



Pitney Bowes: Going-to-Market with a New Strategy

to Support Insurance Digital Commerce and Communication

QuickNote Report
July 2014

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Date: July 2014

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Report type: QuickNote

Report Code: QN14-001

Essence

In April 2014, Market Insight Group attended the Pitney Bowes Analyst Event. Pitney Bowes (PB) discussed the initiatives the \$4 billion (revenues) company is undertaking to write the next chapter of the corporation's 93-year history. PB executives decided that to be competitive for another century, they should honor the company's heritage but transform the company's strategy. They did this by expanding the Go-To-Market (GTM) solution portfolio to support digital commerce and communication.

The reality of Pitney Bowes' heritage

It is not an easy task to remain in business for almost one hundred years. It is hard to imagine any company, regardless of industry, believing they would still be operating after a century has passed from their first day of business. PB is close to becoming one of the members of the "century club" and intends to be a member of the "multiple centuries club."

Beginning in an era of motion: The Roaring 20s

Jazz blossomed. The Charleston dance was all the rage. For the first time, more Americans moved to and lived in cities (of 2,500 or more people) than on farms. The numbers of automobiles increased six-fold from 1918 to 1929. More roads and highways were built following the end of World War 1. There is only one word which describes the 1920s: motion.

Happenstance or not, during the same time period two men realized the importance of moving mail and parcels efficiently. In 1920, the Pitney-Bowes Postage Meter Company (what we now know as Pitney Bowes) came about from the union of Arthur Pitney's Pitney Postal Machine Company (which became American Postage Meter Company in 1912) and Walter Bowes' Universal Stamping Machine Company. As a combined entity, the company using the postage meter and other related products helped move mail and parcels. However, the long-term success of PB was not due to the company enabling the movement of physical artifacts. Rather, Market Insight Group believes that PB persisted through the twentieth century based on the understanding that the value add of the company to society was helping enterprises and consumers communicate.

New century, new management team, same understanding of the company's value-add to society

It is clear to us from the discussions during the April 2014 Analyst Event that the new PB management team respects the company's heritage. As importantly, if not more importantly, they understand that communication, and by extension collaboration, sit at the heart of human society. They are betting the future success of PB by creating solutions for enterprises to conduct commerce, communicate and collaborate in the digital marketplace, the traditional marketplace, and in a combined "atoms and bits" marketplace.

Encompassing digital commerce by adding it as a new business segment

Specifically, PB created a new Digital Commerce business segment to encompass solutions which clients need to conduct commerce, communicate, and collaborate in both the digital and/or traditional marketplaces. PB has recast the historical segment financial results to reflect the emergence of the new Digital Commerce segment. This will enable company employees, shareholders, financial analysts, and other stakeholders to monitor the progress of the new strategy.

Interestingly (to Market Insight Group), PB decided to continue the existence of the other business segments: Small and Medium business solutions and Enterprise Business Solutions. We find this interesting because SMB and (large) enterprises also require digital commerce solutions. We think that at some future time PB will need to redefine its business segments and again restate the company's financial results.

PB's description of the three business segments

In the company's 2013 10-K, PB describes the three business segments:

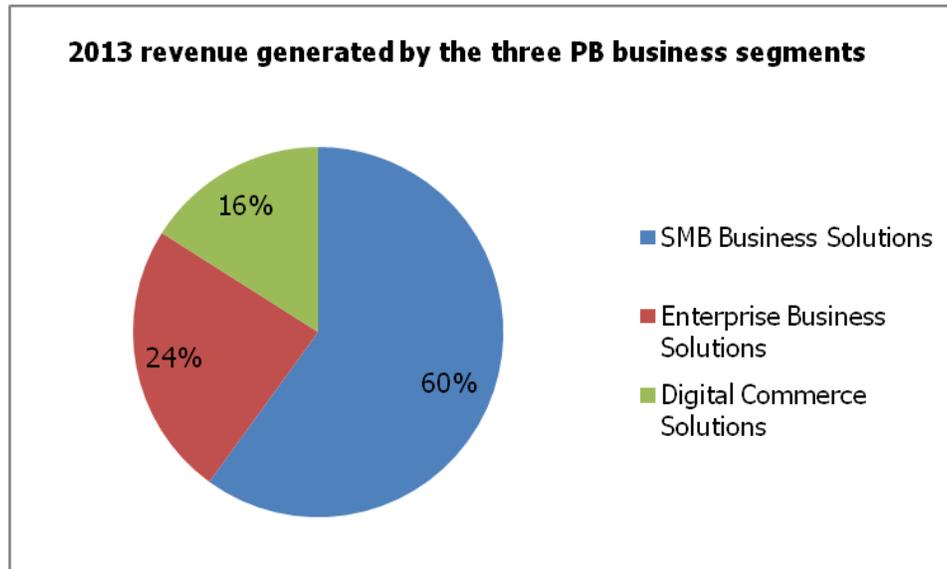
- **Small and Medium Business Solutions:** This segment encompasses both North America Mailing and International Mailing. In particular, "it includes the revenue and related expenses from the sale, rental, and financing of mailing equipment and supplies for small and medium size businesses to efficiently create mail and evidence postage in the US, Canada, and areas outside North America."
- **Enterprise Business Solutions:** This segment encompasses both Production Mail and Presort Services. Production Mail "includes the worldwide revenue and related expenses from the sale, support, and other professional services of PB's high-speed, high-volume inserting and sortation equipment and production printer systems to large enterprise clients to process inbound and outbound mail." Presort Services "includes revenue and related expenses from presort mail services for PB's large enterprise clients to qualify large mail volumes for postal worksharing discounts."
- **Digital Commerce Solutions:** This new segment "includes the worldwide revenue and related expenses from PB's:
 - sale and support services of non-equipment-based mailing, customer engagement, geo-coding, and location intelligence software
 - cross-border e-commerce solutions
 - direct marketing services for targeted clients
 - digital mail delivery service offering."

PB's 2013 and future state target revenue allocation among the three business segments

In Chart 1, we capture the revenue allocation generated by the three business segments from PB's 2013 10-K. We think insurers should keep in mind that:

- PB generated a significant magnitude of 2013 revenue from the SMB business segment. We believe this could represent a source of inertia slowing down PB's plans to achieve a growing stream of revenue from the Digital Commerce business segment.
- The company will need to create sales momentum from solutions supporting client's digital commerce needs and expectations.
- The company will need to decide how to obtain the optimum mix of skills – organically, acquisition, or partnership - to grow the Digital Commerce business segment.
- PB will face financial and market risks as it moves towards its objective of supporting digital commerce, collaboration, and communication. The risks include:
 - establishing a unique value proposition which resonates with clients
 - identifying and partnering with the “right” technology and telecommunications firms which participate in various facets of the digital commerce space
 - being able to fend off current and emerging competitors in the facets of digital commerce which PB considers truly strategic to the company's success

Chart 1



Source: Pitney Bowes, Market Insight Group, Ltd.

Market Insight Group’s perspective of PB’s go-to-market (GTM) solution portfolio

As we discussed above, PB reports the corporation’s financial results through the lens of three business segments: Small and Medium Business Solutions, Enterprise Business Solutions, and Digital Commerce Solutions.

However, at Market Insight Group we perceive PB GTM solution portfolio differently.

PB’s GTM solution portfolio encompasses core and enabling components

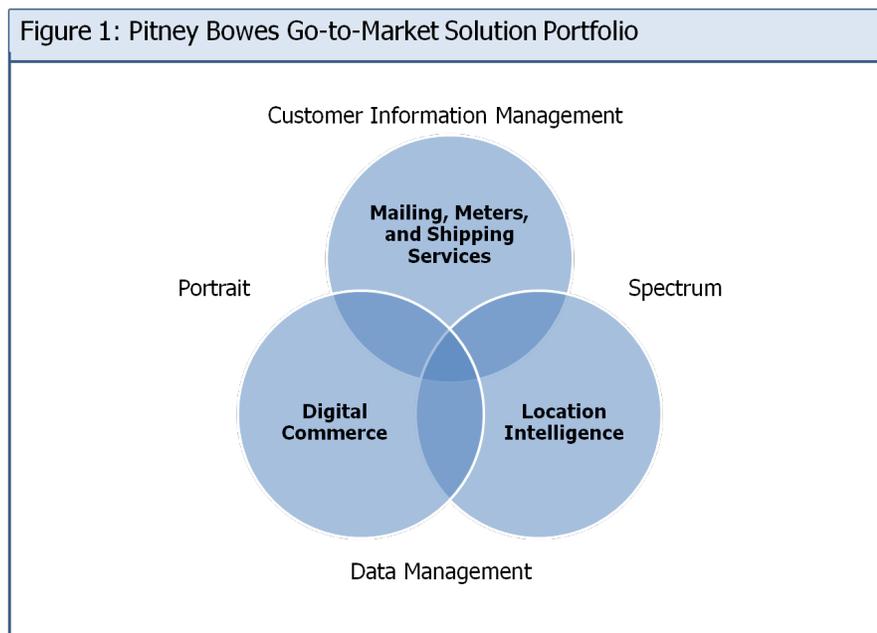
We perceive PB’s GTM solution portfolio as one which encompasses three interdependent core components and four enabling components (see Figure 1). The core components – shown in the three circles – each comprise a fuller set of capabilities. We consider Digital Commerce as a core component as well as being one of the business segments which PB financially measures and reports in the company annual report.

