

THE RELEVANCE OF TRADITIONAL POST OFFICE SERVICES IN THE GROWTH OF MODERN CORPORATE ENTITIES

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Abstract: *The Postal Corporation of Kenya was established by parliament under section three (3) of The Postal Corporation Act, 1998. Its mandate, as set in section five (5), is to provide and operate postal services, postal financial services, and perform other functions and duties as the Minister of Transport and Communications may assign. On 1 July 1999, Kenya Posts and Telecommunications Corporation split into three entities. Telkom Kenya was now responsible for offering Telecommunication services, Postal Corporation of Kenya (PCK) to offer mail and financial services and Communication Commission of Kenya (CCK) to be a regulatory body. The sector was also liberalized so other companies were registered to offer communication services. There are currently ninety-six companies offering mail (courier and parcel) services that are registered by the Communications Commissions of Kenya, the official regulatory body in Kenya. With liberalization, the Post Office found itself in the competitive market, a concept that was new and needed to be integrated in its business operations. In the mail business the post office is mainly engaged in distributing four types of mail, that is, administrative, marketing, periodicals and newspapers. Private individuals' mail is few and seasonal such as occasion cards on festive occasions like Christmas and examinations. The corporation is offering its services by dividing the country into eight regions i.e. Coast, Nairobi, Central, Eastern, Western, Northern, Rift Valley and Nyanza. This paper explores the relevance of the traditional postal services in the growth of modern corporate entities. In order to gain an in-depth understanding of the postal business in Kenya, a qualitative research in the form of an explorative study was used. The study explores the different approaches PCK adopted to counter the risks and uncertainties as it entered the liberalized market. We will identify, categorize and prioritize the risks and uncertainties it faces in the competitive market and find out how it currently hedges itself against the risks and propose sustainability strategies for risk management by the company.*

Keywords: Letters, Native Runners, Mail Runners, Postage Stamp, Postmaster, Liberalization,

INTRODUCTION

Historical Background of the Post Office

The history of Postal services in Kenya dates from the early years of the 17th century. A Portuguese governor was installed in Mombasa in 1592 and official correspondence between the town and the outside world has been recorded from 1610 onwards, carried by ship to Arabia and India and transmitted to Europe by the overland route. Early letters from the interior of Kenya date from about 1848 when the missionaries sent their correspondence by native runners to the Coast for onward transmission.

By 1877 some letters from Coast were being taken north from Lamu to Aden by ships of the British Steam Navigation Company, although the bulk of mail was being transmitted via Zanzibar. A system of mail-runners was developed and expanded by the British East Africa Association, while individual traders and concessionaries organized their own service. That enjoyed the use of distinctive postage stamps in 1889-90. A regular postal service in British East Africa was introduced in May 1890 and post offices opened in Mombasa and the island of Lamu. Two years later offices were opened at Malindi and Wasini and by 1897 an office was to open at Kilindini, necessitated by the construction of the railway. On 1st July 1895 control of the territory in British East Africa was transferred from the company to the imperial government. The Postmaster of Mombasa was responsible for running the postal service in the territory and in 1901 the Postal Services of British East Africa and Uganda were amalgamated.

In this paper we want to find out if the traditional postal services are still relevant in the modern business environment. We will also find out if modern corporate entities are still using the post office in their day to day business transaction.

Up to 1977 when the East African community disintegrated, the East African Posts and Telecommunications Corporation controlled the communication business. In 1977, Kenya formed the Kenya Posts and Telecommunications Corporation also as a monopoly in the posts and telecommunications sector. In 1998 the Kenya Posts and Telecommunications Corporation was split into three independent entities in preparation to liberalization of the communication sector. Postal Corporation of Kenya was formed through an Act of Parliament and the communication sector was liberalized.

LITERATURE REVIEW

This study is expected to provide insight on the traditional services offered by the post office and their relevance to the modern business environment especially after the sector was liberalized and its ability to weather the ever intensifying challenge of competition in the Kenyan market.

