



**CATÓLICA
LISBON**
BUSINESS & ECONOMICS

Banco CTT

- Managing a Major Strategic Move -

Catarina Isabel Mação Borges | 152114345

Dissertation submitted in partial fulfilment of requirements for the degree of MSc in Business Administration, at the Universidade Católica Portuguesa.

May 2016

Abstract

Title: Banco CTT – Managing a Major Strategic Move

Author: Catarina Isabel Mação Borges

The main goal of the present dissertation is to explore the concept of "Diversification Strategy" and the main challenges of planning, implementing and managing it in the first years of operations. To address this strategy, a specific example of a Portuguese postal services' incumbent, *CTT – Correios de Portugal, S.A.*, that diversifies its business with the creation of a postal bank is covered. With the information on the international experience in this type of diversification and the current situation of the Portuguese retail banking sector, one can conclude that the postal bank may have the capacity to adapt to the demanding conditions due to a competitive advantage in some of the industry's key success factors. This competitive advantage is identified when the company aligns its core competencies with the market characteristics. To preserve this benefit the company should assume a proactive role in exploring the external environment and be prepared for realignment situations. This initiative is crucial once several strategy-related, industry-related or company-related problems were identified during the analysis of the postal bank's future. In both the short and the long run the postal bank will potentially face problems that may result in managerial changes such as acquisitions of other companies (to lower the risk exposure and gain more expertise in certain business areas), divestment in certain product lines and investment in foreign markets (to compensate the lower national revenues).

Key-words: competitive advantage; diversification; performance; postal banking; retail banking

Resumo

Título: Banco CTT – Gerindo uma grande iniciativa estratégica

Autor: Catarina Isabel Mação Borges

O principal objetivo desta dissertação é explorar o conceito de “Estratégia de Diversificação” e os principais desafios do planeamento, implementação e gestão do mesmo, durante os primeiros anos de operação. Para desenvolver este tema, é dada como exemplo a estratégia de diversificação do operador postal histórico *CTT – Correios de Portugal, S.A.* na criação do banco postal. Combinando a informação da experiência internacional neste tipo de diversificação com a situação atual do sector da banca de retalho em Portugal, é possível concluir que, devido à vantagem competitiva em alguns dos factores críticos de sucesso nesta indústria, o banco postal poderá ter capacidade para se adaptar às difíceis condições do mesmo. Esta vantagem competitiva é identificada aquando do alinhamento das competências centrais da empresa com as características do mercado. Para conservar esta vantagem, a empresa necessita de ter um papel proactivo no estudo dos fatores externos à mesma, de forma a estar preparada para situações de realinhamento. Esta é uma iniciativa muito importante, uma vez que foram identificados problemas relativos à estratégia de diversificação, à indústria da banca de retalho e à empresa, durante a análise do futuro do banco postal. Tanto no curto como no longo prazo, o mais provável será o banco postal defrontar-se com diferentes problemas, onde serão necessárias mudanças na sua gestão, tais como a aquisição de outras empresas, o desinvestimento em certos produtos e o investimento no mercado externo.

Palavras-chave: vantagem competitiva; diversificação; desempenho; banca postal; banca de retalho

Contents

Abstract	2
Contents	4
List of Exhibits and Figures	6
Preface	9
Case Study	10
1. Introduction	10
2. Industry Analysis	11
<i>The Postal Sector in Europe and Worldwide</i>	11
<i>The Postal Sector in Portugal</i>	12
<i>Competitive Environment</i>	13
<i>The Postal Banking Worldwide</i>	14
<i>International Benchmarks</i>	15
<i>The Retail Banking Sector in Portugal</i>	17
<i>Competitive Environment</i>	19
3. CTT- Correios de Portugal: "The leader of the Portuguese Physical Communications Market"	21
<i>The Company Today</i>	21
<i>Financial Services at CTT</i>	22
<i>Key Lessons from Past Initiatives in Postal Banking</i>	23
<i>The Retail Banking Opportunity</i>	23
4. Conclusion	30
Case-Study Exhibits	31
Teaching Note	48
<i>Synopsis</i>	48
<i>Teaching Objectives</i>	48
<i>Use of the Case</i>	48
<i>Suggested Assignment Questions</i>	49
<i>Analysis and Discussion</i>	49
Teaching Note Exhibits	59
Literature Review	63

<i>Diversification as a Growth Strategy</i>	63
<i>Corporate Performance Evaluation</i>	64
<i>Corporate Problem Solving</i>	65
<i>Sustainable Competitive Advantage</i>	65
<i>Core Competencies</i>	66
<i>Strategic Fit</i>	67
<i>Postal Banking Strategies</i>	68
<i>Retail Banking Strategies</i>	69
Case References	70
Bibliography featured in the Literature Review	74

List of Exhibits and Figures

Case Study Exhibits

Exhibit 1. CTT's Shareholders.....	31
Exhibit 2. CTT's Share Price Evolution.	31
Exhibit 3. CTT's Dividend Yield Comparison to its peers.....	31
Exhibit 4. Average annual evolution of European postal traffic between 2007 and 2011 (%).....	32
Exhibit 5. Evolution of global letter-post volumes from 2006 to 2011 (indexed in year 2006 = 100).	32
Exhibit 6. Use of certain services provided in post offices and postal agencies in Portugal (%).	32
Exhibit 7. Postal network indicators evolution in Portugal.....	33
Exhibit 8. Universal Postal Services rules on services' type, price and quality.	33
Exhibit 9. Evolution of Postal Services Providers in Portugal (in activity by 2013).	34
Exhibit 10. Notoriety and Utilization rates of CTT vs. other postal services providers.....	34
Exhibit 11. Diversification Opportunities for Postal Operators.....	34
Exhibit 12. Proportion on non-mail revenue to total revenue (2008).	35
Exhibit 13. Performance of postal operators by level of diversification (2008).	35
Exhibit 14. Evolution of the number of global postal savings accounts in developing countries and industrialized countries (in millions).....	36
Exhibit 15. International Benchmark on Postal Banking Operators.....	36
Exhibit 16. Evolution on Portuguese average households deposits (billion euros).	39
Exhibit 17. Evolution on Portuguese total households loans (billion euros).	40
Exhibit 18. Description of private customers in retail banking.....	40
Exhibit 19. Portuguese retail banking institutions opinions about digitalization in the sector.	41
Exhibit 20. CTT's business portfolio and its composition.....	41
Exhibit 21. CTT's main rewards.....	42
Exhibit 22. CTT's business model resources.	42

Exhibit 23. CTT's digital innovations.....	43
Exhibit 24. Financial Services evolution at CTT.....	44
Exhibit 25. Financial Services current Portfolio (including partnerships).....	45
Exhibit 26. Banco CTT capital and investment estimates.....	46
Exhibit 27. Results on market research regarding main factors affecting the choice of banking services provider and CTT's competitive position on each factor.....	46
Exhibit 28. Consumers' opinion about the "no frills" product concept versus the current offer.	46
Exhibit 29. Revenues' migration by type of service (taking in consideration revenues in 2014).....	47
Exhibit 30. Pricing of different services across the retail banks in Portugal.	47
Exhibit 31. Banco CTT national coverage in 2016.	47

Teaching Note Exhibits

TN Exhibit 1. Identification of Banco CTT's resources and, capabilities, competencies and core competencies (Step 1 and 2).	59
TN Exhibit 2. Banco CTT's position in the market, competitive advantages provided by the core competencies, and duration of competitive advantage (Steps 3, 4 and 5).	60
TN Exhibit 3. Identification of Retail Banking Key success factors.	61
TN Exhibit 4. Potential problems for Banco CTT in the next 5-10 years of operations in Portugal.....	62

Figures

Figure 1: CTT performance since the IPO.....	10
Figure 2: Evolution in the number of post offices from 2001 to 2011.....	12
Figure 3: Evolution of postal traffic between 2008 and 2014 (in units of objects) and correspondent share of the market in 2014.....	12
Figure 4: Market share in 2014 for each type of service	13
Figure 5: Market share of the bigger postal services providers, including universal and non-universal services in 2014	13

Figure 6: Sources of financial income for postal operators in 2011	15
Figure 7: Summary of the main characteristics and financial indicators for the international benchmark.	16
Figure 8: Financial indicators for the Portuguese retail banking sector in 2015.	17
Figure 9: Summary of the main characteristics and financial indicators for the top 5 retail banking players in Portugal.	21
Figure 10: Summary of the main strategic assets for Banco CTT.	25
Figure 11: Long-term financial ambitions for Banco CTT after 2020	26
Figure 12: Banco CTT product portfolio by provider and degree of competitive positioning.....	26
Figure 13: Banco CTT long-term strategy of postal offices distribution.	28
Figure 14: Strategic Fit Table.....	53
Figure 15: Competencies Hierarchy (Javidan 1998).....	66

Preface

So many people made this dissertation possible, and I am grateful to all those who have helped and supported me.

I want to express my deep gratitude to my advisor, Professor João Simão Pires, for his insightful guidance and constant encouragement. The objective evaluation on my work greatly benefited me on the completion of this dissertation.

I am also deeply thankful to my family and friends for helping and encouraging me during this process. Special thanks for my colleague and friend, Cláudia Cerveira. Without her, it would have been much more difficult.

Finally, my genuine thanks to my dear boyfriend, João Amaral, who has supported me this far not only with his knowledge and thoughtfulness but also with caring and understanding.

Case Study

Banco CTT – Managing a Major Strategic Move

“We CTT, have in our DNA efficiency in everything we do. We are an innovative company that has been changing and adapting to the different realities and anticipating the trends. We are where the businesses and population are and sometimes more than that.”

– Francisco Lacerda, CTT's Chief Executive Officer (CEO)

1. Introduction

It is the 19th of November 2015, the Capital Markets Day and *Banco CTT's* launch day. It has been one year since the privatization of the incumbent company and two years since the entrance of *CTT – Correios de Portugal* in *PSI 20*ⁱ as well as the authorization to create a postal bank in Portugal.

VALUE CREATION (2012-2014)		
Revenues CTT	719 million €	+ 0,3%
CAPEX	17 million €	+ 8,7%
Dividends	70 million €	+ 40%
EBITDA CTT	18,8%	+ 3,3%
EBITDA Deutsche Post	-	+ 0,5%
EBITDA Post NL	-	+ 0,1%

The results of the Initial Public Offering prove that *CTT* is an appealing investment: not only the trends on revenues have changed but shareholder value creation is being consistent. The share price is above the main index of *PSI 20* and the dividend yield is attractive, particularly when compared with international peers (See Exhibits 1, 2 and 3).

Figure 1: CTT performance since the IPO. (Source: CTT Capital Markets Day 2015).

Luís Pereira Coutinho, CEO of *Banco CTT*, has approximately one hour until the beginning of his speech to investors about the strategy for the new postal bank. As he glimpses his speech script, he is looking at the audience: corporate partners, bankers, *CTT* colleagues, specialized press... It took six months to prepare a presentation about one of the largest investments of the company and to gather all those people. And now, there is the CEO of the group, Francisco Lacerda giving the first words of clarification to those present in the room...

ⁱ Benchmark stock market index of companies that trade on the main stock exchange of Portugal, which includes the prices of the twenty listed companies with the largest market capitalization.

"The industry as a whole is going through a significant transformation phase: globalization, digitalization, e-commerce, ...CTT is working on this new reality: using data driven marketing is helping us trying to find growth levers on our core competencies and infrastructures. This implies adjustments in the business model and we are taking care of that (...)."

Luís Pereira Coutinho joined CTT Board in June 2014, right after leaving BCP's executive commission. By that time, strategic decisions were being made. The erosion on the legacy business, the current crisis on the retail banking sector in Portugal, and also the successful international cases on postal players going beyond retail banking were considered when building the business model and making these decisions.

"We are the market leader in Mail-related Services by far (...) In Express & Parcels we are a serious operator due to a strong financial structure and to the ability to use our last mile distribution capacity of mailmen (...) In Financial Services (FS) we have been able to leverage on a strong brand. We have been providing financial services for more than 100 years and we have placed savings products for more than 50 years... FS at CTT is something that the public is used to... Thus, we are trying to deepen this business segment using a strong retail network well-spread in the country."

While listening to Francisco Lacerda, Luís Pereira Coutinho started to think about how successful the company that he recently joined is, how far it has gone and what are the main challenges ahead... The company resources such as the brand, network and skills will be crucial to face the competition and to attract the public outside the room for this breakthrough called *Banco CTT*.

- ☐ Given the strategic fit between Banco CTT's core competencies and the retail banking sector's key success factors, should we expect the postal bank to have a potential competitive advantage?
- ☐ How should *Banco CTT* be evaluated while pursuing this diversification strategy?
- ☐ Which type of challenges may arise in the next 5-10 years? Which solutions may be adequate?

2. Industry Analysis

The Postal Sector in Europe and Worldwide

The technological development and the EU Regulation are common challenges that are significantly impacting the postal sector across the European countries. The trends are quite similar: gradual substitution of the physical mail by the electronic mail and progressive liberalization of the postal market [1].

NUMBER OF POST OFFICES (2001-2011)	
Africa	- 16,6%
Asia Pacific	+ 0,5%
Eastern Europe and CIS	+ 0,1%
Arab Countries	9,7%
Industrialized Countries (Portugal)	-12,1%
Total	-2,5%

Figure 2: Evolution in the number of post offices from 2001 to 2011 (Sources: UPU Postal Statistics).

The international posts, established for such a long period, are facing loss of relevance due to the digitalization era, loss of monopoly due to the liberalization and rising costs due to Universal Services Operations. The results are then, a propensity to decline both in the postal traffic volume and in the number of post offices (See Exhibits 4 and 5) [2].

As a consequence of the postal liberalization, new entrants are getting some share all over Europe. By targeting densely populated areas, focusing on business customers, lowering the frequency of delivery and benefiting from lower labour costs, they can charge lower prices to the customers [3].

As a response to the declining postal traffic volume and new entrants tactics, the international posts are trying to stimulate the demand through the expansion of mail service options, expansion of work-sharing and downstream access options and targeted pricing schemes. They are also trying to reduce some costs with the automation of some operations and post office closures [3].

The Postal Sector in Portugal

In the last 30 years, Postal Sector in Portugal has been facing the same trends of the other European Countries [1]. With the postal sector liberalization undertaken in 2012 and the privatization of *CTT*, new players have entered the market. These and the other changes observed, led to a decrease of 28,6% in the total traffic volume between 2008 and 2014 [4].

	% Traffic Volume	Market Share '14	Revenues '14 (million)	2008	2010	2012	2014	Δ% '08- '14
TOTAL POSTAL TRAFFIC	100,0%	100,0%	804,20	1 227 847 910	1 135 317 439	986 494 766	876 097 488	-28,6%
EXPRESS MAIL	4,9%	44,9%	361,20	23 041 919	26 934 638	33 615 138	39 526 483	71,5%
NON-EXPRESS MAIL	95,1%	55,1%	443,00	1 204 805 991	1 108 382 800	911 060 858	836 571 005	-30,6%

Figure 3: Evolution of postal traffic between 2008 and 2014 (in units of objects) and correspondent share of the market in 2014 (Sources: Anacom and case-writer).

The propensity to decrease comes from a diversified tendency across the mail-related services. While Non-express mailⁱ is facing a negative evolution due to digitalization effect, the Express Mailⁱⁱ has been benefiting with the electronic mail [4].

Clients using both the permanent post offices or postal agencies (52% of all individuals in Portugal during 2014) are mainly looking for services such as sending and receiving registered mail, express mail and parcels [5]. Besides, after mail-related services, financial services such as the payment of services/taxes and money transfers are the most commonly used (See Exhibit 6) [4].

Associated with the decline in the number of objects carried by the postal services are the reduction of Postal Network Resources such as Human Resources and Access Points. (See Exhibit 7) [5].

Competitive Environment

Postal services providers are divided in universal services and non-universal services providers. Universal services are offered to both individuals and institutions and are more comprehensive than the non-universal services. They are used on a daily basis and thus, they have to follow strict rules regarding quality, prices and the needs of its clients (See Exhibit 8) [6]. By the end of 2014, Portugal had *CTT* as the universal services provider and 59 other non-universal services providers (See Exhibit 9) [6].

Postal services' clients are usually looking for a service that minimizes costs, provides a quick solution, security and legal validity. Even with the entrance of new players, there is a very small rate of change among the providers. *CTT* Group is the consumers' preference when it comes to notoriety and service usage, with 94,4% of the total market share for the postal traffic in 2014 (See Exhibit 10) [3].

Some projections and feedback given by *CTT*'s clients show that in the future there is a high chance that the individuals will use more than one service provider (51,6% of the clients) due to the type of recipient,

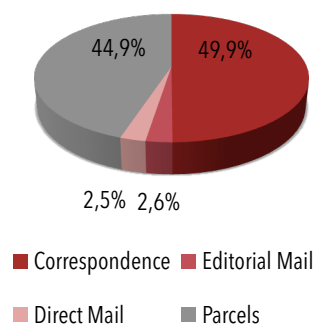


Figure 4: Market share in 2014 for each type of service (Source: Anacom).

POSTAL SERVICES PROVIDERS	MARKET SHARE
CTT Group	94,4%
Chronopost	1,1%
Vasp Premium	0,7%
Notícias Direct	0,8%
Urbanos	0,3%
Others	2,7%

Figure 5: Market share of the bigger postal services providers, including universal and non-universal services in 2014 (Source: Anacom).

ⁱ Includes Correspondence, Editorial Mail and Direct Mail.

ⁱⁱ Includes Express & Parcels.

speed of delivery and competitive prices [1], which indicates that *CTT* may lose some share for other providers. Besides, it is projected that postal traffic volume will continue to decline due to the economic crisis and the substitution of the physical correspondence by the electronic correspondence [4].

The Postal Banking Worldwide

Considered to be a novelty in Portugal, part of the history of 139 countries worldwide [7]. Postal banking primary days go back to 1861 when, in Great Britain, the need for financial inclusion of lower income and difficult access communities was perceived [8]. While banking institutions knew that these population layers had a higher probability to default, they had to charge them higher credit, leaving short possibility for these group of people to have access to banking accounts [2].

In countries such as the U.S., the banking institutions were against postal banking: they said that people that didn't have a bank account "lack financial literacy" but in fact either they didn't trust banks, or the bank outlets were no longer close to their residential area due to previous closure. In 1910 the U.S. Postal Services decided to introduce financial services and by 1934 they had \$1.2 billion in assets. U.S. Postal Services were such a reliable institution in America and it operated under such low-cost financial services that they have reached 4 million users [7].

