

# Energizing PT Pos Finansial Indonesia to Participate in Current Digital Financial Services

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## ABSTRACT

In the growing financial services industry, the postal financial services business is declining significantly. Outdated technology and service have been the cause of the declining revenue of postal financial services business. PT Pos Finansial Indonesia or Posfin, a subsidiary of PT Pos Indonesia (Persero), is used to salvage the declining business by employing new digital technology and improving services to recapture and expand the missing market in the new digital financial services environment. To assess the business situation, market potential, and business values, appropriate analyses are done. Business competition is analyzed using Porter's Five Forces, Value Rarity Imitability and Organization (VRIO), and SWOT (Strength, Weakness, Opportunity, and Threat) frameworks. Competitors in the industry are also being analyzed. Market sizes are calculated using the Market Subsets Model. Business values are explored through: Financial Statements projection, Discounted Cash Flow (DCF), and Terminal Value (TV) calculations. The analyses show that the current postal financial services are limited in time and place, technology is outdated, and service models are not developed. On the other hand, there are some strengths available that are very valuable to be utilized. Potential market that is unique to PT Pos Finansial Indonesia is still available and significant in size. By using new digital technology, developed service models, and utilizing strengths, Posfin can recover and grow the business to get significant business values. Context modified banking can be a long term strategic business direction to sustain and grow the business.

**Keywords:** *financial service, digital technology, unique market, service model, business values.*

## 1. INTRODUCTION

PT Pos Finansial Indonesia, with the brand name Posfin, is formed to salvage and develop the declining postal financial services due to losing market that is taken by new digital financial services providers. Posfin is formed from rebranding and transforming one of the subsidiary companies of PT Pos Indonesia (Persero) [1].

Planned to carry-on and develop postal financial services business, Posfin is aiming to capture the current financial services market through technological revamping by state-of-the-art digital technology and developed service models to regain and improve financial services delivery. Currently, postal payment services in Indonesia are operated by Posfin. For remittance, Posfin must explore new markets beyond the existing WeselPos, evaluation is being done on

international remittance where Posfin will concentrate on. Lending is a proposed service that will offer small business capital loans to the existing payment agents.

Payment business is a service that facilitates people to pay their bills or pay their purchase transactions. This includes bill payments of electricity, telecommunication, water, insurance, multifinance, and payments for purchase transactions such as purchase of products from marketplaces, purchase of prepaid vouchers, etc. Customers that pay a bill or buy a product will be charged a certain administration fee. Electricity payment for example will be charged Rp 2.500 for each transaction. The charge is the administration fee for the provided service as business revenue. The administration fee must be divided among involved parties as cost of the service. Most of the fees are coming from customers that are paying the

administration fee and some others are paid by billers, the product providers. Postal payment service is the biggest in Indonesia, providing more than 450 products of billers [2].

Remittance or money transfer is a service that facilitates people to send money from one territory to another territory. Remittance can be done regardless whether the receiver has a bank account or not as long as he or she can show valid identity as the beneficiary. Service fee is charged at cash-in order. The sender gives an amount of money to be remitted and pays administration fee for the service. In the past, WeselPos has been the main domestic remittance in Indonesia. Remittance can be domestic or international money transfer.

Why is the postal financial services business declining while the industry is growing? What are the causes? What can Posfin do in the new competitive environment? Which market and what size of the market Posfin can acquire? What business value can it create? Analyses are required to answer these questions.

## **2. LITERATURE REVIEW**

### ***2.1 Market and Industry***

Indonesia has one of the lowest financial depth and financial access among ASEAN countries [3]. One of Posfin's mission is to embrace most Indonesian people into digital financial inclusiveness, so that financial inclusion can alleviate household poverty [4]. Online payment is Posfin's main product. Payment methods that need minimal effort are more preferred and used than methods of payment that need more effort [5]. As another of Posfin's products, international remittance has an important role to fight poverty and improve the economy of rural migrant worker's households in Indonesia [6].

Posfin as a subsidiary of PT Pos Indonesia (Persero) has a recognized brand in the targeted rural market. Kotler [7] recognized the importance of brand value for any business. To grow, Posfin needs to explore new markets and new businesses. Ansoff (1965) suggested there are four main directions to take in expanding an organization's markets and products, the two of them are market penetration and market development [8].