The Network

In Kenya the postal network stretches from Mandera in the north to Namanga in the south and Mombasa along the Indian Ocean to Kisumu on the shores of Lake Victoria. All the outlets serve an estimated population of over twenty million people. The country has 31 Head Post Offices located in busy towns. There are 437 Branch offices, 403 Agent Operated Post Offices and 3,742 Vendors - selling stamps. These are spread all over the country. The ability of the post office to put strategies to venture into a new market and remaining relevant and competitive is the focus of the research. The Post Office fully supports the communication sector by availing postal services at almost every sub-location in the country. However, the following considerations do influence the distribution and classification of post offices: -

1. Population it serves - at least three thousand per office
2. Number of private box renters - at least a demand of fifty renters
3. Commercial activities of the area - the population is active economically
4. Volume of mail it handle - there is traffic of mail
5. Infrastructure - availability of Roads, Rail, Sea, Air

The Traditional Services

The Postal Corporation of Kenya offers four main service streams that are further compartmentalised as follows:-

Table III: Services offered by the Postal Corporation of Kenya

MAIL	FINANCIAL	AGENCY
Ordinary	Ordinary Money order	Savings & Withdrawals
International	Express Money Order	Paying Pensioners
Registered	Interstate Money Order	Bill Payment
Speed post	Speed Cash	
Franked	Electronic Funds	
Advertising		
Postage Prepaid		
Parcel		

Source: Monthly Report, Planning & Development Section, PCK

The core business of the Post office is the mail business. Unlike the Netherlands post that has ventured into new areas such as inventory and warehouse management, shipping, vehicle routing and scheduling, consignment, and order tracking, PCK is still struggling with this idea of diversifying and only tries to venture into related agency businesses such as payment of salaries, collection of water & electricity bills and internet. This has shown a steady decline in all its revenue streams like sale of mint Postage stamps, FMM, PPP, Philately, EMS and Parcel services. In other areas, the volume has remained constant.

Performance

Postage stamps, which is the ‘cash-cow’ of the post office business has shown a ‘wave’ performance showing growth from 1999 to 2001 and a decline from 2001 to 2003 and from 2004 to 2006 this trend is reversed upwards. The Post Office has a long product range and has a variety in the services offered to its customers. This guarantees that any one of these segments can satisfy the requirements of a customer. However, the disadvantages of these varied segments are;

- 1 The consumer has a very wide selection, which is confusing
- 2 Marketing of all these product ranges is difficult.
- 3 Poor quality of one service will affect performance of the other services

This research focused on the trend of sales in the traditional postal mail business. The trend of changing revenue collection in eight years from 1999 to 2007 in relation to mail volumes was examined. Mail volume trend was compared to changes in technology, consumer needs, government policies and new entrants.

FINDINGS AND DISCUSSIONS

Descriptive components were captured mainly from secondary data and qualitative information from discussions, questionnaires, interviews and observations. All these were presented in narrative forms. Regarding the key objective of the study which was to establish the relevance of traditional post office services in the growth of modern corporate entities, revenue returns on any traditional product was analyzed as follows;

Challenges

Immediately after the split of KPTC, the Postal Corporation of Kenya was faced with the biggest challenge of operating in a competitive market instead of a monopoly. Among the tools it lacked to compete were;

1. Delay in embracing technology (ICT system)
2. Labour intensive organization
3. Lack of competing skills especially in marketing
4. Diversification to tap new businesses areas.

