

CHAPTER FOUR

PERFORMANCE ANALYSIS

Using the model as stipulated in Figure 2.1 the performance analysis focus on business performance, customer (service quality and price), and attainment of social objective. The analysis is summarized in the form of chart as shown in Figure 4.1. The indicators show that generally in the past PMB has experienced a sound performance. But detail analyses indicate there are sign of weakness especially in profitability, market share in couriers, and service quality.

BUSINESS PERFORMANCE

Profitability

The study only uses the basic financial profitability measures to determine PMB financial performances. Financial variables for the analysis are revenue, expenditure and profit from both operating and non-operating activities, price earning per share. Goodness or badness of PMB financial standing is purely based on positive and negative signs or upward and downward trend pattern of the measurement variables. The financial analysis based on five financial years, 1995 through 1999.

PMB business revenue derived from operating and non-operating activities. Operating revenue generated, by activities from mail services, courier services, agency commissions, money order commission, postal order commission, philatelic services, other services and miscellaneous. The mail services comprise of prepaid mail, franked mail, government mail, ordinary mail, overseas mail, overseas parcel, *Pos Ekspres*, registered mail, parcel and *Admail*. Non-operation revenue is mainly from PMB non-core business activity that is through investment in fixed deposits and security.

The Summary of PMB Performance Analysis

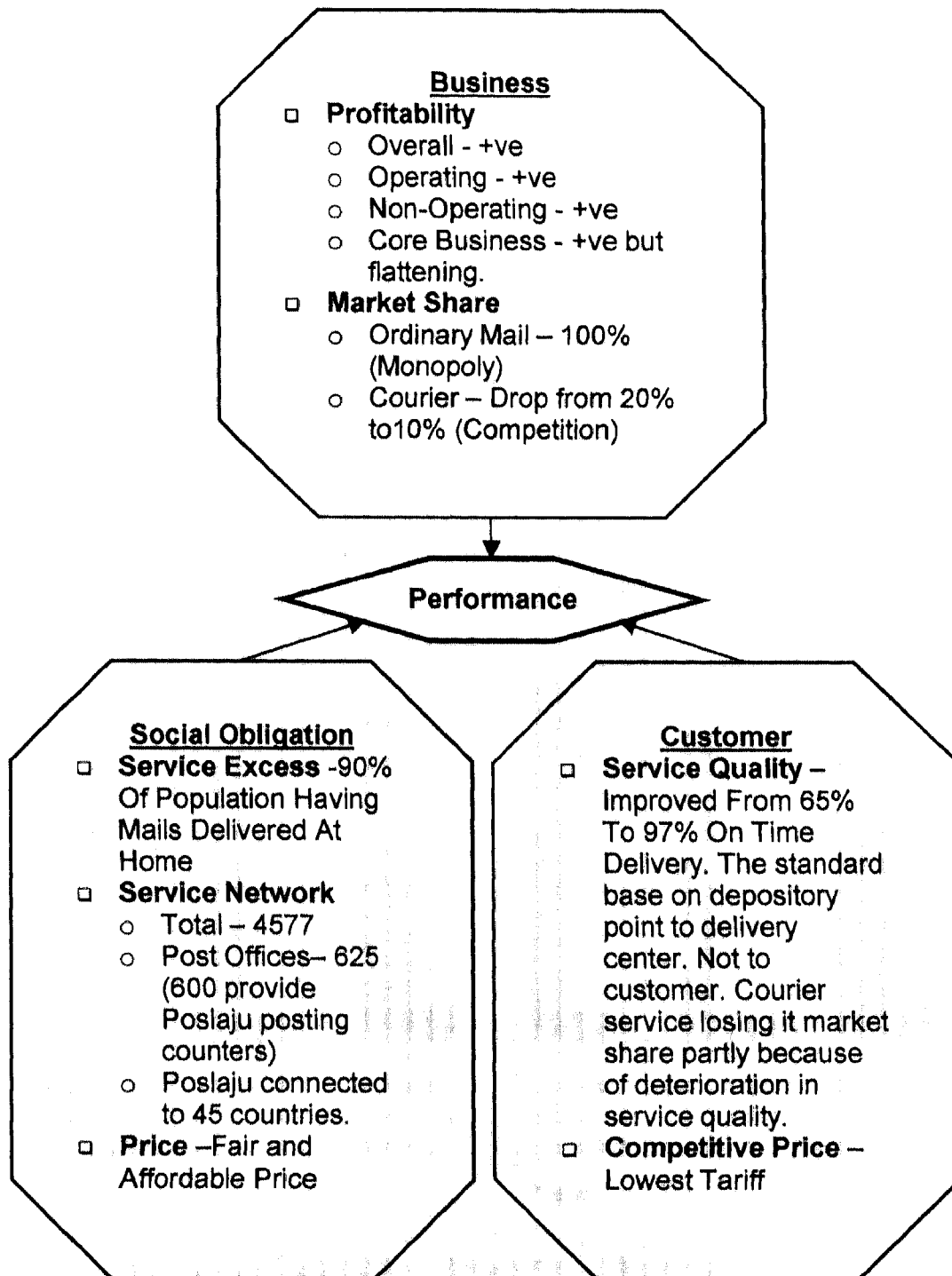
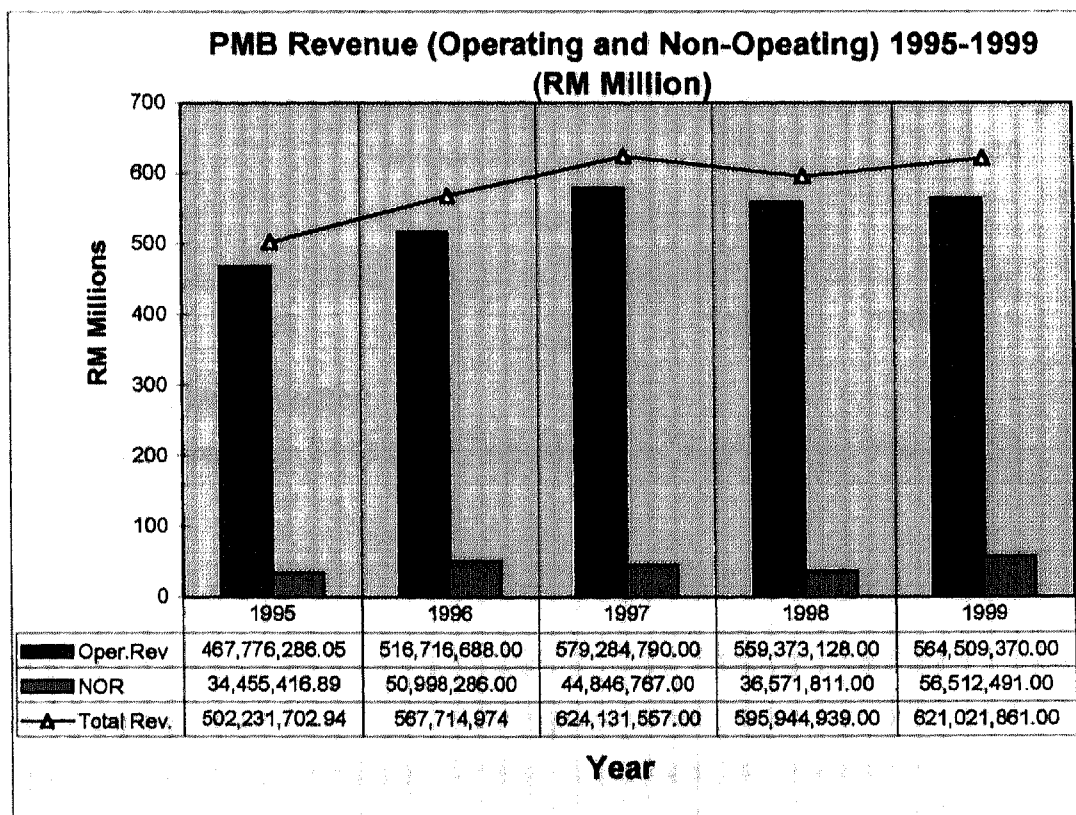


