SINGPOST
STAYING RELEVANT - FROM POSTMAN TO E-COMMERCE

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Singapore Post (SingPost) former chairman, Lim Ho Kee, who has also been a non-executive independent director, pondered over what suitable guidance he would have to give to the new management when the SingPost’s press release on 10 December 2015 announced the resignation of Group CEO, Dr Wolfgang Baier, stating that Lim Ho Kee “will step up his involvement to provide management with more time and guidance over and above the normal oversight of the role…” (Singapore Post [SingPost], 2015d).

SingPost’s continued postal mail operations have grown increasingly shaky under challenges posed by technological innovations like the Internet, mobile smartphones and social media. By 2012, there was a significant growth in the use of digital communications\(^1\) which led to the reduction in the use of postal and related services. That pushed its board to urgently search for new growth areas to counter the expected drop in revenue and profits from postage fees. The management’s efforts did seem to bear some results. Total operating revenues and profits appear to have increased over the years (Figure 6, Appendix C). From the stock holders’ perspective, however, other than the short span of time right after financial crisis from 2009 to 2010, SingPost share price continued to be lagging the Straits Times Index (STI) for many years (Figure 1, Appendix A) before Alibaba’s investment into SingPost in 2014.

The hidden weakness in SingPost’s strategy did not go unnoticed. SingPost’s business problems prompted Standards and Poors, a worldwide reputable ratings agency, to drop SingPost’s rating from AA- to A+ on 20 February 2013 with an “outlook negative” tag (SingPost, 2013). The research update noted, “SingPost’s profitability is likely to weaken due to the company’s increasing shift toward the lower-margin logistics business, and a decline in its domestic mail business”. In addition, it also explained that, “the negative outlook reflects our expectation that SingPost’s profitability and business risk profile could weaken over the next 12-24 months”.

**Background**

SingPost started with the mandate to provide efficient postal services to the country. The first autonomous government body in charge of postal mail collection and delivery operations began as Singapore Postal Services Department on 1 January 1967. Over the years as Singapore developed, mail volumes grew. In 1992, after a re-structuring exercise, SingPost was privatised to form Singapore Post Private Limited as a subsidiary of publicly-listed company Singapore Telecommunications Limited. The Telecommunications Authority of Singapore (which later merged into the Infocomm Development Authority [IDA] of Singapore) at that time granted SingPost as the first and only Public Postal Licensee to operate postal services (Infocomm Development Authority [IDA], 1992), essentially giving SingPost a monopoly over postal-related services in Singapore. Subsequently, with efficient operations and effective management, SingPost’s financial performance grew and was publicly listed on the Singapore Exchange on 13 May 2003.

SingPost has three business units, namely, postal mail, logistics, and retail in order of importance in operating profits.

\(^1\) See discussion under Technology Boom
The mail business has been the most profitable business unit for SingPost. In 2002, mail business revenue was SGD 295.65 million, representing 79.2 per cent of operating revenue, with a profit of SGD 106.66 million representing 78.7 per cent of operating profits for SingPost, according to its Annual Report 2002-03. However, by 2014, even though mail business operating revenue grew to SGD 500 million, its contribution dropped to 47.3 per cent. At the same time, operating profit grew to SGD 144 million contributing 82.1 per cent to SingPost’s overall operating profits in 2014 and providing a 28.8 per cent profit margin for its mail revenue, according to SingPost’s Annual Report 2014-15. The observed decrease in operating revenue with a significant increase in operating profit could be understood by reviewing the growth of SingPost logistics segment.

The logistics business unit played a minor role back in 2002, contributing merely SGD 48.32 million (12.9 per cent) and SGD 5.9 million (4.3 per cent) of operating revenue and operating profit respectively. By 2014, SingPost’s logistics unit grew in revenue to SGD 464.75 million, representing 44 per cent in operating revenue. The unit’s operating profit in 2014 was SGD 21.542 million, contributing 12.3 per cent of SingPost’s total operating profit. However, its estimated profit margin in terms of logistics revenue was 4.6 per cent, which would be considered unhealthy by most services industry standards. As a comparison, the estimated profit margin of a publicly listed logistic services company on the Singapore Exchange, such as Poh Tiong Choon Ltd in 2014 was 8.4 per cent (Poh Tiong Choon Logistics, 2015) with revenue of SGD 126.2 million revenue and profits of SGD 10.6 million.