Today the financial inclusion problem remains in both developed and emerging countries. *Global Findex Database* shows that by 2012 there were about 2.5 billion adults without a formal bank account and the consequences are to pay for high-cost fringe lenders [8]. Postal banking come as an opportunity for both customers and the postal services providers. By operating with lower expenses, they are able to charge lower prices to the low-income class and, benefiting from the existing network of outlets they can have economies of scale. Plus, post offices are already located close to the "hard-to-reach" areas, and the communities have a long-term relationship with the postal services providers, enabling people to feel more comfortable towards the adherence and usage of the financial services [2].

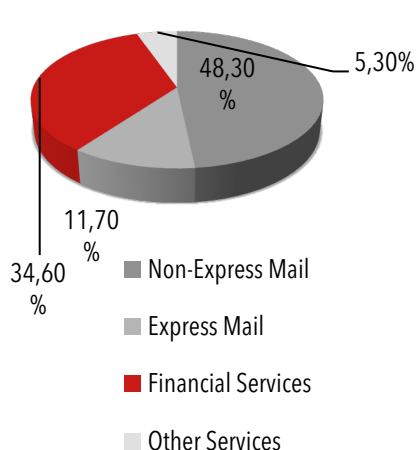


Figure 6: Sources of financial income for postal operators in 2011 (Source: UPU Postal Statistics).

The diversification of postal services to postal banking is a reality and it is one of the most common ways of answering to the decline of postal traffic (See Exhibits 11 and 12). Due to the evolution of the sector, the postal services incumbents had to take advantage of growing logistics and the existent network to provide a service that is a real need for the consumers and that is becoming a substantial weight of the total revenues (See Exhibit 13) [2]. *"After banks, postal operators and their postal financial subsidiaries are the second biggest worldwide contributor to financial inclusion, far ahead of*

micro-finance institutions, money-transfer organizations, cooperatives, insurance companies, mobile money operators and all other providers of financial services" [9]. In 2009, there were almost 1 billion accounts worldwide held by postal financial institutions (19,2% market share of the global retail banking sector in 2009) (See Exhibit 14) [8]. In 2013, market critics estimate at least 1.1 billion of potential new account holders [10].

International Benchmarks

International postal banking players have been growing and expanding its financial services operations with common key success factors among them (See Exhibit 15).

First of all, they have been taking advantages of existing relevant assets: the network of postal offices enables them to approach a substantial amount of people that are postal services' users and to market the financial services provided by the brand. Due to their geographic coverage they are able to compete with the main financial institutions in their country. The employees are also a valuable asset for the success of the business: they know the values of the company and they are aligned with the corporate mission and vision shared by the different business segments of the group including the financial services, providing the customers with an effective customer service.

Secondly, they have been innovating through investment in digitalization. Depending on which services they are specialized and have a higher demand in, the postal banking companies have been searching for new and creative ways to contact with the different stakeholders through multichannel integration. On one

hand, they can benefit from less costly, quicker and more effective systems that satisfy customers due to the easiness of usage and adaptability of their daily duties. On the other hand, they can compete with the top banking institutions that are also following the digital trends.

Lastly, partnerships, strategic alliances and acquisitions have been very common among the postal banking institutions. The companies take advantage of the two-sided interest on affiliating/alliancing/acquiring to expand the customer base, launch new products and gather complementary experience that brings to both parts a win-win situation.

	LA BANQUE POSTALE S.A.	POSTFINANCE LTD.	BANCO POSTA RFC
Year	2005	2003	2001
Market	France	Switzerland	Italy
Geographical Coverage	543 965 km ²	41 285 km ²	301 338 km ²
Population	66 673 700	8 211 700	60 795 612
Position in the Market	#6 in general terms	#1 in transactions	#1 in pre-paid cards #1 in payment collection
Customer Segments	- Private individuals - High net-worth customers - Corporate Customers	- Private individuals - Corporate Customers	- Private individuals - Corporate Customers
Categories of services provided	- Banking - Insurance - Asset management	- Banking - Insurance - Loans	- Banking - Insurance - Loans
Distribution Network	17 000	2 304	13 400
Customer accounts	11 million	2.9 million	6.2 million
Acquisitions/Partnerships	- <i>Banque Privée Européenne</i> - <i>Sofiap</i>	- UBS AG - Valiant - Swissquote	- <i>Cassa Depositi e Prestiti</i>
Strategic Direction	- Digitalization - Efficiency between operations and channels	- Payment services (on-line) - Efficiency between operations and channels - Relevant partnerships	- Digitalization - Efficiency between operations and channels - Investment on existing products
Net Profit	677 million euros	344 million euros ⁵	440 million euros
Cost-to-income Ratio	82,7%	68,2%	87%
% Group Operating Revenues	25,5%	26,7%	18,8%

Figure 7: Summary of the main characteristics and financial indicators for the international benchmark (Sources: Financial Reports of the different banks, Wikipedia and case-writer).

The Retail Banking Sector in Portugal

In 2012, Portugal was at the “tail” of the European profitability [11]. The Southern Europe country is now slowly recovering from the financial crisis with the banking sector still generating the lowest profitability and productivity results when compared with other European countries [12].

The increased risk credit that hit Portugal, was the main cause of the augmented amount of impairments registered by the banking institutions. The recovery on the financial margins and the stabilization on impairments have been lowering the negative impact on the results. In 2015 the Return on Assets (ROA) and the Return on Equity (ROE) registered positive results, still, the Profit Before Tax (PBT) was negative [12]. Regarding Loans, private customers received mainly mortgages (82%) while businesses loans are mainly to construction and real state (31%). The banking institutions deposits continue to be the Portuguese domestic banks’ main source of financing (49%) [13].

The economic uncertainty of the last 6 years made the values of both savings and deposits increase while participation in investment funds and loans have slightly decreased (See Exhibits 16 and 17) [13].

During the recession, Portuguese domestic banks have asked for State aid regarding Guarantees and Recapitalization, which in 2013 accounted to 19% of the Gross National Product [13]. Two Portuguese banks, *Banco Espírito Santo* and *Banif*, have closed doors due to poor financial management and lack of funding, which left great part of stakeholders and shareholders unemployed or unbanked. *Retail Banking Radar 2015* points out the need for “back-to-basics” services: current accounts, investment funds and mortgage loans [11].

Due to the intangibility of the products offered by the retail banks, there must be a great focus on the relationship with the customers. Customers with longer relationships with its banks are more profitable than the new ones (they usually have higher account balances and use a higher number of the bank services) [14]. In 2015, 50% of retail bank customers said that they had a positive experience, rating it with an average of 73.6 index points [15]. These numbers show that there is room for improvement and that the Portuguese

INDICATORS	PORTUGUESE RESULTS
Cost-to-income ratio	96%
Profit per customer	-221 €
Risk provisions/Total income	87%
PBT	-5 935 million €
ROA	0,1%
ROE	1,6%
Equity-to-debt ratio	12,5%
Total Loans	261,5 billion €
Total Deposits	250,9 billion €
Total Assets	414,1 billion €

Figure 8: Financial indicators for the Portuguese retail banking sector in 2015 (Source: Associação Portuguesa de Bancários).

customers are quite demanding.

The Portuguese banking institutions must convey a strategy combining the interest of both traditional and digital customers (in the future they will represent half of the addressable banking population). The bottom line is to understand what are the relevant services for each kind of customer and afterwards adapt the type of relationship and connections with them (See Exhibit 18). Traditional banks are thus broadening their horizons and rethinking their business models and operations systems to combine the traditional and digital means developed on the last decades (See Exhibit 19) [16].

Price is one of the main focuses for retail banks due to the importance attributed by the customers and also the weight that it has on profitability. Customers are increasingly more demanding and, although financial services are usually considered low involvement goods, they are continuously looking for more information on these products. Retail banks have to manage customer expectations with the external regulation. Due to continuous emergence of new competitors, prices are constantly under dynamic changes, which influences the pricing policy of the retail banking institutions [17].

The "user experience" is at the heart of the decisions taken and thus, the priority is to develop customer-centric business models. Besides, the retail banks must think about their operating models focusing on the simplification of the current operating models in order to improve cost efficiency. This is possible if the banking institutions are willing to enable innovation in their processes. On one side, there is a need for distribution optimization by centralizing and industrializing some operations. This will improve the information flows and therefore, enable a more efficient and effective coordination among the different services' departments. On the other side there is the need to use multi channels. With this, the banking staff will have a greater knowledge of customers' individualities and will consequently deliver an enhanced customer experience [12]. While there are several examplesⁱ of rigorous transformations within the banking sector in other countries, in Portugal only 17% of retail banks seem to be prepared for such transformations due to the implications on communication channels, services provided, prices and the restrictions to technology access [18].

A strategic decision that allows an improvement of the operations performance and a competitive advantage in the financial services industry is about scaling the business through acquisitions and

ⁱ *Number26*: customers can create a current account in less than 10 minutes only with smartphone; *Poland's Bank*: customers can get loans approved in 30 seconds through their smartphones.

partnerships with companies that are both IT and Finance experts ("fintech"ⁱ). This strategy can make banking institutions answer to the digital customers' needs (by learning about online purchasing behaviour, social network presence, affiliations) as well as give the banking staff the digital tools that can increase the efficiency of the service at the physical agency. Two successful examples of international acquisitions in the retail banking sector were *Citibank's* purchase of *PayQuik*ⁱⁱ and *BBVA's* acquisition of *Simple*ⁱⁱⁱ [12].

Other industries like retailers, tech giants and innovative start-ups are increasingly showing their interest for some of the financial services that banking institutions offer. Currently, *Apple* has a payment service, *Apple Pay*; *Samsung* recently launched the *Samsung Pay* and; even *Wal-mart* has a partnership with *Gobank* [12].

Competitive Environment

The Portuguese retail banking arena currently has five leading players, accounting for approximately 80% of retail banking total share in Portugal [19].

Caixa Geral de Depósitos (CGD), the sole public institution under the authority of the Portuguese State is the Portuguese leader when it comes to Customer Accounts, Deposits & Savings and Mortgages for the private customers [19]. Rating agencies expect this bank to improve the profit results and its assets quality as well as to increase its capital stock, as it is foreseen future capital gains that will bring additional benefit to shareholders [20].

Novo Banco (former *Banco Espírito Santo*) was created in August 2014 and it is currently under the authority of *Banco de Portugal* (Portuguese central bank), which plays the role of "bridge bank"^{iv}. The results for Deposits and Credit are quiet embryonic - there is a big uncertainty on the side of both investors and consumers. Currently there is neither an evidence of a potential acquiring institution nor the liquidation of the bank, which means that *Banco de Portugal* will continue to oversee the operations of the bank [21].

Besides these two institutions, the other three main players belong to private groups. *BCP* is the biggest private banking institution in Portugal. After asking for State aid, the company is now carrying out a

ⁱ Fintech startups provide services like digital banking without physical agencies and are specialized in different services like payments, loans and currency management.

ⁱⁱ *PayQuik* (now *QuikRemit*) is a premier provider of money transfer solutions to banks, credit unions and money transfer organizations.

ⁱⁱⁱ *Simple* is an online bank.

^{iv} A bank authorized to hold the assets and liabilities of another bank, specifically an insolvent bank.

restructuring plan that is already showing some results: after 4 years of negative impact, in 2015 it revealed a positive net income [22]. In the future the retail bank wants to increase the share value of *BCP* and align it with the other Portuguese companies [23]. Moreover, *BCP* is also planning to open the capital to a new international shareholder in order to have a more diversified investor composition [24].

BPI is the smallest player among its field peers and it is also exercising changes in order to decrease the risk of exposure to Angola [25]. There is also evidence that *BCP* and *BPI* are planning a merger that would create a very strong private banking institution (surpassing *CGD*). This idea is said to bring growth to the banks' balance sheet; still, there is the risk of having too much Angolan shareholders, which is why this strategy is carefully being evaluated [26].

Apart from the 4 domestic players, *Santander* is also on the run for the leadership. After the acquisition of *Banif* for 150 million euros by the end of 2015, it has reached 14% of the market share meaning that together with its fellow countrymen, they detain a fifth of the Portuguese retail banking share [24].

On balance, the left over market share is for the Portuguese retail banking players with smaller market share (*BIC*, *Caixa Agrícola*, *Montepio*,...). Although having a smaller share, *Montepio* was considered to be one of the trustworthy and worth to invest banks in Portugal, based on the research done by *Portugal RepTraK Pulse* in 2014. At the top of the results also come *CGD*, *BPI* and *Santander Totta* [27].

Common to all these institutions are the efforts that are being done in order to return to a pre-crisis situation. In the last couple of years the majority of them have been investing and relying on the foreign markets in order to neutralize the domestic results [19].

INDICATORS	DOMESTICS					AFFILIATED
	BPI	BCP	Novo Banco	CGD	Banif	Santander
Employees	5 923	7 548	7 195	8 858	1 916	5 376
Branches	546	695	631	786	210	594
ATM	1 512	2 714	1 328	4 653	447	1 899
Customer Accounts	1 335 985	2 003 392	1 325 587	2 619 970	443 765	1 168 234
Debit and Credit Cards	1 636 991	3 101 409	1 853 379	3 163 546	389 922	1 661 007
POS's	30 451	35 291	43 957	35 103	6 316	23 843
Total Assets (million €)	34 177	76 361	65 417	90 858	14 153	39 994
PBT - RAI (thousand €)	-9 681	-955 306	-271 200	-1 371 945	-406 170	193 270
Deposits & Savings (million €)	26 518	49 817	26 600	70 718	6 499	20 346
Customer Loans (million €)	554	4 037	1 821	668	338	1 381
Mortgages (million €)	11 022	25 545	10 230	33 908	2 740	14 794
Cost-to-income ratio (%)	78%	50,9%	n.a.	75,5%	59,9%	51,1%
ROE (%)	-16,1%	-6,5%	n.a.	-3,2%	n.a.	6,7%
Loan-to-deposit ratio (%)	98,3%	114,8%	126,0%	94,5%	105,7%	116,5%
Core-tier 1 ratio (%)	16,5%	13,8%	10,3%	11,7%	8,4%	16,5%
MARKET SHARE	8,7%	19,4%	16,6%	23,1%	3,6%	10,2%

Figure 9: Summary of the main characteristics and financial indicators for the top 5 retail banking players in Portugal (Source: Financial reports of the different banks and case-writer)ⁱ.

3. CTT- Correios de Portugal: “The leader of the Portuguese Physical Communications Market”

The Company Today

On the last three decades, *CTT*, the centenary company, have profited from both an industrial and technological evolution to strengthen its presence in Portugal, Spain and Mozambique. Today it offers a range of diversified solutions in Mail-related services, Express & Parcels and FS (See Exhibit 20). From the three business segments, FS represents the biggest growth since 2013 (around 20%), driven by the investment in product diversification. With such results in FS, the Group has been able to balance the decline in the Mail-related services [28].

The company follows a business model based on a long-term relationship of “trust and excellence” with its customers, allowing for a strong reputation and a consequent leadership position in the market (See Exhibit 21); a diversified business model with a multi-product strategy bringing added value to the clients experience, economies of scale on shared operations and further growth opportunities; a competitive retail

ⁱ Information only for the domestic retail activity; Information regarding deposits & savings, loans and mortgages are for private customers; Data from 2014 except from Novo Banco's Employees, Branches, ATM, Customer Accounts, Debit and Credit Cards and POS's, which correspond to information about BES 2013.

network, which allows for the different business activities to have high geographical reach and proximity with consumers; and a sustainable financial performance allowing for cash-flow generation and shareholder value creation. Common to all these features there is the focus on providing innovative solutions that add value both to the stakeholders and the business (See Exhibit 22) [28].

□ *Strategic Direction*

In order to sustain a growth model, taking advantage of such strategic assets, changes are being done in the different business units. The Mail-related services are progressively becoming more "digital". *CTT* is focused on providing solutions that are aligned with the industry's latest innovation. On one hand, it wants to capture value in the digital Direct Mail market: the company is increasing the investment in advertising mail services provided in order to become a reference among the consumers and competitors. For this, it wants to create an online platform that allows SMEs to create and manage Advertising Mail campaigns. On the other hand it wants to complement the postal offer by expanding the portfolio of digital services, offering integrated solutions that allow for a hybrid communication [28].

The Express & Parcels segment is benefiting from the growth trends on e-commerce. *CTT Expresso* is encouraging the usage of digital channels by investing on its online portal and website. They are offering integrated solutions from the moment of ordering to the shipping e.g., *CTT* is providing partners like *OLX*ⁱ with easy shipping. The e-commerce initiatives are being adapted to the customers needs: convenience, flexibility, integration and simplicity are key required product features that *CTT* are taking into consideration whilst the gradual process of digital services (See Exhibit 23) [28].

Financial Services at CTT

Financial Services were first created in 1911 with the name of *Caixa Económica Postal*. Through the 100 years of existence, the main focus of this business segment was to become a consolidated asset of the company that provided relevant products and services along with top-tier partners. With years of experience and knowledge gained in the field, by the beginning of the 21st century the company started to pursue strategies over the diversification of the services offered [28]. In 2015, the range of financial solutions

ⁱ Portuguese C2C online platform with more than 150.000 users.

generates revenue of 75,3 million euros (See Exhibits 24 and 25) [20]. The growth and results generated across the different services that this business segment provides is an indicator of company's readiness to expand its business with the creation of *Banco CTT*.

Key Lessons from Past Initiatives in Postal Banking

The first experiments on postal banking in Portugal were between *CTT* and *CGD*, its long-term financial partner. It happened twice: in 2002 and in 2005 but none of them lasted long. In the first trial, *CTT* sold its share (49%) to *CGD* one year after the creation of the postal bank [29]. The lack of market segmentation and poor structure of the project expansion, which led to only 5.000 customers, made them decide to end the partnership and keep the parallel activities they had been sharing for quite long time [30]. In 2005 *CTT* launched a new proposal for the postal bank project and by that time it had both *Banif* and *CGD* as potential partners. Although *Banif* had been discussing with *CTT* about the postal banking strategy, *CGD* exercised the right of first refusal, which made *Banif* and *CTT* arrangements fall through the cracks [31].

Still, in 2006 *CTT* announced that, once again, the possibility to invest in a retail banking institution with *CGD* could not proceed due to dissonance on the strategic and operational decisions on the table [as]. This could have rekindled the relationship between *CTT* and *Banif*, however, the authorization by *Banco de Portugal* was rejected in 2005. Four years of negotiations led to no more than a sketch on paper [31].

The Retail Banking Opportunity

Banco CTT comes up as a market opportunity and as part of *CTT*'s strategy on diversification and innovation of the services provided. The company that already has a vast experience in a variety of financial services and a longstanding retail network wants to provide more comprehensive and competitive banking operations.

