BUSINESS & INVESTMENT WEEKLY
THE EDGE MALAYSIA

30 December 2022

THE EVOLUTION OF POSTAL SERVICES WORLDWIDE

In Japan, the corporatisation of the Postal Services Agency to become Japan Post as well as its subsequent privatisation was a long drawn-out affair. (Photo by Bloomberg)

POSTAL services have existed for centuries, offering a cheap and reliable means of sending letters and parcels. Within the Commonwealth, the first nationwide postal service was created during the reign of Henry VII of England in 1516, the forerunner of the Royal Mail Group plc.

In many countries, postal companies are some of the oldest organisations around, owing to the long history of the service. That is certainly the case for Malaysia and Singapore, where both Pos Malaysia Bhd and Singapore Post Ltd (SingPost) evolved from the centuries-old postal services in both countries.

Postal services have undergone tremendous evolution over the years, as their large branch network and operations that typically cover an entire country mean that various other services could be offered.

MAYBANK VENTURES: Championing social inclusion through collaboration

Maybank Ventures (MV), a wholly-owned subsidiary of Malayan Banking Bhd led by the founders of HouzKEY, was set up to drive social inclusion by addressing challenges around access to homeownership, via collaborations.

A modern postal service usually also offers utility bill payment services, as well as financial products such as savings accounts and insurance and investment products. With the advent of e-commerce, postal companies have also seen an increase in the volume of parcels delivered.

Owing to the commercial opportunities that postal services offer, many governments decided to privatise postal services to raise revenues as well as improve their efficiency through competition.

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Deutsche Post has set up a Europe-wide distribution network operating under the Euro Express brand name

In Japan, the corporatisation of the Postal Services Agency to become Japan Post as we a as its subsequent privatisation was a long-drawn-out affair that even led to the dissolution of the Japanese Diet at one time.

Japan Post, and its predecessor, was the largest employer in Japan, with more than 400,000 employees nationwide. The entity had become so big that it was said to have become a source of corruption and patronage, which led to the privatisation.

Japan Post, through its postal savings bank, known as Japan Post Bank, is said to hold the largest personal savings in the world, at more than US$2 trillion (RM8.4 trillion). It is also a big player in the insurance sector— with more than US$1 trillion in insurance assets — as well as in Japanese government debt.

The corporatisation of the country's postal service started in 2001 when Junichiro Koizumi became prime minister. In April 2003, the Postal Services Agency was corporatised, with a plan for full privatisation by splitting up Japan Post into four different companies by 2017.

However, in 2010, the privatisation was put on hold, with the Japanese Ministry of Finance remaining as owner, following the defeat of the Liberal Democratic Party in the 2009 election to the Democratic Party of Japan.

Then, in late 2012, the incoming prime minister, Shinzo Abe, restarted the privatisation process as the government needed funds to reconstruct parts of the country that were devastated by the Great Earthquake in 2011.

On Nov 3, 2015, three companies that were spun off from the original Japan Post were listed on the Tokyo Stock Exchange — Japan Post Holdings, Japan Post Bank and Japan Post Insurance. The listing involved the sale of 10% of the entities' shares, raising US$12 billion for the Japanese government.

In 2017, a follow-on offer for Japan Post Holdings' shares raised US$11 billion for the government. In October this year, another US$9 billion worth of Japan Post Holdings' shares were sold to the public, but the government still retains a majority stake in the group.

While the privatisation of Japan Post took decades, it became a successful fundraising avenue for the government. Currently, Tokyo still owns a majority stake in Japan Post Holdings, with a 57% interest, and the company holds a 90% stake in both Japan Post Bank and Japan Post Insurance.

Meanwhile, in Singapore, although its postal service has been privatised since the 1990s, the government retains huge oversight over its public postal licensee, SingPost.

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In the city state, SingPost has to comply with the postal quality of service standards and deliver between 98% and 99% of local basic letters within one working day, and 100% within two working days.