### ***2.2 Corporate and Strategic Management***

A wide range of strategic management theories were elaborated by Rothaermel in Strategic Management [9]. The literature provides foundation to understand how to build and sustain business competitive advantages. Also, the literature covers the theory of business competition that is useful in business competition analyses. Porter's Five Forces model has especially

powerful implications for strategy and competitive advantage [9].

Witcher in Absolute Essentials of Strategic Management [8] provided frameworks for business competition analyses such as VRIO analysis that was introduced by Jay Barney (1997) to assess whether the internal resources and capabilities can be used as the key assets to achieve sustainable competitive advantages, and SWOT analysis used as an integrative framework to consider an organization's strengths, weaknesses, opportunities, and threats.

Techniques to measure and project good business performance, as part of the general goal of any firms, are provided by Keat [10]. Compound growth rate is one of the main projection techniques [10].

### ***2.3 Organization and Innovation***

PT Pos Finansial Indonesia (Posfin) is formed to re-energize the financial service business of PT Pos Indonesia (Persero) or PT Pos by utilizing its strengths while setting aside its weaknesses. Pos has served the market for generations, history offers a valuable organizational resource that can be used to motivate and manage change [11]. However, according to Gozali et al. [12]: "Indonesian state-owned enterprises (SOEs) management team were not able to maximize their corporate resources as their effort to improve the company performance". Kesler in Leading Organization Design [13]: How to Make Organization Design Decisions to Drive the Results You Want emphasized that agility is needed in many areas: resources allocation, investments, manpower, and quick changes in the industry.

Dodgson in The Management of Technological Innovation [14]: Strategy and Practice stated that Innovation is critical for sustainable business. Technology is a very important aspect for corporate and industries to produce new and improved products and services. The organization must cope with the needs and qualifications required to create innovations for the current and the next competition. One of the primary aims of a company is to produce new and improved products and services [14].

### ***2.4 Finance: Data, Theory, and Tool***

To have a good understanding of the business situation, historical data are analyzed using established theory. The data are taken from the annual report of PT Pos Finansial Indonesia [2] and Annual Reports of PT Pos Indonesia (Persero) [15], with other data from PT Pos Finansial Indonesia, PT Pos Indonesia (Persero), and external sources.

Damodaran [16] described in detail several aspects of corporate finance. Tools and analytical techniques are

provided to answer major business questions about financial management. Damodaran tried to link the theory with real solutions for real problems. In addition, comprehensive techniques of financial analyses are discussed by Gitman [17] to construct and analyze financial statements, state and simulate cash flows, make financial projections, establish business valuations, and other financial calculations.

### 3. RESEARCH METHODOLOGY

To achieve the objective, relevant frameworks analyses are performed within one scheme to identify problems accurately and get valid solutions. The diagram in Figure 1 is the scheme used in combining all of the analysis's frameworks into an integrated comprehensive analysis.

In the Problem Clarification section, problems are revealed by evaluating the existing business data, interpreting and processing the data to get a clearer understanding of the problems. Then, Know Business Situation is performed by business competition analysis using relevant frameworks: Porter's Five Forces [9], Value Rarity Imitability Organization (VRIO) [8], and Strength Weakness Opportunity Threat (SWOT) analyses [8]. Competitors analysis is performed to

understand where and what the competitors are operating [9].

Size Market Potential is calculated using the market subset model of Total Available Market, Serviceable Available Market, and Serviceable Obtainable Market. By calculating the market subset's size, market potential can be estimated realistically as an attainable target. The results of Problem Clarification, Know Business Situation, and Size Market Potential, are combined to formulate Business Solution from selected alternatives of service models and initiatives to achieve business values as simulated in Projection and Business Value.

Projection and Business Value are simulated for the next 5 years. Financial projections are created to figure out profitability and cash flow in the future, business value is calculated using Discounted Cash Flow (DCF) and Terminal Value (TV) methods [17].

### 4. RESULTS

Postal financial services still have a big volume of transactions to be preserved and regained. Payment is the biggest revenue generator followed by remittance. Gross revenue of all the services are declining except Bank Channeling service which is growing [18]. The chart in Figure 2 describes the data.

