Re-inventing SingPost in the global era

Future is bright if postal giant marshals strengths against competition after de-regulation

By KAI-ALEXANDER SCHLEVOGT

Singapore Post investors have recently cheered record earnings, but are vexed by one question: Will their company, faced with technological shocks, industry convergence and internal transformation, remain successful after losing the exclusive licence for basic mail services next year?

A close look at SingPost's strengths and weaknesses paired with opportunities and threats suggests that the future looks bright if the postal giant re-invents itself with consistency.

SingPost's strength lies in using its core competencies and valuable resources in related ventures, such as logistics, retailing and financial services. In "Postassurance", it capitalises on a household name, a vast distribution network (62 branches) and a large pool of customers (22 million visitors annually).

Cross-selling in its branches increases "wallet share", since established relationships matter in Asia. Besides, many customer segments (such as the lower-net-worth group) still favour over-the-counter transactions. Exclusive joint retail promotions in branches serve as successful examples of retail synergies.

Related diversification is sustained by assets that generate significant free cash flows, amounting to US$88.5 million in FY2005-6. If SingPost reduced its dividend payout ratio (85 per cent of net profit in FY2005/6) or leveraged its steady cash flows to cover interests from loans, it could attract even more funds for profitable expansion.

The improvement needs reflect the downsides of rapid expansion. Above all, the organisation, which in the past preferred control over flexibility, is not yet adapted to the new goals and strategy. The prevailing "machine" bureaucracy of the Postal Office, which makes use of hierarchies and routines, needs to be replaced by more organic structures and processes. Employees who are entrenched in the silos of individual businesses cannot interact sufficiently to fully exploit synergies.

Rigid policies formalise past wisdom and suffocate the entrepreneurial vitality that is needed to deal effectively with fast-changing environments. These problems are reinforced by conflicting values and styles, such as postal reliability clashing with financial wizardry. Information systems must support expansion into new business lines. Australia Post's netPOS is an example of an open IT system that can be linked to third party systems.

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Mail monopoly: *Despite potential negative impact on revenue from losing its exclusive licence for basic mail services next March, SingPost will likely retain significant domestic mail market share due to high barriers to entry.*

Adapting to expansion

A large pool of new management talent is needed to oversee the expansion. They must be able to manage new third-party partnerships (a key success factor in "bancassurance") and streamline inter-divisional processes. The proportion of senior managers with a background in financial services and logistics is still too low. The performance of employees in pivotal jobs (front-line staff) largely determines the success in cross-selling. Post officers must become more proactive and focus on customers instead of just processing routine transactions. They need to familiarise customers with the idea of purchasing financial services from the Post, which requires a change in perception and habits.

With industries converging, many opportunities are opening up. A case in point is the intersection between postal and financial services. Simple saving products and remitting services targeting niche markets, especially traditional bricks-and-mortar customers in the lower-net-worth segment, promise growth and will protect SingPost from entrenched financial institutions.

Those tend to offer products for higher-net-worth individuals and businesses. E-commerce is also an enticing prospect, if SingPost can leverage its strengths online. Hong Kong Post, for example, successfully entered the electronic ID-market. It used its reputation and authority to issue digital certificates through which business and individual customers can identify themselves in electronic transactions.

It creates a staircase of growth options, in areas such as online banking and stock-trading. The parcel business will grow if e-commerce becomes more widespread in Singapore and elsewhere. It again is a related industry in which SingPost can leverage its core competencies and resources.

Supply logistics provides volume for parcel business. Australia Post successfully transformed itself from a letter deliverer in Australia to a modern logistics company in Asia by forming partnerships in third-party logistics and express parcel delivery. It has established a joint-venture with China Post and eyes India for further expansion.

The top-line strategy can be complemented by further increases in productivity stemming from operational improvements. Examples might include a review of the efficiency of each operation and implementing "lean management" techniques.

At the same time, dark clouds are appearing on the horizon. The total basic mail market (letters and postcards) will shrink because of increasingly popular substitutes, such as e-mail and fax. For example, business mail, which constitutes a large share of basic mail, includes invoices and statements. Those are increasingly delivered via the Internet.

Further, SingPost's exclusive licence for basic mail services will expire on March 31, 2007. With the mail business accounting for almost 80 per cent of revenues, the potential negative impact is large.

Little threat from new entrants

Yet due to high barriers to entry, competitive intensity is unlikely to increase dramatically in the near future. To start with, SingPost will probably keep the monopoly to print stamps and set their prices. Besides, postal services have lower fixed-cost and sunk cost, but are more labour-intensive than other monopolies in telecommunication and energy.

This makes it marginally more expensive for new entrants to achieve universal coverage in postal services. Further, it is questionable whether more than one competitor can survive in a market of four million people. Finally, it would take a long time and vast resources for a new entrant to replicate SingPost's strategic advantages, such as its branch network.

As a consequence, SingPost is likely to retain significant domestic mail market share (currently at about 95 per cent), which might be contested at the margin by a few new entrants. It is possible to draw lessons from the liberalisation of the Hong Kong Post Office in 1995.

It remained successful after being converted into a trading fund, which could attract financing outside parliamentary allocations, because it still kept monopoly power over issuing stamps, among other things. In Germany, Deutsche Post remained strong after partial liberalisation. Keeping a temporary monopoly over post weighing less than 100 grams, it was mainly affected by entrants from the newspaper industry, which used their dense and extensive distribution networks to deliver mail in cities.

Given the strong internal fundamentals and benign structural forces after liberalisation, there is no excessive pressure to move at neck-breaking speed into unknown territory with limited resources. Instead of "betting the company" approaches, a probing strategy, creating business options and resources in high-growth areas, in which SingPost can use its strengths, and nurturing those experiments that proved successful is advisable to keep risk at bay.

When Deng Xiaoping, China's late paramount leader, reformed the ailing "China Inc", he "felt for the stones, while crossing the river".

To sum up, SingPost must carefully exploit its key strengths and focus on the opportunities that emerge from a new competitive landscape. If it marshals sufficient resources to overcome a myriad of constraints, shareholders are likely to celebrate future successes.

The author, a former professor at Peking University and Fellow of the McKinsey Global Institute, serves as visiting faculty of NUS Business School.