

SHEATH POST CO. (SPC)

CASE STUDY

Participant Guide

Main Page Instructions

You have been provided with information about Sheath Post Co. (SPC), a fictitious logistics company around which this case study has been designed.

You will play the role of Sanjay Kumar, Market Head; Indian Subcontinent (comprising India and Sri Lanka) for Sheath Post Co. Recently there has been discussions to promote you (Sanjay Kumar) as the Strategy Head of SPC APAC (Asia-Pacific) region. As part of the promotion process, the CEO of SPC, Rishi Singh, wanted to meet you in person but due to his packed calendar, he has suggested to make this a virtual discussion instead. Before your upcoming meeting, Rishi has shared with you a brief on SPC and the industry and has asked you to share with him your understanding of the context and the situation, along with your recommendations on the way forward.

Based on the information provided, share your analysis and suggestions, in the form of answers to the following questions. Make your responses as detailed as possible, as this will help you to establish credibility for the role of Strategy Head (APAC region) ahead of your upcoming connect.

Preparation Time: 60 minutes

Discussion Time: 20 minutes

Note: Please use only the information provided in the case while framing your recommendations, any reference to the current global scenario with respect to Covid-19 is out of scope for this case study.

Questions:

- 1. Basis the information provided in the case, conduct a SWOT analysis (Strengths, Weaknesses, Opportunities, and Threats) of Sheath Post Co. (SPC).**
- 2. On the basis of your assessment of the business risks and opportunities, identify avenue(s) for sustainable and profitable growth for SPC across APAC countries. How would you go about leveraging these avenue(s).**
- 3. Please outline your specific plan to address the needs of Sheath Post Co.'s customers. How would you go about prioritizing which needs to address first? What would you do differently in order to create customer delight in the long-term and build customer relationships?**
- 4. What would you do to enable Sheath Post Co.'s employees to raise the bar on performance and meet business objectives? Please suggest an action plan to implement these solutions and changes through your people.**

Company background

Sheath Post Co. (SPC) is a leading provider of shipping, logistics management, and supply chain management in the Asia Pacific (APAC) region. It is headquartered in Singapore. With operations and investments in the APAC region, SPC has been aiming to accelerate its regional and diversification efforts while pursuing excellence in its local business. As one of the top shipping and logistics organization in APAC, SPC has been providing end-to-end delivery solutions to more than 1 million businesses and households, connecting business and people through its comprehensive delivery services. SPC was established over 50 years ago, and since its listing in 1993, it has grown from strength-to-strength, until recently.

The guiding principles to pursue excellence in SPC are:

Vision - To be a first class and most sought-after provider of excellent shipping and logistics solutions

Mission - Provide quality support and services to all SPC stakeholders covering all areas of SPC's services

Values -

- **People:** We value our people and promote professionalism in our workplace and in our thinking
- **Service:** Our positive spirit puts our customers at the heart of everything we do
- **Integrity:** We manage our operations, finances and services with honesty, transparency and reliability
- **Responsibility:** We champion a safe and healthy environment for the communities in which we live and work
- **Loyalty:** We earn the respect and confidence of our people, customers and investors every day, in everything we do

SPC's Business

SPC has been a trusted brand for local and international mailing and shipping services for over 50 years. Before the emergence of digital era, SPC had focused on courier services for documents and goods, and additionally on logistics management. After the advent and percolation of technology about a decade ago, SPC introduced its digital services. Today, SPC's business is built on three key pillars: Courier, Digital, and Logistics.

SPC offers integrated services providing convenience and cost-effective solutions in meeting the ever changing consumer demands. With high quality and effortful services, SPC has won many awards, the most recognized of which is the Global Express Delivery Service – Gold Service Award. It is the only shipping and delivery service provider which received this award for 8 consecutive years.