SingPost’s retail business also started with an insignificant contribution in 2002 of SGD 44.1 million (6.1 per cent) and SGD 6.75 million (5 per cent) in operating revenue and profit respectively. However, as years went by, usage pattern of postal services changed. As SingPost provides online purchases of stamps and postal accessories, there is less need for people to visit post offices except perhaps for special transactions such as bulky parcels or registered services. Despite lesser visits of post offices for postal-related transactions, SingPost still has to account for depreciation and pay for property-related maintenance expenses. In 2003, SingPost paid SGD 37.6 million for depreciation and SGD 17.6 million for property-related expenses. By 2014, the retail business unit grew in contribution to SGD 92 million (8.7 per cent) and SGD 9.75 million (5.6 per cent) of operating revenue and profit respectively through the rendering of various non-postal counter services at its 63 post offices across the island nation.

In over a decade of operation from 2002 to 2014, SingPost faced multiple challenges originating from both local and global factors that have shifted the operating landscape of its major business – the postal mail services.

**Technology boon**

By the time it was publicly listed in 2003, SingPost was already facing early headwinds in Singapore from the globalising use of the Internet, which offers low-cost and convenient electronic mails (emails), file transfers and digitized document transmission as alternatives to paper-based mails. According to SingPost’s Annual Report 2002-03, its postal collection and delivery services accounted for about 79 per cent of both operating revenue and profit in 2003. These primary sources of income are increasingly challenged by technological innovations like the Internet, mobile phones and social media as fewer people convey information by paper-based postal mailing. From 2002 to
2014, according to World Bank Data on Singapore, both mobile cellular subscriptions and Internet users nearly doubled. On a per-100-people basis, mobile cellular subscriptions grew from 80 in 2002 to 158.1 in 2014. Internet users grew from 47 in 2002 to 82 per 100 people in 2014. At the same time, fibre subscriptions grew from 270,000 in 2002 by 5.7 times to 1,533,000 in 2014. By 2015, relatively low-cost, high bandwidth multimedia mobile messaging services were common place in Singapore. Easily-affordable smartphones that exploit these mobile services offer convenient integrated features like taking high resolution images or videos of printed contents and sending the images immediately via email, social media, or YouTube sharing sites. More people are abandoning the use of older technologies such as facsimile machines, scanners, and postal mails.

**Increasingly environmentally conscious consumers and businesses**

Singapore has committed to environmental sustainability encouraging the use of environmentally sustainable materials and methods. According to the 2014 Environmental Performance Index produced by Yale University, Singapore ranked number four in the world (Yale University, 2014). Systematic implementation of various environmental protection and sustainable measures have been put in place. For example, since 2011, the National Environment Agency (NEA) of Singapore has required recycle bins for paper and plastic bottles to be placed at each block (Feng Z. K., 2014) of Housing Development Board (HDB) flat. This facilitates separation of types of waste at source and makes it more efficient for subsequent processing to treat the recycled waste. According to NEA, paper and cardboard formed one of the top three wastes by tonnage in 2014, generating a total of 1.23 million tonnes of which only 52 per cent was recycled (National Environment Agency [NEA], 2014). In addition, efforts by Non-Government Organizations (NGOs) like Green Future Solutions helps to promote awareness of environmental protection through its various activities, including education, training and events.

Corporations and consumers have turned more conscious about paper usage that will ultimately lead to demand of wood and the clearing of forests. Annual haze brought about by the burning of forest in surrounding regions serve as reminders to consumers and businesses to be mindful of the detrimental environmental impacts of overconsumption. With concerted efforts and focused awareness to contribute to environmental protection and sustainability, the demand for paper-related postal products and services is expected to face further downward pressure. SingPost will have to be ready for these changing consumption behaviours on postal services.

**Electronic Transaction Act**

Before the enactment of the Electronics Transaction Act (ETA) on 13th October 2010, commercial firms and government agencies could not interpret the legal validity of electronics-based communications, such as commercial quotation sent as an email attachment, or an electronic application form with personal particulars submitted via the web. Whenever such electronic submissions were accepted, further documentation had to be carried out by supporting the submissions with hard copies of documents sent through facsimile or postal mail. The additional processing is both cumbersome and inefficient.