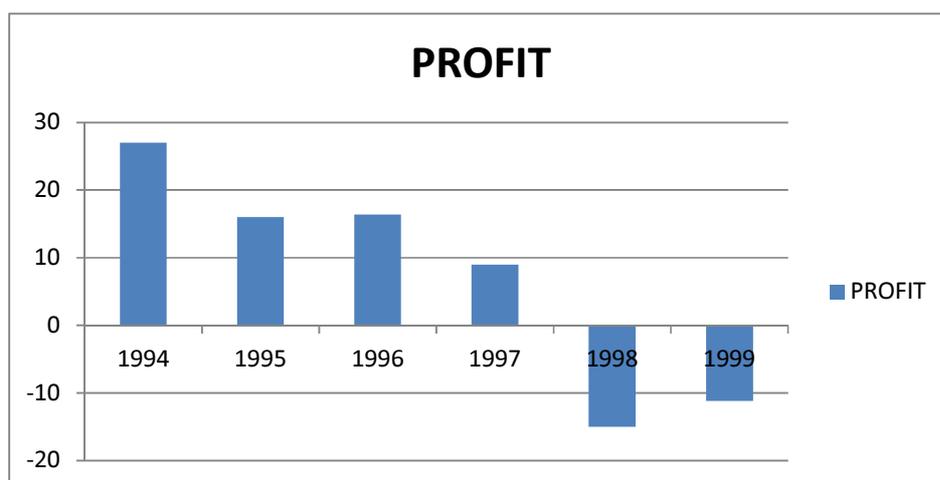
This led to a decline in business as analyzed below.

Revenue Analysis

According to Post office's profitability report of 1999, profitability has been declining in percentage from 27% in 1994 to -15% in 1998. The results of these changes are reflected in the revenue hence a change in profits as shown below. The table and graph below shows a steady decline in profits.