Figure 4.1: The Summary of PMB Performance Analysis

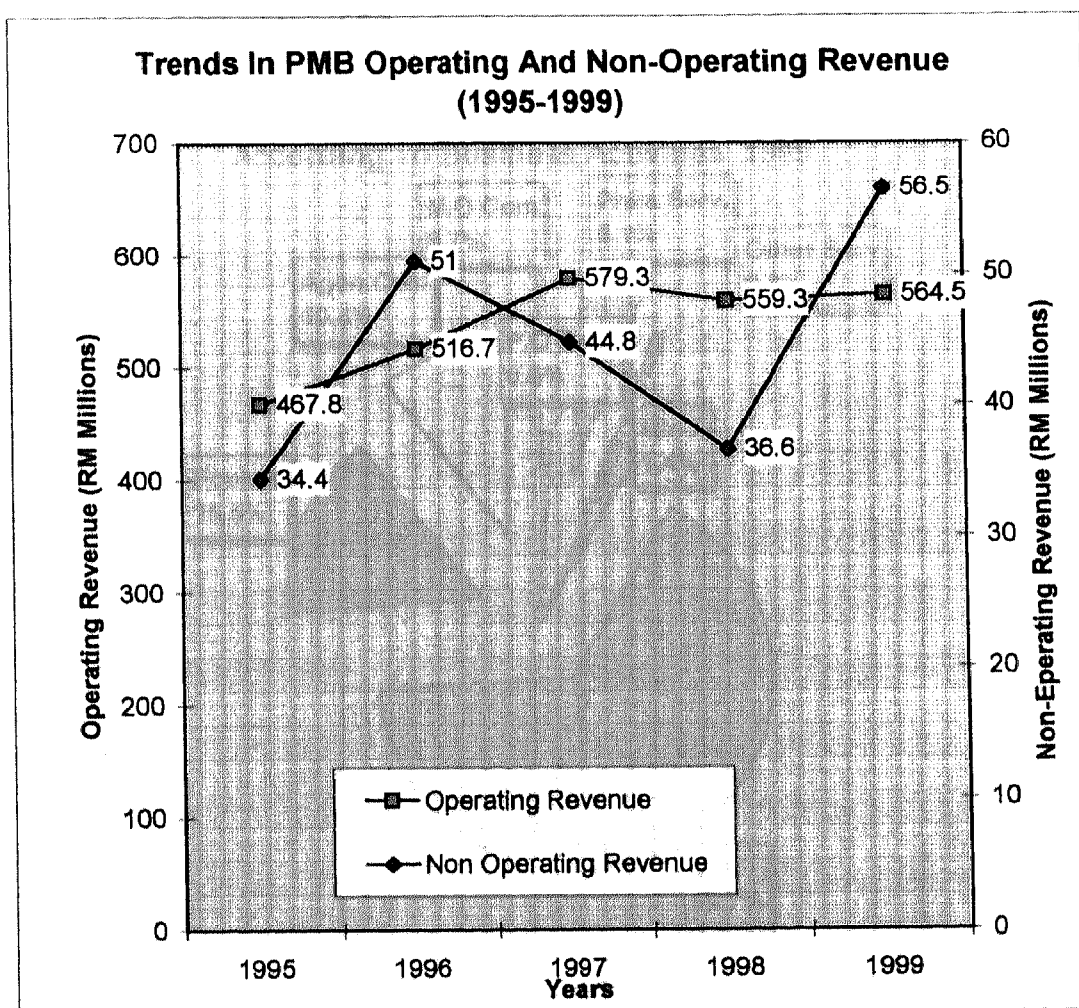
Overall Revenue

The five years financial performance (1995-1999) trend shows that the PMB overall revenue increased in 1996 and 1997 but dipped down in 1998 and increased in 1999 but still lower than the 1997. The operating revenue experienced no remarkable growth after 1997. Although it increased by 0.9% in 1999 compared to 1998, the average revenue per worker was down slightly by 0.3% from RM42,964 to RM 42,821. Figure 4.2 shows the PMB revenue trends from 1995 to 1999. A substantial increase in the non-operating revenue, investment in fixed deposit and securities, has push PMB total revenue for 1999 that make it slightly higher than the 1998 revenue. Figure 4.3 shows the trends in operating and non-operating revenues for 1995-1999. The trend implies that PMB has to diversify into investment activities in order to spearhead it future revenue growth.



Source: PMB Annual Reports and Management Meetings

Figure 4.2: PMB Revenue (Operating and Non-Operating) 1995-1999 (RM Million).