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2 More than 80% of Singapore population lived in HDB flats.
The ETA recognises the legal validity of electronic communications, such as emails, mobile Short-Message Service (SMS), and other forms of electronic communication brought about by innovations in the Internet, mobile and wireless technologies (Attorney-General’s Chambers [AGC], 2010). The intent of Section 3(b) (entitled purposes and construction) of the ETA is to “facilitate electronic commerce, to eliminate barriers to electronic commerce (e-commerce) resulting from uncertainties over writing and signature requirements, and to promote the development of the legal and business infrastructure necessary to implement secure electronic commerce”. The ETA has enabled the legal recognition of electronic identities, electronic signatures, and electronic transactions in place of paper-based proof of identities, originally-signed copies, and physical trail of evidence of transactions. The ETA, thus, has facilitated the use of electronic commerce in which only paper-based physical signatures were accepted as legally valid agreements previously.

Further, in Section 25 which governs the use of electronic records and signatures by public agencies, clause 3 states that in situations where a person is required by law to file any form or document to a public agency, “such a requirement is satisfied by an electronic record specified by the public agency for that purpose”. Section 25 and its related clauses in the ETA has liberated public agencies from the use of paper-based forms and supporting documents. Since the government agencies interact with citizens in many ways, the ETA means that there will be less and less use of paper-based communications between the government and the public since electronic records, such as those found in email attachments, can be used as legally-recognised evidence.

Thus, to SingPost, the ETA is a significant accelerator in the reduction in volumes of public service-, commercial- and business-related postal mails. After its enactment in late 2010, commercial firms and public agencies might have taken a year or two to study, rationalize and understand its implications and how to take advantage of it to shift away from paper-based communications. Adding perhaps a year of trial and implementation of electronic-based transactions and workflow, the effects of the ETA was felt by SingPost around 2013. SingPost experienced an initial drop in business-related postal mail volume around then, and subsequently, has expected a continual fall in business-related postal mail volume in years to come. The drop in volume can be drastic and irreversible, and will impact SingPost significantly in terms of its operating profits, return on assets, and return on equity in the long run.

Deregulation of Postal Services

“The major challenges facing us continue to be the deregulation of postal services in 2007 and e-substitution”, Lim Ho Kee commented on page three of SingPost’s Annual Report for 2003-04. SingPost is aware of the threat of deregulation, as it has waged defence against deregulation.

In its response to an IDA’s consultation paper on the further liberalization of the postal services sector in Singapore, SingPost stated on 29 September 2006 that “SingPost believes that the Basic Mail Services market should not be liberalized” (IDA, 2006a). SingPost has argued that the Singapore market is small, liberalization is premature and risky, and SingPost is already fulfilling basic mail delivery services at very competitive prices to the public and businesses despite being the monopoly. Despite the “small” market of postal services, IDA received altogether eight responses from both
commercial and public sources (IDA, 2006c) at the close of the consultation period with some supporting while others doubting the purpose of liberalization.

On 5 February 2007, Dr Lee Boon Yang, then Minister for Information Communications and the Arts (MICA) announced the decision to liberalize the basic mail services market on 1 April 2007 (IDA, 2007a). The “basic mail services” was clarified to be the conveyance of letters weighing 500 grams and below. By 2009, there were four licensees operating the basic mail services market, namely:

- Asendia Singapore Pte Ltd (formerly known as Swiss Post International Singapore Pte Ltd) (1 December 2007 for 10 years, ending on 30 November 2017) (IDA, 2007b);
- DHL eCommerce (Singapore) Pte Ltd (25 February 2009 for 10 years, ending on 24 February 2019) (IDA, 2009);
- Singapore Post Ltd (1 April 1992 for 25 years, ending on 31 March 2017);

The deregulation of basic postal services means that SingPost will have to defend its market share amidst increasing competition and changing business landscape.

**Stringent Mail Delivery Standards**

As part of the conditions attached to being a Public Postal Licensee, SingPost must adhere to certain mail delivery standards set out by IDA, according to SingPost Annual Report 2006-07 (p23). To SingPost’s credit, it has been able to deliver to or exceed those standards. SingPost noted in its Annual Report 2002-03 that “...the Mail Division provided a 99 per cent next-day delivery service for mail posted as late as 7.00 p.m. in the Central Business District (CBD) and by 5.00 p.m. outside the CBD”. By 2014, according to IDA’s published report, amongst mails to be delivered by next working, SingPost achieved at least 99.70 per cent for mails addressed to within CBD, and at least 99.57 per cent for mails addressed to outside CBD (IDA, 2014). Compared to IDA’s requirements of 99 per cent and 98 per cent respectively, SingPost has indeed been both excellent and consistent in its mail delivery quality.