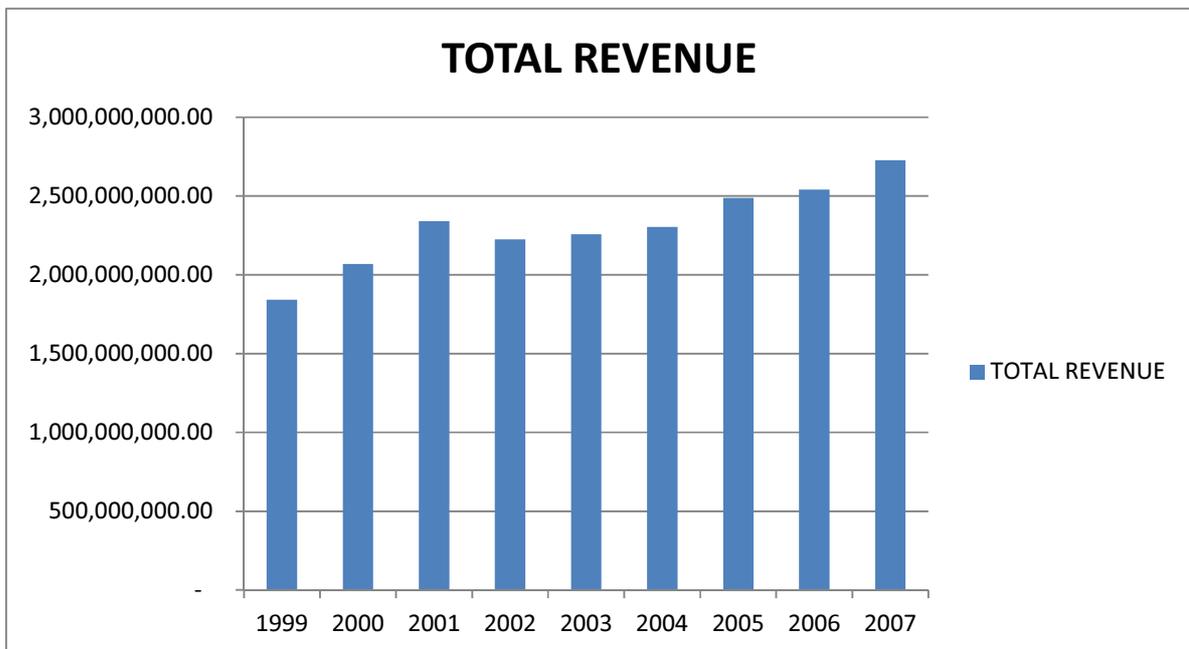
Trend of Profitability

YEAR	PROFIT
1994	27
1995	16
1996	16.4
1997	9
1998	-15
1999	-11.2



Trend of Sales Performance

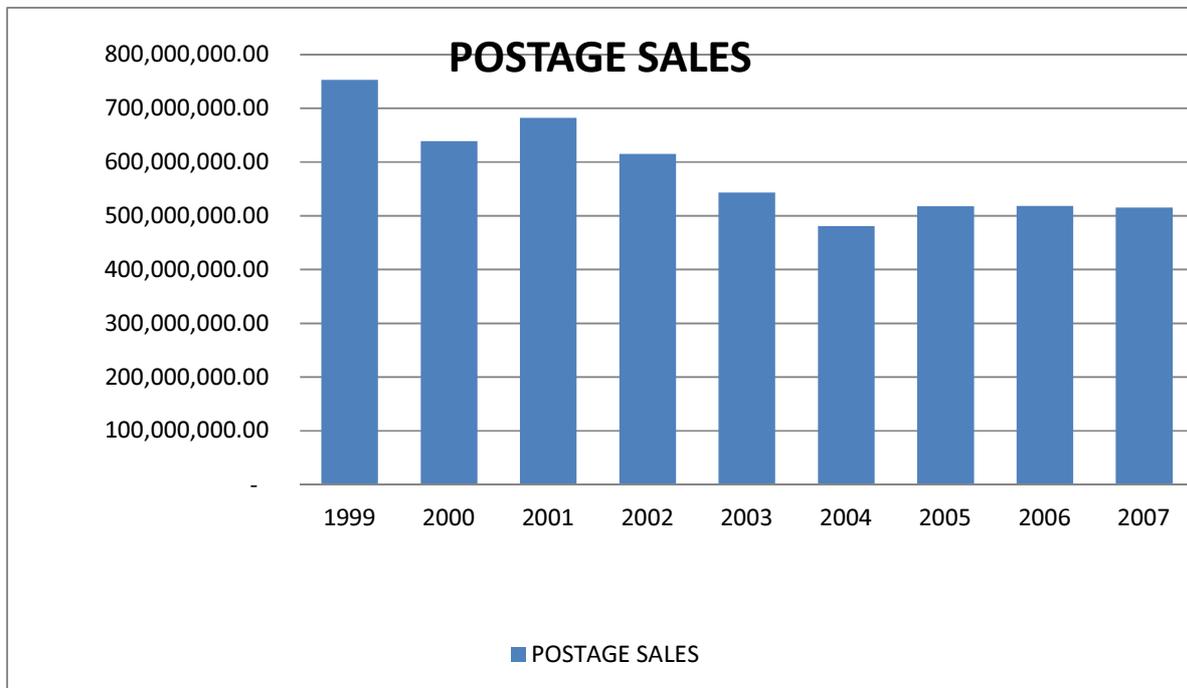
YEAR	TOTAL REVENUE
1999	1,842,395,284.00
2000	2,069,249,809.00
2001	2,340,148,231.00
2002	2,225,405,447.00
2003	2,255,573,600.00
2004	2,303,128,138.00
2005	2,488,773,414.00
2006	2,540,090,495.00
2007	2,727,817,638.00



From the revenue data above, it can be observed that there was a decline in sales immediately after the market was liberalizes in 1999. Revenue was declining steadily up to 2003. From 2004 the trend was reversed and there was a sign of growth in business.

Trend of postage sales

YEAR	POSTAGE SALES
1999	753,007,815.00
2000	638,639,531.00
2001	681,989,249.00
2002	615,027,487.00
2003	543,044,281.00
2004	480,712,588.00
2005	518,046,495.00
2006	518,341,280.00
2007	515,332,589.00



On analyzing the core business of the post office – which is postage sales – it is clear that the sales have been declining steadily from 1999 to 2004. There is a sign of the sales stabilizing from 2005 to 2007 although there is no growth.