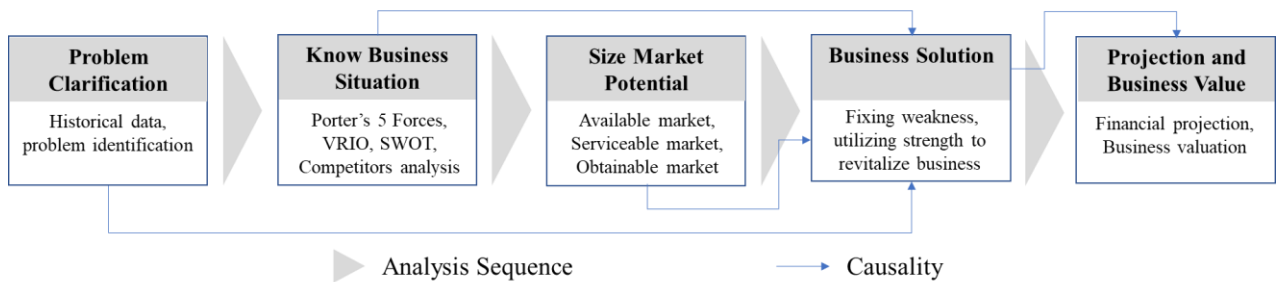


Figure 1 Methodology of integrated frameworks analyses

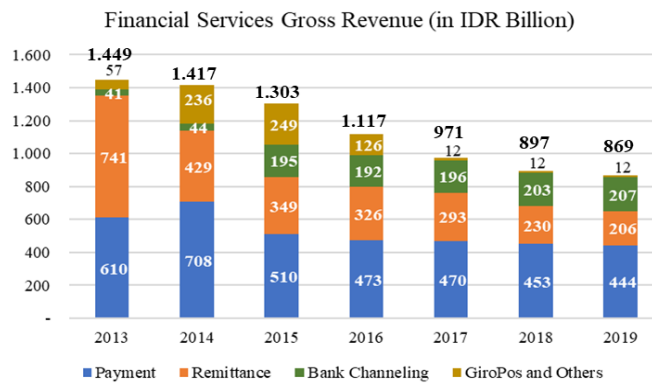


Figure 2 Gross Revenue of Pos Financial Services 2013 to 2019

From the Porter’s Five Forces analysis the following competition forces for Posfin are:

- a. Competitive rivalry in the industry is Monopolistic Competition, Posfin needs to exert any strengths it has to succeed competition
- b. Supplier power is not significant problem for Posfin
- c. Buyer power is big, Posfin must focus in market where it has advantages that is in unbanked and rural area market
- d. Threat of substitution is low because the new Digital Financial Services itself is the substitution for conventional Financial Services
- e. Threat of new entry is big, Posfin must anticipate this threat seriously

The Porter’s Five Forces analysis indicates that new digital technology leads many players to enter the market with new service models using new technology, thus providng customers more options to get financial services.

VRIO analysis identifies the aspects of internal resources and capabilities, as the following:

- a. Posfin’s value proposition is strong capital for Financial Services business by employing new technology and improving service
- b. Posfin can use rare resources owned by PT Pos, network and license
- c. Technology and business model of digital Financial Services is easy to imitate
- d. Posfin still has a big challenge in the organization
- e. Two resources that are Sustained Competitive Advantage are Brand Reputation and Distribution

Network both inherited from PT Pos Indonesia. Other internal resources and capabilities are yet to be developed.

The VRIO analysis finds that the business is very susceptible to imitation or even hampered by new technology and business models. Furthermore, it finds that the organization is not yet in its force to deal with the required reformation and agility needed for changes in the new competition.

From another business competition analysis, SWOT, the following concerns are obtained:

- a. Opportunities are available and Posfin has appropriate Strengths. Posfin must effectively utilize the Strengths to get the Opportunities that match each other.
- b. Posfin must fix all the weaknesses since all of them are fix-able and under control of Posfin.
- c. A good strategy must be formulated because the Threats are unstoppable. Posfin can’t oppose them, instead it needs Posfin to anticipate and transform for the new competition.

The analysis identifies the following SWOT factors that are coming from both internal and external associated with helpful and harmful factors as described in the matrix in Figure 3 below.