However, such high standards of delivery demand large amounts of investments not only in human resources but also in capital equipment such as high speed and high accuracy mail sorting machines, and fuel efficient vehicles to collect mails from postal boxes all over the island and to provide the “last mile” delivery of the sorted mails to the addressees. In its raise of postal rates in 2014 (Woo J., 2014), then Group CEO Dr Wolfgang Baier cited “tremendous pressures such as e-substitution and high service expectations” as reasons to invest up to SGD 100 million into up-keeping and improving domestic mail service standards³. Sixteen more automated sorting machines were planned to be installed to increase mail sorting capacity by 17 per cent, along with hiring of 200 more postmen.

But will such an increase in mail processing capacity be poorly conceived, given the expected continuous decline in mail volume?

**Business problem**

³ This was also described in SingPost’s Annual Report 2014-15 page 14.
Postal mail service has been the primary source of operating revenue and profit for SingPost. According to SingPost Annual Reports 2002-03 and ignoring cross-segment deductions due to internally-generated postage items, mail-and-related services contributed 79.2 per cent and 78.7 per cent of total operating revenue and profits in 2002. Mails are categorized into two groups based on their nature: public mail and bulk mail.

Public mails are mails originating from the general public and as such, are typically smaller in volume. Personal letters, season’s greeting cards to friends and peers and postage cheque payments to individuals are examples that belong to this category. Since 2002, SingPost has noticed the persistent decline in public mail volumes (Figure 3, Appendix B). Public mail volume dropped from about 181 million items in 2002 to 119 million items in 2012 with a visible continuing downward trend. With innovative technologies and services introduced by the Internet, mobile and social media sectors, the public simply has largely replaced most of their usual postal needs with instant transmission by mobile phone apps to their peers and social groups. Where submission of documents is required, the public can upload the equivalent electronic forms and files to corporate computers via websites, thereby avoiding the use of postal services. As illustrated in (Figure 3, Appendix B), the public mail in Singapore would be expected to fall further from year 2013 onwards.

Bulk mails are mails originating primarily from corporations and businesses that need to market their products, solicit payments through invoices, and communicate with their subscribed members or customers using the printed medium. Despite the impact of technological developments in the Internet, mobile and social media sectors, SingPost noted that bulk mail volumes had increased over the years from 519.9 million items in 2002 to 815.5 million items in 2012. Bulk mails are voluminous and periodic in nature, which are two attractive features to SingPost. It appears logical to develop the bulk mail business further to assure SingPost of a continuing source of operating income.

However, SingPost has stopped publishing breakdown information on domestic mail volume in its annual reports after 2012⁴. Page six of SingPost’s Annual Report 2013-14 noted, “... domestic mail volumes recorded a decline for the second year”. SingPost gave another hint of the “increasing challenges” faced by the SingPost when Lim Ho Kee commented on page nine of the company’s Annual Report 2014-15 that “the structural decline in the traditional postal business is reflected in lower letter mail volumes and post office transactions.” The situation seems worse on a per capita basis. Appendix B illustrates that despite the increase in Singapore population from 2011 to 2014, bulk mail volumes declined steadily in the same period.

By year 2016, the domestic mail volume is projected at 651 million (Figure 2, Appendix B). The volume of domestic mail traffic will be less than 701.1 million compared to 13 years ago (i.e. year 2002 to 2003 when SingPost had its Initial Public Offering (IPO)). The domestic mail volume is made up of both public and bulk mail. Their volumes were declining leading to the overall decline of the overall domestic mail volume which would fall probably more rapidly from year 2011 onwards.