☐ *The Potential of the Opportunity and Segmentation*

Launching the bank is a big investment (See Exhibit 26) for *CTT*, its sole shareholder. The short-term challenge starts with attracting customers and further adherence to the different services provided. The 3.7 million *CTT*'s current customers in the FS business will be one of the main segments to target. A great part of these customers belong to the senior and low-income class, characteristics that are also common among the

unbanked Portuguese. There are roughly 400.000 of Portuguese without a bank account, 80% of these are more than 50 years old and lack financial stability [32].

On a research done in Portugalⁱ regarding the population's financial literacy and inclusion, from the 4% of unbanked citizens, 67% are said to lack earnings that justify opening a bank account whereas 17% share a bank account having other person as the account holder. About the people that have at least the minimum banking services they are said to have an average of 1,4 banking accounts [33].

On this research, it was also found that individuals privilege the advice given at the "point-of sale". Individuals that trust their banking institutions usually acquire its different products instead of using different providers. Thus, most of the times they end up not comparing conditions like interest rates, valuing more the advice given over the counter (54%) or the opinion of family and friends (25%) [33].

As expected the basic products are the most used ones: insurance (37%), credit cards (32%) and savings (31%) [33].

From the interviewees that participated in the research, 24% confirmed the usage of homebanking, with 8% saying that this is their channel of first choice. This percentage of the population is aged between 25 and 39 years old [33].

Finally, the study also revealed that on the last 5 years 9% of the interviewees have changed between banking institutions. Although the majority (82%) states that they did not thought about it, 9% have considered this possibility and they did not proceed with the process due to the costs and time associated, and also because they lack information about better options available [33].

From another market research doneⁱⁱ, the postal bank acceptance was greater than 50%, with more than 25% willing to subscribe to *Banco CTT*. The people involved in this market research nominated Price, Reputation and Location as the main factors for the bank selection [ag] (See Exhibit 27). Age and Social Class are the market research crucial demographics that must be referred: the age group of people more willing to subscribe to this concept is the 35-54 range while the low-income social class is the one that shows greater interest for this service [28].

ⁱ Sample of 2.000 people (2,2% error for a 95% probability).

ⁱⁱ Market study performed by CTT (1.507 interviews representative of the Portuguese population conducted during May 2015).

□ Targeting

Besides being a significant business opportunity for the group, *Banco CTT* is also an answer for the needs of the Portuguese population. This bank wants to target the mass-marketⁱ. *CTT* sees private individuals like the Young Professionals, Population with less sophisticated requirements and current *CTT* customers as the segments that will be more interested in the bank due its value proposition and marketing mix offer [28].

"Banco CTT is a national bank, for every Portuguese that values simplicity in their daily banking needs."
Luís Pereira Coutinho

Banco CTT wants to attract the different segments focusing on the specificities and needs of each one. Deeming on the current *CTT* customers potential and on the market prospective over the simple low-income young customers, the bank believes that there is a balanced prospect on the targeted population [28].

Right now, there is a strong lack of trust and security regarding the domestic retail banks: due to the financial crisis the bank brands lost much of its value and they are trying to rebuild it [34]. By entering the sector, *CTT* does not want to harm the brand but bring trust to their business and to help consolidating the sector. It has a long-term relationship with the customers, built on reliability and it can take advantage of that to capture a share of the market that is either unbanked or lacks trust on the existing institutions [16].

□ The Positioning and Future Ambitions

In order to enter the retail banking sector, *Banco CTT* will leverage on *CTT*'s legacy and its value proposition – proximity, simplicity, transparency and value for money [28]. The strategic assets supporting the value proposition are:



Figure 10: Summary of the main strategic assets for Banco CTT (Source: CTT Capital Markets Day 2015).

ⁱ Large and homogeneous customer base.

Awareness, Recognition and Trust of CTT Brand

As shown before *CTT* has a reputable name. In 2015 it registered a customer satisfaction of 85,2%, considerably above the overall satisfaction of the service delivered by the Portuguese banking sector [20]. This can be an influence indicator for the adherence to the postal banking services, showing the relationship between the client and the institution that has been created over time.

Proximity to the Population and Digital Offer with Web and Mobile

Banco CTT will focus on the proximity to the client such as the other *CTT*'s business segments always did. Clients will be assisted with all the necessary information and competitive conditions at the *CTT* branches. Besides, online presence will be a focus through homebanking service [28].

No-frills Complete Portfolio based on Simplicity and Competitive Pricing based on Low-cost Structure

CTT's value proposition includes simplicity and value for money: for the people that lack financial literacy and are under impoverished conditions, *CTT* has the opportunity to attract them and fulfil their needs (See Exhibit 28). To further expand this service the younger and the elder, *Banco CTT* will have to provide an easy, secure, comprehensive and user-friendly service so that customers that are currently not using it can become convinced of its benefits [16].

Banco CTT has studied the market and has recalled the historical data and results from *CTT* FS. The retail bank that just started the operations will appear as a risk averse player that wants to assure a solid performance, such as the one *CTT* group has been reporting. Based on the revenues of the services that will migrate from FS to *Banco CTT*, the group forecasts a transferred value of 19 million euros [28].

FINANCIAL AMBITIONS FOR A SOLID PERFORMANCE	
Break-even	3 years
Cost-to income ratio	<50%
Loan-to-deposit ratio	~50%
Core-tier I ratio	~15%
ROE	~15%

Figure 11: Long-term financial ambitions for Banco CTT after 2020 (Source: CTT Capital Markets Day 2015).

Considering that the current clients using these services will stay at its customer base, and that further clients will adhere to it, the postal bank ambitions are to achieve 95-100 million euros on revenues and a 40% EBITDA margin by 2020 (See Exhibit 29). To sustain these long-term results, *Banco CTT* aspires to have

about 10% of share on Customer Accounts owning 4% of the Deposits & Savings share and 6% of the Mortgages share [28].

□ The Product Portfolio and Pricing Strategy

Banco CTT will address a target that is looking for a simple low-cost product range, important on their quotidian. Hence, it will provide a complete product portfolio with a “no-frills” conceptⁱ. The objective of the bank is to complement the current business without threatening the existent products [28]. It will increase the products offered supported by selected partnerships while monitoring the impact on the FS that are originally provided by *CTT* and that will keep separated from the bank offer.

The retail bank will build a position in transactional products, which are core characteristics of the bank, and it will have an equally competitive positioning in mortgage and consumer loans, credit cards and savings accounts [28].

Transactional products will have cross-selling potential among *CTT*'s customers. While *Banco CTT* will leverage on financial services expertise to provide the current accounts, debit cards, pre-paid cards and

	Type	Status	Provider	Positioning
Accounts & Savings	Current Accounts	NEW	bancoctt	^
	Debit cards	NEW	bancoctt	^
	Pre-paid cards	NEW	bancoctt	^
	Term Deposits	NEW	bancoctt	=
	Savings Accounts	NEW	bancoctt	^
	Public Debt Certificates	×	IGCP Agência de Gestão da Tesouraria e da Dívida Pública	N.A.
Transactions	Payments – Post Offices	✓	MULTIPLE	=
	Tax Collection	×	AT autoridade tributária e aduaneira	N.A.
	Payshop	×	payshop	N.A.
	National Money Orders	×	SEGURANÇA SOCIAL	N.A.
	International Money Orders	×	UNIVERSAL POSTAL UNION	N.A.
	Western Union	✓	WESTERN UNION bancoctt	=
Credit	Mortgages	NEW	bancoctt	^
	Overdrafts	NEW	bancoctt	=
	Credit Cards	✓	Cetelem	^
	Consumer Loans	✓	Cetelem	^
Insurance	Life Insurance	✓	MAPFRE FIDELIDADE	=
	Non-life insurance	✓	MAPFRE SEGUROS	=
	Health Insurance	NEW	t.b.a.	=

 New Service
 Migration to Banco CTT
 Positioning aligned with the market
 Stay at CTT Financial Services
 More competitive positioning than market average

Figure 12: Banco CTT product portfolio (Source: CTT Capital Markets Day 2015).

ⁱ No-frills service/product is one for which the non-essential features have been removed to keep the price low (Source: Wikipedia).

payments, it will rely on its long-term partnership with *Western Union* for the international money transfers service [28].

Regarding credit, *Banco CTT* will keep credit cards and consumer loans out of the balance sheet. The idea is to start by combining low exposure to credit risk with competitive pricing and in the medium- to long-term increase this exposure [28].

Savings & Deposits will be done “in-house”. This product segment will have an utmost importance since it will be a lever to finance the bank [28].

Public debt certificates will not migrate to the postal bank. This product has a great importance to *CTT* not only because the company has its exclusivity, but also because it is a great source of income – the funding of 2.2 billion euros held in January 2015 was a record in over 50 years of public debt trade at *CTT* [20].

Lastly, the tax payment made in partnership with *Autoridade Tributária e Aduaneira* and the payment services provided by *Payshop* will keep at *CTT*’s FS. The main clients at *Payshop* are business customers such as *EDP*, *MEO*, *NOS* and *Vodafone*, while *Banco CTT* targets private customers.

Great part of the services provided will be positioned as more competitive than the market average. The postal bank will prise the value proposition of “value for money” by providing highly competitive prices on the most common services provided by the different retail banking institutions in Portugal, such as current accounts maintenance and consumer loans fees (See Exhibit 30). *Banco CTT* will be able to compete across the different products provided mainly due to operations cost savings, as a result of economies of scale and established partnerships that lower the risk of the postal bank.

□ The Role of Retail Network, Digital and Online Channels

Banco CTT is starting its operations in 52 “DNA CTT post offices”ⁱ spread throughout the country and present in the country’s 20 administrative districts. These post offices will have a special section devoted to financial services offered by the bank with employees trained to receive them. By 2018, *Banco CTT* plans to expand its geographical

POINTS OF CONTACT BY TYPE OF POSTAL OFFICES	
Dedicated Space	83
Dedicated Counters	250
Multi-functional Counters	270

Figure 13: Banco CTT long-term strategy of postal offices distribution (Source: CTT Capital Markets Day 2015).

ⁱ DNA CTT Post Offices: 1 of the 4 types of post offices providing postal services, financial services, services partnerships and 3rd party retail products.

presence to 603 physical points of contact, positioning close to the biggest retail banking providers in Portugal (See Exhibit 31) [28]. With such retail infrastructures and human capital, it should take the advantage of being close to *CTT's* postal services customers to draw their attention and create brand awareness. Post offices will be a key strategic point for advertising the banking services. Not only the instructed employees will have the role of informing customers about the new segment of the business and its services, but the branches are also going through refurbishments which will allow the customers to notice the opening of *Banco CTT*. Moreover, online advertising will have a crucial role in gathering the attention, especially of the Young Professionals that are heavy users of digital devices.

"Banco CTT aims to target the young urban generation. Thus, it will invest on both online channels and mobile platforms." Luís Pereira Coutinho

Banco CTT's online and digital presence will have the role of promoting the brand, and it will also serve as an e-commerce platform and an online services provider. With a homebanking service and a mobile application, *Banco CTT* wants to provide a simple and convenient service starting with the younger generation and expanding to the "traditional users" that are becoming more vulnerable and responsive to the digitalization.

This service is seen as a win-win strategy for the company and the consumer. *Banco CTT* will be able to deliver a more efficient service (from quicker answers to better communication with its clients – mainly due to feedback from online experience) and it will be able to attract a bigger number of potential clients (due to the coverage that the online presence allows). On the customers' side, they can expect an increasing diversity of the services provided, quicker and more customized services and an increased interactivity through the different online channels.

4. Conclusion

After a long day, the presentation to *Banco CTT* investors is over and the board is satisfied with their performance. After waiting for decades, it is time to say, “welcome” to a new retail bank, the first postal bank in Portugal and the 140th in the world.

Right now, *Banco CTT* is at period zero, where only investments have been incurred and still no income is being generated. It is time to hit the road running and prepare for what is coming next. Several challenges lay ahead in the retail banking sector and *Banco CTT* will have to know how to use its resources to achieve its ambitions. Does its core competencies allow for a strategic fit with the sector’s KSFs? Which performance metrics should be used to evaluate this diversification strategy? Which problems are ahead and how should the postal bank solve them?

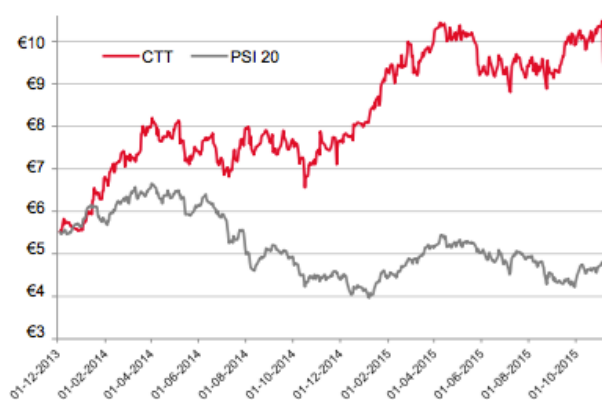
Case-Study Exhibits

Exhibit 1. CTT's Shareholders.

	Shares	Joint-stock
Standard Life Investments (Holdings) Limited	10.007.653	6,67%
Gestmin, SGPS, S.A.	7.800.000	5,20%
Allianz Global Investors GmbH	7.552.637	5,04%
BNP Paribas Investment Management LLP	7.477.712	4,99%
Kames Capital plc	5.141.137	3,43%
Norges Bank	3.143.496	2,10%
F&C Management Limited	3.124.801	2,08%
Remaining Shareholders	98.250.134	65,50%
Total	150.000.000	100,00%

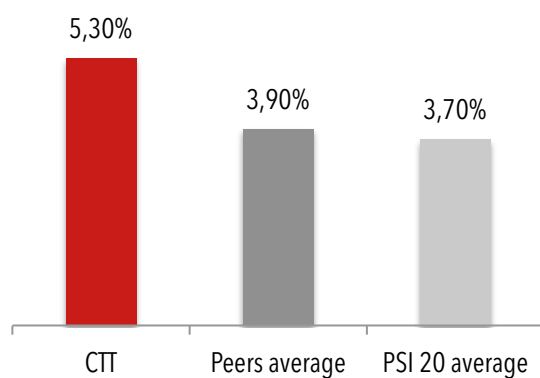
Source: CTT webpage.

Exhibit 2. CTT's Share Price Evolution.



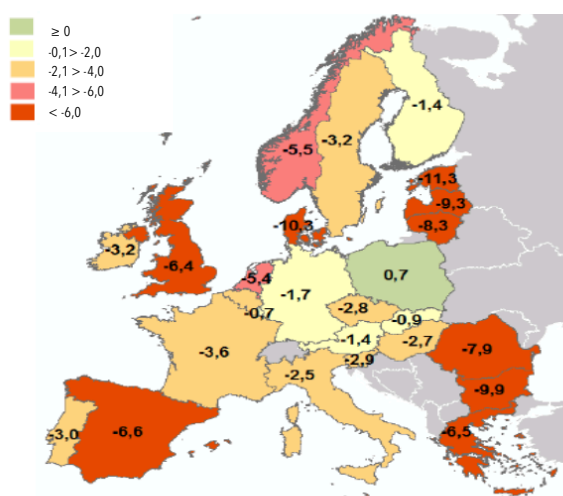
Source: CTT Capital Markets Day 2015.

Exhibit 3. CTT's Dividend Yield Comparison to its peers.



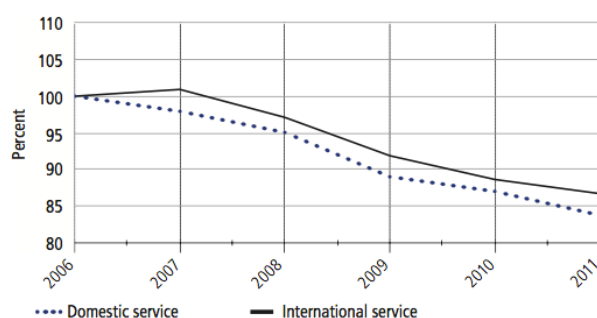
Source: CTT Capital Markets Day 2015.

Exhibit 4. Average annual evolution of European postal traffic between 2007 and 2011 (%).



Source: WIK "Postal Regulation and Volumes under Pressure", 2013

Exhibit 5. Evolution of global letter-post volumes from 2006 to 2011 (indexed in year 2006 = 100).



Source: UPU Postal Statistics.

Exhibit 6. Use of certain services provided in post offices and postal agencies in Portugal (%).

Type of services	Usage (%)
Sending/receipt of registered mail	41,6
Sending/receipt of parcels	32,1
Sending Correspondence	31,2
Payment of services/taxes	26,8
Postal orders and money transfer	14,7
Mobile phone account top-ups	8,2
Sale of Stamps	7,2
Road tolls	3,7
Sale of books, post cards, CDs, etc	2,5
Sale of Envelopes	2,4
Financial Products (includes saving certificates, pension plans, investment funds, assurance funds, etc)	2,2

Source: ICP-ANACOM, Survey on the use of postal services, December 2014.

Exhibit 7. Postal network indicators evolution in Portugal.

Indicators	2010	2012	2014
Human resources	16 836	15 732	14 424
CTT Group	14 155	12 777	11 698
Other providers	2 681	2 955	2 726
Access points	18 883	14 649	12 899
CTT Group	18 754	14 171	12 159
Other providers	129	478	740
Distribution centres	489	482	402
CTT Group	370	348	281
Other providers	119	134	121
Vehicle fleet	6 126	6 145	6 093
CTT Group	4 077	3 961	3 740
Other providers	2 049	2 184	2 353

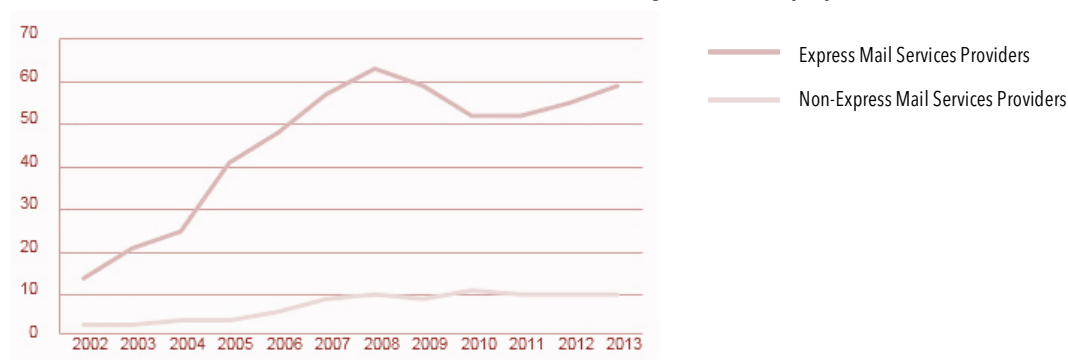
Source: Anacom.

Exhibit 8. Universal Postal Services rules on services' type, price and quality.

