

SingPost well-placed after reform

Its pragmatic approach to introducing changes serves as role model of deregulation for the rest of the world

By KAI-ALEXANDER SCHLEVOGT

MANY leaders believe that revolution is the only strategy for managing change. In contrast, the incremental reforms of the postal sector in Singapore can serve as a role model of industry transformation for the rest of the world.

The liberalisation of basic mail services does not only benefit the incumbent and customers, but also fosters a converging service landscape with living space for many players.

Singapore Post, which held the monopoly on basic mail services, is well-positioned to weather deregulation. The company, whose free floating stock accounts for 75 per cent, earned a sterling reputation in the financial community. Since its debut on the stock market on May 13, 2003, the share price has doubled.

Outpacing the economy at large, it grew at an annualised rate of over 18 per cent. The policy change was long ago known to investors who have already incorporated this information into its share price. Besides, liberalisation does not automatically spur competition. You need to read the fine print of government regulation and examine strategic issues. SingPost will continue to enjoy exclusive rights: For the time being, it will retain the master key for all letterboxes in Singapore, such as those installed in HDB housing.

New entrants either have to piggy-back on the incumbent for a fee or deliver mail door-to-door, which is more expensive than using letterboxes. Competitors will thus be at the mercy of the regulator and SingPost. As in many other countries, the incumbent will also keep the monopoly on issuing stamps. What is more, SingPost has made many pre-emptive investments in resources: It has a household brand name, vast distribution network, large customer base and significant free cash flow, which can be used to fuel expansion. It will be very difficult for new entrants to build up similar resources from scratch quickly. Besides, in a small island-nation such as Singapore, there is not much room for a large number of competitors in basic mail.

For the time being, SingPost can only hurt itself. To start with, it should behave in a very generous way towards new entrants, welcoming competitors into the market. It must refrain from lobbying the government to keep restrictions in place and impose high fees on others for using its services.

This is counter-intuitive. But the experience in Germany, for example, shows that incumbents will eventually be punished for defensive behaviour. Once a country has started on the road of liberalisation, customers will not tolerate the imposition of a monopoly for long. Eventually, the incumbent will be forced to change its ways.

To avoid self-inflicted harm, SingPost managers should also imagine they are high achievers thinking about their career. Those would ask themselves: What am I really good at and how can I use these skills in the best way? Rapid inorganic growth through mergers and acquisition can be hazardous. In most cases, it is advisable to

start with a strategic alliance. If it turns out to be successful, it can later be transformed into equity investment.

There is a graveyard of failed deals, partly because of the winner's curse. Companies often pay too much to acquire a target. Secondly, problems with post-merger integration abound. Few companies can rival the software giant Oracle Corporation, which has put in place a standard business model to absorb acquisitions effectively. It moves the employees of the acquired company quickly to different parts of its own business and thus eliminates the target's identity.

Liberalisation will also benefit consumers. Let me first dispel what may be called the "myth of the lazy monopolist". Despite its exclusive powers in basic mail services, SingPost has never been a one-trick pony. On the contrary, it proved to be quite innovative and delivered real value to customers. One example is vPost: An individual living in Singapore can order items from e-merchants in the US or Japan, even if those do not serve overseas customers.

The customer simply uses the address of SingPost's shipping centre in one of the two countries. After receipt of the goods, it will forward them to Singapore at a lower rate than the foreign vendors.

Looking forward, I do not envision dramatic postal rate cuts in the immediate future. Firstly, rates are already quite low compared to other industrialised nations. It is not surprising that the government decided to lift rates at the end of 2006. Secondly, the remaining monopolistic powers in terms of regulation and strategic assets will enable SingPost to keep rates and margins high. Even if rates were slightly cut, this would only represent a reversal of the previous hike.

But there is good news: The government will ensure that service and convenience levels will be maintained. Postal service providers will be obliged to keep a minimum number of mailboxes, for example. This contrasts with the situation in Germany. After postal reforms, the incumbent Deutsche Post cut the number of mailboxes dramatically. In some villages, there are only a few boxes left. This hits the old and weak in particular. Elderly ladies need to ask the postman to deliver outgoing letters to the next post office!

Besides, individual and business customers alike will profit from new products. For example, Swiss Post International plans to introduce "time-definite delivery", such as guaranteed overnight delivery, at low rates. There might also be innovative services such as better offerings in e-commerce, which is notoriously weak in mall-crazy Singapore.

The reforms will also spur the development of a vibrant service industry, offering opportunities for many players. I predict that most industry growth will come from innovation, unleashed by a step-by-step opening of the postal sector. We will see an amazing convergence of different industries populated by very different companies. As a result, we will no longer speak about the postal sector in isolation, but a networked industry, including mail delivery, logistics, financial transaction, e-commerce, and many other businesses.



Discontinuous technological change, such as the advent of the Internet, will spur industry transformation in a healthy way. Here is an analogy: When electric light was introduced, candle makers went almost out of business. That is creative destruction brought about by innovation. You cannot do much about it. It would not have made sense for candle makers to stage a revolution.

E-mails cannot completely replace letters, especially when companies need to send original documents. The express delivery segment is growing. Business correspondence accounts for almost 95 per cent of Singapore's total domestic mail, which will also prove quite resilient. Traditional postal players may even reposition the letter, similar to the revival of the candle.

Why not market handwritten letters as a way to rise above the noise level created by e-mail? Because of its rarity, such a letter will surely draw more attention than an e-mail. Industry players may even leverage revolutionary new technologies. One exciting development is Radio Frequency Identification (RFID). With the prices of smart tags declining, potential applications widen steadily.

As part of its Future Store Initiative, Metro Group, the third largest commercial company in the world, has successfully exploited RFID to revolutionise its entire supply chain. RFID could be used to streamline postal distribution, which would generate tremendous savings. It would also facilitate better tracking of mail.

Why not even convert traditional stamps into smart tags that contain files such as video and sound? Then you can comfortably send electronic information together with your snail mail.

Liberalisation of postal services forms part of a larger trend in Asia. The Hong Kong Post Office was transformed into a trading fund and Australia Post grew into a diversified company. The quest for innovation and efficiency improvements is an overarching theme driving liberalisation movements. Besides, each country has its idiosyncrasies.

In Hong Kong, the government wanted to free the post office from many bureaucratic constraints, so that it could act as a normal business. Australia Post pursued the objective of transforming itself

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into a supply logistics powerhouse, which combines old economy and new economy business.

Likewise, the Singapore government does not unleash reforms to follow fashion, but because it performed a thorough cost-benefit analysis and decided that the new policies can lead to real improvements. Especially in a highly visible sector that affects the life of every citizen, its tested approach of initiating change from a position of strength and "crossing the river by feeling for the stones", including continuous consultation with the public, might well serve as an example for other governments that move too quickly.

The experience shows that a pragmatic fact-based approach can be more effective than the revolutions introduced by ideologues who believe in the supreme virtue of unbridled market forces everywhere.

The author, a former professor at Peking University and McKinsey & Co Consultant, is Visiting Associate Professor in the Department of Business Policy at the National University of Singapore Business School. His e-mail is: schlevogt@schlevogt.com