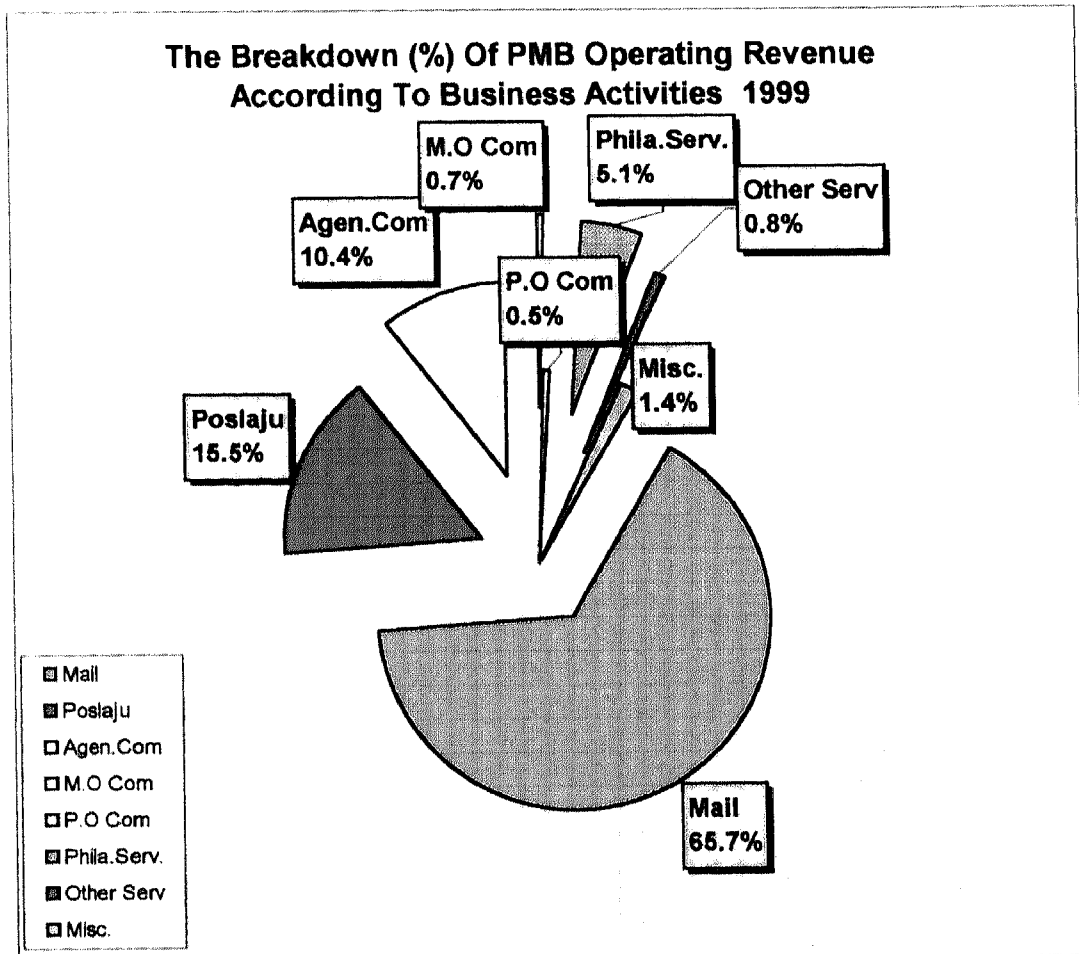
Source: Pos Malaysia Bhd.

Figure 4.3: Trends In PMB Operating And Non-Operating Revenue (1995-1999).

Operating Revenue

Mail still the major revenue contributor. In 1999, PMB reported \$565 million in operating revenue. As for 1999 figures, mails make up 66% of PMB operating business turnover. Poslaju occupied the second slot, which contributes 15.5% to the company total revenue followed by Agency Commissions with 10.4% and Philatelic only 5.1% of the total revenue.

Other service products contribute less than 1%. Figure 4.4 shows PMB revenue breakdown for 1999.

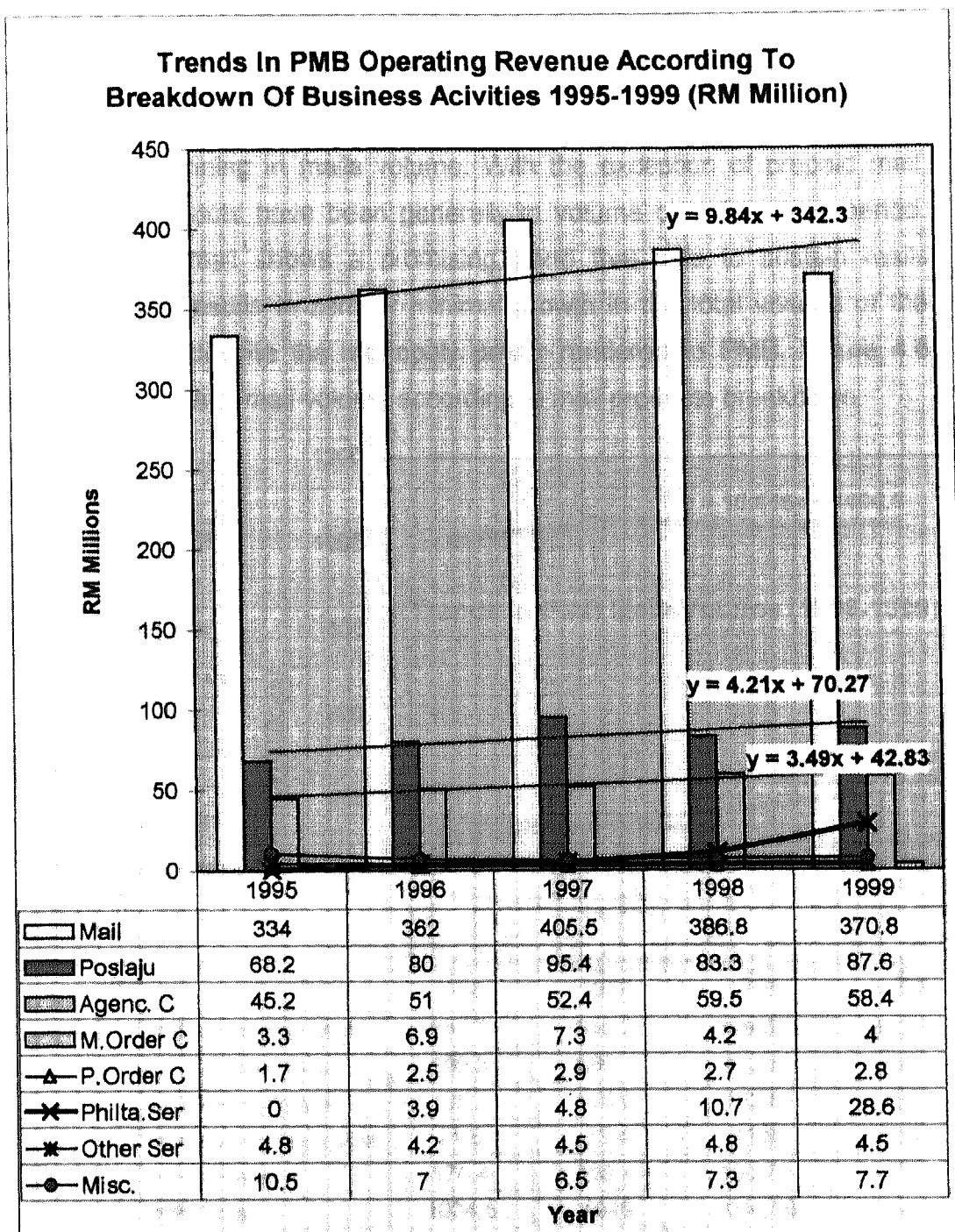


Source: Pos Malaysia Bhd.

Figure 4.4: The Breakdown (%) of PMB Operating Revenue According to Business Activities 1999.

Although growth trends in operating revenues from most business activities are positive but its had been relatively flat over the five-year periods of 1995 to 1999, except for philatelic service. After 1997, the mail revenue the major revenue contributor is on the declining. The courier shows a slight rebound in 1999 as the result in the market growth but much lower than 1997. Figure 4.5 illustrates the PMB revenue growth trend according to breakdown of products or business activities. Though the trend lines show are positive

slopes their gradients almost horizontal, which indicate low revenue growth pattern.