Businesses

a. Courier Services

In SPC, the traditional courier services remain to be its valuable core business. SPC has been offering shipping and delivery solutions to the society for decades. It provides comprehensive services for collecting, sorting and distributing for all household materials, documents, excess baggage and other goods following the international delivery rules. SPC is 100% secure with the product insurance, with trained professionals handling the goods very carefully during packaging at source and un-packaging at destinations. SPC offers door pickup and delivery system for local and overseas locations, in addition to walk-in service. SPC maintains a minimum number of "Sheath-Courier" customer centers for walk-in customers' easy access and offering service quality as per the standards set by International Shipping and Logistics Authority. Its team is dedicated to collect, process, and deliver customers' parcels within the shortest possible time to every destination. In line with the evolution of Internet, SPC now offers an online tracking system for assurance of goods safety at each point of transition of the courier services.

b. Digital Services

Sheath-Digitized, SPC's arm for digital services was established in 1999 to provide a comprehensive range of business printing and related digital value-added services, in addition to its mailing solutions. Sheath-Digitized offers highest quality, secure, reliable, and timely services to consumers, primarily corporate customers. With its expertise in printing and allied technology, Sheath-Digitized provides printing services, inclusive of various printing options, document management, data entry and scanning, insertion, addressing, barcode management, letterhead and envelope sourcing, sealing and multi-channel mailing (e.g. fax, electronic presentation/mail, mailing services). Its mail management solutions are aimed to be tailored for customer's business needs.

c. Logistics Services

Consistent to "Staying Relevant – Close to Your Heart", SPC provides a wide range of logistics solutions to its corporate and retail customers. Traditionally, SPC had provided logistics solutions on a small scale to select organizations. Three years ago, SPC established its wholly owned subsidiary – Sheath-Logistics to offer complete, efficient, and reliable customized logistics solutions. It covers a wide range of value-added services including warehousing, inventory management, fulfilment and distribution, door-to-door deliveries, and freight logistics within APAC.

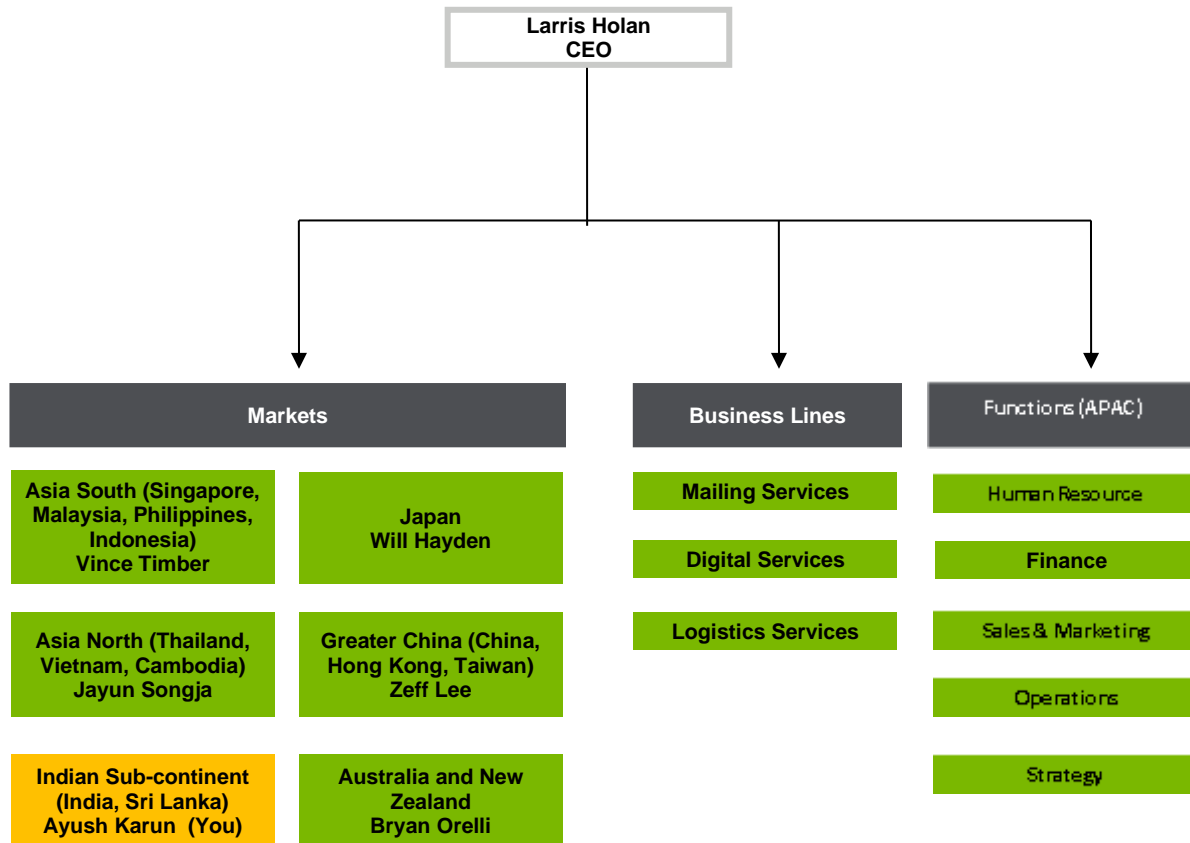
To support business operations and growth, Sheath-Logistics successfully developed and launched an in-house Mail Operating System with additional capabilities to enhance workflow while allowing the monitoring of operations and tracking inter-country billings and settlements. Besides focusing on operational efficiencies, Sheath-Logistics has also been rapidly building up its own distribution network within the region.

