

## **CHAPTER FIVE**

### **COMPETITIVE ANALYSIS**

This chapter will discuss on the trends in postal service industry, that includes the impact on market share, mails volume and traffic, direct mail industry, expedited mail service, competition, multinational postal administrator, UPU, effect on environment, domestic trends and the effect on PMB; comparative position; competitive advantage; and SWOT.

#### **TRENDS IN POSTAL SERVICE**

Traditionally postal service is a social service created by governments all over the world to provide communication access at price that highly subsidized by them. It had been classified as a basic need and for that reason United Nation has include postal service has one of the universal service obligations (USO) that require uniform services be provided to all urban and rural customers. The institutionalization of postal service as a natural monopoly is to enable effective cross-subsidization of the typically higher cost rural services by the more profitable urban services.

The emergence of new enabling and competing technologies create new demand for efficient global communications and trade services that require the provision of postal services to be undertaken through market-oriented approaches. New competing technologies such as telephone, fax, Internet and multimedia technology create products or technology that can substitute mails, counter service and other postal service products. Postal customers are demanding much more from their national postal service today than in the past. If they do not receive the level of service they expect, customers will simply shift their business to competitors who are eager to expand their market share.

The technological advancement also resulting in growing of direct marketing and creating global market place that shift the old paradigm and form new value system on society. The elimination of trade barriers, the expanding liberalization of markets and dramatic improvements in communications infrastructure, businesses not only face greater competition within their national borders, but are also seeking new opportunities in international markets. More and more postal administrations, particularly in Europe, have reacted to globalization and liberalization trends by assuming a more competitive stance, including the formation of alliances and partnerships with both public and private providers of postal services.

Some have turned to private companies to deliver their parcels and EMS in destination countries when they could offer better value for money than the national postal service. In some instances, private companies also deliver letter-post items not covered by the monopoly at prices lower than the terminal dues rate. Some postal administrations have opened retail branches in other countries to collect outbound international mail, particularly bulk mail, addressed to their own country or to third countries. Still others have entered into agreements with private companies to collect items in the country of origin on their behalf (UPU 2000).

The competitive forces turned the postal service into a highly contestable market and intensified competition. More and more government has deregulated their postal service sector. Deregulation and commercialization increase customers' expectations and strengthening competition. While most postal services remains as a government owned monopolies, increasing numbers have restructured and operating on a commercial basis, with commercial decision-making approach, market oriented operations, self-financing, new products line, enhanced services and establish global networking through various strategic approaches.

Nevertheless, their business approaches differ, with many of them remaining as government departments but operating on semi-commercial basis, while some has corporatized and a handful other has privatized. Quite a number has merge and formed multinational integrators to reap the economies of scales and economies of scope and extend business activity through cross border market expansion. Thus poses threats to local postal administrators. Multinational courier operators also aggressively expand their business operation to exploit new business opportunities created by the e-technology business environments.

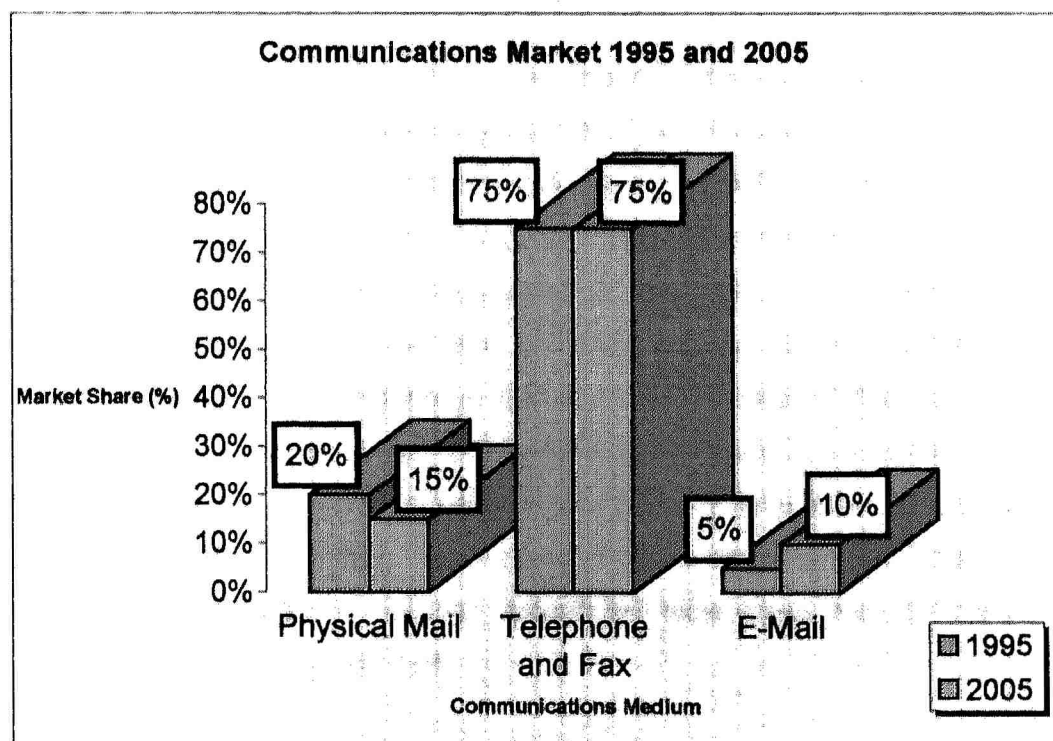
### **Impact On Market Share**

According to UPU 1997 study (POST 2005), physical mail accounted for nearly 20 per cent of world communication market in 1995. About 403 billion letters handled worldwide and about 98% remained in domestic service and whilst 2% were in the international market. Fax and telephone covered 75 per cent and electronic mail just over 5 per cent. The share of telephone and fax will hardly change by 2005. Nevertheless, electronic mail should double. The share of physical mail in the communication market will decline by 26 per cent by 2005, falling from 20 per cent to less than 15 per cent. Figure 5.1 illustrates the world communication market for 1995 and 2005.

The decline in physical mail market share does not necessarily contradict the upward trend forecast for physical mail since the communication market as a whole is progressing faster than the postal market. UPU study indicates that domestic letter volume worldwide expected to increase by an average of 2.5 per cent per year from 2000 to 2005. This is because the physical mail or letter still has advantages over the electronic transmission. Physical mail is easy to use. It reliable, secure, confidential, provide permanent record, and most important requires no capital investment or

expertise. Latter is cheap as compare to modern technology. The new technology is expensive and requires heavy up-front costs such as computer, modems and software.

The electronic mail cannot handle printed matter that businesses send to customers using letter. Letter tolerates mistake while electronic mail requires names and addresses to perfect. Physical mail is still universal service where in most countries the whole population has access to postal services. In most countries the whole population has access to postal service and not yet for telephone, fax and e-mail. Electronic mail is still very limited. It would take a long time before the electronic mail can offer universal service at price and investment cost affordable to entire population. The greatest substitution effect would be in the business-to-business segment in high-income countries. By 2005, more than 50 per cent of business will be able to use electronic mail.



Source: Post 2005, UPU

**Figure 5.1: World Communication Markets 1995 and 2005**



Electronic communications generate physical mail, which supports the prediction of an increase in postal volume. E-commerce or e-business will reduce the volume and traffic of ordinary mail but will increase the parcel and courier services. Already retails sales over the Internet are surpassing most predictions. The Internet bookseller Amazon.com has annual turnover in excess \$US 1billion that relies on fast delivery parcel services to get its product to customers. The emerging market which has a large effect on services of postal operators. The acquisition, which, postal companies such as Royal Mail, TNT Post Group has made in the parcel delivery business indicated their future involvement in competing for the developing market. Another Internet services pioneered by New Zealand Post is personal computer based home banking, which allows customers to access the outsourcing billing service and pay online.