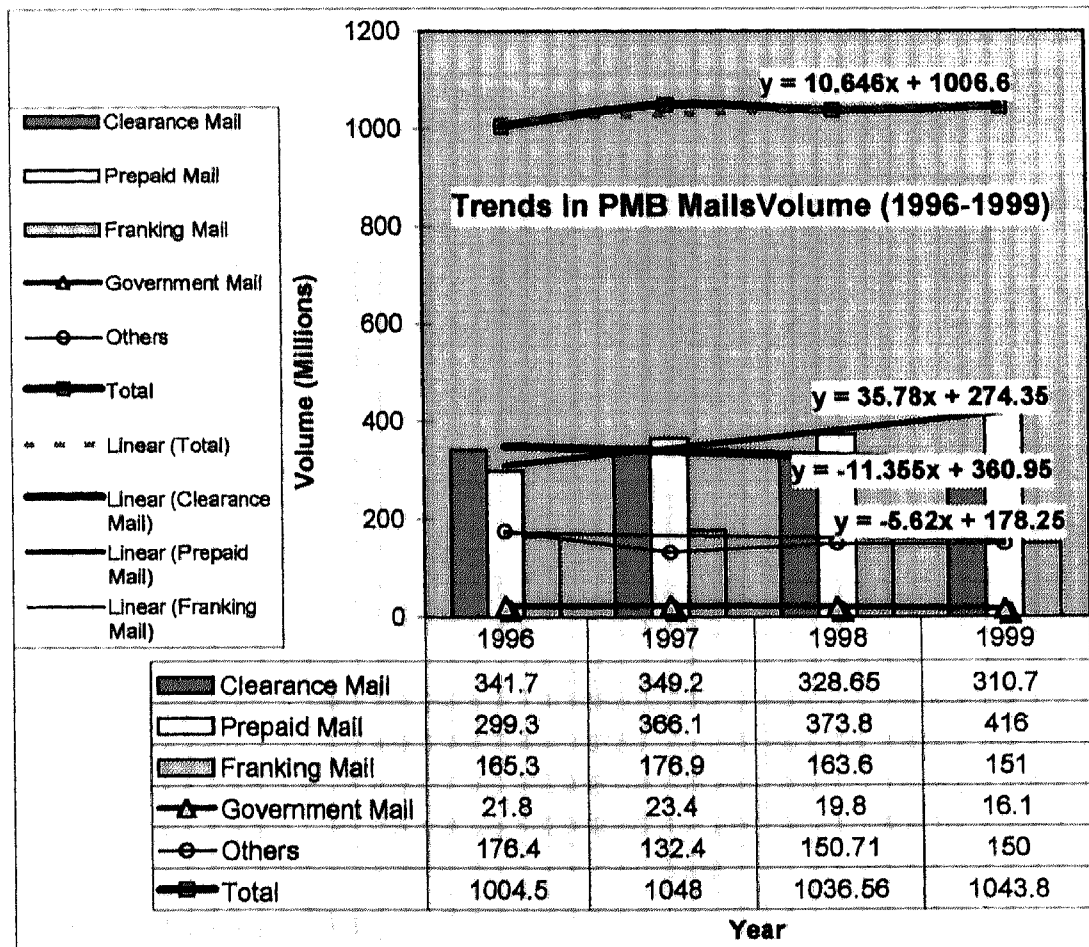


Source: Pos Malaysia Bhd.

Figure 4.5: Trends In PMB Operating Revenue According to Breakdown of Business Activities (1995-1999).

Mails Revenue

The clearance mail, prepaid mail, franking mail and government mail are four products line that spearhead the mail business operations. With relatively fixed low postal tariffs, the profitability of mail products is dependent on the volume of letters. The low mail revenue growth trend was due to the declining in mails volume. With the exception of prepaid mail, other mail products have been generally in volume over four-year period. Prepaid main mail shows a promising trend that help to sustain mails revenue. This results in zero or minimal growth in the total volume of the four products, despite the monopoly power rendered to PMB. Figure 4.6 shows the trends of mail volume according to mail products breakdown.



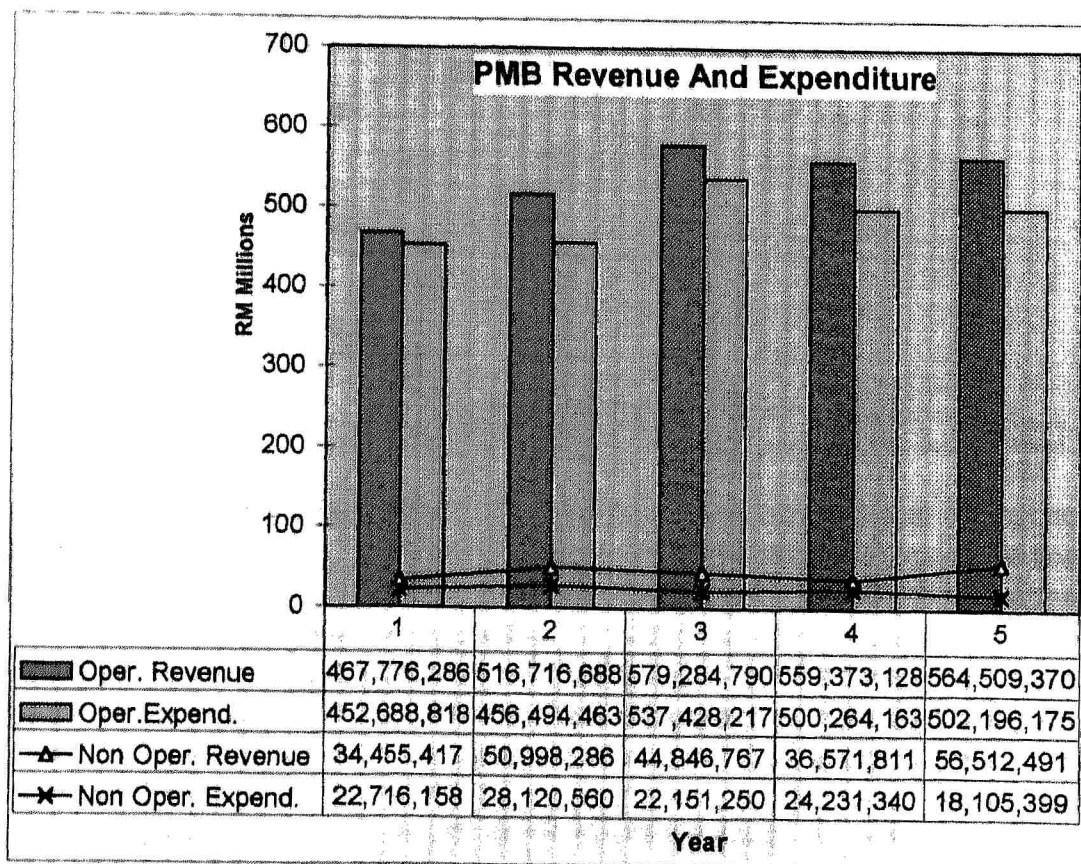
Source: Pos Malaysia Bhd.