SPC Today

SPC has over 400 "Sheath-Courier" customer centers (which also act as SPC's courier services offices), 90 digital production houses, 230 logistics offices and warehouses across countries in the APAC region. In the past, SPC had won many awards, especially for excellence in its courier services. It has more than 130,000 employees, spread across 10 countries in APAC.

SPC has been doing well traditionally, with a friendly work culture where there is no intense competition among departments and teams. Employees enjoy staying in their own comfort zone and the annual employee engagement results have been fairly consistent in the satisfactory range. With the consistent satisfactory overall performance and minimal layoffs in the past 10 years, the organization has not invested much in terms of skills upgrade or development.

Organizational Structure



Industry Overview

In recent years, the digital economy is fundamentally changing the game of communication, commerce, and business. The continued growth of digital economy at a staggering rate is leading to the shift of preference towards electronic processes, by both consumers and businesses. Due to the rise of technology usage and its advancement, the traditional mailing/shipping industry faces challenges, as this business model is deemed to be no longer sustainable. One significant associating force is the increasingly specific customer demands due to a change in preferences of mailing and delivering in conjunction with the technological change. The mailing/shipping service has traditionally enjoyed a strong position as the key physical communicator role with its wide location access. However, this industry is now “endangered” with the emergence of digital companies; for instance, Google offers e-advertising at Google AdWords, e-communication via Gmail, and e-publications via Google Books and Scholars. These digital companies with enhanced digital capacities have had significant impact on mailing/shipping providers globally, resulting in a steep decrease in the volumes of personal and business mail (physical). Furthermore, this diversion to digital channels is happening at an accelerated rate and impacting consumer behavior to shift to electronic alternatives with little preference for hard copy deliverables specifically due to time- and cost-effectiveness factor.

As such, there has been a progressive shift moving from physical communication to digital alternatives. According to the International Postal Service Office of Inspector General and other industry reports, some of the notable trends in current mailing/shipping industry are:

1. A shift from physical delivery of paper-based items such as statements, bills, payments and letters to the digital version which has gradually become mainstream
2. Traditional players with physical delivery method are rapidly shifting their service focus or/and must take immediate actions to stay relevant in the digital economy
3. These days, receivers hold greater control where they have greater choice in when and how they should receive communication
4. Explosive growth of intelligent mobile devices increase the ease of emailing and facilitates the sharing of content in the digital space
5. E-commerce has flourished but it has not reached full potential. Many players are working to build and improve the services like logistics, payment, retail and security

6. The new era of digital technologies has significantly promoted global commerce, allowing the globalization of businesses, thereby increasing the need of parcel delivery services in meeting business orders across borders

Key Trends

1. Changing Demographics and Consumer Behavior in the Digital Era

Consumer markets have been designed and developed according to each generation's demand as per the life stage models through a predictable pattern. Currently, primary focus lays on the Generation Y (refers broadly to the generation of people born during 1980s to 1990s) – the largest demographic group as of today, also known as “digital natives” that are born in the digital age and have been living in technology their whole lives.