### **Volume and Traffic**

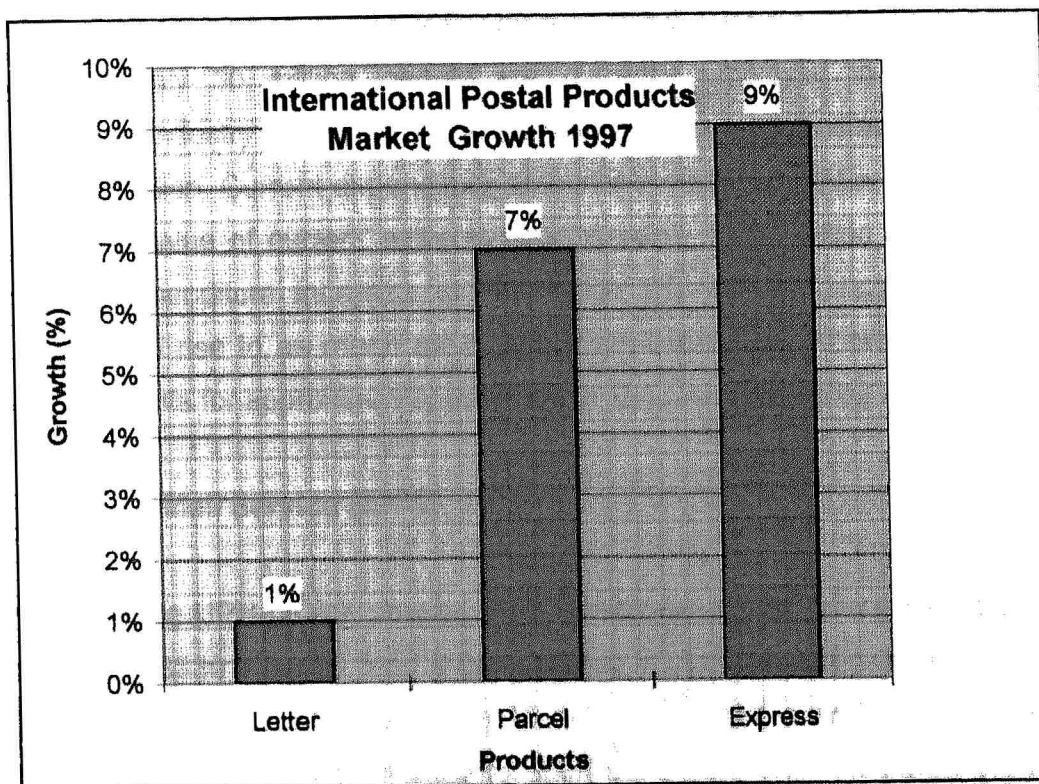
A study on postal traffic trends in the years ahead undertaken by UPU found that latter volumes worldwide for next five years until 2005 expected to increase. However, the current postal operator whether or not they enjoy monopoly protection will have to face a future environment quite different from the existing situation, especially in the light of the information revolution. UPU figures show that in 1995, nearly 98 per cent of 403 thousand million letters remain in the domestic service of the country of posting, while just over 2 per cent cross boundaries in the international postal service. An annual increase of 2.5 percent forecasted in domestic latter traffic compare to only 0.9 percent recorded between 1985 and 1995. In high-income countries, however, growth will slow down from 2.7 percent to annual average of 2.3 per cent.

At present 86 percent of the domestic mail in industrial countries generated by the business sector, compared with 14 percent by households. The 2005

forecast show a marked increase in the business to household segment, while there is a significant decline in the household-to-household segment. The international mail is expected to increase from 3.4 to 5.2 per cent depend on the region. Low-income countries expected to have the highest average annual growth rate of 5.1 per cent.

The International Postal Corporation (IPC) estimates indicate that the international postal market, which excludes electronic communication, grew by more than 5% to US\$ 38.3 billion in 1997. Most of Posts major competitors produced double digit growth in both volume and revenue, resulting in loss of postal market share. Posts estimated global revenue share dropped from 35.3% in 1993 to about 30.9% in 1997. Express is the fastest growing segments with an estimate of 9% growth in 1997 and facing the greatest competition. About 5% of Boeing World Air Cargo of total international air cargo market in 1999 is express, which is estimated to increase to 37% by 2015. The Intra-Asia air cargo market, expected to grow at 9% every year until 2015. DHL estimates 18% year on year increase in the Asia-Pacific air express market over the next five years. Parcel experience 7% growth rates and letter the lowest, with 1% growth rates. Figure 5.2 shows the International Postal Market Volume Growth Rates in 1997.

Mail volume have affected by slow economic growth. The factors influencing letter volumes vary greatly, depending on the region and socio-economic environment. In general, economic factors are the prime determinant of letter traffic, followed by postal factors such as quality of services. Social and demographic factors such as population growth and education are also important. Technological factors and the use of other mean of communications including e-mail and the Internet are less important.



Source: International Postal Corporation 1997

**Figure 5.2: International Postal Products Market Growth 1997**

### **Direct Mail Industry**

Direct mail provides new opportunities for mailers and postal services worldwide. With the exception of television advertising, direct mail has grown faster over the past ten years than any other advertising media. It further has tremendous economic growth potential because heightened direct marketing expenditures would substantially increase employment and sales (UPU 2000). Direct mail is therefore a key area of growth for postal administrations, making it easier for companies world-wide to explore and exploit overseas markets through the use of direct mail. At present, only six countries, the United States, Germany, France, Japan, Canada and the United Kingdom account for nearly 80 per cent of direct mail expenditure.

A study by the UPU's Direct Mail Advisory Board (DMAB), has shown that approximately 30 million people are currently employed in the direct marketing industry. The study predicts that this figure can increase to more than 70 million. Current expenditure amounts to about 230 billion US dollars while the value of current sales is approximately 1 700 billion US dollars. Should expenditure increase to 530 billion US dollars, direct marketing sales could rise to as much as 4 100 billion US dollars. At present, direct mail accounts for approximately one-third of the direct marketing market.

### **Expedited Mail Service (EMS)**

According to UPU (2000) studies the international express market is valued at about US\$30 billion a year. It has doubled in size over the past four years and is expected to grow between 15 and 20 percent over the next three years. Presently private integrators such as DHL, TNT, Federal Express and UPS dominate the market. In the late 1980's, EMS, the postal services offering in the message and light goods segment of the market, was a prime postal product with an annual growth rate of about 35 percent. Today this growth has dropped to as little as one or two percent with a current market share of about five percent.

Some of the reasons for the declining growth in EMS includes tough competition, an increase in the use of e-mail and Internet, and the withdrawal of several key administrations from EMS in the 1990's. A number of postal operators have, however, introduced initiatives, in some cases through new alliances and partnerships, to re-establish themselves in the global express market. Two of the big four integrators, TNT and DHL, now have post offices as owners or shareholders, while others have entered into operational agreements for the international carriage and delivery of postal EMS items. There are also postal administrations that have successfully re-launched EMS, such as Swiss Post.