Figure 4.6: Trends In PMB Mails Volume (1996 – 1999)

According to the study done by Price Waterhouse Coopers, PMB External Auditor (1999), the operational load contributed by the four products to mail business, 90% of total mail business volume, is not properly compensated as evident by the low proportion of revenue generated of only 76%.

Expenditure

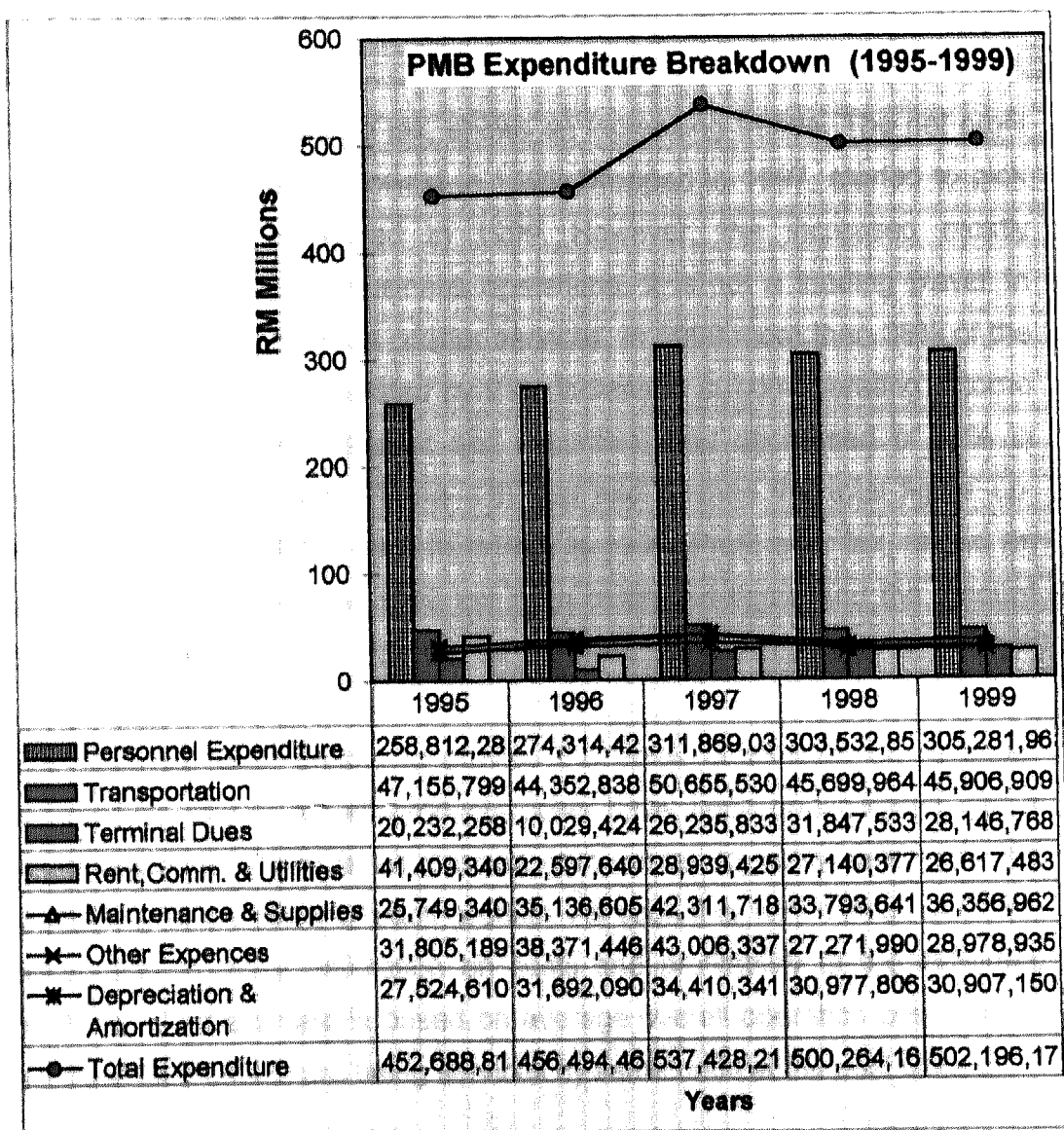
PMB expenditure pattern follow the revenue trend. The expenditure increases as the revenue increases. Figure 4.7 shows both operating and non-operating expenditure and revenue for 1995 through 1999. The modernization program and other initiative undertaken by PMB give rise to revenue and also operating cost.



Source: Pos Malaysia Bhd

Figure 4.7: PMB Revenue And Expenditure 1995-1999

Detail breakdown of PMB expenditure is shown on Figure 4.8. Personnel expenditure makes up more than 60% of the operating expenditure and on the increased. The transportation cost quite stable but still become one of the important expenditure variables. The terminal dues expenditure shows an increasing trend mainly due increase in international mail traffic but affected by low tariffs and high outward and low inward terminal dues rate imposed on PMB.



Source: Pos Malaysia Bhd.

Figure 4.8: PMB Expenditure Breakdown (1995-1999)

Higher repairs, supplies and maintenance cost following the expansion and upgrade of buildings, postal machinery and equipment, vehicles, furniture and others reflected in the figure. The undertaken include computerization of post offices, acquisition of two OCR machines, construction of the KLIA Airmail and Courier Complex, renovation of mail centers and big delivery depots, new ergonomic sorting frames and expansion of fleet. In line with the expenditures higher depreciation and amortization charged.