Type	Price	Quality
<ul style="list-style-type: none"> - Items of correspondence, books, catalogs, newspapers and other periodicals up to 2kg weight - Postal parcels up to 10 kg - Delivery of national parcels in other member states of the European Union, up to 20kg weight - Shipments registered - The insured items 	<ul style="list-style-type: none"> - Accessibility to all the users - Cost orientation and should encourage an efficient universal service provision - Transparency - No discrimination between users 	<ul style="list-style-type: none"> - Ensure the provision of universal postal service throughout the national territory - Ensure continuity, availability and quality of universal service - Ensure the collection and distribution of postal items covered under the universal service at least once a day, every working day, except in exceptional circumstances or geographical conditions - Advertise appropriately to regularly provide users and postal service providers accurate and updated information about the universal service features offered, including on the general conditions of access and use of the service, prices and quality levels - Ensure the existence of user support services, including a quick treatment system complaints - Adopt measures to facilitate the use of the service by disabled users

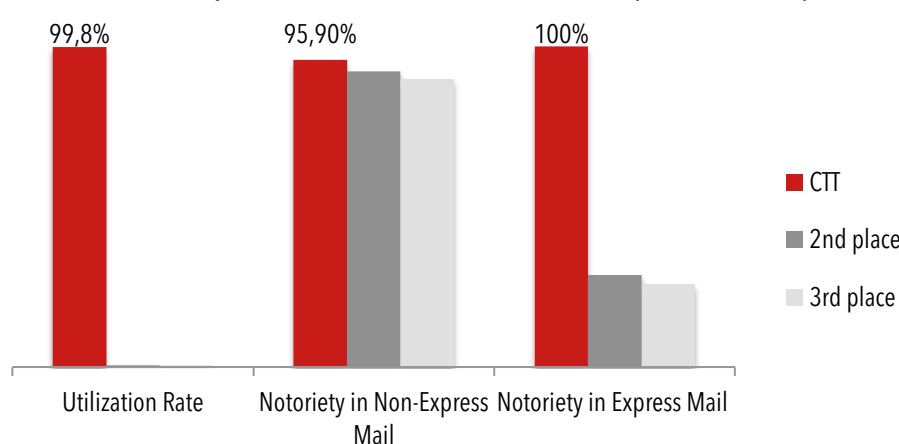
Source: Anacom.

Exhibit 9. Evolution of Postal Services Providers in Portugal (in activity by 2013).



Source: ANACOM.

Exhibit 10. Notoriety and Utilization rates of CTT vs. other postal services providers.



Source: ANACOM

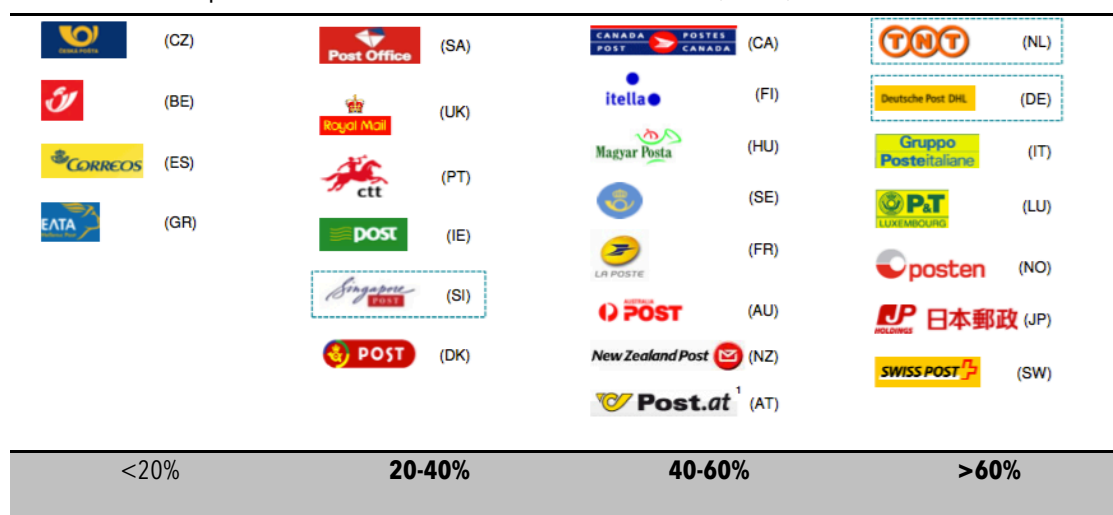
Exhibit 11. Diversification Opportunities for Postal Operators.

Platforms	Areas	Descriptions	Sample of non-postal players (U.S.)
Transportation	Parcel Services	Express and deferred parcel delivery.	UPS FedEx.
	Logistics	Warehousing and other specialty services.	DB SCHENKER KUEHNE + NAGEL
Retail Services	Retail	Sale of mail and non-mail related convenience products and/or specialized products.	Walgreens FedEx Office
	Banking	Money transfer and bill payment, retail and commercial banking, resale of financial services through the retail network.	usbank WELLS FARGO
Mail-related services	Integrated Marketing	Data, media, print and production services, customer response management	ExperianCONVERGYS
	Document Management	Document digitization, physical and digital mail room management, data processing and archiving services	xerox
	Hybrid mail	Electronic postage, multi-channel mail distribution, email certification, and digital mailbox management	Earth Class Mail Vistaprint

Emerging Services	Telecommunications	Provision of internet and/or telephony services	comcast verizon
	E-commerce	Online shopping and associated trade-facilitation services (e.g., e-payment)	amazon.com PayPal
	Business Services	Consulting and outsourcing services (e.g., Information Systems)	accenture IBM
Government Services	Basic Services	Identification, enrolment, and other basic services conducted on behalf of other agencies (e.g., tax and fines payment, benefits distribution, certification and license processing)	dmv
	Other Services	E.g. Environmental services	WM nationalgrid

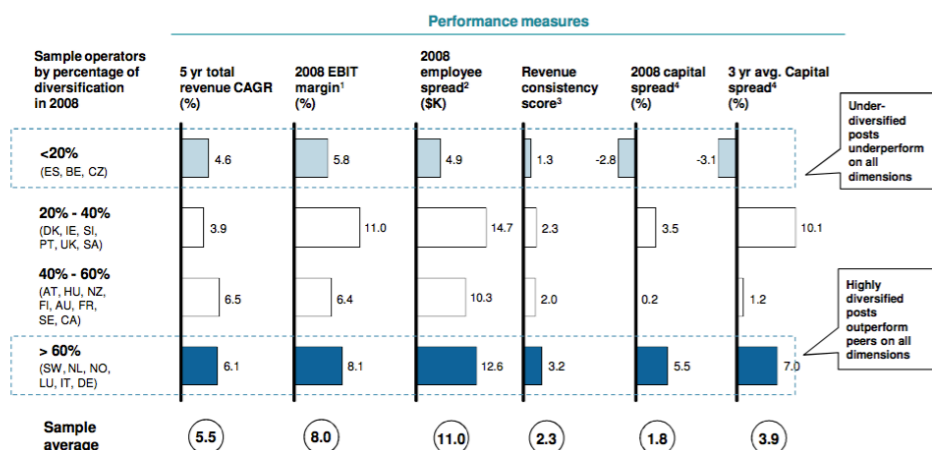
Source: Accenture review of international posts.

Exhibit 12. Proportion on non-mail revenue to total revenue (2008).



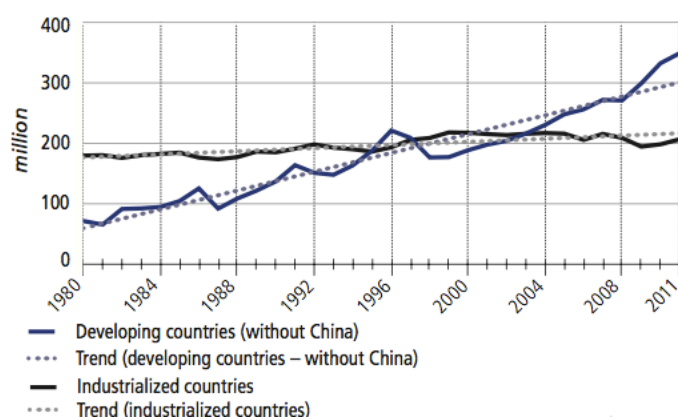
Source: Accenture High Performance Post research database, Operators' annual reports; IPC website; Accenture Analysis.

Exhibit 13. Performance of postal operators by level of diversification (2008).



Source: Accenture High Performance Post research database, Operators' annual reports; IPC website; Accenture Analysis.

Exhibit 14. Evolution of the number of global postal savings accounts in developing countries and industrialized countries (in millions).



Source: UPU Postal Statistics.

Exhibit 15. International Benchmark on Postal Banking Operators.

□ *La Banque Postale S.A., a subsidiary of La Poste Group*

La Banque Postale was part of *La Poste's* answer to digital revolution. Created in 2005, through the legal transformation of *Efiposte*ⁱ it occupies today the 6th position in the French banking market and its intention is to keep hiking the ranking [35]. By taking advantage of its assets, the company decided to invest more heavily in non-postal services (financial services) providing not only private individuals but also legal entities and local authorities with services where the banking inclusion is fostered especially for the low-income households. Focusing on the customer side, sharing *La Poste Group* values of trust, accessibility and proximity, this bank is the preferred banking brand in France with more than 11 million active customers contacting the 9.000 employees and using the 17.000 outlets of *La Poste Network* spread all over the country [36].

As a financial services provider it operates in the banking, insurance and asset management areas. In order to increase its customer base the company is continuously investing on innovative and relevant services that can add value to the different segments they target. One way to do that is through extension of relevant partnerships as well as acquisitions (*Banque Privée Européenne* in 2013 and *Sofiap*ⁱⁱ in 2014), which allows for the company to grow its expertise and complement the services provided, bringing to the customers a more thorough experience [37]. Besides, the company is following the digital trends by implementing the of *Cap Client 3.0*ⁱⁱⁱ program enabling a more

ⁱ *Efiposte*, created in 2000 it was responsible for the management of sight deposits collected by *La Poste*.

ⁱⁱ *SOFIAP*: financial institution specializing in mortgage lending (*SOCRIF Group*).

ⁱⁱⁱ *Cap Client 3.0* is a cloud service that will be used as an interface with the customers across the different channels: post offices, online banking, phone and social networks.

efficient distribution tool. Innovative multichannel strategies are also being put into practice: customers can have a traditional, hybrid or even a complete long-distance relationship with the bank [38].

With a focus on being accessible and seeking for innovation, this bank is able to target a mass market. Private individual customers (both younger and older) have access to a wide range of solutions that meet their needs. The high net-worth customers have access to solutions such as high-end life insurance, tax optimisation solutions, notably discretionary management service and inheritance funds. *La Banque Postale* also serves corporate customers (companies, non-profit associations, local authorities...) offering accounts, means of payment, investments, advice, financing, and insurance [38].

By investing on its relationship with the customers, the company strategy "La Poste 2020: Conquering the Future" has as priority the development of the communication through the digital bank. By taking advantage of the great percentage that currently uses the online services (around 40%) and the know-how of *La Poste* Group, the company wants to develop the brand's online attractiveness at the same time that it improves the operations between the different channels [38].

Today this business segment is an important part of the services provided by the group. In 2014, *La Banque Postale* generated 25,5% of La Poste Group operating revenues [38]. The profit of this company was 677 million euros with a *cost-to-income* ratio of 82.7%.

□ *PostFinance Ltd, subsidiary of Swiss Post Ltd*

Financial services at *Swiss Post* have started in 1900 and during the entire century they have grown through the introduction of different types of services. In 2003, *PostFinance* became a fully-fledged retail finance institution. One decade later, in 2013, *PostFinance* became a public limited company and a subsidiary of *Swiss Post Ltd* – *PostFinance Ltd* [39].

This financial institution is one of the Switzerland's leaders in its sector when it comes to daily financial needs: it is the number one bank for financial transactions with 996 million transactions done in 2014. Along with its simple but relevant services comes *PostFinance* strive to provide the user-friendly means so that customers can manage their finances as most independent as possible [40].

Whether it is for the 2.6 million private customers or for the 309.000 business customers, the range of services provided is adapted for each individual need [40]. Besides payment transaction (conventional, online or mobile), both private and business customers can have access to private and savings accounts, credit, debit and prepaid cards, retirement savings accounts, life insurance, mortgages and consumer loans. The customers can choose the channel they are more comfortable with. *PostFinance* has 2304 post offices and branches where the customers can do the

available operations [41]. This traditional approach of retail banking is at the core business of the company. Still, the digitization of essential services such as payments is at the top of company's priorities [y]. To keep leading the Swiss banking sector as well as assure that the changes made are taken smoothly to the customers, the company is about to launch several innovations: *TWINT*ⁱ, red and orange inpayment slips with QR code, the migration to *TCS BaNCS*ⁱⁱ and an improved e-financeⁱⁱⁱ [41]. The main support to these accomplishments is the IT systems available: they not only give support to the digital division but also to the entire core banking transformation.

To a great extent, the new services provided are a result of cooperation and partnerships established by *PostFinance* and other companies. In 2003 it launched the Yellow Mortgages and the Yellow Pension Account 3a with *UBS AG* and, in 2005, it took *UBS*'s "paper-based" payment transactions as well as other from other banks [39]. In 2009 it entered into a credit business agreement with *Valiant* giving the possibility for small and medium enterprises to ask for a credit. In 2015 it established a strategic partnership with *Swissquote* that will operate as a trading platform for *PostFinance* where investors will be able to do stock exchange orders, contributing for an even higher online presence of *PostFinance* [40].

In 2014 *PostFinance* has generated a profit of 344 million euros and a *cost-to-income* ratio of 68.2%. The Customer Assets accounted for more than 107 million euros, Loans for 7.5 million euros and Mortgages for about 4.3 million euros [40]. Financial Services revenues of *Swiss Post Group* accounted for 26,7% of the total revenues [42].

□ *Banco Posta RFC, a subsidiary of Poste Italiane SpA*

In 1998, the *Poste Italiane* Group, previously a public entity, became a joint stock company owned by the Ministry of Economy and Finance. Building up on a solid business model, *Banco Posta* appeared in 2001 as a group subsidiary that took care of Banking and Financial services of the group. Since that time it has been able to diversify and integrate a great variety of services, complemented with the companies *Banco Posta Fondi SGR* and *Banca del Mezzogiorno* [43].

Delivering services for a broad range of both private individuals and businesses, *Banco Posta RFC* offers current accounts, payment services (issuance, administration and sale of prepaid cards), postal savings products, third-party loan products and investment services [44]. The number of current accounts is approximately 6.2 millions (43.9 million euros) and, 17.8 million payment cards. The concern about building a relationship with its customers makes the company continuously seek for an innovative service offered along with proximity. Thus, the company is also investing in a multi-channel communication: while the post offices are used to provide a different customer

ⁱ Twint is a payment and shopping app, which enables the customers to pay for their purchases only with their smartphone.

ⁱⁱ TCS BaNCS: Integrated banking suite comprising payments, core banking, securities processing for funds administration and compliance for fraud detection solution.

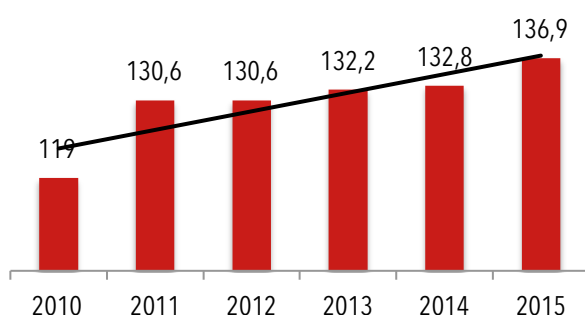
ⁱⁱⁱ E-finance: PostFinance online platform for online banking.

experience, the online channel brings the innovative services that add value to the customers most urgent needs with a focus on payment services [44].

Between post offices, branch offices and private customer area offices, Banco Posta has about 13.400 outlets with a total workforce surpassing the 65 thousand employees. In 2014 the online accounts surpassed 1.7 million with 1.5 million consumer accounts and 257 thousand business accounts. The company is also investing on the existing products in order to face the competitors and to attract new customers [44]. Another source of growth is the long-term relationship with *Cassa Depositi e Prestiti*. The Italian bank works together with *Banco Posta* at launching new products and services used by Banco Posta on behalf of *Cassa Depositi e Prestiti* [43].

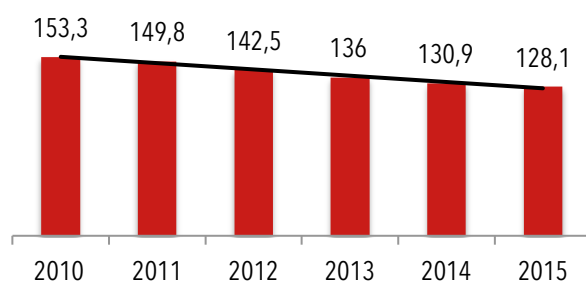
The job done by this bank is translated into its results. In 2014 Financial Services represented 18,8% of the total revenues of *Poste Italiane* Group. Banco Posta generated a profit of 440 million euros and had a total of 56,97 million assets [44]. "Poste 2020: Customers, Growth and Innovation" is *Poste Italiane* Group Strategy for the future. The group wants to foster the mass adoption of digital processes in a sustainable way, which they believe it is necessary to keep improving its customers quality of service and the group's competitiveness [45]. Cross-selling initiatives, development of products and services, reorganization of the retail service model and digital repositioning of Banco Posta are some of the bets that will affect the Financial Services segment. So far, the company is leader in the domestic market in some services: 51% of prepaid cards issued and 35% of payment collection [45].

Exhibit 16. Evolution on Portuguese average households deposits (billion euros).



Source: CTT Capital Markets Day 2015.

Exhibit 17. Evolution on Portuguese total households loans (billion euros).



Source: CTT Capital Markets Day 2015.

Exhibit 18. Description of private customers in retail banking.

The traditional users: People with on average +50 years that prefer to visit the bank's physical agencies and get person-to-person advisory when buying financial products (66% of Portuguese banking customers). They are also the ones that are risk averse and thus, do not trust in digital security to complete financial operations. Retail banks' main advantage on this segment is that these are existing clients with long-term relationships of loyalty and trust and thus, retail banks have enough information about their needs.

The digital natives: People that have grown with Internet and that are heavy users of technology devices such as mobile phones or tablets. Unlike the "traditional users", they value convenience over loyalty and they rely on services such as *Paypal*ⁱ to do financial transactions. They also prefer to be advised by peer opinions (usually through social media means) instead of asking the banking staff. In 2014, 30% of banking customers used mobile banking applications and in 2015 the online banking penetration was 28%, meaning that there is a an opportunity for banks to get to know better the digital customers and attract them by exploring these means of communication.

