

# **Transformation of Magyar Posta Best Answer also in Crisis Time**

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- Postal „World Mail Award” in Transformation

**Magyar Posta is awarded for its transformation from bureaucratic postal organisation to customer friendly service provider**



- Operation briefly as of today

**Turnover: € 800 million**

**Mail volume: 1,4-1,5 billion pieces**

**Parcel volume: 7,5 million pieces**

**Cash transfer tx: 250 million**

**Money throughput: € 22 billion**

**Branch offices**

**operated by the Post: 2,000**

**operated by subcontractors: 730**

**FTE employee: 34,000**

**Number of counters: 9,000**

**EBIT: € 28 million EBIT rate: 3,9%**

**EBITDA: € 70 million EBITDA rate: 9,6%**

## ● Status in 2002

### **Ownership and regulation:**

100% state owned  
Incorporated in 1994  
Designated USP with reserved services

### **Regulation:**

Rigid, heavy rules of service level, coverage, customer care  
Price setting for USO and control of non USO services by Ministry of Finance

### **Corporate Governance:**

Double decker: doubled two tier board system  
Administrative governance  
No real strategic partnership with the State

### **Markets:**

Monopoly in addressed mail  
Big player in parcel business  
Biggest player in money transfer and cash delivery market

### **Service level:**

Poor and volatile in domestic good in outbound international markets  
Poorly equipped post offices  
Long-waiting time

### **Political and social issues:**

Overpoliticized target for MP criticism  
Strong trade unions  
Sensitivity for closing offices and limiting access

### **Coverage:**

Post offices in every settlements with more than 600 inhabitants  
Full coverage in clearing and delivery of mail and cash