⁴ This was the reason why the case charts in Exhibit B showed only data points up to year 2012 even though annual reports up to year 2014 were accessible.
Snail-mail versus email, mobile messaging, social chats and others

Snail mail faces multiple media substitution, often referred to as the “e-substitution” problem in SingPost’s annual reports. Unlike paper mail (commonly referred to as “snail mail” for its inherent slowness in reaching the addressee), email offers reliable and often immediate delivery of electronic content worldwide. Furthermore, emails can be easily replicated together with its attachments to a group of recipients by just specifying their email addresses in the carbon-copy (cc) or blind-carbon-copy (bcc) fields in the software. Reasonably good quality email software, both free and paid versions, are easily available, allowing both household and business users to flexibly choose their own appropriate software at the right price point.

The Wireless@SG initiative, launched by IDA in 2006, provides free connectivity at reasonably useful bandwidth in parts of Singapore where there are high human activity (IDA, 2006a). This enables mobile computing to conveniently take place in many places in Singapore, enhancing the appeals of working with emails and discouraging further use of snail mails wherever possible. Wireless-Fidelity, or WiFi in short, was increasingly available as a standard wireless networking adaptor on modern mobile notebooks and devices. As connectivity through WiFi to the Internet is freely available island-wide, emails have become one of the standard ways to communicate with colleagues and friends.

At around the same time, the wide-spread use of mobile phones with email and web browsing features, spurred visibly by the launch of Apple’s iPhone 3G around June 2007, has created a new wave of demand for emails, web services and other Internet communication innovations. With portable mobile smartphones equipped with long usage batteries, people can easily send emails anywhere anytime instead of carrying around a relatively bulkier mobile notebook computer which often requires power supply outlets for prolonged computing. Snail mails also face competition from the mobile phones’ SMS. SMS from mobile phones were, initially, charged at high rates and could only send text messages. As competition from free WiFi-connectivity increases, the telecommunication companies have reduced charges and introduced Multimedia Messaging Service (MMS) which allows picture and/or video to be sent along with a short text message.

In addition, various forms of social media and media sharing innovations have been introduced over the years since 2004. From social grouping on Facebook (introduced in 2004), video sharing on YouTube (introduced in 2005), to picture sharing Instagram (introduced in 2010), and mobile group messaging on WhatsApp (introduced in 2010), mobile phone and computer users have various ways to communicate with each other instead of using snail mails.

Customers seeking postal alternatives due to rising costs

As a Public Postal Licensee granted by IDA, SingPost must seek clearance and approval from IDA before it can raise its basic mail service charges. Over two decades from 1995 to 2014, it did succeed to raise its basic mail service charges three times. In 1995, SingPost raised postage rates for domestic mail weighing 20 grams or less from 20 cents to 22 cents. In June 2003, SingPost’s application to increase its postage rates was rejected by IDA (IDA, 2003). SingPost was permitted to
raise postage rates for domestic mail weighing 20 grams or less from 22 cents to 26 cents on 18 December 2006 and again, from 26 cents to 30 cents on 1 October 2014 (Woo J., 2014).

It may appear insignificant when a simple standard mail weighing no more than 20 grams needed 30 cents to post. But, suppose a company has to communicate with its one million customers or members monthly through standard mails. The company will have to spend SGD 300,000 dollars per communication, or SGD 3.6 million dollars a year just on postage alone, disregarding paper and processing costs. Comparatively, with essentially free-of-charge emails or web downloads, the company will save at least SGD 3.6 million dollars annually for postage costs alone. This does not include the savings from eliminating paper purchase costs, printing costs, letter costs and other processing costs which the company will save by migrating to digital end-to-end delivery to its customers or members. Eliminating postal-based communication has become a very strong incentive for companies.

For SingPost’s bulk mail business, its biggest customers are private corporations, government and public organizations which has to send monthly invoices, bills, statements, payment slips, receipts, advertisements, sales promotions and other routine or seasonal documents to addressees. Because they are huge in volumes and periodic in nature, bulk mail presents SingPost with a stable revenue source. Bulk mail is attractive. They are easier to collect as they are offered at relatively fewer locations than public mails. Besides, they are more standardised in size than public mail, and so requires lesser processing and handling time. Since they do not require specialised processing for delivery, the profit margin from bulk mail is high.

However, with the introduction of ETA and increasingly reliable, highly-secured, high-speed network encryption technologies such as AES (Advanced Encryption Standard), SSL (Secured Socket Layer), and HTTPS (HyperText Transfer Protocol – Secured), banks, which are highly security-conscious, have also introduced Internet- and mobile-based banking services. These electronic services allow customers to transfer monies remotely through their own computer devices instead of writing and posting paper cheques.