The standards are enforced by the Infocomm Media Development Authority (IMDA). As public postal licensee, SingPost has the exclusive privilege of receiving, collecting and delivering letters and postcards within the country until March 31, 2037.

While SingPost has a monopoly on the postal service, like most other postal companies in the world, it has to adhere to service standards and regulations. In fact, in 2017, SingPost was fined S$100,000 by IMDA after it failed to meet the quality standards in nine incidences.

In 2018, IMDA imposed a penalty of S$300,000 on SingPost for failing to meet the quality standards in the delivery of local and international basic letters and registered basic mail in 20 incidences.

SingPost has pursued mergers and acquisitions to expand its reach and services. In July 2002, it acquired a 50% stake in G3 Worldwide Aspac Pte Ltd, a cross-border mail services company, increasing its holding to 100% in 2009.

The acquisition of G3 Worldwide Aspac provided SingPost with cross-border mail services in 10 countries and territories across Asia- Pacific.

SingPost has also embarked on a journey to grow its e-commerce-related logistics services through the years, so much so that revenue from e-commerce has become the main contributor to SingPost's total revenue.

Deutsche Post has set up a Europe-wide distribution network operating under the Euro Express brand name

In 2011, SingPost became a substantial shareholder in GDEX Bhd, a Malaysian parcel delivery company, with a 27% stake. Although it pared down its stake in February 2016 by selling its shares to Yamato Asia, SingPost is still a substantial shareholder in GDEX.

SingPost has also attracted investments from Alibaba Group Holding. In 2014, the Chinese e-commerce giant acquired a 10% stake in SingPost for US$249 million. A year later, Alibaba acquired another 5% stake in SingPost for US$187 million.

With Alibaba's investments, SingPost has become its e-commerce delivery partner in Southeast Asia. At the same time, the investments also opened up the China market for SingPost, and it has entered into a logistics joint venture in China with Alibaba.

SingPost has also expanded into Australia, venturing into the last-mile delivery business through its investment in Couriers Please and fourth party logistics service provider Freight Management Holdings.

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The same path has also been taken by Deutsche Post AG — better known as Deutsche Post DHL Group — Europe's largest package delivery and supply chain management company. In 1998, Deutsche Post acquired approximately 25% of express service provider DHL International Ltd, starting a strategic cooperation between the two companies.

DHL was and still is the worldwide market leader in international courier shipments. Realising the massive opportunity in parcel delivery and other courier shipments, Deutsche Post increased its stake in DHL and by July 2002, had become the largest shareholder in the group.

DHL is now a wholly-owned subsidiary of Deutsche Post.

The partnership with and subsequent ownership of DHL allows Deutsche Post to offer extensive parcel and express services across Europe. It has set up a Europe-wide distribution network operating under the Euro Express brand name.

In 2019, Deutsche Post embarked on "Strategy 2025 — Delivering excellence in a digital world", with plans to spend €2 billion on the digitalisation of all its business units.

Postal services in the 21st century will have to continue evolving to keep up with a changing market landscape.

With the decline in mail volume with the advent of technology, a number of postal services around the world have struggled to stay profitable. The most notable one would be the US Postal Service (USPS), which has been in the red for 14 fiscal years since 2007, with total losses amounting to US$87 billion.

Aside from the decline in volume for its most profitable mail products, USPS is saddled with huge labour compensation costs, including retirement and health benefits. According to reports, USPS — a federal agency — has more than half a million people on its payroll. This compares with Deutsche Post DHL Group, which has 570,000 employees worldwide.

On the revenue side, USPS is subject to regulatory price caps on its mail services.

The US Government Accountability Office reported in May 2020 that "USPS's business model is not financially sustainable and that congressional action is essential to reforming USPS's business model".

Its financial woes have made it difficult for USPS "to make significant capital investments that could improve its financial viability".

Will postal services such as USPS be able to overcome the challenges and evolve in the 21st century? While the scale of the problems at USPS dwarves the issues at Pos Malaysia, there are similarities, and certainly, the latter's shareholders and stakeholders are looking to new group CEO Charles Brewer to shake things up.