postage amount, mail class, date, device ID number, and town or licensing post office: in addition, a two-dimensional bar code which encodes the readable information as well as a digital signature (for security management), and delivery point code.

Unlike the indicia produced by a die mounted on a rotary drum, each printed indicia is unique, making counterfeiting virtually impossible. Much of the new technology is covered by PBs' patent portfolio. On June 10, 1999, PB announced that it had filed suit against E-Stamp, a new market entry, charging that E-Stamp was infringing on PB patents. At the same time, PB announced that it was involved in " discussions" with other marketers of

computer-based postal products, to grant patent licenses for use of PB-developed technology. NEW MARKET ENTRIES AND THE INTERNET The USPS, as a regulator, had always been a barrier to new entrants into the postage meter business. In its new image, it has encouraged and openly promoted new entrants, and encouraged the use of new technology not requiring huge capital investments. As a result, two new, serious players have entered the market, providing a software alternative to postage stamps to a new segment of the market: the small office and the home (SOHO) having Internet access.

E-Stamp, a California start-up, developed a system entitled “ E-Stamp Internet Postage” that allows a user to access the Internet and download postage-funds into a secure device interfaced to the user's existing PC and printer. The secure device is rented to the user for a monthly fee. The user can draw funds from the secure device to print postal indicia developed on the PC, directly on envelopes, labels, or documents on an existing off-the-shelf PC printer. E-Stamp has received financing from Microsoft Corporation, AT&T Ventures, Compaq Computer Corporation, and FP. Its management team includes computer industry veterans from Microsoft and Oracle. In the summer of 1999, its products were approved by the USPS and the company announced its intentions to go public. Stamps.

com, also a California start-up, developed a system called “ Stamps. com Internet Postage” that utilizes the Internet, but does not require a secure device to interface with the user's PC. Instead, it allows users to print the USPS approved indicia on envelopes, label, or documents directly as it is

transmitted over the Internet. Printing is accomplished on the user's existing off-the-shelf PC printer. Stamps. com will charge a premium of about 10 percent for postage, which the company claims is significantly less 8 Questions for Discussion hat the 18-25 percent levied by traditional postage-meter systems. Stamps.

com’s business venture partners include Intel and AOL. In the summer of 1999, its products were approved by the USPS and the company went public. While there are two on-line-postage products that have received the final approval of the USPS, there are also three additional products on test: 1. PC Stamp, a stand-alone product offered by Neopost. 2. Postage Plus, an on-line product offered by Neopost. 3.

Click-stamp, a stand-alone product offered by PB (PB is also expected to offer an online product shortly). WHAT TO DO Mr. Allocca looked again at the beautiful New England landscape. He knew that the clock was ticking, and that things would never be the same for the postage meter industry. He knew that he needed a strategy, and that it had to address both the competition and the need to create a unique value. As he saw the situation, there were four options: Option one: Convince its parent company, Ascom, to significantly increase its investment in new product development, manufacturing, and marketing. To be effective in the required timeframe might require a total restructuring of the organization worldwide.

Option two: Establish a partnership with a competitor, or competitors, or perhaps the USPS, to address the imbalance in the marketplace caused by the dominance of the industry giant. Option three: Phase out of the postage

meter business in favor of a related business in which a competitive advantage could reasonably be realized. Perhaps a source of opportunity could be the growing population of shipments over the Internet. Use of funds from the postage meter rental base could help to fund a new venture. Option four: Ascom could divest itself of the mailing business and concentrate on its core telecommunications business. Perhaps a sale to a competitor would be a possibility. Discussion of options.

Which option would you choose? Would you develop another? QUESTIONS FOR DISCUSSION 1. Analyze the attractiveness of the U. S. postage meter-mailing equipment industry for: • Pitney Bowes • PB’s three foreign competitors • An increasingly profit-orient USPS • New Internet-based market entries. Ascom Hasler Mailing Systems Inc. 2. Develop a SWOT analysis for each of the players listed in Question 1.

3. What key issues must be considered in the development of a go-forward business strategy for each of the players listed in question 1, above? 4. Develop a scenario for how the industry structure might change in the next five years. 5. Which one of the options identified by Mr. Allocca would you choose? Why? 6. Formulate your recommended strategy for Ascom Hasler Inc.

and Ascom A. G. 9