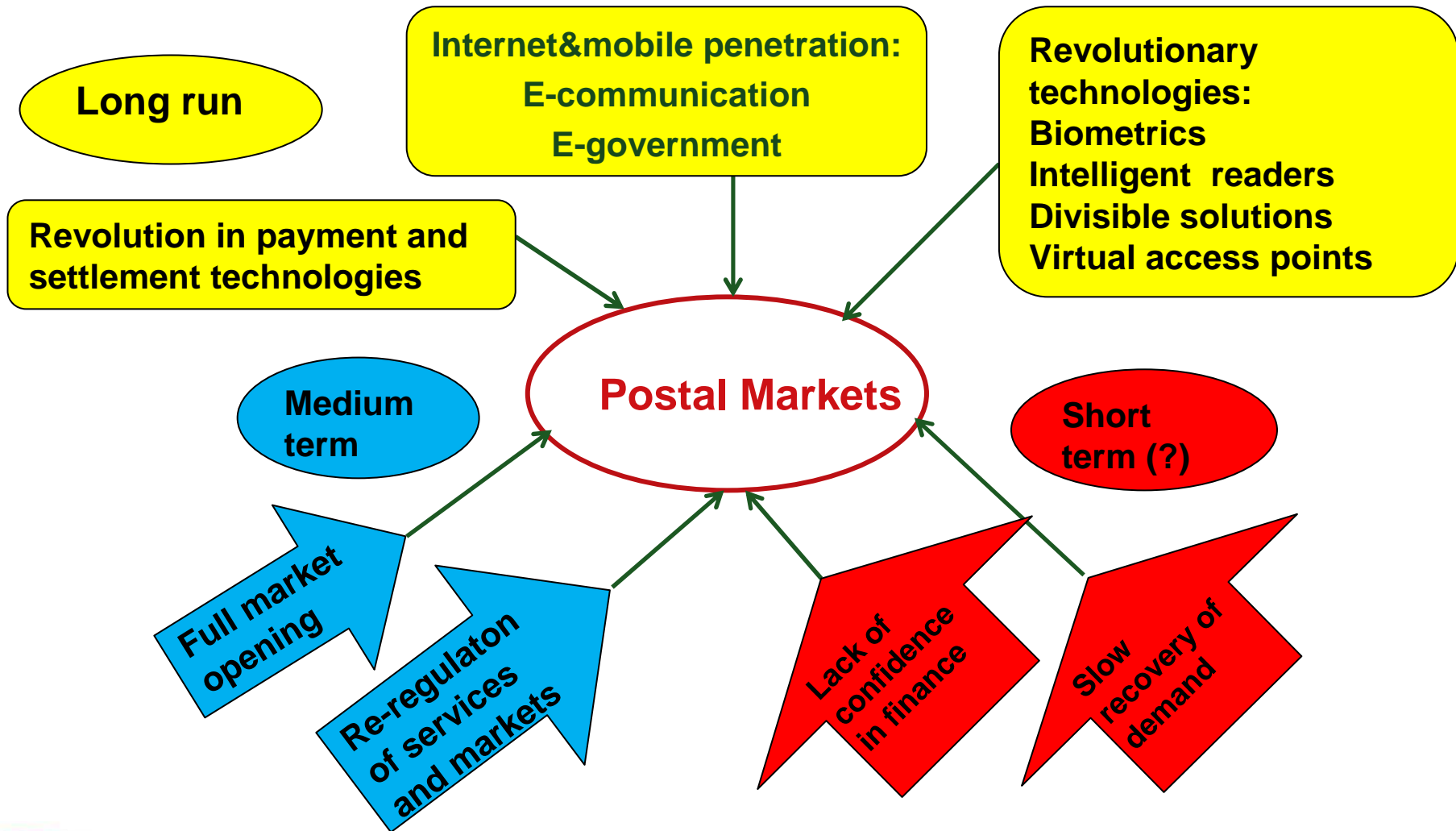
### **Technology and wages:**

Old and unreliable technologies and assets  
Low wages - big fluctuation

### **Organisation and management:**

Seven regional units with full management  
Central and regional regulation with different practices

# ● Trends and shocks we (and the Market) face



## ● Paradigmatic questions for the management

State ownership means: **be smart and pay dividend** or **be aware also of social responsibilities**. The other option for the state is **to be strategic partner**

**Business logic** or **USP logic** will rule the nature of future postal business

To which extent can **USP basic principles be compatible with business logic** such as value propositions and demand driven services

**Stakeholderism** remain to determine the objectives of the postal business, or **corporate governance** can mostly be cleared from non business approaches

Full market opening gives the opportunity to **focus more on upstream and high value added market** or incumbent can only **survive by aggressive cost cutting and remain in traditional markets**

**Reducing the coverage of operations** and rely more on subcontracting and partnerships will **ease the modernisation** of key technologies or it will raise **public outcry**

## ● Dichotomies our staff has to cope with

**Operation in focus**



**Performance in focus**

**Old proven solutions**



**Flexible, customer oriented solutions**

**Professional knowledge base is sufficient for success**



**Value proposition is starting point for success**

**Acquired knowledge and experience is enough**



**Continuous training and benchmarking is a must**

**Protocol-based overregulated operations**



**Self-reliance and more competence**

**Big Postal family feeling**



**Corporate loyalty**

# ● Corporate vision as it has been developed

## Objectives

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- Transform the company to high profile service provider
- Become a big and strong player after full market opening
- Create new business model that reflects market segments and value propositions
- Create more competent and profit oriented organisation
- Comply with international quality standard

## Toolkit

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- Enhance core competences
- Go upstream, join the customer value chain
- Modernise and upgrade technologies, integrate and automate processes
- Change corporate culture through performance management, incentives, training and involvement
- Restructure assets and financing

# ● I. Movement-Stabilisation

## Reorganising and cost cutting

- Phase out redundancies, production process reengineering, cost cutting
- Consolidating regional managements
- Setup service/product-based divisions
- Inhouse service consolidation with SLA
- Headcount reduction

## New technologies and upgrades

- High capacity mail and parcel central sorting
- Front office development in major post offices
- On-line banking in Budapest and big cities
- SAP upgrade for enterprise management system
- Extension and upgrade of client and server side IT

## Extend and upgrade competences

- Upgrade quality to EU average
- Agency agreement with bank and insurance companies, branding and sales force training
- Up-to-date HR management systems and trainings to extend general and professional competences

## Corporate management

- Upgrade and integration of budgeting, controlling, costing and accounting in SAP
- Treasury and cash-management development, market risk metrics
- Investment evaluation system and CAPEX management
- Public procurement management

## ● Achievements

- **Better and less volatile quality in home markets, better compliance with the USP regulation**
- **Corporate management stability, based on timely and more reliable reporting systems**
- **Cost consciousness and market driven sales and marketing**
- **Slow but steady growth of turnover, growing profitability and balanced financial status**
- **Growing service competencies in domestic and international mail, portfolio extension in banking and insurance services**

# ● What we could not manage sufficiently

## Competitiveness

- Universal service oriented infrastructure and technology is expensive for competitive pricing
- Important customers have been lost, lower margins and loss making services
- Cash based financial products endangered, some big mailers insource mail service using hybrid technology

## Systemic problems

- High and fix delivery costs
- Pricing uncertainties, loss making products are priced at or under variable cost
- Sales and technology have conflict of interest, cost effective outsourcing is limited
- Operating margin is too small to equilibrate high-tech solutions

## Branch network performance

- Branch network badly needs refurbishment and modernisation but never pay off with traditional sales portfolio
- 40% of the post offices are loss making deserve closing or contracting out
- Clearing and delivery are traditionally combined resulting on underutilised office and technology space

## Corporate culture

- Distributed competencies and complicated decision making
- Middle management adapt slowly to changes, low profile decisions are being pushed up to top management
- Overregulated protocols paralyse local actions
- Incentive structure does not support reasonable risk taking

## ● II. Movement – rationalisation and modernisation

### Organisation developing toward peer group best practice

- Branch network operates as retail division comprising SME sector and financial services units
- Business customers in mail and parcel comprising key accounts, medium business clients
- International division responsible for cross border mail and parcel and also for regional business solutions