Competitors analysis shows that new digital technology is enabling new service models by new players. The new players are growing much faster compared to Pos. There are new branch-based providers that are catching up in terms of network presence, they take a significant market portion.

|                 |                      | HELPFUL          |                        | HARMFUL          |  |
|-----------------|----------------------|------------------|------------------------|------------------|--|
| <b>INTERNAL</b> | <b>Strengths</b>     | <b>magnitude</b> | <b>Weakness</b>        | <b>magnitude</b> |  |
|                 | Familiar and trusted | high             | Outdated technology    | high             |  |
|                 | Egalitarian image    | high             | Limited service        | medium           |  |
|                 | Wide network         | high             | No marketing           | high             |  |
|                 | Cheaper              | medium           | Less agile             | high             |  |
| More products   | medium               |                  |                        |                  |  |
| <b>EXTERNAL</b> | <b>Opportunities</b> | <b>magnitude</b> | <b>Threats</b>         | <b>magnitude</b> |  |
|                 | Big unique market    | medium           | Technology penetration | high             |  |
|                 | Growing demand       | medium           | New providers          | high             |  |
|                 | Trusting Partners    | medium           | Bank penetration       | high             |  |

**Figure 3** Posfin’s SWOT matrix

All of the analyses conform and converge to the root of the problem, they are:

- New digital technology that enable new form of services
- New players come and disturb the market
- Postal financial services technology and form of service are left behind
- Pos strengths were not utilized effectively
- Pos has not agile and aggressive enough in responding to the new competition

On the market side, Posfin has a unique rural and unbanked market segment that is significant to be captured, the unbanked population in Indonesia is 134 million which is 50% of total Indonesia population [19]. For international remittance, four biggest hosting countries for Indonesian migrant workers: Malaysia, Saudi Arabia, Hongkong, and Taiwan, are potential markets to be captured. Lending service of small business capital loan can be offered to the existing 50.000 payment agents, the available captive market with good loan performance.

Business mapping suggests some points for revitalizing the business:

- a. Payment service at Post Office Counters, at the moment extending service hours and days is the only foreseen effort that can be done while observing other opportunities to develop.
- b. Payment service by Agency, this competition is win-able. Posfin must be more aggressive with better technology and service.
- c. Domestic remittance, facing niche competition from banks and new providers.
- d. International Remittance, dominated by big international providers, Western Union and MoneyGram, which are relying on Pos network in Indonesia. Posfin can actively pick up the ball by

working on the niche market of Indonesian migrant workers in main hosting countries.

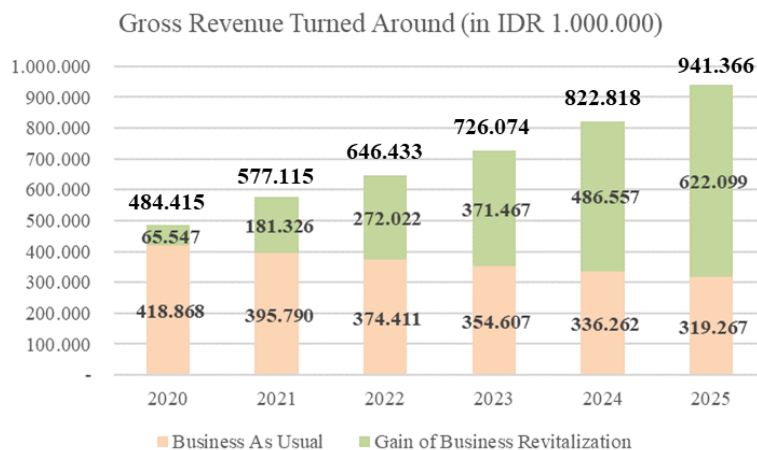
- e. Apart from the above points, new business models must be developed such as:
  - Direct online to anticipate technology, economy and social advancement
  - Lending to take available market in the existing ecosystem
  - For long term business continuity, Posfin needs a Banking license. The data shows that Bank Channeling service is the only service that grows among the current financial services. Financial services is also part of banking activities, therefore only by having a banking license can Posfin grow better in the future.

Effectiveness of the business revitalization can be seen in the following chart in Figure 4 that illustrates the breakdown of gross revenue trend by business as usual compared with the revitalization.

**5. DISCUSSION**

Postal financial services business is declining due to losing market taken by new digital financial services providers [2], it needs innovative restructure to revitalize the business. Currently postal financial services are using outdated technology and limited service. Posfin is starting to develop a new digital technology platform of an integrated digital financial services to catch up advancements in the industry. Service to customers need to be improved to provide convenience, time flexibility, and service availability.

The new platform of digital financial services, at least, must run on three interfaces: mobile apps, web based, and desktop applications. New technology can enhance flexibility, improve availability, enables growth, and reduces cost [14].