Generation Y's – a generation which is widely known to have a deep need for immediacy – current world revolves around communication, entertainment and content. They are the most frequently internet-using population for almost all areas in life: social networking, instant communication via instant messaging platform, online games and music/video download, download and share content on the Internet. Internet has become a source of information gathering and sharing where Generation Y relies heavily upon. Some of the Internet sites such as Wikipedia, Flickr, Tumblr, YouTube, Facebook and Google e-books are transformed to fulfilling the consumers' expectations and hence challenging the traditional models of communication, learning and sharing.

Besides believing the effectiveness and immediacy of digital world, especially for multi-tasking, Generation Y shows high interests in online banking. An analysis of online banking usage has revealed that this generation is trending away from physical banking methods to being the heaviest users of online banking, having great preferences in online banking records, and most perform online banking via smart phones. Supporting research indicates that Generation Y is more aware of the environmental impact of hard copy documents; therefore, leading to a heavy shift towards electronic solutions.

Similar to Generation Y, Generation X (refers broadly to the generation of people born before 1980's) is also influenced by the creation of smart devices (e.g. smart phone, tablet) for interactions especially business purposes. It is said that both Generation X and Generation Y are always connected to mobile phones which now have become an effective and efficient way to communicate. With the advancement and rapid growth of the global mobile market, mobile

phones allow communication to be immediate and thereby decreasing the dependence on physical mailing.

Similarly, with the advent of cloud computing and cloud based shared drives available freely to all and sundry by services such as Dropbox, Google Drive; record keeping, information tracking and personal details are available permanently. Increasingly, Generation Y as well as the technology savvy Generation X have drifted to leveraging cloud platforms for record keeping, record sharing and information dissemination. This has further reduced dependence on traditional courier and delivery methods for people.

2. The Shift to E-commerce

2.1 Growth in Online Retail

E-retailing is showing a steady growth in parallel with the development of the digital era. E-retailers include those physical retailers which expand to online retail services and online-only retailers are the ones who rely on technology and internet to provide a wide range of services including product display, customization, order, invoices and payment. Some of the famous premium retail brands like Prada and business resource websites like Harvard Business Review are offering online features that enhance the consumer experience through easy access and purchase facility. Recent studies have found that those who have never chosen online shopping are generally coming from the areas with poor internet coverage. In other words, there will be continued adoption of e-commerce by consumers as long as internet access continues to improve. A retail study forecasts that there will be a double digit growth for online retail in the APAC region by 2030 as Internet users continue to increase and every individual will be connected to at least 6-8 devices. It can be said that all countries currently provide internet networks, except that certain rural areas of the countries may have poorer coverage, hence limiting the online experience.

According to the Internet World Stats, below is the statistics of internet users in some APAC countries as of 2021-

APAC Country Population and Internet Users Statistics

Country	Population	Internet Users
China	1,343,239,923	538,000,000
Hong Kong	7,153,519	5,329,372
India and Sri Lanka	1,305,073,612	137,000,000
Indonesia	248,645,008	55,000,000
Japan	127,368,088	101,228,736
Korea, South	48,754,657	40,329,660
Malaysia	28,728,607	17,723,000
Singapore	4,740,737	3,658,400
Taiwan	23,071,779	16,147,000
Thailand	66,720,153	18,310,000

Numerous online retail portals have been established in response to the hot market demand in APAC. These online retail portals provide a wide array of products, ranging from household products like electronics, kitchenware to personal-use products like apparels, personal care or beauty products catering all ages of consumers. Additionally, these portals could be categorized in terms of brand and price, depending on the target consumer group. Statistics show that female population of age between 16 – 35 years in APAC is the most frequent online shoppers, as compared to other age groups and the male population. Out of that group, all countries except Indonesia, Thailand and Taiwan have a relatively large number of online shoppers. In APAC, the top 5 local and new online retailers include Kristalize, Goods for Good, Online Living, Joyous and las-Wear.

The emerging trend in APAC is that a lot of young families are ordering their groceries online, but the percentage is still very low. It is expected that in the next 5 years, similar to U.S and Europe, online groceries will be a big business.