PB is offering the enabling components - shown surrounding the core components – to increase the benefits which insurers hope to generate from one or more of the core components. However, insurers should investigate implementing any one enabling component as a stand-alone application.

Descriptions of each core and enabling solution

Keeping in mind that each solution encompasses within it a set of related capabilities, a brief description of each solution is:

- Mailing, Meters, and Shipping Services: logistics products and services
- Location Intelligence: applications and data to analyze and make decisions based on geographic attributes of physical artifacts and people
- Digital Commerce: e-commerce, digital marketing, and digital mail delivery services
- Customer Information Management: applications and data to personalize customer experience, manage risk, and improve business operations
- Spectrum: data management standardization and visualization capabilities to provide a coherent, centrally-managed data view across the enterprise
- Portrait: granular market segmentation and related predictive analytics applications to support finely targeted marketing campaigns, identifying customer-level data relationships, and target customer segments
- Data Management: data cleansing, quality, and master data management.



Source: Pitney Bowes, Market Insight Group, Ltd. (Note: as an editorial policy, Market Insight Group does not show a company's solution trademark symbols.)

How can insurers use the components in PB's GTM solution portfolio?

Targeting customers

One of the driving themes weaved throughout PB's solution portfolio is the recognition of the importance of supporting the needs of an individual customer. That is, PB's solution portfolio helps insurers provide targeted products and services to each of their customers to the extent limited by laws and regulations (e.g. no red-lining). Obviously, insurers using agents/brokers must determine if and how PB's GTM solution portfolio enables insurers to identify and support the needs of individual agents or brokers.

At Market Insight Group, we believe the ability to support customization is needed for usage-based insurance or more broadly, the implications of the Internet of Things (IoT) to insurance product development, pricing, and service. However, that is beyond the scope of this QuickNote report.

Supporting a variety of customer-facing activities

Insurers should consider investigating the strengths and weaknesses of using PB's GTM solution portfolio to create or strengthen:

- target marketing
- marketing campaigns, including collaboration with field staff and insurance agencies/brokers
- building or enhancing CRM or Customer Experience Management (CEM) initiatives
- adjudicating claims, including fraud management
- cleaning data, including ensuring quality of data.

Implications for Insurers

Location is a critical element of insurers' decision-making, marketing, distribution, and business operations. This is a key reason that PB is a major player in the insurance technology space.⁽¹⁾ But from PB's perspective, offering location intelligence solutions is necessary but not sufficient. PB is now offering a portfolio of customer-focused digital commerce and analytic solutions to insurers. Insurers have to decide for themselves if these solutions will help their marketing, claims, and other business operations satisfy the expectations of customers in the mobile digital marketplace.

- (1) Market Insight Group will be publishing a report delving into geo-spatial (also known as location intelligence) vendors and their solutions supporting the insurance industry in the third quarter of 2014.

References

- Discussions from attending the April 2014 PB Analyst Event
- Pitney Bowes 2013 10-K
- Wikipedia: http://en.wikipedia.org/wiki/Roaring_Twenties

Further Reading

- Profiling Geo-Spatial Vendors and Their Insurance Solutions, Insight report to be published in the third quarter of 2014
- The Evolution of Consumer Digital Media: Implications for Insurers, Spotlight report to be published in the third quarter of 2014

Let's Talk

Want to discuss the issues in this QuickNote? Please contact Barry Rabkin of Market Insight Group, Ltd. at 508 435-3136 (in the Boston, Massachusetts area) or e-mail barry.rabkin@marketinsightgroup.com. Click over to www.marketinsightgroup.com to learn more about our company, our research, and how to subscribe to our research agenda, purchase single copy reports, or engage us in custom work.