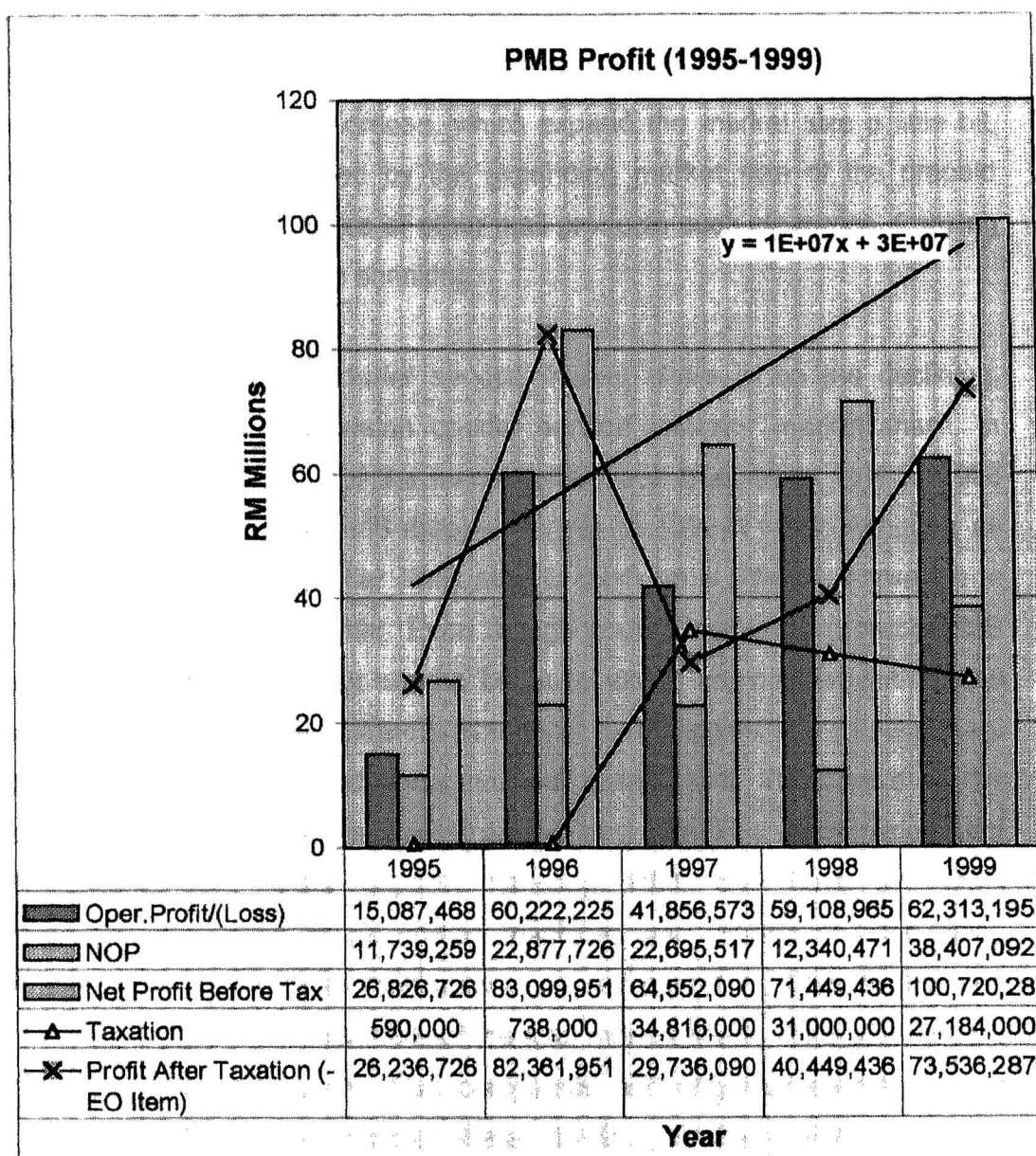
Profit

Generally net profits before tax, shows an increasing trends. The net profit increased in 1996 from it lowest in 1995. Dropped in 1997, started to pick up in 1998 and increased in 1999. However, the increased mostly contributed by non-core business operations. It is not a leading player in competitive market such as courier services. In 1999 more than 38% of the net profit before tax, generated by 21% increased in non-operating income (investment from fixed deposit and securities) and decreased of 32% in non-operating expenses (Figure 4.8) that had pushed the total figure up. Figure 4.9 shows PMB profits from 1995 to 1999. Profit after tax, shows an inconsistency trends. The 1999 tax is an estimated figure and the amount could be more.

Pos Malaysia Bhd. unable to provide the detail breakdown on revenue-expenditure margin for all products costs have been consolidated into a single account. There is no product cost center to really determine the profitability and viability of each product. As such it is very difficult and time consuming to make estimation on costs and profitability of the individual products. Cost estimate is based on average overall operation cost. This is because all products are being services by same outfit at the post offices.

However according the study done by PMB External Auditor on trends for the four key letter products clearance, franking, prepaid and government

mails indicated that expenditure is growing faster than the revenue. Without any tariff revision and volume increase PMB may record losses in the near future. In view of the growing trend of profit margin erosion a revision of the current tariff structure is essential to ensure the long run sustainability of the mail business, and to allow PMB to invest in upgrading its operations to attain the competitive standards operated by world-class postal operators.



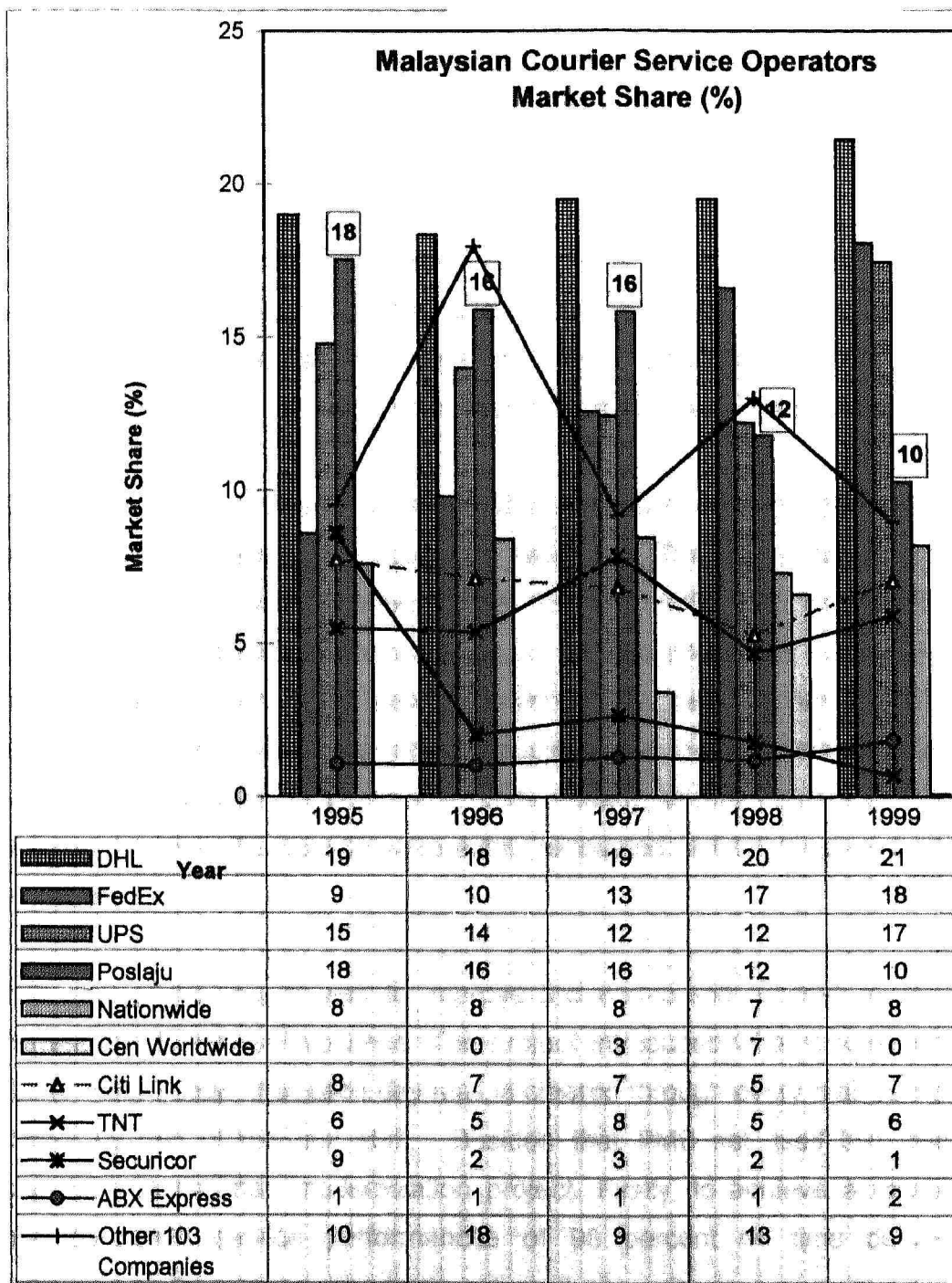
Source: Pos Malaysia Bhd.