## **Deregulation, Contestable Market And Competition**

Even though the UPU predicting that the latter volumes will increase, the effect of liberalization that result in deregulation, market contestability, and competition may mean that the increases in volume will handle by competing mail firms. The resultant force would limit profits of existing postal operators. On top of that, the changes in latter market will have a direct influence on the types of mail that carry by traditional postal operators and competitors in a deregulated market.

Evidence from countries where there is competition in postal services, show that many private companies have been established to compete for the predicted increase in domestic business sector as well as business to residential sector such as the delivery of account for electricity utilities. But usually it has made use of the existing final delivery services of the traditional postal operators.

Deregulation of some market area will drive down price especially in parcel in parcel delivery and express mail to gain market share. Consequently, the price cut will reduce revenue. For example UPS total revenue from it core non-express deliveries outside of the United State, which fell to \$US850million from around \$1.1 billion in 1994 despite the same volume of packages delivers in Europe at 700,000 daily.

The traditional postal operators are able to manage the changes but at a significant cost to worker.

- (a) First, they re-strategies their business operation by improving services levels, instituting financial reforms, and establishing high-tech sorting centers. Deutsche Post for example has reduced it workforce from 380,000 in 1994 to about 250,000 and spent DM4.1 billion since 1995 on constructing a network of 33 state of the art package-sorting centers.

- (b) Second, they develop business units outside of the normal postal services. Deutsche Post has acquired a number of private mails, courier and parcel delivery companies including a 25% stake in DHL.

The fight for market share has forced some postal operators to cut price. It erode profit margin and that be offset by cost reduction and productivity. For example UPS has makes no profit at all from some products and deals that, it has certain high volume customers. Though it is good for high usage business customers, it put pressure on the postal operators to generate higher-level profit from other product and from low volume customers. There is already a wide discrepancy in prices charged for letter mail in different countries under regulated environment. The cost of sending first class letter mail in some European countries is almost double the price of sending the same latter to the U.S.A. Those opposed to this type of inter-administration competition believe it is not in the best interests of customers, that it merely affords short-term competitive advantage with overall adverse financial consequences, and that it could put the viability of the universal service network at risk. There is also concern that these competitive trends and the emergence of strategic alliances with private sector operators could affect smaller developing countries.

### **Emerging Multinational Postal Administrations**

Globalization has liberalized a number of postal markets. As such, some governments have taken a proactive measure to transform their traditional postal administrators into multinational postal corporations. Since 1998, there has been some dramatic change in the evolution of Postal Multinational Corporation. These emerging multinational postal corporations are in addition to existing well-established multinational courier and parcel



companies such as DHL, TNT, UPS and FedEx, which in reality are offering similar services and product as of the traditional postal business.

Canada Post, New Zealand Post, Deutsche Post and the Royal Mail along with the privatized Dutch Postal Service are dominating the race amongst postal administrators to become multinational companies. The Deutsche Post, the Dutch Postal Group (TPG) and Royal Mail 'multinationalization' process done through the purchasing of parcel delivery, courier and direct mail companies. New Zealand Post and Canada Post have concentrated on providing their expertise and services to other postal administrators. Table 5.1 shows some comparison of the multinational companies.

**Some Comparison Of Multinational Companies**

	No. of Employees	No. of Countries Operation	Total Revenue	Total Consignments Carried
Fed Ex	150,823	211	\$US13.3bn	1,109mill.
DHL	59,446	227	Not Available	95mill.
UPS	331,600	200	\$US22.5bn.	3,040mill.
Canada Post	63,111		\$US3.4bn.	9,200mill.
Deutsche Post AG	266,823	227	\$US15.6bn.	21,000mill. Freight 565mill.
New Zealand Post	9,300	17	\$US0.4bn.	1,431mill.
Royal Mail	200,000		\$US11.06bn.	19,500mill.
TPG Group	100,000	200	\$US7.6bn.	
Dutch Post Operations	50,000	193	\$US3.6bn.	82.5mill. tonnes.
TNT	50,000	200	\$US3.1bn.	107mill.

Source: Communication International 1999

**Table 5.1: Some Comparison Of Multinational Companies**

At present because of local regulations these companies only able to offer a limited range of products. However with increased deregulation the range of products is expanding to include product that were previously not offer by local postal operators.

### **The UPU Paradigms Shift**

The Universal Postal Union (UPU) is a United Nations specialized agency established in 1874. The role is to regulate the postal services of its 189 member countries. UPU mission is to promote and develop communication between people of the world. Apart from setting directions for international postal services, the UPU plays an important role that affects the operations and financial viability of postal services worldwide. The union has the sole right to determine the terminal dues, a fixed cost in providing international mail deliveries. The determination of terminal due covers the basis of calculations and the amount chargeable.

The old beliefs of the UPU are countries should not compete in liberalized markets. Cross border mail belongs to the national operator. Posts inter-connect only with other posts, no concept of trade in postal services and private operators not a threat if Posts co-operate. However, with the deregulation, competition and globalization UPU has to face the new reality. The new commercial practices of corporatized postal administrations and the new thinking of governments in many part of world that encourage competition, could have a profound impact on the UPU's principle of the single postal territory, affecting the postal services of developed and developing countries.

European Union (EU) and World Trade Organization (WTO) create rules for trade and in the process of liberalizing the postal service, which mean anybody can freely provide the service. In open markets, choice belongs to

the customer. Joint ventures, acquisitions and new partnership become a common business practice. Posts cannot ignore other players. As a result of that in 1999, the UPU adopted the Beijing Postal Strategy, which defined its new objectives as below:

- (a) To ensure universal postal service;
- (b) Promote quality and economic viability of service;
- (c) Develop postal markets and products;
- (d) Promote postal reform and development; and
- (e) Promote co-operation and interaction among stakeholders.

The UPU new belief and approach would influence postal service administrators or operators to change and restructure their organizational setup, business philosophy, objective, strategy and activities to make sure they are in the business mainstream. Failing which they would not be able to develop competitively and lose their market to the new emerging competitors.

### **Environment-Friendly**

Environment is the latest issue that has cost implication on postal services. More than 410 billion letters, parcels, newspapers, magazines and advertising mail are sent through the mail each year. Add to this the millions of tons of paper involved in printing postage stamps, and administering and managing 6 million postal workers and 700 000 postal outlets, and it is clear that the world postal network handles a large portion of the earth's paper. At the same time, 700 000 official motor vehicles collect and deliver the world's mail, making the postal services the world's biggest civilian vehicle fleet operators. This places a heavy ecological and economic responsibility on postal services world-wide.

In recent years, postal services have come to grips with the effect of their business on the environment and with the need to act in a responsible way.