Non-banking companies are eager to save postal costs, too. For example, Singapore Telecoms (SingTel), the largest local telecommunications company, has begun offering myBill paperless electronic bill statements in 2009 – customers log in to SingTel website to download Portable Document Format (PDF) soft copies of monthly statements of their telephone, mobile and Internet broadband bills. With the shift from postage-based paper statements to myBill, SingTel is able to save millions of dollars from postage fees alone given that it has millions of customers in Singapore.

Development Bank of Singapore (DBS), the largest local bank in Singapore, began migrating to eStatement in 2010. Customers can download PDF soft copies of their monthly bank statements via DBS’ internet banking website at their own convenience. With a few millions of customers opting for eStatement, DBS is saving millions of dollars of postage fees on a monthly basis.

Singapore Press Holdings (SPH), the largest and only printed newspaper company in Singapore, migrated over to e-receipts for their advertisement customers in late 2015 as well. Prior to 2015, SPH had to post hundreds of thousands of receipts monthly. With the introduction of e-receipts,
soft copies of receipts in PDF format are mailed to advertisers’ email addresses, thus enabling substantial savings for SPH.

Singapore Power (SP Power), the largest electricity supplier in Singapore, also started its opt-in migration to downloadable PDF statements with its “Sign up e-bill” feature on its website. Since almost everyone in Singapore has to subscribe to SP Power for electricity, a full fledged migration to electronic statements can mean savings of several millions of dollars for SP Power in terms of postage fees alone.

As organisations such as banks, telecommunications, utilities, public services, law firms, and others grow increasingly more confident about the legal validity and cost savings brought about by the ETA, there will be a greater push for them to move away from the more costly paper-based transactions to the cheaper, quicker, digitally traceable and legally-recognised electronic transactions. All these mean that in future, large organisations will rely less and less on bulk postage services for their business operations. SingPost’s lucrative bulk mail business can experience a continual and irreversible downward pressure.

**Post office burden**

As a way to monetize its retail real estate, lessen the effects of depreciation and maintenance charges on its financial performance, and possibly buffer the effects of the decline in mail volume, SingPost started in 2002 to add many more over-the-counter non-postal commercial and financial-related services for government and large reputable corporations (SingPost, 2015e). The list of such services allow customers to make payments of to six major hospitals, perform urgent money transfer service with Western Union, cash out New Singapore Shares cheques with DBS, and courier parcels for pick-up by part-rival Federal Express.

By 2014, non-postal government-related counter services were expanded further to include income and property tax payments, passport collection, employment pass application, payment of official assignee for personal bankrupts, payment of traffic police fines, and dog licence renewal. Financial and commercial services available at the counters of post offices have expanded to include payment of loans for Citibank and Australia and New Zealand Banking Group (ANZ), payment of American Insurance Association (AIA) insurance, payment of General Electric (GE) Money auto and personal loans, payment of credit card bills for American Express, Citibank, Hongkong and Shanghai Banking Corporation (HSBC), Maybank, Standard Chartered, and United Overseas Bank (UOB) (SingPost, 2008).

**Alibaba’s offers**

Alibaba’s business was growing rapidly in 2014 requiring a scalable way to quickly expand its logistics fulfilment capability in Southeast Asia. Alibaba reached out to SingPost in May 2014 and paid USD 249 million (SGD 313 million) for 10.35 per cent of SingPost’s shares (Chun H. W., 2014). With a stake in SingPost, Alibaba will be able to leverage on SingPost’s assets for greater synergy to further expansion of its e-commerce business in Southeast Asia. According to SingPost Annual Report 2014-15 (p. 12), an Alibaba representative also joined SingPost’s board of directors on 31 July 2014, possibly exerting some level of influence over SingPost’s corporate direction. SingPost share prices
soared after Alibaba invested into SingPost in 2014 (Figure 1, Appendix A), significantly
outperforming the STI for months thereafter. But is Alibaba’s buy-in really a good deal for SingPost?
Will not Alibaba be more interested in finding an e-commerce logistics solution for itself rather than
to bring positive developments to SingPost’s businesses?