**Figure 4** Gross Revenue turn-around

Service models need to be developed by using new technology and taking market opportunity to create new service models or upgrade the existing services; the service models are:

- a. Online to Offline (O2O), is a service held by an online connected counter to offline customers, held at Post Office Counters and Agents. Posfin must develop this service model since it is the biggest revenue generator today and where Posfin's strengths can be utilized effectively.
- b. Direct Online, is a new service model enhanced from O2O service model where Financial Services can be performed directly by the customers themselves using their own application. This application needs an e-wallet license, Posfin can utilize GiroPos as an alternative e-wallet while submitting a new e-wallet license.
- c. Business to Business (B2B), many new digital businesses such as e-commerce need Financial Services features in their platform. The digital business platforms are currently focusing on their main business. Posfin can take the opportunity to provide them network and partners connection to serve their need of Financial Services. B2B employs server to server integration technology to enable any e-commerce or other Financial Services platforms to access products available in Posfin and makes the other platform's products available in Posfin's platform.
- d. Posfin must actively pick up the ball by exploring opportunities in countries that host most of Indonesian migrant workers, such as Malaysia, Saudi Arabia, Hongkong, and Taiwan.
- e. An opportunity to take is Lending business since most Agents are unbankable small businesses that often need working capital, also since they are partners that must put deposits, the loan will be much more collectable. Financial institutions can be engaged to offer 50.000 Posfin's Agents that are very active in transactions.

Posfin can learn from Japan Post Bank's success. Japan Post Bank was formed from Japan Post's transformation to Japan Post Holdings group. Japan Post Holdings was established on 23 January 2006 and fully took over the functions of Japan Post in October 2007. Japan Post Holding holds three subsidiaries: Japan Post Bank, Japan Post, and Japan Post Insurance [20]. In less than 3 years, Japan Post Bank had become the world's biggest deposit holder. Also, Japan Post Bank is one of the only two Banks, Japan Post Bank and Mizuho Bank, that have branches in every prefecture in Japan. The success of Japan Post Bank is driven by 2 factors:

- Trust, that is proven by being the biggest deposit holder in the world, and

- Network, by its widespread branches throughout all prefectures in Japan

The success factors are exactly the same as what Posfin has as a PT Pos subsidiary. The assumption that banking is good for Posfin is supported by the fact that Bank Channeling service is still growing despite the decline of other services.

The brand of PT Pos is familiar and trusted. Founded in 1746, PT Pos has presented and served the Indonesian market for generations. There is no bad history about Pos Indonesia and people trust it. The image of egalitarian service is matched with the targeted market; many customers feel more comfortable to do transactions at Pos offices. As customer behavior is changing toward online transactions; the familiarity, trust, and egalitarian image must be transformed into the new digital service models.

Network that can be utilized by Posfin is spread across all of Indonesia districts, with more than 4.500 Pos offices, consists of the following categories:

- |  |               |
|--|---------------|
| • Regional Office                                      | 11 offices    |
| • Superintendent Post Office (Kprk)                    | 216 offices   |
| • Postal Services Unit                                 | 569 offices   |
| • Urban & Suburban Branch Post Offices (Kpcdk & Kpclk) | 3.750 offices |

Financial modelling has been created for revitalized business of Payment, Remittance, and Lending services. Free Cash Flows from the first 5 years and Terminal Value are converted into Net Present Value of mid-2020 to get Business Value at mid-2020 of IDR 594.794.986.000.

## 6. CONCLUSION

Since digital financial services is a potential business, Posfin has the opportunity to capture its unique market. New digital technology, improved service, and new service models can be used to recover missed postal financial services markets and further develop the business by optimizing the current market and entering new markets.

The revitalization of Financial Services business is a medium term solution that applies for about the next 5 years period. New relevant business must be obtained because the existing business will reach market saturation within the next few years. For a long term solution, bank licensing must be considered although bureaucracy and politics will be a big issue. This banking does not mean conventional banking services, but to develop more financial services models in the future. Japan Post Bank's success story must be studied seriously for implementation in Indonesia, with some context modification.

To systemize the implementation of business solutions, actions are planned for three main purposes:

- Salvage postal financial services business by using new digital technology and improved service
- Improve the business by developing service models, maximizing the current market penetration, and entering new market
- Expanding business by initiating new relevant business as a future source of growth.

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