Sources: AT-Kearney, Statista, Expresso and case-writer.

ⁱ *PayPal* is a quick and easy online service that enables its customers to receive and make money transactions by using the e-mail address.

Exhibit 19. Portuguese retail banking institutions opinions about digitalization in the sector.

Banco BIC: Mira Amaral recalled the effort made by the BIC in the introduction of a multi-channel strategy, following the acquisition of former BPN. "We have tried to smoothly transfer customers for the new electronic channels and mobility." This task took into account the customer's age, since 75% of people over 60 years visit the agency regularly, unlike people under 40 years that mostly prefer electronic channels. "A commercial bank is a retail company, so you will always have to have some agencies to manage the retail operation".

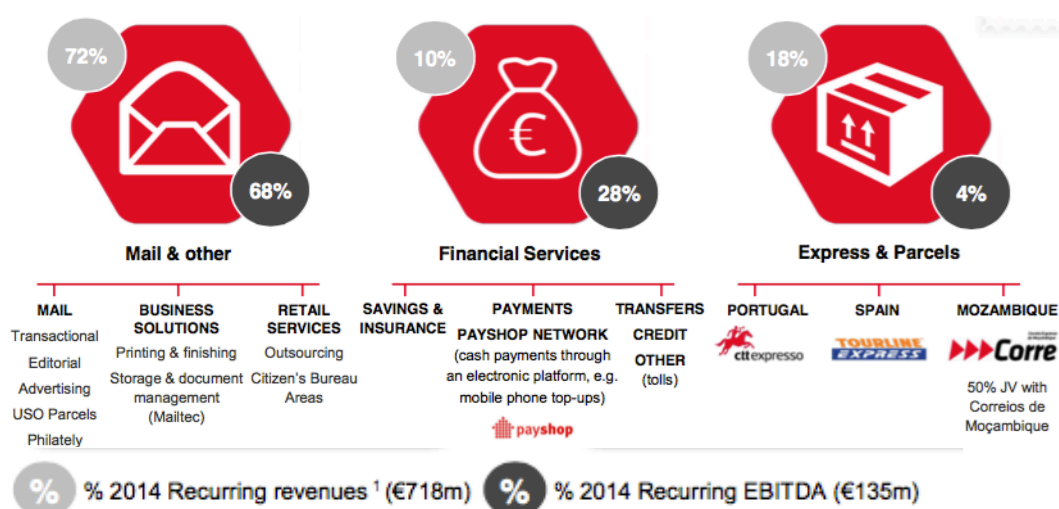
Millenium BCP: Rui Manuel Teixeira began by recalling that the Portuguese banking sector is among the most sophisticated in the world from a technological point of view, but a large percentage of Portuguese consumers still make their transactions in cash or check and for this purpose they go to the branches.

CTT: "We bet on a simple service and competitive prices because we want to reach segments of the population that had no access to banks, in particular the elderly and people with low income or living outside major urban centers". He adds: "We have the ability to use the technology on top of a blank sheet: we have no liability or legacy systems, but offer the confidence of an institution with 500 years."

BBVA: The President of the BBVA Spanish bank, Francisco Gonzales, surprised his peers when he said at a conference "the survival of the retail banking involves not only the banking business but above all the ability to become software companies."

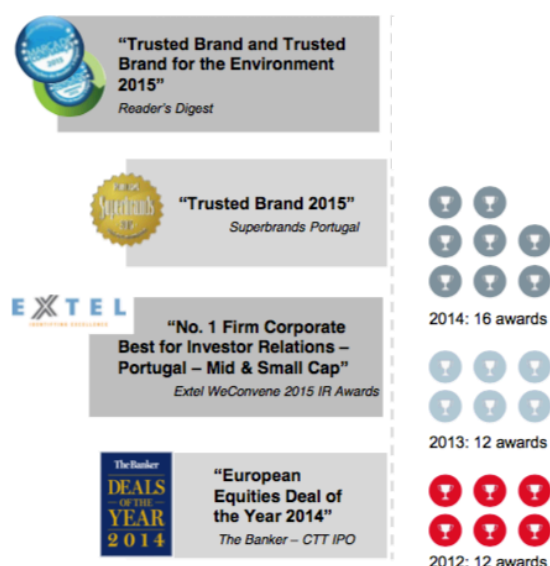
Source: *Expresso*.

Exhibit 20. CTT's business portfolio and its composition.



Source: CTT Capital Markets Day 2015.

Exhibit 21. CTT's main rewards.



Source: CTT Capital Markets Day 2015.

Exhibit 22. CTT's business model resources.

Human Capital	One of the main sources of brand equity and thus, the company is continuously investing on employee training for improvement of their technical and commercial skills, to provide them with updated strategies and positioning of the brand and to develop some soft skills such as better ways of interacting with the clients in day-to-day situations.
Physical Proximity	Geographical distribution that allows 100% of the population to have the necessary conditions to use its services. 1.711 postal agencies, 619 post offices, 3.530 vehicles on the fleet and 12.462 employees by the end of 2015.
Operational Efficiency	<p><u>DISTRIBUTION</u>: route optimisation and aggregation of postal delivery offices as well as Mail and Express & Parcels distribution network integration.</p> <p><u>RETAIL</u>: innovative optimisation initiatives such as post offices segmentation in order to fully explore the revenues potential of each kind of post office.</p> <p><u>PARTNERSHIPS</u>: value added services have been available through relevant partnerships, allowing customers to save some time and the company to benefit from cross-selling.</p> <p><u>IT</u>: more efficient management information systems and develop process optimisation.</p>
Financial Strength	The financial indicators (Revenues, EBITDA, CAPEX, Dividends) show that the company is being able to financially sustain the business. Besides, the great effort put into operational efficiency brought significant cost savings: since 2014 IT renegotiations are saving 14 million euros per year to the company; additionally, integration of the Mail and Express & Parcels distribution pursued in 2015 will save the company 2.7 million euros in total.

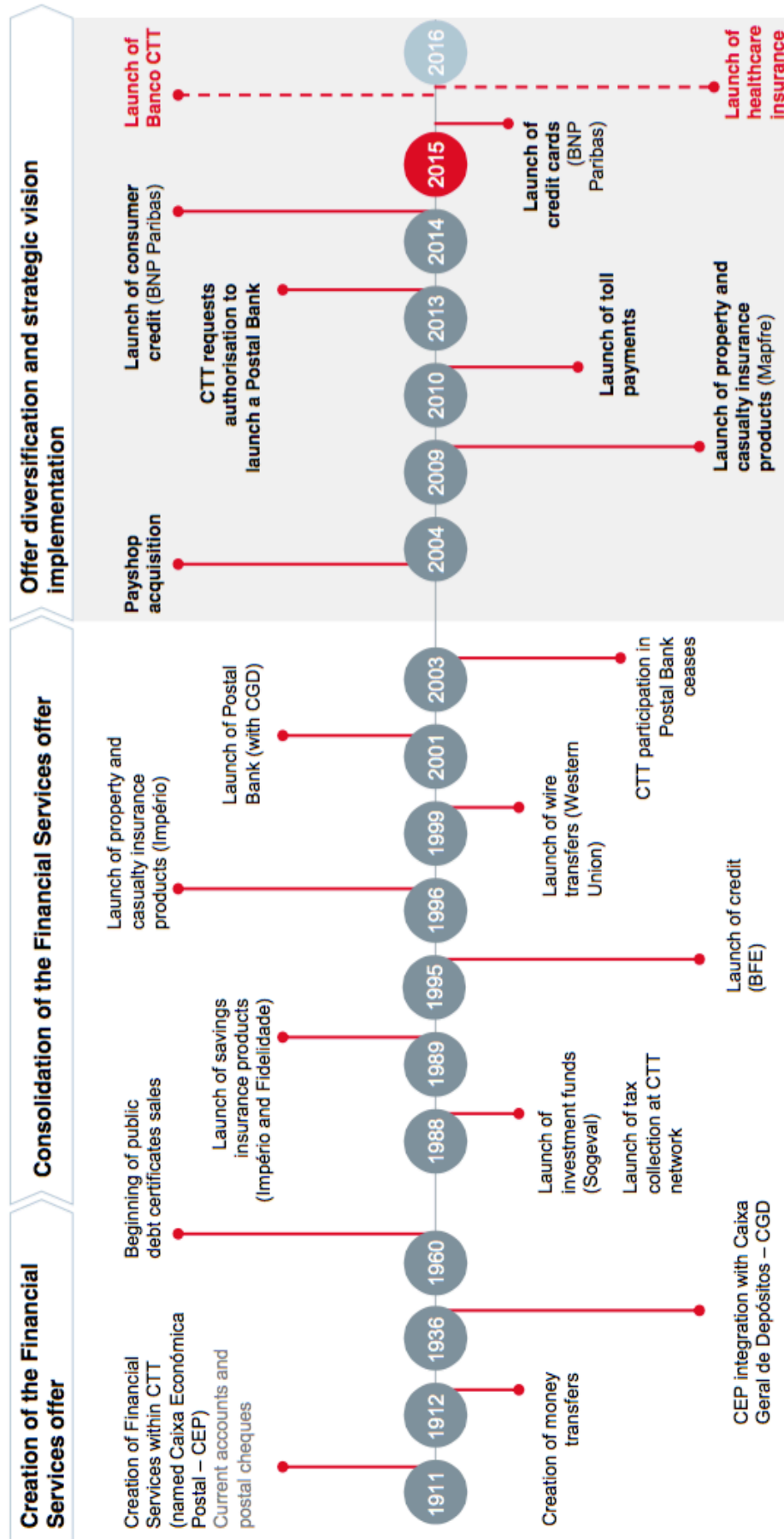
Source: CTT Capital Markets Day 2015; CTT Financial Report 2014; and case-writer.

Exhibit 23. CTT's digital innovations.

Online Platform for digital marketing solutions	Web application with portfolio of geographical solutions	Inbound mail processing solution, which converts physical mail into digital documents	Electronic daily stamp	Online mailbox used to receive mail and make payments of several services directly from the platform
e-Direct	GeoPortal	Mail Manager	MDDE	ViaCTT

Source: CTT Capital Markets Day 2015.

Exhibit 24. Financial Services evolution at CTT.



Source: CTT Capital Markets Day 2015.

Exhibit 25. Financial Services current Portfolio (including partnerships).

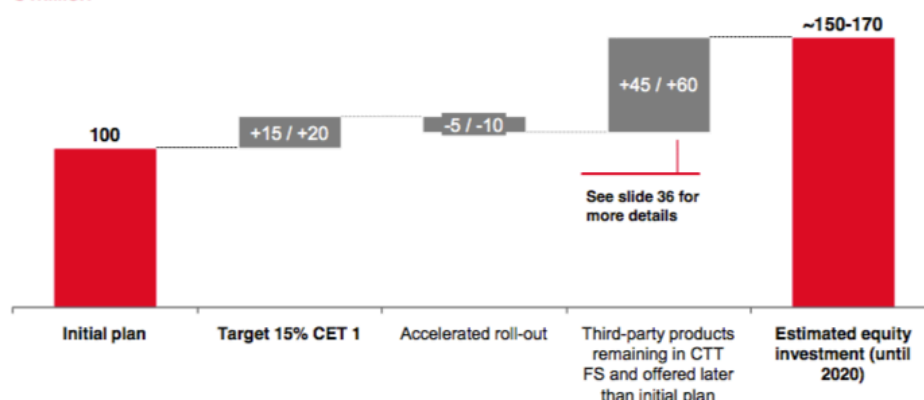
Weight	Service	Partnerships	Additional information
41%	<u>Savings and Insurance</u>	IGCP – Agência de	<input type="checkbox"/> 5.288 million euros intermediated in 2015 <input type="checkbox"/> In the near future healthcare insurance will be added to the product portfolio
	<input type="checkbox"/> Public debt certificates	Gestão e Tesouraria da Dívida Pública	
	<input type="checkbox"/> Retirement savings plans	Fidelidade Seguros	
	<input type="checkbox"/> Life insurance		
	<input type="checkbox"/> Non-life insurance	MAPFRE SEGUROS	
39%	<u>Payments</u>	Governo de Portugal	<input type="checkbox"/> <i>Payshop</i> ⁱ has about 3900 agents and 2.5 million users. In 2015 61,5 million payments were registered <input type="checkbox"/> The intention is to grow the number of entities benefiting the final consumer with a more comprehensive portfolio, and enable the company's potential to increase its agents and clients.
	<input type="checkbox"/> Postal charges		
	<input type="checkbox"/> Tax collection	Infraestruturas de Portugal	
	<input type="checkbox"/> Toll collection		
16%	<u>Transfers</u>	Universal Postal Union	<input type="checkbox"/> Fixed customer base (700.000 people) for social benefits money orders, of which, 50% collect their money within CTT Retail Network <input type="checkbox"/> The future objective of this partnership, which has now 3 more years of exclusivity, is to further develop it, by pursuing a longer-term relationship and enlarge the credit products offered.
	<input type="checkbox"/> National money orders		
	<input type="checkbox"/> International money orders	Eurogiro	
		Western Union	
4%	<u>Credit & other</u>		
	<input type="checkbox"/> Consumer credit	Cetelem (BNP Paribas Personal Finance)	
	<input type="checkbox"/> Credit cards		

Source: CTT Capital Markets Day 2015; CTT Final Report 2015; RTP Notícias; *Jornal de Negócios*; *Payshop* website; case-writer.

ⁱ Payshop: service that allows an alternative face-to-face cash network that allows different payments (cell phone, electricity, donations) without using banking cards, registrations or codes (Source: www.payshop.com).

Exhibit 26. Banco CTT capital and investment estimates.

Total equity investment until 2020
€ million



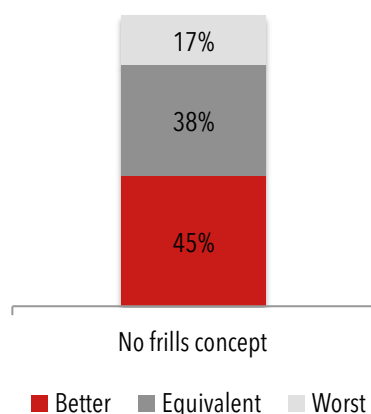
Source: CTT Capital Markets Day 2015.

Exhibit 27. Results on market research regarding main factors affecting the choice of banking services provider and CTT's competitive position on each factor.

Factors	Weight	CTT competitive position
Price	78%	100%
Reputation	28%	50%
Location	28%	75%
Family and friends opinion	20%	50%
Size of the portfolio	20%	0%
Relationship with staff	12%	50%
Others	16%	N.A.

Source: Market research done by CTT.

Exhibit 28. Consumers' opinion about the "no frills" product concept versus the current offer.



Source: Market research done by CTT.

Exhibit 29. Revenues' migration by type of service (taking in consideration revenues in 2014).

	Staying in CTT Financial Services	Migrating to Banco CTT
Savings & Insurance	€29 million	€2 million
Payments	€16 million	€13 million
Transfers	€8 million	€3 million
Credit & Other	€ 0 million	€1 million

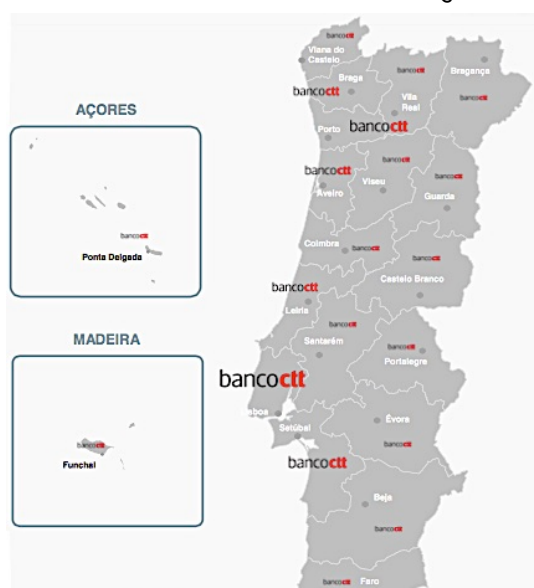
Source: CTT Capital Markets Day 2015.

Exhibit 30. Pricing of different services across the retail banks in Portugal.

Bank	Monthly Maintenance Fee	Debit Card Annuity	Online Transfers	Monthly Commission of Base Account
Banco CTT	0€	0€	0€	0€
CGD	5,15€	18,72€	0,52€	5,20€
Santander	5,44€	15,00€	1,25€	5,51€
BCP	5,41€	15,60€	1,04€	6,24€
Novo Banco	5,20€	17,68€	0€	6,24€
BPI	5,20€	15,60€	0€	6,50€
Activo Bank	0€	0€	0€	N.A.
Best	0€	15,60€	0€	N.A.
BIG	0€	7,80€	0,52€	N.A.

Source: Price lists of the different banks.

Exhibit 31. Banco CTT national coverage in 2016.



Source: CTT Capital Markets Day 2015.

Teaching Note

Synopsis

Banco CTT is the most recent Portuguese retail bank. Driven by the great experience and growing results within financial services and by the need to compensate the decline on its mail-related services, *CTT* was equally influenced by its international peers and decided to open the first postal bank in Portugal.

The last years for the retail banking sector in Portugal are characterized by high risk, low financial strength, low productivity and low customer profitability mainly due to a financial crisis and the consequent lack of trust from the customers' side. Now that *Banco CTT* had opened its doors and there is a strategic plan to be fulfilled, is it ready to compete in this sector? Is it prepared for the challenges ahead?

Teaching Objectives

1. To familiarize students with diversification as a growth strategy and with the main diversification strategies pursued by national postal services incumbents more specifically, postal banking.
2. To identify the differences of the company's core competencies and the industry key success factors, and the importance of a business strategic fit to its industry.
3. To illustrate how the postal services providers' business models are being adapted to the industry changes (e.g., digitalization).
4. To discuss the possible problems associated with the future of the Portuguese retail banking sector in line with the past dilemmas faced and to explore how can the companies can mitigate them.

Use of the Case

Given the proposed Teaching Objectives, one believes that this case study should be analysed in courses such as Strategy, Strategic Management and Service Retailing.

Suggested Assignment Questions

After reading the case study the students should analyse it placing themselves in the role of *Banco CTT's* CEO in answering the following questions:

- A) Given the core competencies of *Banco CTT* and the retail banking sector key success factors, evaluate the strategic fit of this institution. Does it have a potential competitive advantage? In which core competencies should it focus the most?

Main points of discussion proposed: *CTT's* current situation and the purpose of *Banco CTT* creation; Expectations on the Diversification Strategy; Definition of the Core Competencies; Definition of Key Success Factors; Build Strategic Fit table and evaluate the results and define key points of improvement and associated solutions.

- B) Which metrics will you use to monitor the performance of the postal bank?