Figure 4.9: PMB Profit (1995-1999)

Market Share

The market share analysis mainly focuses on mails and courier service market. This is because they are core business activities and major revenues contributors to PMB. Data on other products or services such as counter services and remittances services not available currently. As far as ordinary mails market is concerned PMB still hold the monopoly power through government market regulation. As mentioned earlier overall mails volume shows a slight increase, which expand the market size a little bit. The expansion contributed by the expanding market size of the prepaid mail. However market sizes of other mail products such clearance, franking and government mails are shrinking.

Pos Malaysia Bhd. in courier service market share is on the declining. Figure 4.10 shows Malaysian courier service operator market share. In 1995 PMB control 18% of the market share but dropped to 16% in 1996 and 1997, 12% in 1998 and dropped further to 10% in 1999. Although as shown on Figure 4.5 earlier PMB able to push up a little bit its revenue in 1999 after declined in 1998. Even though courier market is growing PMB and unable to increase its shares because losing competitive strength to more advance courier operators in term of technologies and management system that are more advance and well established. They have all the advance high tech processing, tracking and handling machineries and equipments with larger capacity handling. PMB only have two OCR machines and lower range sorting machines and located at head office Kuala Lumpur. The three multinational courier operators, DHL, FedEx and UPS, controlled more than 56% of the total market share. The balance one 103 courier operators are local companies and only managed to secure less than 10% of the market share (1999). Probably PMB can form strategic alliance with all other local courier operators to compete with the multinational operators. Service deterioration partly contributes to the drop.



Source: Jabatan Pos, December 2000.

**Figure 4.10 Malaysian Courier Service Operator Market Share
Customers**

Customers

Another variable to assess PMB performance is customer satisfaction, which is determined by its service quality and competitive prices.

Mail Service Quality

The assessment on service quality only focuses on mail services, PMB's traditional core business activities and profit center. Any compromise on service quality will tarnish the image of PMB as a whole. Therefore PMB quality improvement focused has been mainly on mail business activities.

Mail business underwent a major transformation through PMB's mail modernization project, which started in late 1994. The project focused on mail processing, transportation, mail delivery, MIS and engineering. Changes that came about from the project include alterations to local and national transport schedules, new processing shifts, new ergonomic sorting frames, computer base training, production and delivery management systems and re-sizing of postman's beats. Nearly all mail centers and big delivery depots in the country were either renovated or totally replaced and equipped.

The goal of the project was to improve the end-to-end process to meet current and future mail volumes. The project introduced what is known as 'Clear Floor Policy', that each day mail is cleared through every mail service center by end of the last shift. Besides that PMB set itself two clear objectives in the mail modernization project. Firstly, to achieve a reliable and consistent service performance of 98 percent on time delivery according to the service standards set, and secondly, to reduce available operational costs by controlling it to the optimum level. Achieving these two objectives is very critical to PMB in meeting the customers' expectation (PMB Annual Report 1995).

Postal levels of service usually specified in terms of accessibility, reliability and speed. Safe and fast arrival is the overriding priority in evaluating postal service. However, at the same time it is critical for postal services to provide quality services at affordable prices. PMB has set service standard for its domestic mail service operation as shown in the Table 4.1 below.

PMB Domestic Mail Service Standard

Service	Local Delivery	Between Major Towns	Between Small Town	Between Rural Areas
Mail/Registered Mail/Postcard	D+1	D+2	D+3	D+4
Pos Ekspres (Express Post)	D+1	D+1	-	-
Printed Paper (Air)/Small Packet/Parcel (Air)	D+1	D+2	D+3	D+4
Ordinary Printed Paper/Ordinary Parcel	D+2	D+3	D+4	D+5

Source: Pos Malaysia Bhd. *Brief Guide On Mail Service*, 1999.

Note: 'D' means day of customer depositing letter or parcel at depositing center such PMB post box and post offices.

Table 4.1: PMB Domestic Mail Service Standard

The mails modernization program has shown some significant improvement on PMB mail service quality. PMB uses its Ujimal System to monitor its domestic mail delivery standard. Before the modernization program the on time delivery standard was 64%. In 1998, an independent test by PriceWaterhouseCoopers showed that the performance increased to

3.5%. PMB has taken a proactive effort but not sufficient enough because as mentioned in chapter four (on time delivery) the standard set not compatible to some advance postal operators in Europe. For PMB courier services, Poslaju, it facing 'service quality and credibility' problem. In a number of consumer dialogs organized by the Ministry of Energy, Communications and Multimedia one of the pertaining issues raised by rural customers was that "Poslaju tapi tak laju" which literary mean Poslaju mean fast but not fast enough sometimes it took seven days or more.

Price

Price of ordinary mails service set by PMB, which equated to tariff approved by government, is among the lowest in the world. The tariff comparison will be discussed in chapter five. Thus it can be an incentive to customer to continuously use the service that is cheaper than any other substitute products and services such telephone, fax, e-mail and multimedia for the direct mail and competitor in the courier services. But it also can be a disincentive when per unit cost is higher than price that can erode the profit margin. For example, PMB experienced revenue deficit in the Sabah and Sarawak sector because per unit operation cost higher than the price. Mails volume is small that make mails business unprofitable. PMB has to bare any increased in transportation cost. If the trend continues PMB would not be able to improve or sustain its service quality in the long run.

Social Obligations

Postal Act 1991 and operating license set out clear provisions for PMB to fulfill certain social duties such as follows:

- i) The provision of universal service that require the same minimum level of service be provided to all citizen of the country, regardless of the location or any other personal characteristics;
- ii) Setting minimum quality of service levels; and

- (c) Ensuring uniform and affordable tariffs to ensure that all citizens can have access to the basic level of postal service at the same price.

The study used three variables to assess social objective attainment; service access, affordable price and other social services.