Trend of Traffic

There is a direct relation in traffic handled in the post office and revenue collected. This is because traffic translated to sales. The analysis made on traffic shows a decline in the traditional services like letters and a growth in the new products like courier and agency business.

Table 3.1: Kenya's Postal Traffic (2005 – 2006)

Year	Domestic Letters	International Letters	Domestic Parcels	International Parcels	Courier	Money Orders Issued	Agency Business
2005	76,555,311	33,358,673	40,053	65,060	268,403	1,781,622	2,047,212
2006	70,490,499	28,795,804	39,659	84,016	319,140	1,789,531	2,506,748
Percentage Change	-8%	-14%	-1%	29%	19%	0.44%	22%

Source: Postal Corporation of Kenya - Strategy Section Database

An analysis of particular classification of products proves the case.

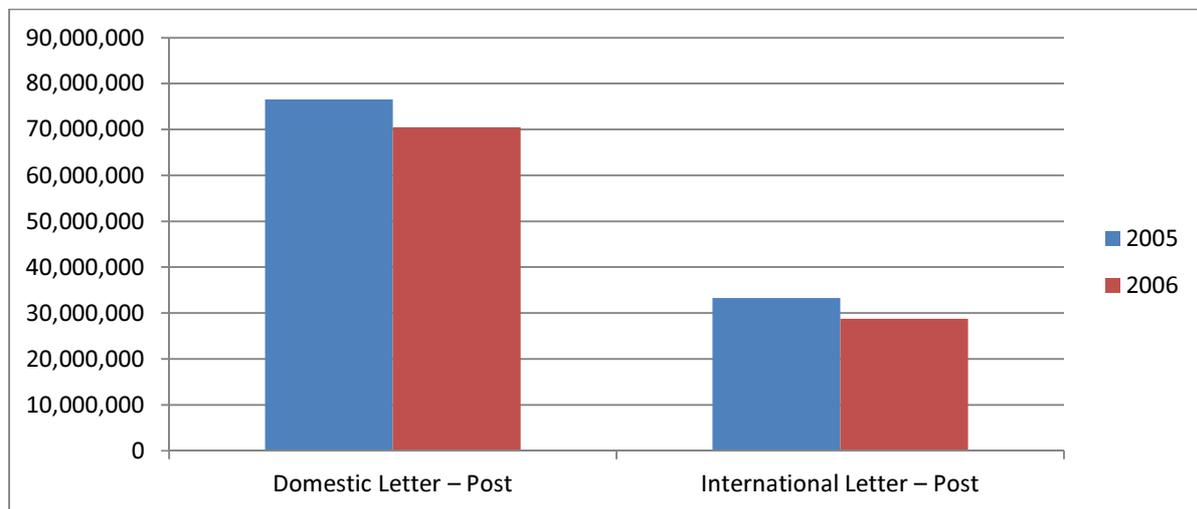
Letter Post Traffic

Both domestic and international letter traffic has declined and the trend has not reversed.

Table 3.2: Kenya's Postal Traffic (2005 – 2006)

Year	Domestic Letters	International Letters
2005	76,555,311	33,358,673
2006	70,490,499	28,795,804
Percentage Change	-8%	-14%