Main points of discussion proposed: The importance of measuring the performance; which type of measures should be considered and what are expectations.

- C) What are the potential future problems/challenges that may arise in the next 5-10 years? How should the company behave in order to mitigate or adapt to these risks?

Main points of discussion proposed: Common problems of the diversification strategies, of the retail banking sector and the CTT in the short-term and the long-term; problem solving suggestions.

Analysis and Discussion

Question A)

- *CTT's current situation and the purpose of Banco CTT creation*

CTT's business is divided in three main business segments: Mail-related services, Express & Parcels and FS. The latter is where the company has grown the most on the last years. The first, where *CTT* has the leader position in the market (94,4% of market share) and where the greatest part of its revenues are generated from (72%), is being highly affected by external environment conditions such as the digitalization, the liberalization of the postal sector, and the increased competition associated. From 2008 to 2014, the total postal traffic in Portugal declined by 28,6%. Being the incumbent in the Portuguese market, *CTT* has followed the trend of the sector.

By observing the situation across borders, one can see that industrialized countries are the ones where the postal offices have registered a higher decline in the period of 2001 to 2011. Close to the Portuguese evolution on postal traffic (-3% between 2007-2011) are countries such as France (-3,6%) and Italy (-2,5%). Looking at these countries and the associated postal incumbents, one can see that diversification into non-mail services is responsible for 40% or more of their revenues, revealing the importance of the different business segments presence in postal services companies. Literature adds the fact that 100% of the growth of postal operators between 2003 and 2008 was due to diversification.

The case study examples on France, Switzerland and Italy show that international peers are diversifying into the retail banking services and that they have been able to compete with retail banks in their countries, with remarkable results regarding the overall position in the market, the range of services provided, number of customer accounts and the weight of the postal bank business in the group's operating revenues.

The retail banking sector in Portugal is under big volatility and uncertainty. It is a relatively high concentrated market where about 80% of the market share corresponds to five players. The customers' reactions such as decreases on loans and investment funds and changes between banking institutions or no adherence at all to financial services show that the players are under an unfavourable situation on the market-oriented side.

□ *Expectations on the Diversification Strategy*

CTT has combined the external factors such as the information on previous postal services providers' diversification into postal banking and the weak performance of the retail banks in Portugal with internal factors like the fact that it is looking for opportunities to increase profitability, and to leverage its know-how and resources, to pursue a diversification strategy into the retail banking sector. The company, which in the past has sought for growth opportunities, has pursued diversification strategies (of both products and markets) and thus, it has some experience regarding this corporate strategy. Although in the past it has not implemented the postal banking strategy due to conflicts with the potential partners, it is now pursuing it with *CTT* as sole shareholder, giving it a higher independency and high opportunity to leverage the brand name and the internal resources.

As said in the literature, a key part of the diversification process is the implementation phase and its mechanisms. To enter into a new market and to achieve competitive advantage, the company should know which combination of characteristics could bring a leading position. *CTT* is entering a tough sector that is obliging the players to adapt the corporate strategies to the market conditions. Thus, during the implementation phase and the definition of the strategic decisions pursued, *CTT* should also be aware of the different initiatives executed by its competitors and how it will use its assets to provide the customers with benefits that differentiate them from the competition. In other words, it should evaluate its fit to the market and whether it is strategic, providing a competitive advantage.

□ *Definition of the Core Competencies*

The first part of this evaluation is to identify the core competencies of *Banco CTT*. *Competencies Hierarchy*, a model present in the literature, provides a 7-step approach to do the identification (steps 1 and 2), evaluation (steps 3, 4 and 5) and maintenance (steps 6 and 7). During the 1st and 2nd steps the resources/know-how were identified and were separated into Capabilities, Competencies and Core Competencies (See TN Exhibit 1). After this, the position in the market, the competitive advantages provided by the core competencies, and the duration of competitive advantage were also evaluated (See TN Exhibit 2). Steps 6 and 7 were not developed due to the company's embryonic phase, and because it is out of the scope of the initial question. In the end of step 5, these were the main conclusions:

<u>CC1 - High national geographical coverage</u>	In the Case Study Figures 9 and 11, one can see that <i>Banco CTT</i> plans to have a similar number of branches open when compared with the top 5 players. Thus, this core competence will no longer be a relevant one once it will not distinguish <i>Banco CTT</i> from the competition, not providing a competitive advantage.
<u>CC2 – Consistent Value creation to shareholders</u>	From the Case Study Figure 1 and Exhibits 2 and 3, one can see that <i>Banco CTT</i> is in a favourable and distinguishable position compared with the other players. Thus it has a competitive advantage with this Core Competence. Still, as value creation can suffer fluctuations overtime, <i>Banco CTT</i> should be aware of the durability of such core competence and whether it will still distinguish the postal bank from the competition in the long run.
<u>CC3 – Adaptability to the external environment</u>	By pursuing this diversification strategy <i>CTT</i> shows that it is aware of the market opportunities. Furthermore, <i>Banco CTT</i> is starting from zero with a great focus on the operational efficiency and communication, two key relevant initiatives in the retail banking sector. Thus, the postal bank has a competitive advantage compared with its competitors, which are not only facing different restructuring processes but also state that only 17% are prepared to make operational transformations. With a great probability, this competitive advantage will not last forever and <i>Banco CTT</i> has to monitor the market to understand when this core competence will need further investment to avoid becoming obsolete.

<u>CC4 – Great Brand Equity</u>	With hundreds of years of existence, many rewards and recognition received, and proximity with its customers (with 85,2% of customer satisfaction), it gives a competitive advantage to the company. Due to the historical information on this core competence, it is believed to maintain in the long run, which gives this core competence a great importance and <i>Banco CTT</i> should keep investing on it.
<u>CC5 – Multiple-business and multiple-product strategy</u>	Although <i>Banco CTT</i> is present in different types of services, this is a common strategy in the sector and thus, the postal bank does not have a competitive advantage on it. The other players have much more years of experience in some of the products (e.g., bank accounts) also having a larger customer base (including business customers).
<u>CC6 – Accessible and user-friendly products</u>	Products at <i>Banco CTT</i> have a “no-frills” concept which not only received a positive feedback from the potential customers in the research done, but it also gives <i>Banco CTT</i> a competitive positioning compared with the other retail banks (Case Study Exhibits 27 and 29). On the long run there is no certainty on whether competitors will maintain the current strategy or will position closer to <i>Banco CTT</i> . Thus, market monitoring is required in order to decide whether the core competence will hold in the future.

Summing up, CC2, CC3, CC4 and CC6 are Banco CTT’s core competencies, which are believed to give a sustained competitive advantage to the institution.

□ *Definition of Key Success Factors*

The next step is to identify the KSFs of the retail banking sector in Portugal. Thus, a table combining both the customers and the competition characteristics was done (See TN Exhibit 3). While the key factors for buying were identified in a research done by *CTT*, competition factors were based on the Case Study information about the Retail Banking Sector in Portugal and on the Literature section about the Retail Banking Strategies.

After the combination of both factors, the KSFs generated for the retail banking sector were the Cost of Financing, the Quality of the Services, the Distribution Network, and the Products/Services provided. Aligned with the customers’ feedback on the market research and taking into consideration that designing customer-centric business models should be the retail banks’ focus, a different weight should be given to these factors: Cost of Financing will weight 50%, while Quality of the Services and Distribution Network will weight 20% each, and Products/Services provided will weight 10%.

□ Strategic Fit Evaluation

Finally, an evaluation on the company's alignment with the market must be done. By using the approach proposed by Freire in the Literature, one can evaluate the strategic fit with the table below.

Core competencies	Key Success Factors			
	Cost of Financing 50%	Quality of the Services 20%	Distribution Network 20%	Products/ Services 10%
Consistent Value Creation to Shareholders	5	-	-	-
Adaptability to the external environment	5	4	3	3
Great Brand Equity	-	4	3	3
Accessibility and user-friendly products	5	4	4	4
TOTAL	5	4	3,3	3,3
Grades: 1 (Insufficient) to 5 (Excellent)		FINAL GRADE WEIGHTED		4,29

Figure 14: Strategic Fit Table.

This table evaluates the alignment of the previously identified core competencies of *Banco CTT* with the Key Success Factors of the Retail Bank Sector. As one can see the postal bank does not have core competencies in all the Key Success Factors, which is usual once it just entered the industry. In some of the Key Success Factors it has scored lower (Distribution Network and Product/Services), still the overall grade indicates that the company has a potential competitive advantage in the market it is entering. The strongest presence is in the Cost of Financing and Quality of services, which combined, have a higher weight than the other two, and thus, the company should keep reinforcing these two factors. As regards the weakest results, the company should also develop them to increase its competitive position in the future.

Question B)

□ Importance of Measuring the Performance

The diversification strategy is a major investment for the *CTT's* Group. As stated on the literature, although this type of diversification is getting a bigger impact on the revenues, the outcome is not certain and the company must wait around 12 years until the results of this strategy become valid. It is also

expected that in the next years, *Banco CTT* will generate lower profitability when compared with the other business segments.

The best way to understand how the diversification is related with the performance of both postal bank and the group is by measuring it, taking into consideration the industry, the company's ambitions, the stage of the life cycle and the economic conditions.

□ *Types of Measures considered and Expectations*

Starting with some of *CTT*'s expectations created with the diversification strategy, one believes that it is important to evaluate whether the planning of this strategy and its opportunities was done under careful deliberation. First of all, the management of the postal network should be assessed in order to understand if the economies of scale produced by the existing network is a real benefit or if in fact, the group is lacking resources to conciliate the different services offered and it is incurring in additional operating costs. Moreover, *CTT*'s expectations on acquired customers should also be a concern. *Banco CTT* plans to target the mass-market and it believes that it can help solving the problem of financial inclusion with an accessible offer for the lower-income class. Thus, the assessment of the numbers and demographics of the postal banking customers (% of younger customers, % of *CTT* customers and % of low-income customers) and crossing the data of the new customers with the percentage of people changing banks and percentage of people unbanked should be done in order to keep track of the previous banking condition of each customer, how many banks do the clients have and which type of products are they using more. This would enable *Banco CTT* to appraise if its positioning is aligned with the results.

Aligned with the monitoring of customers demographics, *Banco CTT* should also evaluate the usage of the different channels. Once online banking is one of its strategic assets, it should keep track of the evolution and adherence to this service.

A variety of accounting measures and market-based measures are suggested by the Literature and should be combined with the most fragile accounting and market-based measures of the Portuguese Retail Banking Sector. The postal bank should seek for a balanced asset portfolio, combining profitability, liquidity and solvency. Regarding accounting measures, *Banco CTT* should be evaluated in the Profitability measures

of *ROE*, *ROA*, *Cost-to-income ratio* and *Profit per customer*. The Portuguese results on these indicators are currently poor, and thus, it is very important that *Banco CTT* can prove itself as a profitable banking institution, attracting both shareholders and customers and contributing for a less negative PBT. *Banco CTT* aims to achieve a *ROE* close to 15% (1,6% for the Portuguese Banking Sector) and a *Cost-to-income* ratio of less than 50% (96% for the Portuguese Banking Sector). To achieve such different results it will have to support a much lower cost structure when compared with the competitors - two benchmarks are *BCP* and *Santander*, which have a *Cost-to-income* ratio between 50-60%. *Return on Invested Capital* (ROIC) should also be a measure of profitability used once the postal bank estimates a break-even point in 3 years (2018).

Banco CTT should also be assessed in terms of Solvency by using a *Risk provisions/Total Income* ratio and *Equity-to-debt* ratio, and Liquidity by using the *loan-to-deposit* ratio. With the information from the Case Study one can see that these are common indicators used to assess the banking institutions and once again, the Portuguese results are pitiable. While *Banco CTT* aims to have a *Loan-to-deposit* ratio close to 50%, the majority of the retail banks surpass the 100%. This means that the bank will have to be really careful when lending money, especially because the low-income class will be one of the main segments targeted. Finally, *core tier I* ratio is also used by the regulators to measure the general financial strength of the banking institutions. In this case *BPI* and *Santander*, both having a ratio of 16,5%, should be the benchmarks for *Banco CTT* that aims to have a 15% ratio in a five-year period.

Some market measures present in the literature are important to appraise the recently launched postal bank. *Banco CTT* should measure the evolution of its market share in parallel with its competitors but also with FS and the other two business segments of *CTT's* Group. This evaluation will help understand whether the diversification is successful or if it is jeopardizing the group's results. Still, one should bear in mind the need to wait approximately one decade to draw reasonable conclusions. Moreover, the Market Growth, Market Concentration and Market Profitability should also be explored and used to the development of the company's strategies. As stated on the literature, it can be the case that Retail Banking is not a viable industry due to the crisis that it is going through or the company is not prepared for such changes in the

strategies. Also the market may be too concentrated to allow for another player to enter and be in a leading position.

Finally, to evaluate the performance of *Banco CTT* in the retail banking sector, it is also important to measure the evolution of its core competencies. Hence, the share price evolution and dividend yield should be controlled in order to understand if *Banco CTT* is contributing for shareholder value creation. Besides, the company to be assessed in its capacity to adapt to the external environment must show a proactive fit, meaning it should have a continuous development of its capabilities and measures to monitor the external changes, being flexible enough to make internal changes.

Regarding Brand Equity, the postal bank must appraise the perceptions of both services delivered and brand comparing it with the group, in order to understand if it is creating a stronger brand name related to what the group has built so far. The customer relationship and satisfaction with the postal bank and the overall position in rankings like *Portugal Rep Trak Pulse* should also complement this appraisal.

Lastly, the evolution of the number, relevance and conditions of products provided is something that *Banco CTT* should be concerned. Currently this is one of the weakest core competencies regarding the fit to the industry. Thus, if the company wants to have a more competitive position it must develop it.

Question C)

□ Definition of Problems and its different Sources

During the analysis of Questions A and B several problems were identified and, together with the information of the Case Study and Literature Review they will be deepened now.

One can say that there may be different sources of problems (internal and external) associated with *Banco CTT*'s creation, and that they might arise in the next 5-10 years. First of all, the diversification strategy does not have an assured positive outcome which can lead to several complications especially for *CTT*'s Group. Secondly, the current outlook of the Retail Banking sector in Portugal is itself a source of different problems. When entering this sector, *Banco CTT* has a probability to be affected by these glitches. Finally, *Banco CTT* and *CTT*'s group can have some internal problems with the strategy pursued due to a bad prevision of the outcomes.

In order to easily map the problems that may arise in the short-term (5 years) and the long-term (10 years) periods and associate them with a specific cause, a table was developed (See Exhibit TN 4).

□ *Problem Solving Solutions*

By filling in the table one has concluded that some problems may arise in the short-term, but they should only be evaluated in the long-term due to the characteristics of the diversification strategy: this is for example the case of financial strength (P7, P10 and P11). One potential solution to this problem is to use short-term milestones based on international benchmark and to use the capability of proactive fit to help monitoring the results, comparing them with the competitors. Therefore, it would also mitigate the fact that diversification takes a long time to generate valid results (P3).

By evaluating Strategy-related problems, Industry-related problems and Company-related problems one cannot provide a single solution for each of them but rather have a solution that will comprise all.

For instance, acquisitions of other companies (either from the Financial sector, Information Technology sector or the combination of both – “fintech” companies) could be a solution to mitigate the problems P2, P8, P12, P16 and P17. It would allow for the company to have a bigger control of the services provided (which would be lower in the case that only partnerships hold), and it would also let *Banco CTT* be prepared for high competition regarding the expertise and innovation on the services delivered.

In order to control for *CTT*’s FS performance and *Banco CTT* performance, “fintech” can be the answer for the development of systems that allow for a more efficient communication between services’ departments, enabling total access to each business segment’s updated information.

Problems with acquiring the target customers may also arise (P1 and P14), especially during the short-term, where lack of trust and financial instability holds. This problem can cover both the low-income class that do not perceive the need/difference or do not have the capacity to have a bank account or other service, and the younger professionals that already have 1 or more bank accounts and do not have the time to switch to another bank or do not identify themselves with the bank concept. Here, *Banco CTT* may have to rely more heavily on the 3.7 million customers that the FS currently holds and for the long run may have to target other layers of the market such as the corporate customers (such as its international peers currently target).

Otherwise, the company may have to have a more aggressive communication strategy in order to generate more awareness and interest from the potential customers.

Lastly, there may be the case that the retail banking industry reveals not being viable for *CTT*. The fact that the company has entered the industry may be jeopardizing the group's performance (profitability, liquidity, solvency) and the overall brand image – P5, P6, P9 and P15. In this case, the company may follow different strategies. First, the company may rely on the other business segments. It is known that although they have been integrating some operations they still run independently and that when some of the businesses are performing lower, the others compensate for that – the advantage of having a multi-business and multi-product strategy.

Other solution implemented mainly by the current retail banking institutions is the investment in international markets: *CTT* is present in the segment of Express & Parcels in Spain and Mozambique. As this segment has been growing due to digitalization and also contributes with 18% of the operating revenues, it can be a source of growth and can counterbalance the results of the postal bank.

Literature also provides some strategies for the case that the diversification strategy does not show up as fruitful as expected. The company can pursue a Corporate Turnaround as a short term strategy, meaning that it can change some of the managerial processes at the *Banco CTT* level or the group level. For the long run, it can decide to decrease some product lines - Retrenchment (for example products that are not profitable for *Banco CTT*) or to do a Divestiture of an entire business unit (*Banco CTT*) if it looking for increasing profit margins. There is also the extreme case, liquidation, which entails the closure and sale of the business. However, due to the historical information about the company and the main problems identified, one does not believe that it there will be a need to pursue such strategy.

Teaching Note Exhibits

TN Exhibit 1. Identification of Banco CTT's resources and, capabilities, competencies and core competencies (Step 1 and 2).

	Resources/Know-how	The know how is a...		
		Capability (Functionally based)	Competence (SBU Based)	Core competence (Cross SBU)
R1: High national coverage	<ul style="list-style-type: none"> Physical presence in hard to reach areas 603 post offices by 2024 Presence in all the 20 administrative districts 			X
R2: Consistent Value creation to shareholders	<ul style="list-style-type: none"> Good Financial performance Growth on dividends distributed 			X
R3: Adaptability to external environment	<ul style="list-style-type: none"> Integration of operations Hybrid communications Entrance to opportunity markets 			X
R4: Great brand equity	<ul style="list-style-type: none"> Usage and notoriety Reward and recognitions Customers' relationship with the staff 			X
R5: Multi-business and multi-product strategy	<ul style="list-style-type: none"> 3 different businesses independent from each other Customers usually do cross-selling 			X
R6: Accessible and user-friendly products	<ul style="list-style-type: none"> Regulations of Universal Postal Union oblige quality and accessibility No frills concept Easy-to-manage digital platforms 			X
R7: Great network of partnerships and alliances in Financial Services	<ul style="list-style-type: none"> Partners in 4-product categories provided. 		X	

R: Resource.