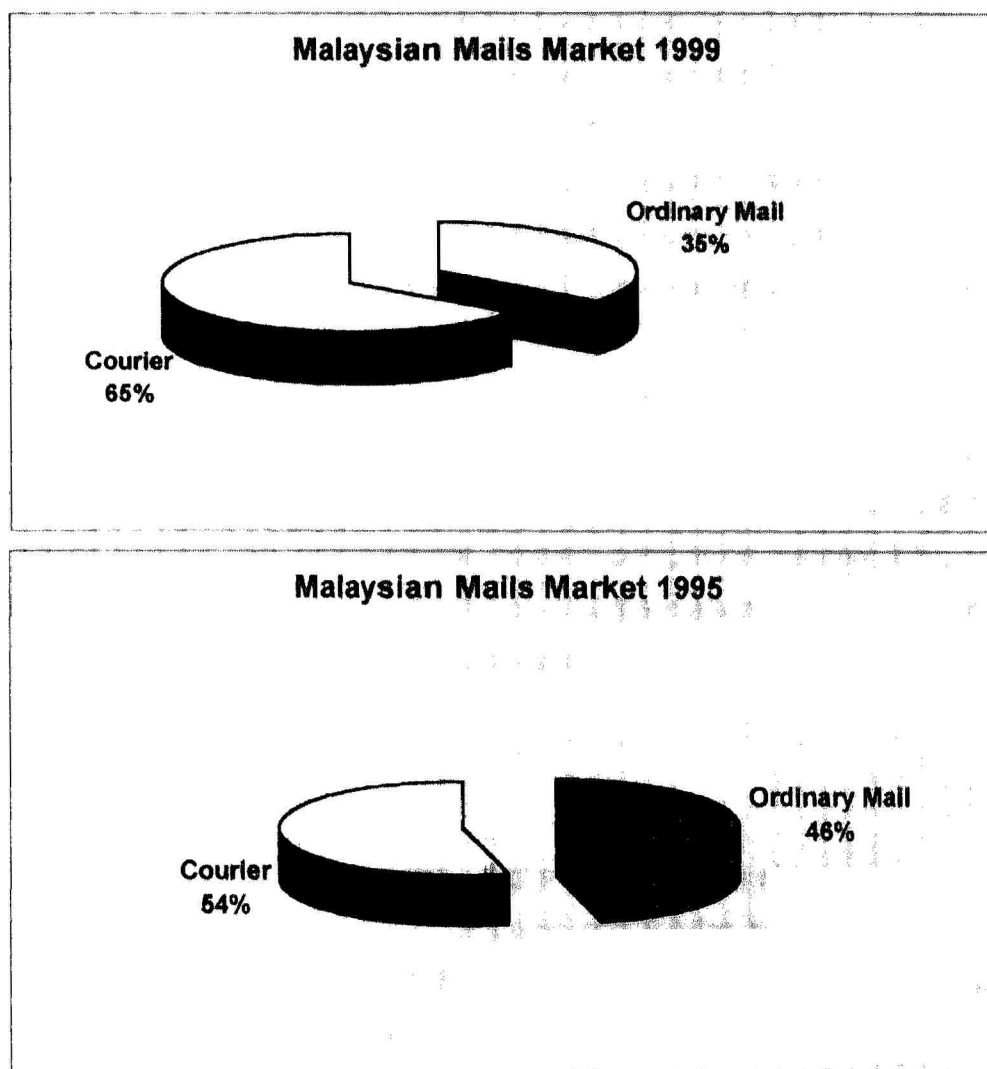
In their efforts to protect the environment, postal services world-wide are embarking on recycling program, introducing environment-friendly products, using recycled material and participating in various environment awareness programs. Every year, postal administrations also issue postage stamps that promote the environment, endangered species, as well as nature and wildlife conservation. A number of postal administrations have started experimenting with alternative propulsion concepts, preparing for the anticipated traffic restrictions on combustion-engine vehicles in certain countries such as Germany.

Australia Post, for example, is spearheading efforts to achieve greenhouse gas reduction targets as part of the Greenhouse Challenge Program. Germany's Deutsche Post AG is about to conclude a test started in 1996 on a new type of electric vehicle with a zinc-air energy system. The French La Poste has also adopted an investment policy aimed at increasing its fleet of non-polluting vehicles to at least 800 electric cars and more than 1000 liquefied petroleum gas-powered (GPL) vehicles. Meanwhile, the British Post Office is carrying out a trial of clean-burning gas fuels and is testing whether its vans can be run efficiently on a blend of rapeseed methyl ester and diesel. With more than 7500 alternative fuel vehicles, the United States Postal Service (USPS) boasts America's largest compressed natural gas delivery fleet.

### **Domestic Trends**

The corporatization of postal services in 1991 introduced the sector to new market structure and competitive dynamic. Though PMB command the monopoly power in the ordinary mail service, the courier and parcel services opened to competition. Government protection through legal and institutional mean give PMB the upper hand to dominate domestic mail service market. However, the impacts of technological innovation and

diffusion, globalization, and liberalization are creeping through the entire postal service environment. These forces together with the rapid development in communication and multimedia infrastructure in the country changes customer expectation, value system and perception toward communication industry as a whole influenced Malaysian postal service market structure. Figure 5.3 gives the picture of Malaysian mails market value for 1995 and 1999.



Source: Jabatan Pos (courier) and Pos Malaysia Bhd. (mail).

Note: PMB is the sole service provider of ordinary mails in the country.

**Figure 5.3: Malaysian Mails Market 1995 and 1999**

According to PMB estimate currently only 10 percent of their customers is individual, another 40 percent government agencies and the major 50 percent are corporate or industry market. The structural adjustment in turn changed mail products composition which seen the increase important of courier and parcel service. This is evident with an increase in market share of courier from 54 percent in 1995 to 65 percent in 1999.

The growth in mails turnover mainly contributed by courier. In 1995, from the total value of RM723.1million, courier contributed RM389.1million and another RM334million from basic mail and postcard. As for 1999, out of RM1.054billion of the total turnover, courier takes a share of RM683.1million, an increase of more than 75 percent. On the other hand, the basic mail only increased by 11 percent, from RM334million to RM370million.

The turnover of courier product generated by more than 113 courier companies operating especially in the Klang Valley. However, the major market players are multinational courier companies namely DHL, UPS, FedEx and TNT. However PMB still control the market monopoly in ordinary mails service, the traditional business activities of postal service.

### **Effect on PMB**

The international and local trends signal PMB to give some serious thought on new business strategy and strategic capabilities to meet the changing demand and pattern. Some of the factors that need special attention and to be given priority are as follows:

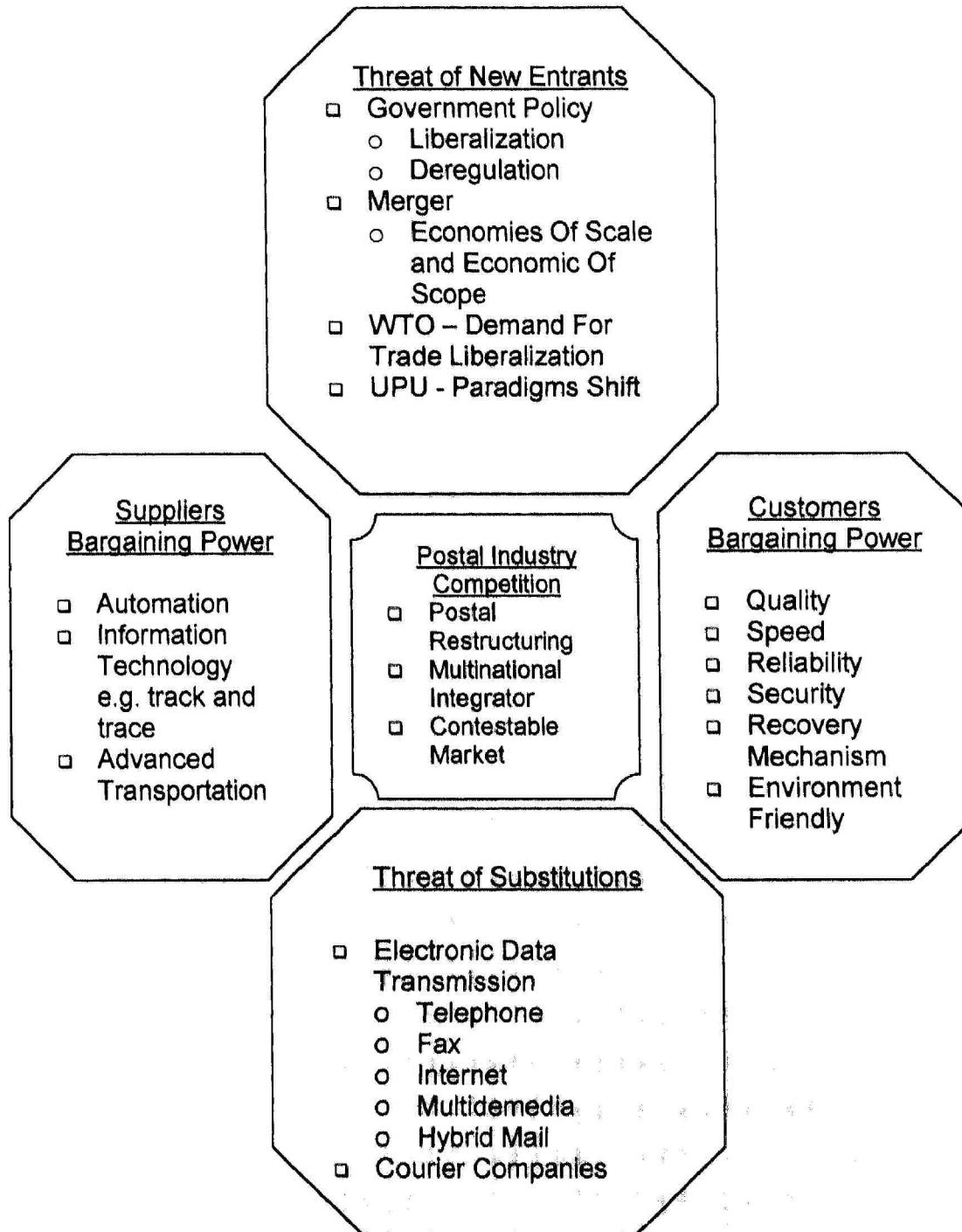
- (a) The challenges need new strategic investments that require a very strong financial standing and adopt commercially independence business practice;



- (b) Take advantage of the international customers through global networking such as strategic alliances and partnership;
- (c) Streamlined processes to enable efficiencies and sustainable cost structures;
- (d) Broad service portfolio and ability to customize solutions to individual industries and business; and
- (e) Develop technological expertise especially in information technology to develop new services and support operations.

The trends need an appropriate institutional, legal and business structure in place that will enable PMB to take advantage of the opportunities and counter the threat. Figure 5.4 shows the summary of postal service competition intensity as discussed earlier that has impact on PMB.

## SUMMARY OF POSTAL SERVICE COMPETITION INTENSITY



Source: Adapted from Micheal E. Porter, "How Competitive Forces Shape Strategy", Harvard Business Review 57, no. 2 (March-April 1979), pp.137-45

**Figure 5.4:** Summary of Postal Service Competition Intensity

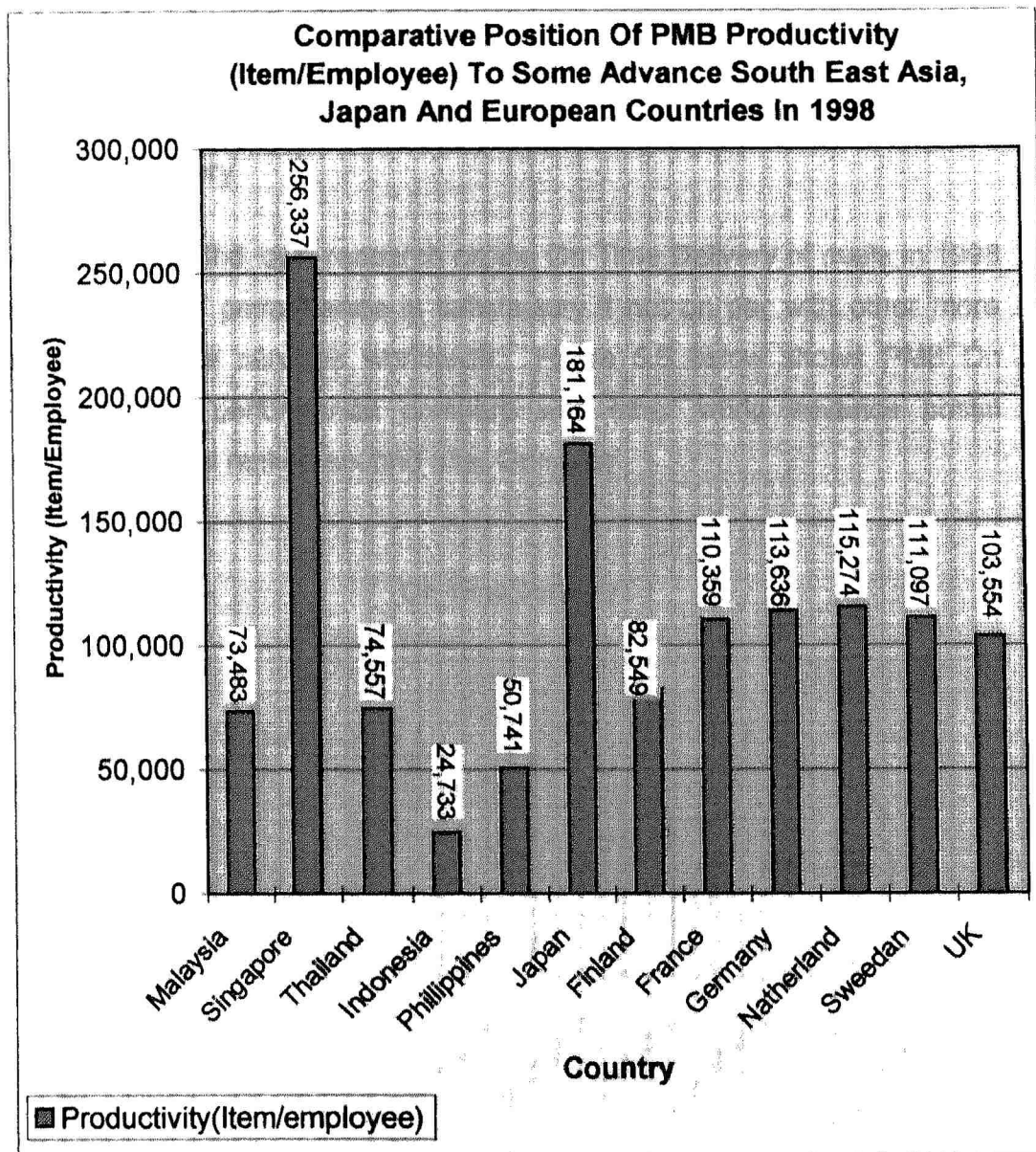
## **COMPARATIVE POSITION**

There are many approaches to assess business entity competitiveness. Some are simple while many others are more complicated. Comparative position of is one of the simplest methods to see how one business entity performance compared with some others in the same business line or industry. Some general indicators are used for the purpose of the study. Although they may not give very accurate comparison but would help to give some general picture on the level of performance of PMB compare to other postal operators in the world. This is important as to be among the best postal service in the world, PMB must rate it performance against some advance postal operators that can compete not only in the domestic market but also globally. The study used three basic indicators, productivity, on time delivery and price (tariff).