2.2 Shipping and Logistics

As e-commerce continues to form a significant part of the digital era, shipping and logistics have emerged to be a huge component of e-commerce. This means that there is a substantial growth in parcel delivery, opening more business opportunities for the mailing/shipping industry. In the “world of immediacy”, consumers have high expectations from shipping or delivery services

offered. For instance, end-consumers expect that their ordered items are shipped within 24 hours and arrive promptly with easy return services if needed. On the other hand, online retailers expect effective logistics services as well as immediate delivery to meet their shoppers' expectations and maintain the trust and confidence of the shoppers. Some online retailers are even going the extra mile to provide free shipping service along with return policy, which is a policy that research found to be top ranking contributor to online shopping.

One of the biggest competitors for logistics companies are the e-retailers themselves. Considering the critical role of logistics in their business model, many e-retailers have setup their own logistics unit. In cases where the e-retailers have outsourced the logistics work to an established player, the extent of integration needed has been significant, as the business model is different with elements such as managing third party sellers, immediate fulfillment, cash on delivery, returns, etc. changing the rules of the game. So, while there is an opportunity, it isn't easy for even the established logistics players to capitalize on, and will require high levels of investments and management.

2.3 Transaction Processing and Payment in E-commerce

Transaction processing and payment are a subsequent step following online shopping. Although there are still transactions made via traditional offline payment networks, many alternative electronic payment networks have been developed globally. While online transaction is time-effective, an important consideration for the success of e-commerce and payment is buyer's trust since the buyer may not have met the e-retailers. Unlike larger well-known retailers which readily instill trust in customers due to their established brand and safeguards such as product guarantees, small e-retailers inevitably face challenges in building trust with potential customers and establish themselves as a credible online retailer. Therefore, having credible payment processing is a very important requirement for e-retailers to facilitate the online shopping experience.

With emerging social networking giants introducing the world of virtual reality and drones doing last mile services in the developed economy, digitization is touted as the next big wave that will disrupt the way people communicate, share information and interact with each other. Paypal is the most widely used non-bank payment mechanism globally. In India specifically, emergence of mobile wallets such as Paytm and online money centers such as MobiKwik etc. have disrupted the payment economy and reduced human intervention by miles.

3. Cross-border/ International Commerce

E-commerce has been growing steadily with considerable business opportunity made available for shipping and logistics industry. As businesses look to the market and distribute their products globally, cross-border shipping plays a significant role to facilitate this process. International E-commerce Expansion Benchmark Study has found that the famous American e-retailer, eBay, shows significant growth in international sales with over 47% of revenue originating from their international sales. While in the APAC region, famous online retailers/e-commerce consolidator sites in Singapore – Reebonz and in Malaysia – Zalora have also been growing aggressively in the e-commerce space by providing a wide range of premium branded products.

Despite 62% of e-commerce/e-retail owners having taken proactive steps in providing (free) international shipping and return policy, many admit to a poor cross-border customer shopping experience. However, some of the improvements as observed in the APAC e-commerce market include international shopping cart solutions with local payment options, translation capabilities, and more seamless fulfillment (completion and delivery of orders) and logistics through third-party specialists. In light of the progressive growth in e-commerce, there is a greater view on international expansion which consequently opens up a wider door for logistics and cross-border shipping businesses to fulfill the e-commerce and/or cross-border shopping experience.

Competition

SPC faces competition from different players in different service lines. It is a combination of:

- Local courier companies – multiple players in each country
- Global and APAC-level shipping & logistics companies
- Postal companies
- Digital/Printing & Marketing providers
- Technology enabled startups that have moved the world to 3D printing

Some of the prominent ones with marquee or new services in the global market are as follows:

a. Go Fast

Go Fast, a shipping and logistics company in Australia, has launched Fast Mailing, an internet-enabled hassle-free and efficient one-stop has launched mailing solution. They help small and medium-sized enterprises stay competitive by allowing them to focus on their core business while Go Fast prints and envelopes packages, and delivers their mail. Go Fast the following initiatives:

- Decrease delivery base network from eight to four regional delivery bases
- Introduce a docket imaging system for tracking and responding to customers' requests
- Mobile app to track multiple dockets on-the-go with push notification to keep customers updated

b. International Express (Intex)

International Express (Intex), a shipping company in Hong Kong, has launched its logistics services in addition to the traditional courier services. One significant and differentiated service offered is their mailroom management services (MMS). It involves:

- An Integrated Mailroom System, which allows them to track and analyze mailing activities
- A Virtual Mailroom that allows staff and clients, quick access to information. It allows to store and catalogue vast amounts of files under Intex's online network and easy retrieval at the touch of a button.

c. Red Dart

Red Dart is among the largest logistics companies globally. And sensing an opportunity in the e-commerce space, it recently launched a separate division, e-Dart, catering to this industry, and has already become the largest player in this segment. e-Dart has partnered with leading e-retailers, especially the large global ones, in managing their end to end logistics – sourcing from third party sellers and traders, providing last mile delivery to consumers, managing cash on delivery, returns, etc.

Additionally, for its traditional businesses, Red Dart has focused on increasing productivity, to ensure their business relevance. There is a strong thrust in adoption of technology and outsourcing of non-core activities.

Financial Data

(All figures are in USD million, except earnings per share)

<u>Overview</u>	FY22	FY21
Operating Results		
Revenues	4,268	3,930
Operating income	318	237
Operating profit margin	7.50%	6.10%
Net income	203	195
Diluted earnings per common share	6.41	4.57
Average common and common equivalent shares	317	317
Capital expenditure	400	343
Financial Position		
Cash and cash equivalents	284	232
Total assets	2,990	2,738
Long-term debt, including current portion	166	168
Common stockholders' investment	1,472	1,522

Revenue per Region

Regions	FY22	FY21
Asia South (Singapore, Malaysia, Philippines, Indonesia)	896	746
Asia North (Thailand, Vietnam, Cambodia)	811	786
Japan	598	668
Australia and New Zealand	427	472
Greater China (China, Hong Kong, Taiwan)	749	615
India and Sri Lanka	787	643
Total	4268	3930

Revenue per Service Line

Services	FY22	FY21
Courier Services	1323	1651
Digital Services	1280	983
Logistics Services	1665	1296
Total	4268	3930

Current Business Situation

While at an aggregated level SPC has grown at a healthy rate over the past decade, including in FY22, there are worrying signs in the organization. The Courier service business has been on the decline since the past 3 years. Industry forecasts the market will continue to shrink by 5-10% YoY over the next 2-3 years, after which the market size is likely to plateau at about 70% of its present size.

A large part of SPC's workforce (about 60%) and other resources are currently directed towards the Courier service business. Considering this, Larris is worried about the overall stability and sustainability of SPC's business. While opportunities lie in other areas, SPC will need to capitalize on them immediately; and making this change is as difficult as changing the direction of a very large ship.

The culture of SPC is built on the pillars of service, safety, and quality. Experience and functional expertise are valued, and decision making tends to be purposeful, deliberate, and top-down. This also means that change is slow and hard to come by, and resistance to new ideas, initiatives, and methods may be found across levels of management.

As a workplace, SPC is known to be formal yet cooperative, with traditional yet pro-employee policies. SPC is among the few logistics companies to have all its employees, including the delivery team, on-rolls (and not contracted). This has meant higher wage bills, but has helped SPC retain its workforce and enjoy greater loyalty.

However, since about the past 2 years, attrition has been on the rise, especially among new joiners and other low tenured employees. While the company has been performing well, it is not seen as nimble and suitable for the younger demographic. It is seen as an old economy company, with fresh talent being more interested in new age companies such as e-commerce, technology, etc. Meanwhile, the attrition level among the tenured employees, especially in the courier service business, is low, with many of them poised to be in SPC for life.

SPC's people practices have not evolved significantly over the past few years, and investments in learning and development have been below market benchmarks. Career progression tends to be

linear, and while SPC has multiple units and regions, mobility of employees across these units and regions has been limited.

While the overall attrition rate and employee engagement levels are presently in line with the industry, the above factors are likely to have a strong negative impact in the near future.