Source: Postal Corporation of Kenya - Strategy Section Database



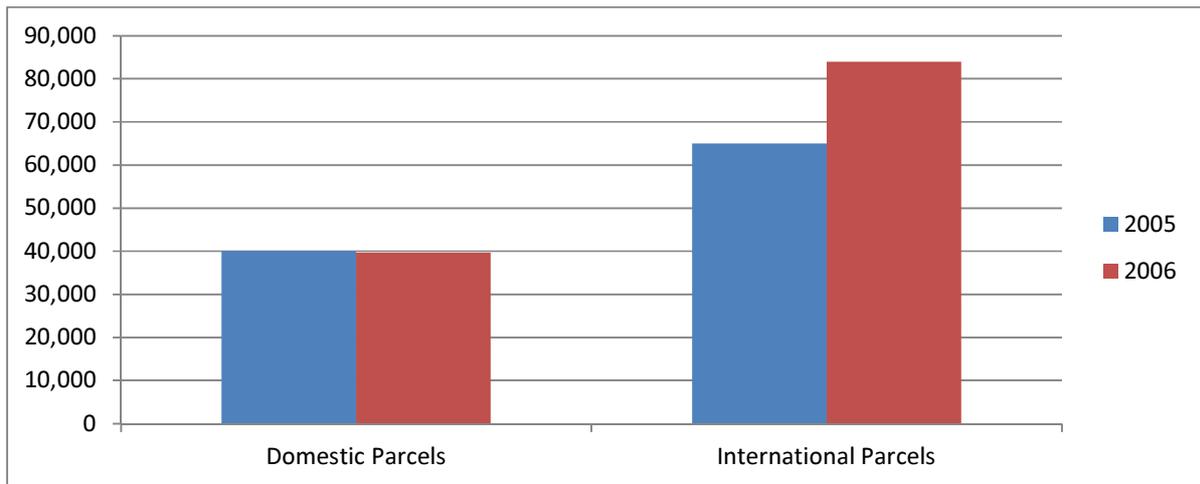
Parcel Post Traffic

While the domestic market is shrinking, there is growth in the international market.

Table 3.3: Kenya's Postal Traffic (2005 – 2006)

Year	Domestic Parcels	International Parcels
2005	40,053	65,060
2006	39,659	84,016
Percentage Change	-1%	29%

Source: Postal Corporation of Kenya - Strategy Section Database



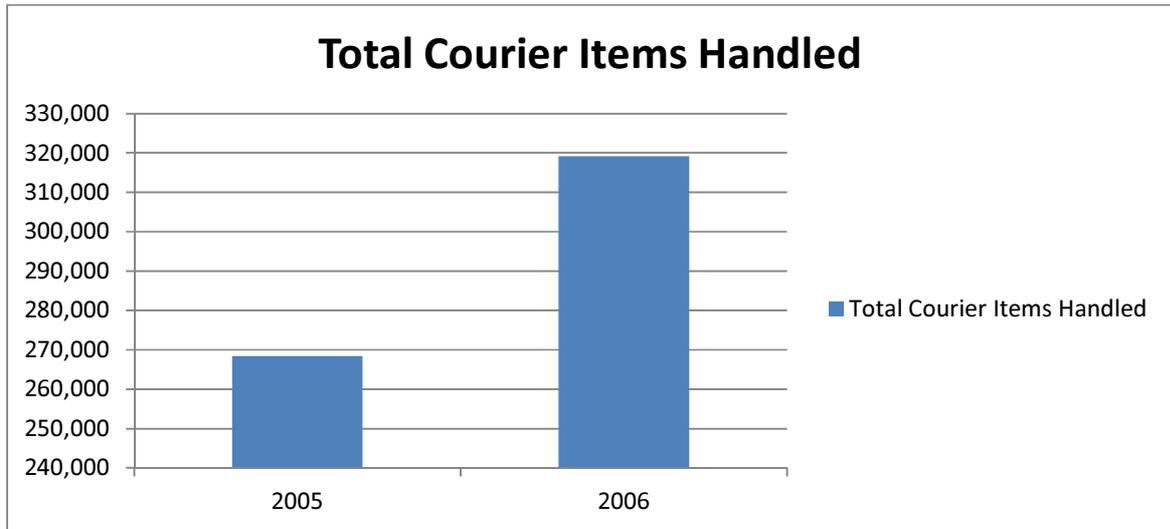
Courier Traffic

This is a new business that is appreciated by the modern business community. It is fast, reliable and has a track and trace facility both domestic and international. For this reason there is growth.