### **Productivity**

Productivity is measured by mails volume over number of employee per year. Based on the UPU Statistics 1998 book the study select thirteen countries comprise of five ASEAN countries, Japan and seven high GDP European countries. The study shows that PMB productivity (73 484) below average of the European, Japan and some South East Asian Countries. PMB ranked fourth (4/6) among South East Asian countries and Japan and last (7/7) among the advance European countries. PMB productivity is slightly below of Thailand but higher than Philippines and Indonesia. Overall PMB ranked eleven out thirteen countries. Figure 5.5 shows PMB productivity comparative position against some South East Asian, Japan and European Countries in 1998. Singapore Post Office productivity is the highest probably because of geographical size and highly urbanized. Japan productivity could be used as a benchmark by PMB to improve it

productivity taking the country geographical size which almost the size of Malaysia.



Source: UPU *Postal Statistical 1998*, Switzerland.

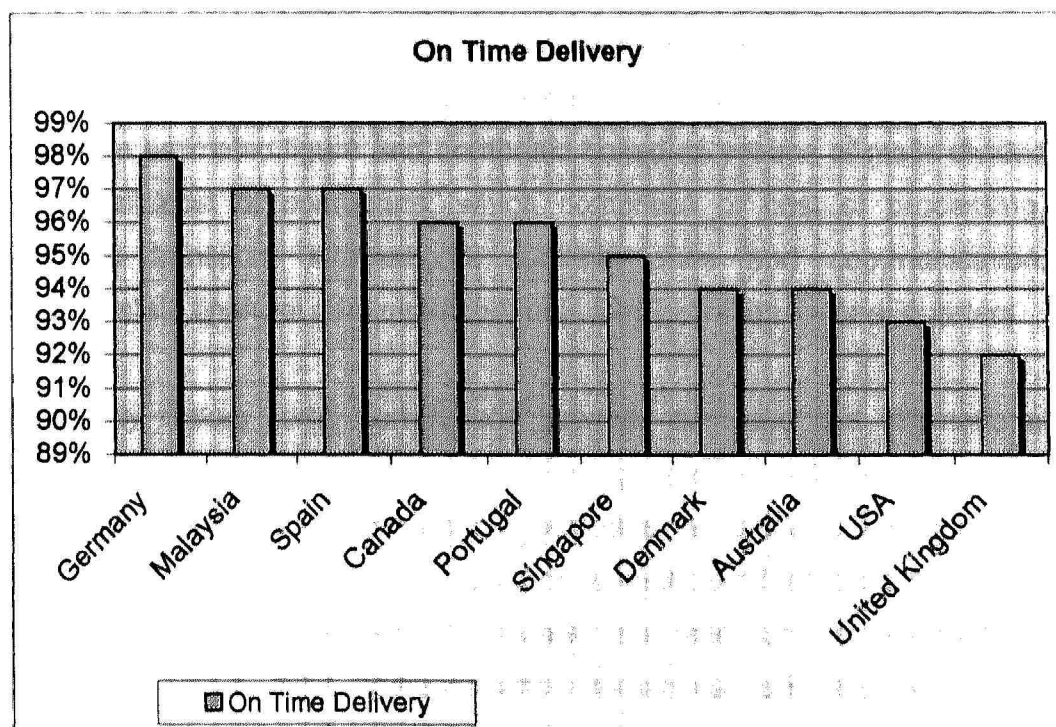
**Figure 5.5:** Comparative Position Of Post Office Productivity To Some South East Asian, Japan and European Countries In 1998.

Note: Malaysian Post Office Productivity is equivalent to PMB productivity the sole Post Office service administrator/operator in the country.

According to KPMG study, PMB is slightly over-performing in terms of the number of items handled for given level of wealth, tariffs and population. However, when international best practice is taken into account, there is considerable scope for PMB to expand its operation and, improvements in productivity could also be made (KPMG 2000).

### On Time Delivery

Post Malaysia Bhd. own research on the On Time Delivery of mails in 1998 showed that its performance is satisfactory if not on par with other more advanced postal services worldwide. Figure 5.6 below shows PMB On Time Delivery performance compare with other world advance postal services where it ranked second after Germany.



Source: PMB Research That Based On Annual Reports Of Postal Services 1998.

**Figure 5.6:** PMB On Time Delivery Standard Compare With Some Advance Postal Services.

According to PMB about 97% of domestic mails had been delivered on time. However detail analysis indicate that PMB On Time Delivery standard is actually calculated from the collection point to the delivery point and not to customer. While the standard for advance postal service such as UK and Germany is from the collection point to customer. Therefore if this point taken into account then PMB ranking would drop below that what it claims to be.