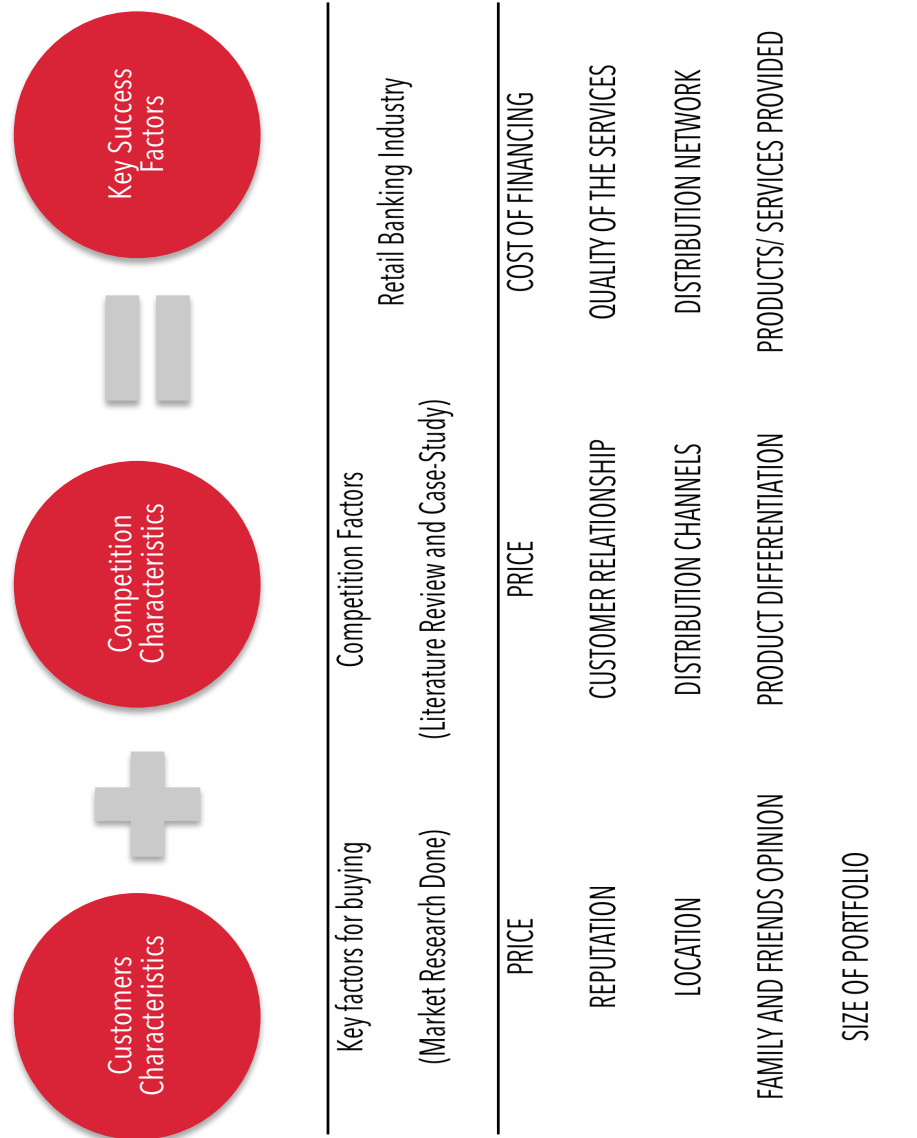
Source: Case-writer.

TN Exhibit 2. Banco CTT's position in the market, competitive advantages provided by the core competencies, and duration of competitive advantage (Steps 3, 4 and 5).

A) Selected Core competencies	B) Compared to the composition, we are:			C) Does it matter?		D) Durable?	
	Better	Equal	Worse	Yes	No	Yes	No
CC1: High national coverage		X			X		N.A.
CC2: Consistent Value creation to shareholders	X			X			X
CC3: Adaptability to external environment	X			X			X
CC4: Great brand equity	X			X		X	
CC5: Multi-business and multi-product strategy			X		X		N.A.
CC6: Accessible and user-friendly products	X			X			X

CC: Core competence.
Source: Case-writer.

TN Exhibit 3. Identification of Retail Banking Key success factors.



Source: case-writer.

TN Exhibit 4. Potential problems for Banco CTT in the next 5-10 years of operations in Portugal.

	Problems of Diversification Strategy	Problems of Retail Banking Sector	Problems of CTT/Banco CTT
Short-term	P1: Customers do not perceive the difference on the product/service provided (LR);	P6: Munificence of the industry as an all (LR)	P12: The company does not have the right resources (post office fit, banking expertise...) (LR)
	P2: Risky strategy (LR).	P7: Bad financial management (ROE, ROA, cost-to-income ratio, loan-to-deposit ratio) (CS)	P13: Cannibalization of Financial Services at CTT by Banco CTT (CS)
		P8: Entrance of international tech giants (like Apple) into the financial services e.g., financial operations (CS)	P14: Fail to target the mass market (CS): <ul style="list-style-type: none"> ◆ No improvement on financial inclusion (fail on targeting the unbanked people) (CS) ◆ Fail on communication with the younger generation due to its mind set
Long-Term	P3: Results are not sure and it takes a long time until the company has them (LR);	P9: Industry is not viable: high market concentration and competition, performance pressures (LR);	P15: Decrease on brand equity due to permanence of a weakened sector (CS);
	P4: No economies of scope (LR);	P10: Customers default on credit payments due to low financial capacity (CS);	P16: Lack of resources/know-how at the moment of expansion to new products and customer segments (e.g., corporate customers) (CS);
	P5: The new business unit or some of its products is performing below the objectives (LR).	P11: Bad financial management (ROE, ROA, cost-to-income ratio, loan-to-deposit ratio) (CS)	P17: Current partners, especially the most recent ones like Cetelem may change its positioning and Banco CTT value proposition can be affected

CS: Case Study; LR: Literature Review; P: Problem
Source: Case-Writer.

Literature Review

Diversification as a Growth Strategy

Based on the strategic and organizational structure and its market position, a firm should be capable to make decisions about its growth strategy (Song 1982). Not only it is important to be aware of its resources but also to monitor and keep improving a competitive position, maintaining a value maximizing dynamic equilibrium (Wan 2005; Singh, et al. 2001). Still, it is not easy to make a decision like this: on one hand there is the time variable, meaning that firms usually find it difficult to know when is the right moment to invest on growth (Gary 2005); on the other hand, firms also strive for finding the best degree and manner of growth (Christensen and Montgomery 1981).

Corporate diversification is considered to be among the key possibilities, still riskier, for a firm that wishes to grow and be profitable (Al-Bayati 2013; Behram and Yigit 2013). It can be described as the presence of a firm in multiple industries (Conglomerate Diversification) or the delivery of multiple products called Product Diversification (Wan 2005). As it usually requires major changes in the company's routine (Jang and Park 2013), it ends up being a very time-consuming process (Jang and Park 2013). Thus, firms pursuing this kind of strategy must focus primarily on the implementation mechanisms (Miller 2004; Gary 2005; Jang and Park 2013) and, since there is an organizational learning process period, firms can expect the results of these strategies to take up to 12 years to produce valid and reliable results (Jang and Park 2013; Gary 2005).

One of the main questions is about what stimulates the firms to carry out this strategy. Singh et al. (2001) concluded that generally firms pursuing diversification strategies initially have a poor performance, a lower asset base and utilization efficiency, and a narrower corporate scope. Still, they seek higher growth opportunities where they can leverage its valuable know-how through diversification (Gary 2005). One critical factor to the diversification outcome is the environment's opportunity set: more or less munificent environments can help firms to understand to which extent diversification will enhance firm's performance (Wan 2005; Behram and Yigit 2013; Jang and Park 2013).

The resource-based perspective (or synergy view) of the firm states that corporate diversification produces financial synergies and increased debt capacity when the firm takes advantage of economies of scope in a unique set of resources (Montgomery 1994; Sing, et al. 2001, Miller 2004). More specifically, it can increase

profitability, reduce risk exposure, increase market share, extend the business life cycle and increase efficiency on the utilization of human and financial resources (Sing, et al. 2001; Wan 2005; Behram and Yigit 2013; Al-Bayati 2013).

There is not a clear answer from the literature on whether diversification brings a positive outcome to the firms (Gary 2005). Results can differ within firms, across firms and across time (Montgomery 1994). It is important to understand whether the firm would be better off in terms of economic gains in a diversified context (Palepu 1985; Miller 2004). As Gary (2005) and Singh, et al. (2001) defend, a nonlinear relationship between the degree of diversification and performance can be expected and thus, diversification can be profitable up to a point and after that, a negative impact may arise.

Corporate Performance Evaluation

It is known that the degrees of diversification and the performance levels are interconnected (Christensen and Montgomery 1981). A key mechanism used before and during the diversification process is to examine the associated performance implications (Wan 2005; Jang and Park 2013). Either using accounting or market-based measures, which have frequently been in conflict (Dubofsky and Varadarajan 1987), many different organization studies have used them to assess the performance (Montgomery 1994). Thus, when it comes to accounting measures - based on previous earning and current balance sheet (Dubofsky and Varadarajan 1987), past research have frequently used profitability measures such as *Return on Equity*, *Return on Assets*, *Return on Sales* and *Return on Invested Capital* (Palepu 1985; Dubofsky and Varadarajan 1987; Amit and Livnat 1988).

Regarding market characteristics - the ones that consider future earnings (Dubofsky and Varadarajan 1987), *Market Share*, *Market Concentration*, *Market Growth*, *Market Profitability* and *Size of the firm* should be considered (Christensen and Montgomery 1981).

Apart from the measures used, one should bear in mind that the most important step is to take advantage of the diversification opportunity (Christensen and Montgomery 1981). We can expect that in the first years of results, the measures of profitability on the new business will be lower than in the core business (Miller 2004). Dubofsky and Varadarajan (1987) said "It may be that performance affects how a firm chooses to diversify, rather than diversification affecting performance".

Corporate Problem Solving

As stated on the literature, not every diversification strategy brings a positive outcome to the firms, not even when it has carefully selected the businesses (Al-Bayati 2013). Either because of external conditions such as the environmental uncertainty and volatility, or the internal lack of coordination resulting from excessive levels of diversification and bad resource allocation (Singh, et al. 2001; Wan 2005; Gary 2005), the firms must be aware of the possibility of failure and its potential costs, and should also know how to recover from a unsuccessful diversification strategy.

Al-Bayati (2013) proposed several solutions. 1) *Corporate Turnaround*, which means recovering business units that are currently underperforming, redesigning the portfolio of businesses and/or changing managerial processes; 2) *Retrenchment*, which is used as a defensive reaction due to future uncertainty and it entangles decreasing on some products/services lines that are operating below the set objectives. This is usually a short-term strategy that can include increasing profit margins, decreasing organization staff or delay product expansions; 3) *Divestiture* that means to take business units out of the corporation activities. Firms should think about this strategy when the units are no longer profitable or appealing; 4) Liquidation, the most extreme solution, which means to close operations and the consequent sale.

Just like there is not a single type of diversification that works for every firm, there is not a single solution for every problem solving. Al-Bayati (2013) suggests that a combination of the previous strategies, either sequentially or simultaneously, may be the best option for firms that face distinctive problems throughout the life cycle.

One operational advice given by Gary (2005) is that slack on the different resources should always be present in case that shared resources cannot meet growth levels.

Sustainable Competitive Advantage

A firm that wants to be among the competition leaders in its business should keep improving its competitiveness (Wan 2005). This is a challenging process, where only the firms that have the ability to use its strategic assets and to explore the environment resources, will be able to provide customers with benefits that the competitors will not be able to equal (Markides and Williamson 1994; Wan 2005).

Sustainable Competitive Advantage is a means to gain customers attention: it includes customers' perceived difference and superiority in the products' attributes, which can be expressed as the gap between

the firm and its competitors and, customers must perceive this differences to last for long (Coyne 1986). There is not a single or best way for firms to achieve competitive advantage: it will depend on the combination of characteristics used and the associated outcomes produced in the industry (Chen and Hsien 2011). Still, when the industry is not viable or the firm is no able to develop the necessary strategies, competitive advantage will not hold and it can bring financial fail (Coyne 1986; Markides and Williamson 1994).

Core Competencies

During the Corporate Strategy planning, it is crucial to define the allocation of firm's resources (Miller 2004). Prior to this, it is important that firms are aware of their capabilities and core competencies to effectively exploit their resources. "Corporate strategy is not just a portfolio of businesses but also a portfolio of competencies" (Javidan 1998). With this in mind, a constant investment on firm's capabilities and core competencies will give them inimitable features and thus, will ensure the company with a sustained competitive advantage (Javidan 1998; Freire 1999). Firms will not only dominate the business' products but will also have the potential to enter new markets and products where the core competencies apply (Freire 1999; Miller 2004).

Core competencies can be defined as the firm's vital assets. They are a group of experiences, knowledge and systems with broad application on the multiple business units, enhancing the production of strategic assets (Markides and Williamson 1994).

Competencies Hierarchy is a rare but very intuitive way to Core Competencies' Identification (Javidan 1998). It is built on the ascending blocks - *Resources*, *Capabilities*, *Competenices* and *Core Competenices*, where each block is based on the block below and this entire set generates synergies and adds value to the firm. *Resources*, either tangible or intangible, are the lower block and they represent the inputs brought to

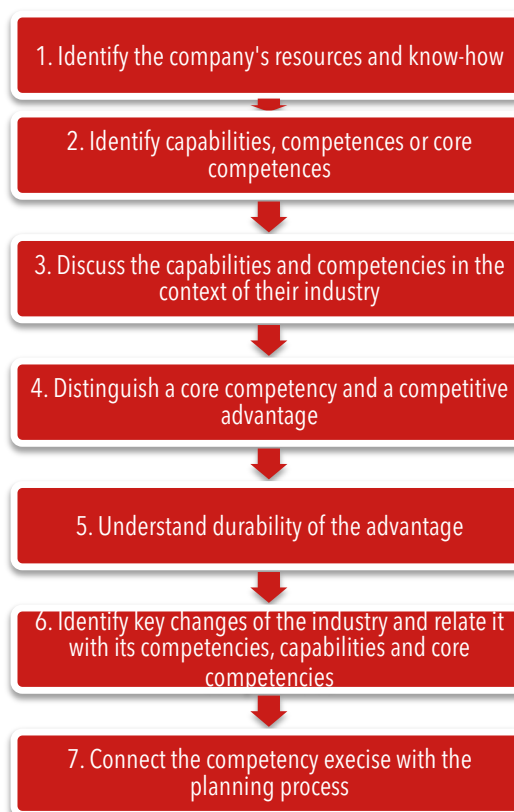


Figure 15: Core Competencies identification process (Javidan 1998).

the value chain. *Capabilities* are the firm's ability to explore and manage processes using the resources of the company, being allocated to a function; *Competencies* correspond to the capabilities that are integrated in a specific business unit; Finally, *Core Competencies*, are developed upon the interaction between business units; they are the greatest source of value across the entire hierarchy due to the combination of resources and capabilities (Javidan 1998). The identification process is represented in Figure 15.

When the firms' *Resources*, *Capabilities*, *Competencies* and *Core Competencies* are providing a better position in the market related to its competitors, they are creating competitive advantage (Javidan 1998).

Key Success Factors

While resources and competencies are preconditions to be in an industry, key success factors (KSFs) are the key investable skills to have a good performance (both in terms of value added to customers and differentiation from competitors) in that same industry (Ellegaard and Grunert 1992; Freire 1999).

To a great extent, KSFs are market-specific, which doesn't imply everlastingness. When the industry peers invest all in the same KSFs, superiority dilutes. Thus, it leads to a situation where a very small or even no KSFs apply to an industry (Ellegard and Grunert 1992).

KSFs should satisfy the following conditions: 1) applicability to the entire competition, 2) decisive relevance and 3) the possibility of company's control. They are generated through the combination of both customers and competition characteristics, and once firms identify its KSFs they can master them and later they can generate new KSFs (Freire 1999).

A final note about KSFs should be enhanced: it is common that perceived and actual KSFs, even in the same industry, do not match (Ellegard and Grunert 1992). A dynamic monitoring should be done in order to take into consideration the market context (Freire 1999).

Strategic Fit

After the identification of the environment characteristics and the firm's core competencies, the next major step is to align the firm with the market context (Freire 1999; Ben-Menahem, et al. 2013). This is core if the firm wants to have a successful strategy execution, allowing it to survive over time. This dynamic process of aligning internal and external factors (core competencies and KSFs, correspondingly) is usually called 'Strategic Fit' (Freire 1999; Beer, et al. 2005; Ben-Menahem, et al. 2013).

Bresser, Kraatz and Zajac (2000) stated, "Strategic Fit is organizational and temporally unique".

Depending on the strategic choices, each firm will prioritize internal and external factors and will choose the pace to do so (Freire 1999; Ban-Menahem, et al. 2013).

When entering the industry the majority of firms do not have core competencies in all the different KSFs thus, they must reinforce the ones where they have a strong fit and develop the underserved ones (Freire 1999). Nevertheless, the objective of pursuing strategic fit is achieving high performance levels. With collaborations between environment and strategy, strategy and firm, and firm with the leadership team it will enable managing resources efficiently, reducing operational costs, and taking advantage of new opportunities (Wan 2005; Beer, et al. 2005; Chen and Liang 2011; Chen and Hsien 2011).

As it is a continuous mechanism that requires matching several factors, it is not easy to achieve neither to find the best approach to do so (Beer, et al. 2005, Ben-Menahem, et al. 2013). In some cases, not planning and just replying to possible changes by adopting its routine may be the best strategy - responsive fit (Beer, et al. 2005); whilst having an absorptive capacity – continuously develop routines, capabilities and measures for monitoring environmental changes – will prepare the firms to have a strategic answer and to shape the external environment to its own advantage (proactive fit) (Ben-Menahem, et al. 2013).

Freire (1999) presents an approach to evaluate the current situation of a firm's strategic fit. The main goal of it is to assign to a specific firm an overall rate of strategic fit depending on the alignment of its core competencies with the industry's key success factors (and related competitive position with its competitors). If from a scale of 1 to 5, with 1 being insufficient and 5 being excellent, the company scores 3 or more, one can consider that a competitive advantage exists and thus, the firm is aligned with the market context.

Continuous changes on the core strategy is not necessarily a synonym of strategic fit. Predictions about the performance consequences should be done regardless of being a more responsive or proactive firm. Proactive firms will probably be more flexible and more prepared for situations of realignment such as losses in power, relationships, identity, and status and rewards, when compared with responsive firms (Bresser, Kraatz and Zajac 2000; Beer et al. 2005). Still, the desired success will only be achieved when organizations perform well (core competencies) what needs to be well done (KSFs) (Freire 1999).