SingPost received a net proceed of about SGD 308 million for the deal. According to a report from
Business Times, then Group CEO Wolfgang Baier said: “E-commerce is the lifeline of the future for
SingPost, as it grapples with a declining mail business” (Gabriel A., 2014). SingPost said that the
proceeds would be used to expand its Southeast Asian e-commerce business through investments
and acquisitions.

Just a year after buying SingPost shares in 2014, Alibaba announced its intention to buy another five
per cent of shares in SingPost for SGD 187.1 million in July 2015 (Azhar S., 2015). It would spend a
further SGD 92 million to buy 34 per cent of shares in Quantum Solutions International, which is a
SingPost subsidiary providing e-commerce logistics across Asia Pacific. With Alibaba’s executive
amongst SingPost’s board of directors, what is Alibaba’s ultimate intention? Is it to gain access to
Quantium Solutions in order to facilitate the movement of Alibaba’s e-commerce parcels in Asia
Pacific?

Changing leadership

Group CEOs probably have to be renewed at some point. While there is no specific ideal tenure for
a Group CEO at SingPost, the tenure ought to be sufficiently long for the Group CEO to execute the
plan. A Harvard Business Review article suggested that the ideal period of tenure for the CEO would
be 4.8 years (Luo X. M., Kanuri V. K., & Andrews M., 2013). In SingPost’s case, within a span of 10 years from 2005 to 2015, SingPost changed its Group CEO three times, excluding the consideration of its interim deputy Group CEO or acting person while it searched for new Group CEO, a process which typically takes three months to two years:

- Lau Boon Tuan, Group CEO since February 2005, resigned on 31 August 2007 (tenure was about
  2.5 years) (Post & Parcel, 2007).
- Wilson Tan, Group CEO since October 2007, resigned on 4 January 2010 (tenure was about two
  years) (SingPost, 2010).
- Dr Wolfgang Baier, Group CEO since October 2011, resigned on 10 December 2015 (tenure was
  about four years) (SingPost, 2015d).

If interim leadership changes were also taken into consideration, SingPost would have experienced
six changes of top management in a span of 10 years.

The issue on declining mail volume will impact SingPost’s long term business sustainability and
requires leadership continuity for effective strategy implementation. When leadership changes
quicker than problem can be resolved, new solutions and actions may be implemented before
results from previous strategies can take effect. Management decisions risk being locked into a
state of flux, failing to achieve tangible results even though the course of action taken is good.
Dark times
SingPost is changing its strategic focus. It has been shifting its strategy from domestic mail to e-commerce. Amidst this crucial transition phase, the absence of a Group CEO position can affect the momentum needed to fulfil the on-going shift in strategy. A leadership vacuum at this juncture may even temporarily paralyse SingPost’s ability to respond expediently as changes in the business environment continues to threaten the successful implementation of SingPost’s strategies.

Although SingPost’s continued efforts in the less profitable e-commerce logistics may help bolster its revenue, it will hurt the unit’s long term profitability. Standards and Poors has dropped SingPost’s rating and tagged it with a negative outlook due partly to the low-margin nature of e-commerce logistics.

The composition of SingPost’s operating revenue and profit had shifted from one in which the mail contributed most to both revenue (79.2 per cent of total revenue) and profit (78.7 per cent of total profit) in 2002, to one in which logistics contributed more and more in terms of revenue (44 per cent of total revenue) while most of the profits (82.1 per cent of total profit) were derived from mail in 2014. SingPost appears to be continuing with this revenue model in which the logistics unit contributes the bulk of the operating revenue while the mail unit contributes the bulk of operating profit. With the presence of Alibaba’s executive in SingPost’s board of directors, SingPost’s strategic shift to e-commerce logistics will most likely be reinforced, since that will also help Alibaba most in terms of logistics fulfillment of e-commerce transactions in Asia Pacific. This can mean that the low-margin logistics business unit will stay as one of SingPost’s business portfolio.

In the meantime, domestic mail volumes continue to decline, possibly at a pace quicker than SingPost can manage. Among the various strategies that SingPost has implemented, one of them was to seek IDA for higher postage fee charges. SingPost has also sought to reduce the impact of property maintenance expenses of its 58 (SingPost, 2015f) island-wide post offices by offering more and more non-postal over-the-counter transaction services from which SingPost can derive fees. Can the simple strategy of asking IDA for increase in postage fees be sustainable? Will the idea of overloading its post office counters with non-postal service offerings still be a viable course of action when mail volume has decreased to a minor proportion of its overall transactions?