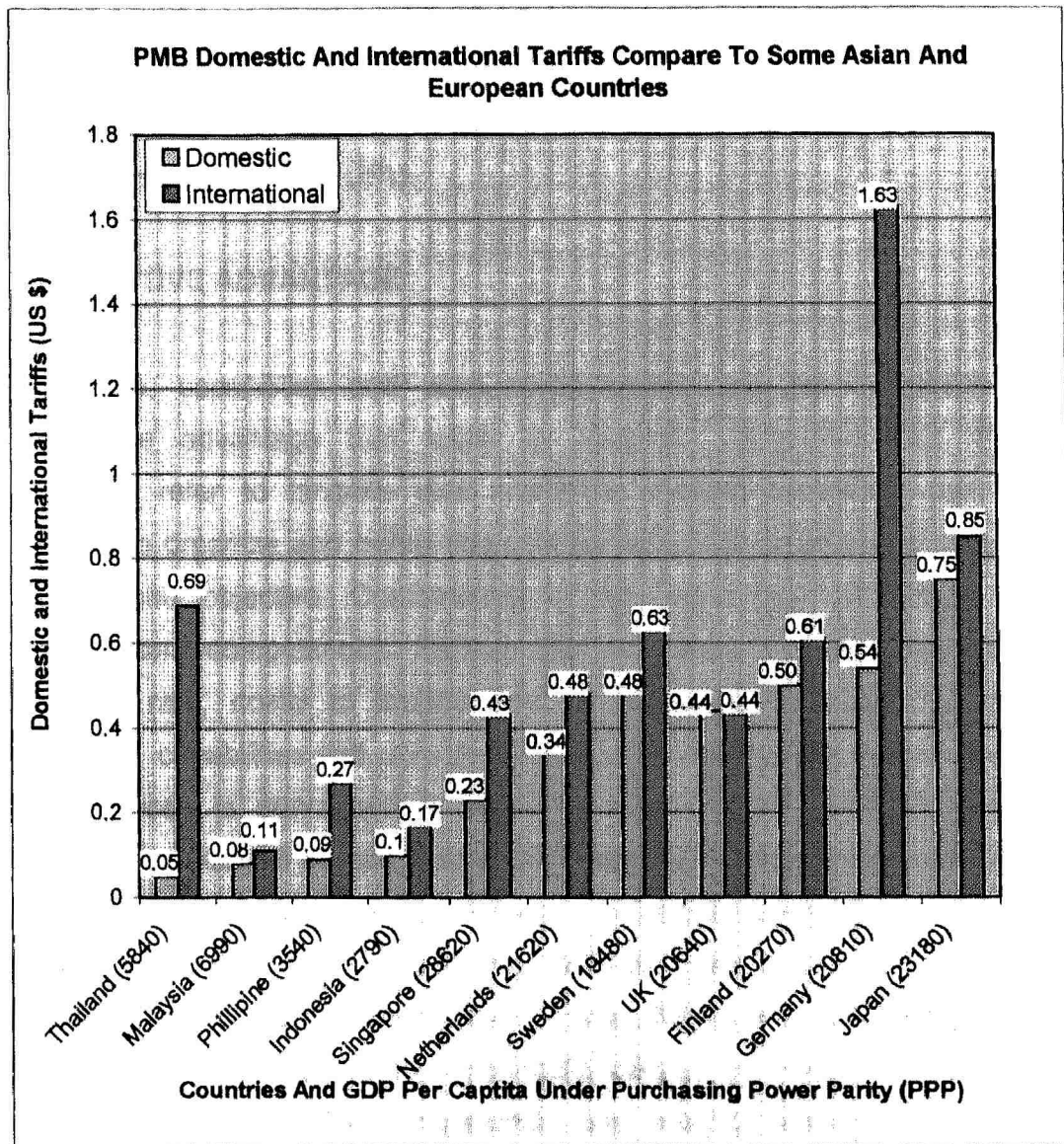
### **Tariff**

Tariff is the most important variable to determine profitability and also competitive strength of postal operators. If the tariff is lower than the cost of operation then it is not profitable for postal operators to run the service. Currently the domestic tariff for letter up to 20 gram imposed on PMB is RM0.30 whilst cost of operation per item between the ranges of RM0.27 to RM0.30 depends on the volume of letters and area of operation. Cost per item is an estimated figure and computed based on volume of mails divided by overall cost of operations, which comprises of cost of processing, domestic transport, international terminal dues and communication, delivery, state financial administration, mail administration for headquarters.

The study makes some comparison between domestic and international tariff imposed on PMB and countries with high and low GDP in South East Asia, Japan and Europe. Figure 5.7 illustrates the tariffs differences. The figure based on normalized measures of domestic tariff for the cost of a 20 gram normal service letter and 20 gram air-mail letter for international tariff. The figure shown PMB domestic and international tariff are among the lowest. The domestic tariff second lowest after Thailand but the international tariff is the lowest. Even though Indonesia and Philippines GDPs are much lower than Malaysia, their domestic tariffs are slightly



higher and Thailand, which the GDP lower than Malaysia set very high international tariff.



Source: KPMG Survey 1999

**Figure 5.7: PMB Domestic and International Tariffs Compare To Some South East Asia, Japan and European Countries.**

With non-competitive tariff it is difficult for PMB to maintain its profitability in the long run, except to increase productivity and be more cost sensitive. Another implication is that low international tariff will encourage bulk re-mailing activities by higher tariff country to gain higher profit. PMB counterpart of the neighbouring country had been using the mechanism to exploit the cost differences. Basically international tariff is being set based on cost principle approved by the UPU.

## **COMPETITIVE ADVANTAGE**

Resources, capabilities and core competencies are the foundation of competitive advantage that leads to strategic competitiveness. PMB resources refer to tangible and intangible. Whilst capabilities are the capacity to organize and bring into use all resources available to achieve mission and objective. Combination of resources and capabilities will produce core competencies. Factors that determine competencies are it valuable, rare, costly to imitate and non-substitutable. Audit on PMB resources, capabilities and core competencies shown on Figure 5.8. As far as resources is concerned it has more than 13,000 employees with employee–population of ratio 1 to 2000. They are mostly loyal workers and are skill in their area of works. However, more than 96% are operational staffs that include more than uniformed staff and clerical group. Other PMB important assets are service network, assets, equipment, long established reputation and brand name, monopoly power in mails service and government support. PMB capabilities are mainly humans in nature, motivating and retaining employee, delivery forces and communication networks. The core competencies are domestic mails service especially in rural area and it expensive to compete because of low tariff, high outlay and operation cost and philatelic which is unique, rare and has aesthetic value. It can safely conclude that PMB does not have much competitive advantage to address the emerging forces.

## Resources, Capabilities and Competences

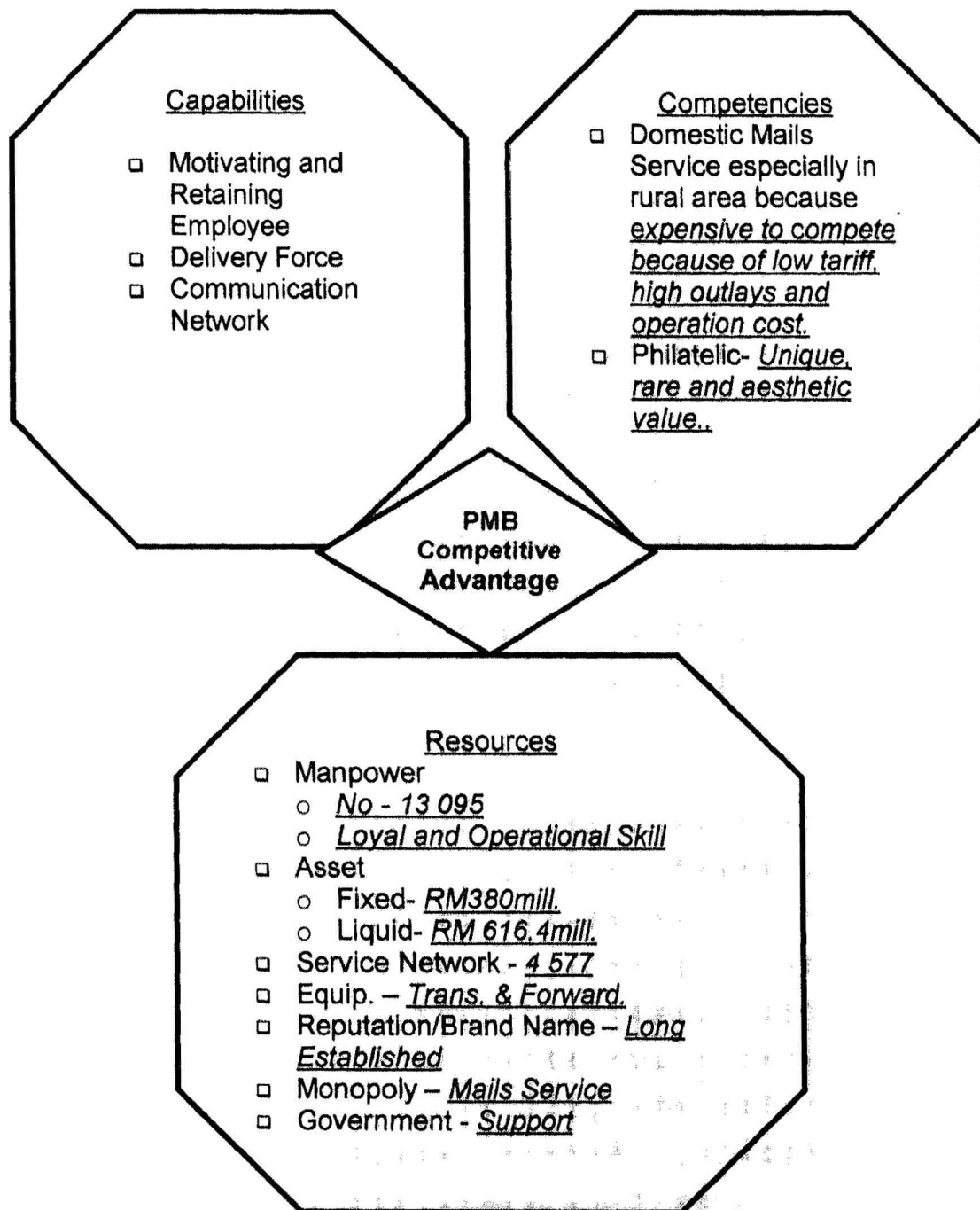


Figure 5.8: PMB Resources, Capabilities and Core Competences Analysis

## **STRENGTH, WEAKNESS, OPPORTUNITIES AND THREATS (SWOT)**

The summary of audit result on PMB strengths, weakness, and opportunities is shown on Figure 5.9. The strengths can be divided into five major classification namely core competencies in domestic mails service and philatelic as discuss earlier, resources, service networks, reputation and brand and monopoly power. It has more than 13000 employees who are loyal and skilled at their works. This is one of PMB success factors because the current business nature is highly labour intensive. Assets include cash and short-term securities, machines, vehicle and equipments and patent right (stem). For example Poslaju the courier arm of PMB has currently 5 units of five tones trucks, 11 trucks, 205 vans and 166 motorcycles. Lands where all PMB buildings standing on are still belong to the government. It has 4 577 strong service networks out of which 625 are post offices that offer full range of services, 600 posting counter for poslaju and Poslaju services (600 counter services, including 4, long established reputation and brand name, monopoly power in ordinary mails service.