Service Access And Affordable Price

Currently PMB has 4577 service network through out the country. Out of which 629 are post offices that offering a full range of services and 236 are mini posts. Figure 4.11 shows the breakdown of the service network and Table 4.2 shows the network according to states. Average area covered by the post offices is about 238.6 square kilometer. The ratio of service center to household is 1 to 2000 for urban and 1 to 500 for rural area. About 90 percent of the Malaysian population having mail delivered at home. The balance 10 percent is delivered through authorized third party such community head, penghulu, shops and representative. They are rural population who has no proper address, isolated and no infrastructure access and majority of them are in Sabah and Sarawak.

In accordance to the social obligation PMB has to provide the service access at an affordable prices without imposing any extra charges even at a loss. Even though Sabah and Sarawak sector is not profitable enough, yet PMB has enhanced it delivery capacity to states. PMB has one leased 732-200 aircraft and two Cessna Caravan aircrafts for Kuala Lumpur/ Kota Kinabalu/ Kuching sectors and between Kota Kinabalu/ Labuan/ Tawau/ Sandakan/ Miri/ Sibul. Another important aspect of PMB social obligations is that, as provided under the operating license conditions any post offices that had been put into operation cannot be closed down or ceased services without the consent of the Minister. Therefore PMB has to continue giving services even though at a loss. In that sense PMB has serve it obligation well

Other Social Services

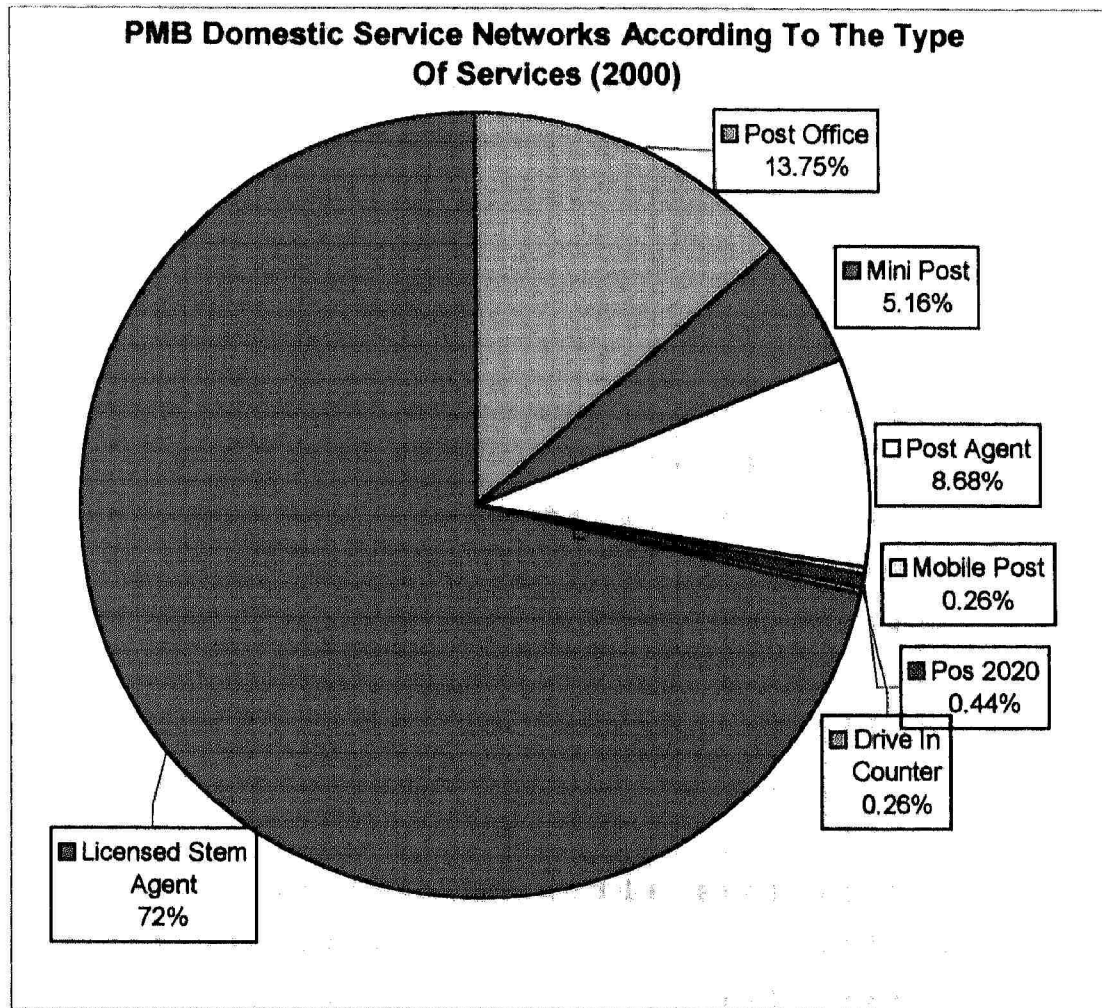
As a government control business entity PMB is sensitive to its social environment. When it took over the business from Postal Service Department, the government department that had been giving the service since before independent, PMB had to absorb all staffs that supposed to be retrenched. It has the right to refuse of on the justification to improve efficiency and effectiveness. It can recruit fresh and higher qualified people to improve the PMB performance. On the social ground all of them had been reemployed plus some new faces. This did not happen to TNB, TMB and the latest Multimedia Commission, which had been created to take the function of Telecommunication Department. Another latest social project by PMB is the Internet Desa, to give Internet access to rural population. It provides the facilities at the post offices with the help of TMB. The project does not give any physical return instead it has to bare some administrative cost, but TMB get more returns from the use of Internet service and the telephone line.

Pos Malaysia Bhd. Service Networks, December 2000.

STATE	Post Office	Mini Post	Post Agent	Mobile Post	Pos 2020	Drive In Counter	Licensed Stem Agent	Total
Perlis	9	5	0	0	1	1	4	20
Kedah	44	22	2	0	1	0	158	227
P.P	37	8	2	2	1	3	205	258
Perak	87	30	16	5	1	0	243	382
Selangor	69	30	24	0	4	2	1046	1175
W.P	55	5	1	1	4	4	231	301
N.S	37	9	5	0	1	0	71	123
Melaka	21	7	4	0	3	0	212	247
Johor	72	35	55	0	0	2	173	337
Pahang	42	31	65	0	2	0	62	202
T'gganu	26	13	18	0	0	0	184	241
Kelantan	30	17	18	1	1	0	308	375
Sabah	41	5	11	0	1	0	83	141
Sarawak	59	19	176	3	1	0	290	548
Total	629	236	397	12	21	12	3270	4577

Source: Pos Malaysia Bhd., December 2000

Table 4.2: Pos Malaysia Bhd. Service Networks, December 2000.



Source: Pos Malaysia Bhd.

Figure 4.11: PMB Domestic Networks According To The Type Of Services September 2000.