SingPost can be in for very dark times ahead. Can the new Group CEO steer SingPost towards a brighter future amidst all the above challenges? What guidance can Lim Ho Kee give to the new Group CEO to help him or her helm the company through the complexity of the situation?

End-of-Case Questions

Question 1
Analyze the changes in business environment of SingPost. Discuss the threats arising from the changes.

Question 2
Will an increase in mail processing capability be a poor decision, given knowledge of the expected continuous decline in mail volume?

**Question 3**
Comment on SingPost’s plan to use e-commerce logistics to supplement its declining revenue and profit from its mail business. Should SingPost have taken up Alibaba’s offer?
Appendix A

SingPost share price performance

The chart below shows Singapore Post share price performance from January 2007 to December 2015 plotted against the Straits Times Index (STI). Because the ranges were very different, the time series values were standardised and the re-scaled z-values plotted instead of the original price values.

Figure 1: Singapore Post share price performance from January 2007 Jan to December 2015
Data Source: Singapore Post Annual Reports from 2007 to 2015 inclusive
Appendix B
Domestic mail volume analysis

According to SingPost Annual Reports, the annual domestic mail volumes in Singapore climbed steadily from 2002 to 2010 (see Figure 2). But thereon, there was a visible turn towards a declining trend.

![Domestic Mail Volume (millions)](image)

Data Source: Singapore Post Annual Reports from 2002 to 2012 inclusive

An attempt to recover domestic mail volume information for 2013 and beyond can be through the use of regression forecasting. If $X$ represents the index year since 2002 with Year 2002 being 1, and $Y$ the domestic mail volume in millions, then the cubic regression model regressing $Y$ against $X$ has a coefficient of determination ($R^2$) of 0.9787, an adjusted $R^2$ value of 0.9696, and a model $p$-value of 0.0000 (F-Test statistic was 107.1757). Using this statistically significant cubic model to predict for the missing domestic mail volumes for years 2013 to 2016, we get the following projected domestic mail volumes.

- Year 2013: 913 million
- Year 2014: 857 million
- Year 2015: 772 million
- Year 2016: 651 million

Figures 3 and 4 show Public Mail and Bulk Mail volumes.
Figure 3: Public mail volumes in Singapore
Data Source: Singapore Post Annual Reports from 2002 to 2012. Data was not available from years 2013 onwards.

Figure 4: Bulk mail volumes in Singapore
Appendix C

Operating revenue and profits analysis

According to Singapore Post Annual Reports’ data (as shown in Figure 5), the operating revenue shows healthy growth across the years. However, the operating profit displays a flatter and less convincing growth trend.

Figure 6: Operating Revenue and Operating Profits of SingPost
Data Source: Singapore Post Annual Reports from 2002 to 2014
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About Nanyang Technopreneurship Case Centre

With funding from both the National Research Foundation of Singapore and Nanyang Technological University, the Nanyang Technopreneurship Case Centre (NTCC) was one of the initiatives of the Nanyang Technopreneurship Centre (NTC) to enhance the quality of entrepreneurship education through the case pedagogy. These are part of NTC’s efforts to foster, promote and nurture enterprising mind-sets, skills and knowledge in entrepreneurship education.

There is a plethora of business cases but a general paucity of cases highlighting the specific problems faced by technopreneurs in growing their ventures. NTCC adds value to Technopreneurship education by developing a pool of cases on technology-based local and international enterprises. Through the cases, NTCC hopes to share the experiences, success stories and challenges faced by entrepreneurs/intrapreneurs in growing their organisations and how they overcome their problems to sustain growth.

The theme of this first compendium is “innovation through technology”. It features Singapore-based and global companies confronting issues and challenges due to technological shifts in the industry and changing market and competitive dynamics; when introducing new products in the marketplace; and in using technology to drive organizational change.

Online versions of these cases are available for complimentary downloads at www.ntc.ntu.edu.sg/ntcc.

Teaching notes are also available to faculty members for use as reference, reading and/or teaching materials in various academic and professional programs. For further information, please contact Ms. Denise Lee (deniseleecw@ntu.edu.sg) and Mr. Wu Chong Chuan (wucc@ntu.edu.sg).

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