Pos Malaysia Bhd. internal weakness includes no clear strategic direction in the changing environments; low growth in term of volume, revenue and profit; lack of commercial skills and capabilities in key areas such as IT, marketing, retailing, finance, strategic planning, product development, investment, and managerial; letter and parcel sorting and processing at most of post offices are manually operated except for few bigger center but of the lower range capacity; poor tacking system; ineffective financial management system for it unable to determine costing and profitability on products and services; falling behind in R & D; high cost to change in strategy that include layoff cost and investment in high technology automation.

## PMB SWOT

<p style="text-align: center;"><b><u>Internal Strength</u></b></p> <p><b>(1) Core Competencies</b></p> <p><b>(2) Resources</b></p> <ul style="list-style-type: none"> <li>□ Manpower <ul style="list-style-type: none"> <li>○ <u>No - 13 095</u></li> <li>○ <u>Loyal</u></li> </ul> </li> <li>□ Asset <ul style="list-style-type: none"> <li>○ Fixed- <u>RM380mill.</u></li> <li>○ Liquid- <u>RM 616.4mill.</u></li> <li>○ Equip. – <u>Trans. &amp; Forward.</u></li> </ul> </li> </ul> <p><b>(3) Strong Service Network</b></p> <ul style="list-style-type: none"> <li>□ Service Network - <u>4 577</u></li> </ul> <p><b>(4) Reputation/Brand Name</b></p> <ul style="list-style-type: none"> <li>□ <u>Long Established</u></li> </ul> <p><b>(5) Monopoly Power–</b></p> <ul style="list-style-type: none"> <li>□ <u>Mails Service</u></li> </ul>	<p style="text-align: center;"><b><u>Internal Weakness</u></b></p> <p><b>(1) No clear strategic direction</b></p> <p><b>(2) Low Growth In Profitability</b></p> <ul style="list-style-type: none"> <li>□ Volume, Revenue, Profit</li> </ul> <p><b>(3) Lacking Commercial Skills and Capabilities In Key Areas</b></p> <ul style="list-style-type: none"> <li>□ <u>IT, Marketing, Product Development</u></li> <li>□ <u>Managerial Level etc.</u></li> </ul> <p><b>(4) Manual Operation</b></p> <ul style="list-style-type: none"> <li>□ Manual Letter and Parcel Sorting</li> <li>□ Poor Tacking System</li> </ul> <p><b>(5) Ineffective Financial/Accounting Management System</b></p> <ul style="list-style-type: none"> <li>□ Unable to Determine Costing</li> </ul> <p><b>(6) Falling Behind In R &amp; D</b></p> <p><b>(7) High Cost To Change In Strategy</b></p> <ul style="list-style-type: none"> <li>□ Layoff Cost</li> <li>□ Investment In Hi-Tech Equip.</li> </ul>
<p style="text-align: center;"><b><u>External Opportunities</u></b></p> <p><b>(1) Emerging New Technologies</b></p> <ul style="list-style-type: none"> <li>□ Integrated Mail Processor (IMP), Optical Character Recognition (OCR), Video Coding System (VCS) Increase Productivity In Parcel and Letter Processing/ Handling</li> <li>□ Introduce New Product Line <ul style="list-style-type: none"> <li>○ Hybrid Mail</li> </ul> </li> </ul> <p><b>(2) Electronic Commerce</b></p> <ul style="list-style-type: none"> <li>□ Increase in Courier and Parcel Services.</li> </ul>	<p style="text-align: center;"><b><u>External Threats</u></b></p> <p><b>(1) Substitute Products</b></p> <ul style="list-style-type: none"> <li>□ Electronic Products.</li> </ul> <p><b>(2) Low Market Growth</b></p> <ul style="list-style-type: none"> <li>□ Mails</li> </ul> <p><b>(3) Entry of Lower-Cost Foreign Competitors</b></p> <ul style="list-style-type: none"> <li>□ Courier Service</li> </ul> <p><b>(4) Costly Regulator Requirements</b></p> <ul style="list-style-type: none"> <li>□ Social Services</li> <li>□ Fixed Tariff/Terminal/Dues</li> </ul> <p><b>(5) Growing bargaining power of customers</b></p> <ul style="list-style-type: none"> <li>□ <u>Alternative Product</u></li> </ul> <p><b>(6) Knowledge Customers</b></p> <ul style="list-style-type: none"> <li>□ <u>Changing Customers Need and Quality</u></li> </ul>

**Figure 5.9: PMB SWOT**

The external opportunities that can be exploited and developed by PMB are emerging new technologies such as Integrated Mail Processor (IMP), Optical Character Recognition (OCR) and Video Coding System (VCS) that can increase efficiency, productivity and effectiveness in parcel and letter processing, sorting and handling. Technology also presents an opportunity for PMB to reposition itself to satisfy new messaging needs in the emerging e-economy. It can introduce new product line such as hybrid mail. Electronic commerce would increase growth in courier and parcel services for PMB to grasp. Andersen Consulting has identified five are of e-commerce opportunity that encapsulate the principal in the postal sector.

Three of these areas provide a new role and extended business opportunities, which will generate increased revenue and contribution by creating added-value services for consumers.:

- (a) Supply chain services that build on existing postal competencies in distribution of physical goods;
- (b) Messaging service that provide an integrated approach to the increasingly complex world of electronic and physical messaging; and
- (c) Secure and trusted e-services that build on the trusted brand that many postal enterprises possess.

The other two do not provide fundamentally new services, but to make cost and efficiency savings and maintain position in the competitive marketplace:

- (d) Automating and enhancing the customer interface by providing increased use automated transactions and customer self-service to reduce costs and revenues;
- (e) Optimizing internal business process by the use Internet and intranet technology within the organization and its partners and suppliers.



PMB external threats are substitute electronic products; low growth in mails market; entry of lower-cost multinational courier service competitors; costly regulator requirements on social services and fixed tariff and terminal due; growing bargaining power of customers as there more alternative products and services; knowledge of customers that will change their need and level of quality. The electronic products include electronic messaging equipments such as that include e-mail, fax, mobile digital phone, telephone, multimedia, and ATM. Multinational courier operators are the major competitors in the courier service market. They have the advantages of economies of scale and economies of scope, advance machines and equipments and well-established management systems. Customers behaviors are changing to evolve toward a more customer-oriented business in similar way as other services such as banking, telecommunications, energy, have evolved. They want fast, secure and quality services and they become very impatient if the services cannot meet their expectations. In line with the development, government and regulator expectation also changing and they set a higher service standard for PMB to fulfill.