Table 3.4: Kenya's Postal Traffic (2005 – 2006)

Year	Courier
2005	268,403
2006	319,140
Percentage Change	19%

Source: Postal Corporation of Kenya - Strategy Section Database



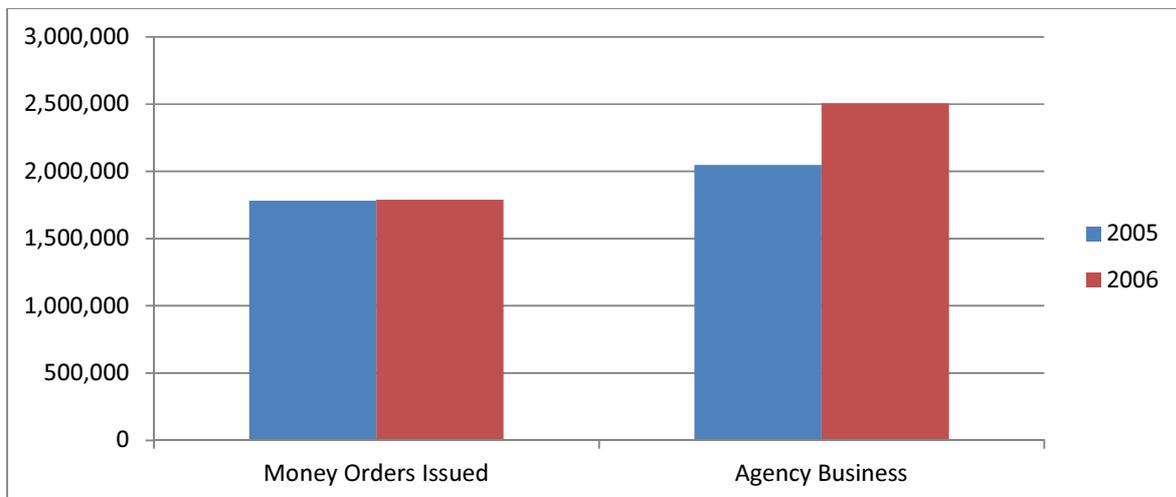
Financial and Agency Traffic

While the money order business has not grown there is no decline in the market. It has managed to maintain its customer base. Agency business shows a steady growth and has heavily supplemented the declining revenue from the mail business.

Table 3.5: Kenya’s Postal Traffic (2005 – 2006)

Year	Money Orders Issued	Agency Business
2005	1,781,622	2,047,212
2006	1,789,531	2,506,748
Percentage Change	0.44%	22%

Source: Postal Corporation of Kenya - Strategy Section Database



OBSERVATIONS

There is a steady decline in revenue from most traditional postal streams like sale of Postage Stamp, Franking Meter Machine, Postage Pre-Paid, and Philately. However, the agency business has improved revenue and has complimented the declining revenue from traditional postal services. In Agency, EMS and International Parcel services, the volume has shown growth while Financial Services volumes have remained constant. The core business of the Post office is the mail business. However, the Netherlands post has diversified and has ventured into new areas such as inventory and warehouse management, shipping, vehicle routing and scheduling, consignment, and order tracking. PCK has approached the idea of diversifying differently. It has ventured into related agency businesses such as payment of salaries, collection of water & electricity bills and internet among others.

Major findings of the study

The study shows that there is substantial opportunity in the mail and growth in the financial services business in Kenya despite the challenges. The study shows that although customers are patronage and loyal to the post office due to its wide products and distribution outlets, the level of competitiveness is high in the mail business. This is due to the number of new courier companies in operation in the country. Investigation and analysis on the trend of revenue in the post office shows that as mail volume posted through the post office decline, the volume of agencies was increasing. After analyzing, interpreting and discussing the collected data from the field, the following emerged as major findings:-

- a) One can say that social mail posted such as Christmas, Valentine's Day is declining
- b) The study found that corporate or business mail such as bills, bank statements, stocks and share reports is increasing
- c) It was also evident that customers are more aware of alternative opportunities to communicate
- d) Perception