### Technology upgrade

- Separation of transport, sorting and delivery from business divisions
- Branch offices modernisation, direct access (open counters), extension for online transactions, queuing systems
- Special collecting, clearing and delivery technologies for big mailers
- Technology investment in subsidiaries for servicing rolling stock and for processing and delivering cash

### Cost-effective measures

- Mobil post service in low density populated area with unifying delivery, clearing and financial services
- Subcontracting loss making branch offices, that convert most fix costs to variable
- Selling real estates underutilised or with high operating costs and seek flexible rents
- Introducing new infocom technology resulting in huge cost savings

### Developing competences

- Value proposition based product and services development and pricing
- Focussing to extend logistics and financial services competences
- Intensifying cultural change using direct methods (diagnostics, trainings)
- Upgrading controlling, budgeting, billing practices

## ● Achievements: business philosophy is changing

**More aggressive sales policy, re-acquisition of customers from competitors, acquisition of new important clients**

**More sophisticated pricing and rebate models, price sensitivity analysis, reclassification of market segments, behavioural aspects**

**Route optimisation, production programming, delivery optimisation through partial subcontracting**

**Research and concept for E-services, development of hybrid technology  
Seeking competitive edge in CEE region**

**Major post offices exhibit impressive sales results, reasonable changes in customer care**

**Strong liquidity, operating cash-flow covers CAPEX program**

## ● Unexpected intermezzo: financial and economic crisis

**Trends, tendencies, accelerated, expectations turns into reality or error, potential winner and loser become actual**

**Confidence, uninterrupted services created more postal business in financial services**

**Money markets dried out, settlement risk has grown, cash withdraw panic was felt, sovereign risk has been materialised**

**In these days Magyar Posta was a safe haven against cash panic**

**E-government measures accelerated, cash substitution payments and cash collection option for official document issuers**

**Government as owner seems reluctant to position the Post to participate we are lobbying**

**Big mailers accelerate phasing in electronic or hybrid mailing. Postponed consumption curbs sending DM letters and catalogues**

**Revenue at risk in the short run accounts for 4-5% of turnover. Medium term risk is growing**

**Households with short liquidity postpone paying for public services resulting in further revenue and cash flow at risk**

**Cash-flow problems may risk the financial stability of Magyar Posta**

## ● III. Movement/step1: seeking new adaptation style

### Review of medium-term strategy

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- Continuity and sustainability analyses for actions and projects in progress
- Review of major assumptions that cornerstone strategic focuses
- Understanding the nature of demand whether driven or accelerated by crisis, or earlier trends are broken
- Monitoring competitiveness assumptions whether they are true in the current business
- Organising inhouse consultations on different management levels discussing shorter and longer term challenges

### Enterprise Risk Management

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- Risk mapping, risk evaluation and risk management review
- Risk analysis to embed into management decisions
- Evaluation of risk reporting systems on corporate and on strategic project level

### Lobby

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Pushing the State as the owner to involve Magyar Posta to participate in E-government, E-communication and E-money projects

## ● III. Movement/step2: cost restructuring and key projects

### Fix to variable costs, performance driven versus operations driven costs

- Continuation of branch network rationalization through subcontracting, adjusting to changing demand
- Replacement of amortised assets should be subject to target unit cost and competitive pricing criteria
- Rescheduling investments subject to CAPEX / OPEX burden of P/L account
- Scrutinising corporate infrastructure development and refurbishment underutilised offices
- Proactive cost cuts subject to resource reallocation when it comes to revenue at risk in certain markets

### Key projects

- Integrated production programming system; focussed on shipment - automated sorting - delivery route optimisation
- Inhouse switchboard for routing debit/credit card payments, debit card issuance, investment in corporate and retail current account system
- Mobile virtual network operation for direct business communication
- E-product developments to enhance service quality

# ● What we expect to happen that heavily impact business

## **Tendencies partly accelerated by crisis driven behavioural changes**

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- New generation drives, medium and old generation more and more accept substitution for the traditional mail, parcel and payment services
- Customers favour comfortable, flexible and cheap services, with having broader choice of service providers, perceive better the value for their money
- More and more market player appear in the postal market, they become stronger and aggressive
- Postal operators major asset – confidence – coupled with personal relationship may well remain the incumbent's competitive edge

## **Long run tendencies that change the nature of the postal business**

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- Real access points may loose ground, virtual access may be favoured in information and payment businesses. Hungary lags behind this tendency, which gives the opportunity for life cycle extension of postal business
- More and more points of sales in retail businesses adopt postal service, and more subcontractors can be included to collect and deliver
- Postal operators' role may change fundamentally, with much less being embedded in the community, losing the safety of respect and confidence

- Direct access, open counters

**Before**



**After**



- Direct access, open counters

## Before



## After



**Thank you for your attention!**