Postal Banking Strategies

The diversification of worldwide post offices is getting a bigger impact on revenues. In 2008 the non-mail revenues accounted for 63% of the total revenues of the posts. Between 2003 and 2008 100% of the growth

of international posts was due to diversification outside the mail-related services. The diversification in the post sector is proved to give additional revenues to the different players, deriving higher performance and growth [3].

In order to make the most of a retail banking diversification, posts must have the right resources: Post office fit (location, foot traffic, format), incremental processing time, relative labour cost and banking expertise. Sometimes companies do not have enough resources and decide to make a strategic acquisition or to build partnerships with other companies from different industries [3].

Retail Banking Strategies

Retail Banking is the most important segment of the banking industry, "representing more than 50% of the total E.U. activity in terms of gross income" (Omarini 2014). The different players currently face an environment that is obliging the reset of corporate strategies and the business models (Mehrab and Rhee 2006; Omarini 2014). Although opportunities such as a global presence come from these changes in the industry, costs such as revenues reduction are resulting in high cost reduction and product efficiency pressures (Mehrab and Rhee 2006). For the "European banks to reduce their *cost-to-income* ratio by 5% would need to reduce the aggregate cost base by 7,4%" (Omarini 2014).

While pursuing the necessary adaptations, retail banks essentially operate under a hybrid market- and bank-oriented strategy (Buil, Chernatony and Wallace 2013; Omarini 2014). The distribution models, the practice of multi-banking by customers, cooperation in the sector and customer price sensitivity are taken into consideration (Omarini 2014). Although it is getting difficult to differentiate among the market competition, it is the customers' overall experience provided by the banks that differentiate them. To become "closer" to the customers and provide them with a unique and customized service, retail banks are pursuing different initiatives: 1) operate as a financial conglomerate in areas like insurance and asset management; 2) use alternative channels like on-line banking; 3) renovate the management and information systems; 4) align price with the business strategy and communicate it transparently; 5) outsource different capabilities (Daniel and Storey 1997).

Case References

- [1] Anacom (2014), *Desenvolvimento do Setor Postal em Portugal - Comportamentos de Utilização de Produtos e Serviços Postais Pelos Clientes Não Residenciais*. Available at: ANACOM database.
- [2] Baradaran, M. (2014), *It's Time for Postal Banking*, University of Georgia School of Law. Available at: <http://digitalcommons.law.uga.edu/fac_artchop/968/>.
- [3] Accenture (2010), *Is Diversification the Answer to Mail Woes? The Experience of International Posts* [Online] Available at: <<https://about.usps.com/future-postal-service/accenture-presentation.pdf>>.
- [4] Anacom (2016), *O setor postal em Portugal*. Available at: ANACOM database.
- [5] Anacom (2015), *Postal Services Statistical Information 3rd quarter 2015*. Available at: ANACOM database.
- [6] Anacom 2016, *Serviço Universal*. Available at: <<http://www.anacom-consumidor.com/servicos-postais/servico-universal.html>>.
- [7] Huffington Post Politics (2015), *Postal Banking: An Idea Whose Time Has Come Again* [Online] Available at: <http://www.huffingtonpost.com/alex-lawson/postal-banking---an-idea_b_8848210.html>.
- [8] Universal Postal Union (2014), *Development Strategies for the Postal Sector: an economic perspective*. Available at: UPU database.
- [9] Berthaud, A., Davico G. (2013), *Global Panorama on Postal Financial Inclusion: Key Issues and Business Models*, Postal Financial Inclusion Project, Universal Postal Union. Available at: UPU database.
- [10] Anderson, J. (2013), *Why Canada needs Postal Banking*, Canadian Center for Policy Alternatives. Available at: Canadian Centre for Policy database.
- [11] Dinheiro Vivo (2013). *Banca de Retalho Portuguesa era a menos rentável na Europa em 2012*. Available at: <<https://www.dinheirovivo.pt/banca/banca-de-retalho-portuguesa-era-a-menos-rentavel-na-europa-em-2012/>>.
- [12] AT Kearney (2015), *Time to Reinvent Your Banking Model - The 2015 Retail Banking*. Available at: <<https://www.atkearney.com/financial-institutions/retail-banking-radar/2015>>.
- [13] Associação Portuguesa de Bancários (2016), *Overview do Sistema Bancário Português 2014*. Available at: <http://www.apb.pt/content/files/Novembro_-_Overview_do_Sistema_Bancario_Portugus_PT.pdf>.
- [14] S. Dibb & M. Meadows (2001), *The Application of a Relationship Marketing Perspective in Retail Banking*, *The Service Industries Journal*, Vol. 21 No.1, pp. 169-194.
- [15] Statista (2016). *Retail Banking in Portugal*.
- [16] Expresso 2015. *Economia digital obriga banca a reinventar-se* [Online] Available at: <<http://expresso.sapo.pt/iniciativaseprodutos/click-portugal/2015-10-06-Economia-digital-obriga-banca-a-reinventar-se>>.
- [17] Wruuck, P. (2013), *Pricing in retail banking: scope for boosting customer satisfaction and profitability*, Deutsche Bank Research.
- [18] Expresso 2015. *10 coisas que vão mudar na banca* [Online] Available at: <<http://expresso.sapo.pt/iniciativaseprodutos/click>>.

portugal/2015-10-05-Dez-coisas-que-vao-mudar-na-banca-os-dispositivos-moveis>.

[19] Notícias ao minuto (2014). *CTT reforçam oferta financeira através de parceria com o Cetelem* [Online] Available at: <http://www.noticiasao minuto.com/economia/238709/ctt-reforcam-oferta-financeira-atraves-de-parceria-com-o-cetelem>>.

[20] Jornal de Negócios 2016. *O que pode levar a S&P a subir "ratings" da CGD e BCP?* [Online] Available at: <http://www.jornaldenegocios.pt/mercados/obrigacoes/detalhe/o-que-pode-levar-a-sp-a-subir-os-ratings-da-cgd-e-do-bcp.html>>.

[21] Dinheiro Vivo (2014). Novo Banco é o terceiro maior em Portugal e com uma quota de 18% [Online] Available at: <https://www.dinheirovivo.pt/invalidos/novo-banco-e-o-terceiro-maior-em-portugal-e-com-uma-quota-de-18/>>.

[22] Millenium BCP 2016, *Apresentação Institucional*, Corporate Website. Available at: <https://ind.millenniumbcp.pt/pt/Institucional/investidores/Documents/Apresentacao%20Institucional.pdf>>.

[23] Jornal de Negócios (2016). *BCP avança com proposta para fundir 193 ações numa só* [Online] Available at: <http://www.jornaldenegocios.pt/empresas/banca/financas/detalhe/bcp-avanca-com-proposta-para-fundir-acoes.html>>.

[24] Jornal i (2015). *Saiba quem são os maiores bancos privados portugueses* [Online] Available at: <http://www.ionline.pt/491070>>.

[25] Jornal de Negócios (2016). *BPI cai 5,5% após fim das negociações entre o CaixaBank e Isabel dos*

Santos. [Online] Available at: <http://www.jornaldenegocios.pt/mercados/bolsa/detalhe/bpi-cai-55-a-reagir-ao-fim-das-negociacoes-entre-o-caixabank-e-a-santoro.html>>.

[26] Jornal de Negócios (2016). Fusão BPI-BCP: "Queremos criar o maior banco privado português" [Online] Available at: <http://www.dn.pt/portugal/interior/fusao-bpibcp-queremos-criar-o-maior-banco-privado-portugues-4433100.html>>.

[27] Veiga, M. (2016). *Melhores Bancos Portugueses*. [Blog] Marcelo Veiga. Available at: <http://marceloveiga.com.br/os-melhores-bancos-portugueses/>>.

[28] CTT (2015). *Capital Markets Day Presentation*.

[29] TVI 24 (2006). *CTT anunciam fim da parceria com CGD para banco postal*. [Online] Available at: <http://www.tvi24.iol.pt/portugal/correios/ctt-anunciam-fim-da-parceria-com-cgd-para-banco-postal>>.

[30] Jornal de Negócios (2003). *CGD adquire posição dos CTT no capital do Banco Postal*. [Online]. Available at: <http://www.jornaldenegocios.pt/empresas/detalhe/cgd-adquire-posicao-dos-ctt-no-capital-do-banco-postal-act.html>>.

[31] Diário de notícias (2005). *Banif e CTT entemdem-se para criar banco postal* [Online] Available at: <http://www.dn.pt/arquivo/2005/interior/banif-e-ctt-entendem-se-para-criar-banco-postal-605586.html>>.

[32] Público (2014). População sem conta bancária baixou para 4% em 2013 [Online] Available at: <https://www.publico.pt/economia/noticia/populacao-sem-conta-bancaria-baixou-para-4-em-2013-1627763>>.

[33] Banco de Portugal (2016). *Relatório do Inquérito à Literacia Financeira da População Portuguesa*. (2010). Available at: <<https://www.bportugal.pt/pt-PT/OBancoeoEurosistema/ComunicadoseNotasdelInformacao/Documents/RelatorioInqueritoLiteraciaFinanceira.pdf>>.

[34] Elaine Wallace, Isabel Buil & Leslie de Chernatony (2013), *Brand orientation and brand values in retail banking*, Journal of Marketing Management, Vol. 29 Nos. 9-10, pp. 1007-1029.

[35] La Banque Postale (2016), *Strategy*. Available at: <https://www.labanquepostale.com/corporate_eng/who-we-are/Strategy.html>.

[36] La Banque Postale (2016), Financial Figures. Available at: <https://www.labanquepostale.com/corporate_eng/investors/Financial-figures.html>.

[37] La Banque Postale (2016), *Press Release*. Available at: <https://www.labanquepostale.com/dam/Groupe/English/press_release/2015/20150730_resultatsLBPS1_PR.pdf>.

[38] La Banque Postale (2016), *Financial Report 2014*. Available at: <https://www.ipc.be/~media/documents/public/annual-reports/member-reports/2014/legroupepostale_2014.pdf>.

[39] Post Finance (2016), Bank Offer, Corporate Website. Available at: <<https://www.postfinance.ch/en/biz/offer/bank.html>>.

[40] Post Finance (2016), Annual Report 2014.

[41] Post Finance (2016), Bank Offer, Corporate Website. Available at: <<https://www.postfinance.ch/en/about/company/cust.htm>>.

[42] Post Finance (2016), Financial Report 2014. Available at: <http://geschaeftsbericht.post.ch/14/ar/downloads/geschaeftsbericht_konzern/en/E_Post_GB14_Finanzbericht_WEB.pdf>.

[43] Poste Italiane (2013), *Investors' Presentation*.

[44] Poste Italiane (2016), *Financial Report 2014*. Available at: <http://www.posteitaliane.it/resources/editoriale/pdf/En/Annual_Report_2014.pdf>.

[45] Poste Italiane (2016), Corporate Website. Available at: <<http://quotazione.posteitaliane.it/en/?page=poste>>

[46] CTT 2016. *Relatório e Contas 2015 CTT, Contas consolidadas*. Available at: <https://www.ctt.pt/ctt-e-investidores/informacao-financeira/contas-consolidadas.html?com.dotmarketing.htmlpage.language=3>>.

[47] CTT 2016. *CTT e Investidores – Principais indicadores*, Corporate Website. Available at: <<http://www.ctt.pt/ctt-e-investidores/informacao-financeira/principais-indicadores.html?com.dotmarketing.htmlpage.language=3>>.

[48] Associação Portuguesa de Bancos (2014). *Boletim Estatístico Anual*. Available at: http://www.apb.pt/content/files/Boletim_Estatistico_n_50_ANUAL.pdf>.

[49] Wikipedia (2016), *Europa*. Available at: <<https://pt.wikipedia.org/wiki/Europa>>.

[50] Observador (2016). Banco CTT “faz sentido” e vai ter “bastante aceitação no mercado” afirma Francisco Lacerda [Online] Available at: <http://observador.pt/2016/03/18/banco-ctt-sentido-vai-ter-bastante-aceitacao-no-mercado-afirma->

francisco-lacerda/>.

[51] BPI (2016), *Relatórios e Contas, Contas*

Consolidadas 2014. Available at:

<https://bpi.bancobpi.pt/storage/download/ficheiro.54C95FF4-1295-42C6-A4F3-BBC3C15A35F2.1.pt.asp?id=9D173409-C77F-4865-BF8B-EC2FFB80EBBF>>.

[52] Santander (2016), *Relatórios Anual 2014*.

Available at:

https://www.santandertotta.pt/pt_PT/pdf/PC55281.pdf>.

[53] Banco Espírito Santo (2016), *Relatórios e Contas 2013*. Available at:

http://www.bes.pt/RelatorioeContas/2013_Relatorio_Consolidado.pdf>.

[54] Caixa Geral de Depósitos (2016), *Relatórios e*

Contas 2014. Available at: <

<https://www.cgd.pt/Investor-Relations/Informacao-aos-Investidores/Informacao-Financeira/CGD/Relatorios-Contas/2014/Documents/Relatorio-Contas-CGD-2014.pdf>>.

[55] Banif (2016), *Relatório e Contas 2014*. Available

at:

<http://www.banif.pt/relatorios_e_contas/2014/relatorio_e_contas_banif_sa_anual_2014.pdf>.

Bibliography featured in the Literature Review

- [1] Al-Bayati, E. A. (2013), *Corporate Diversification and Firm Performance*, Msc Çankaya University, Graduate School of Social Sciences.
- [2] Amit, R., Livnat, J. (1988), *Diversification Strategies, Business Cycles and Economic Performance*, Strategic Management Journal, Vol.9, pp. 99-110.
- [3] Beer, M., Leibold, M., Tekie, E. B., Voelpel, S. C. (2005), *Strategic Management as Organizational Learning: Developing Fit and Alignment through a Disciplined Process*, Long Range Planning, Vol. 38, pp. 445-465.
- [4] Behram, N. K., Yigit, I. (2013), *The relationship between diversification strategy and organizational performance in developed and emerging economy contexts: evidence from Turkey and Netherlands*, Eurasian Business Review, Vol. 3 Issue 2, pp. 121-136.
- [5] Ben-Menahem, S. M., Kwee, Z., Van Den Bosch, F. A., Volberda, H. W. (2013), *Strategic Renewal Overtime: The Enabling Role of Potential Absorptive Capacity in Aligning Internal and External Rates of Change*, Long Range Planning, Vol. 46, pp. 216-235.
- [6] Bresser, R. K., Kraatz, M. S., Zajac, M. J. (2000), *Modeling the Dynamics of Strategic Fit: A Normative Approach to Strategic Change*, Strategic Management Journal, Vol. 21, No. 4, pp. 429-453.
- [7] Buil, I., Chernatony, L., Wallace, E. (2013), *Brand Orientation and Brand Values in Retail Banking*, Journal of Marketing Management, Vol. 29, Nos. 9-10, pp. 1007-1029.
- [8] Chen, H. M., Hsieh, Y. H. (2011), *Strategic Fit among Business Competitive Strategy, Human Resource Strategy, and Reward System*, Academy of Strategic Management Journal, Vol. 10 No. 2, pp. 11-32.
- [9] Chen, D., Liang, T. (2011), *Knowledge evolution strategies and organizational performance: A strategic fit analysis*, Electronic Commerce Research and Applications, Vol.10, pp. 75-84.
- [10] Christensen, H. K., Montgomery, C. A. (1981), *Corporate Economic Performance: Diversification Strategy Versus Market Structure*, Strategic Management Journal, Vol. , pp. 327-343.
- [11] Coyne, K. P. (1986), *Sustainable Competitive Advantage – What it is, What it isn't*, Business Horizons.
- [12] Daniel, E., Storey, C. (1997), *On-line Banking: Strategic and Management Challenges*, Long Range Planning, Vol. 30 No. 6, pp. 890-898.
- [13] Dubofsky, P., Varadarajan, P. R. (1987), *Diversification and Measures of Performance: Additional Empirical Evidence*, The Academy of Management Journal, Vol. 30 Issue 3., pp. 597-608.
- [14] Ellegaard, C., Grunert, K. G. (1992), *The Concept of Key Success Factors: Theory and Method*, MAPP working paper, No. 4.
- [15] Etebari, A., Gleason, K. C., Mathur, I., Singh, M. (2001). *An Empirical Examination of the Trend and Performance Implications of Business Diversification*, Journal of Business & Economic Studies Vol. 7 Issue 2, pp. 25-51.
- [16] Freire, A. (1999), *Estratégia: Sucesso em Portugal*, 13rd Edition.
- [17] Gary, M. S. (2005), *Implementation Strategy and Performance Outcomes in Related Diversification*, Strategic Management Journal, Vol. 27 Issue 7, pp. 643-664.

- [18]** Jang, S. S., Park, K. (2013), *Effects of within-industry diversification and related diversification strategies firm performance*, International Journal of Hospitality Management, Vol. 34, pp. 51-60.
- [19]** Javidan, M. (1998), *Core Competence: What Does it Mean in Practice?*, Long Range Planning, Vol. 31 No. 1, pp. 60-71.
- [20]** Markides, C. C., Williamson, P. J. (1994), *Related Diversification, Core Competencies and Corporate Performance*, Strategic Management Journal, Vol. 15, Special Issue: Strategy: Search for new paradigms, pp. 149-165.
- [21]** Mehrab, S., Rhee, M. (2006), *Aligning operations, marketing, and competitive strategies to enhance performance: An empirical test in the retail banking industry*, The International Journal of Management Science, Vol. 34, pp. 505-515.
- [22]** Miller, D. J. (2004), *Firms' Technological Resources and the Performance Effects of Diversification: A Longitudinal Study*, Strategic Management Journal, Vol. 25 Issue 11, pp. 1097-1119.
- [23]** Montgomery, C. A. (1994), *Corporate Diversification*, The Journal of Economic Perspectives, Vol. 8 Issue 3, pp. 163-178.
- [24]** Omarini, A. (2014), *Strategy and Business Models in Retail Banking: Why They Also Matter to Supervisors*, The Capco Institute Journal of Financial Transformation, No. 39, pp. 47-58.
- [25]** Palepu, K. (1985), *Diversification Strategy, Profit Performance and the Entropy Measure*, Strategic Management Journal, Vol. 6 Issue 3, pp. 239-255.
- [26]** Song, J. H. (1982), *Diversification Strategies and the Experience of Top Executives of Large Firms*, Strategic Management Journal, pp. 377-380.
- [27]** Wan, W. P. (2005), *Country Resource Environments, Firm Capabilities, and Corporate Diversification Strategies*, Journal of Management Studies, Vo. 42, pp. 161-182.