The perception of the public towards the postal services is slowly changing. During the research, some post office outlets were visited to observe the customer satisfaction level on service delivery while paying agency benefits under the Ministry of Gender. These offices were Madina, Garsen, Witu, Malindi, Kilifi and some branches in Mombasa namely Likoni, Kengeleni, Mkomani, Bamburi and Mtopanga. It was payments which are benefits for the elderly and urban food subsidy and the beneficiaries expressed their preference to collect their subsidy through the post office as compared to other options suggested such as banks, the district treasury, online money transfer, etc.

e) Acceptance

Many institutions are now partnering with the post office as a strategy to expand their market base through agency. This is a less expensive venture than to open a branch. Some of these organizations are;

- Banks like KCB is now contracting the post office to conduct banking business on their behalf on the KCB Mitaani platform.

- Giant mobile companies like Safaricom and Airtel services are offered through a number of post office outlets.
- Multi Choice - This company is also on an agency contract

f) Technology

In the financial services the product has been re-engineered from manual and is now fully automated. It has also been re-branded from money order to electronic funds transfer (EFT). This is the reason it has maintained its market.

CONCLUSION

The traditional postal services will remain relevant to the modern business entity only if they are continuously re-engineered, re-branded and customized to be current with the changing business environment. From the analysis it is evident that the post office is still the better option for most customers. There is faith in the organization but the customer has no confidence in the quality of the service. The study also suggests that customers are willing to continue using the post office; however, there is reluctance. Therefore it is proper to conclude that given the effort being put to popularize the services there is an upward turn in revenue in the post office.

RECOMMENDATIONS

History is littered with great companies that failed to move as the landscapes around them changed. They hunkered down in the base camps of their traditional strategies as their formerly high peaks collapsed, and since they had not adequately explored the landscapes around them, they didn't know where to go. By fashioning an evolving population of strategies, managers can improve the odds that they will avoid the strategic Death Valleys and enjoy the rewards found on the strategic peaks. The study shows that there is substantial opportunity and possible growth in the mail and financial services business in Kenya despite the challenges. There is a need to diversify into new territories which are also potential as listed below;

PROPOSED NEW PRODUCTS

PCK needs to venture beyond its 'safe' product line. Other postal operators in the world have done so and succeeded. Netherlands post has ventured into new areas such as inventory and warehouse management, shipping, vehicle routing and scheduling, consignment, and order tracking. These are the basic industrial related activities of the country.

PCK is still struggling with this idea of diversifying and only tries to venture into related agency businesses such as payment of salaries, collection of water & electricity bills and internet. Kenya is mainly an agricultural economy and revenue related services need to be identified. It is recommended that these products can improve the revenue base of the post office;

- PREMIUM SERVICES:** Secretarial, Photocopy, Post shop, Internet Services,
- AGENCY SERVICES:** Land Rates by all Municipalities, Driving Licenses from the KRA, Pass Port issue/renewals by Immigration, Loan Disbursement, Loan Collection, Salary payment, Pension Payment, Greeting Cards, Redeem Promotions.
- FINANCIAL SERVICES:** Foreign Exchange, Stock Exchange
- ONLINE SERVICES:** Inventing, Order Tracking, Warehousing Management, Purchase and delivery shopping for You, Banking Services, Mobile Services, Ticketing for buses, rail, sea and air, Security, Consignment Tracking
- DIVERSIFICATION:** Rent Excess Space, Clearing & Forwarding, Post Bus

The research clearly indicates that the traditional services offered at the post office might have been relevant in a monopolistic market it used to operate from but they are no longer relevant to the modern business entity in their current status. A major re-engineering of the products need to take place to re-position them in the competitive market that it currently operates in. Proof in this statement is seen in the financial services where the express money order service has been re-engineered into the Electronic Funds Transfer (EFT) and the ordinary money order is now online and is called Internet Financial Service (IFS).

Key Words

PCK - Postal Corporation of Kenya
CCK - Communication Commission of Kenya
FMM - Franking Meter Machine
PPP - Postage Pre-paid
EMS - Expedited Mail Service
KShs - Kenya Shillings

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