



Global Postal & Parcel Industry News

ArticleID: 1857 [Hellmail.co.uk]

14 October 2009

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Royal Mail – Beyond the Hooper Report (REVISED)

Analysis of the *Hooper Report* alone (officially known as, "*Modernise or decline, Policies to maintain the universal postal services in the United Kingdom*") is not sufficient to properly evaluate the modernisation efforts for Royal Mail, although it was a logical starting point considering proponents for part-privatisation and the *Postal Services Bill* (the "PSB") use the Hooper Report as the basis for their proposed plan. The first three articles in the series (*Privatising Royal Mail – Part I*, *Part II*, and *Part III*) focused on erred arguments, assumptions, conclusions and recommendations in the Hooper Report. This article focuses on the major arguments and positions taken by the legislative opposition (the "Opposition") and government proponents (the "Proponents") to modernisation efforts regarding Royal Mail.

To begin, the Opposition are members of Parliament opposed to the PSB in its current form, and are furthermore, signatories of *Early Day Motion 428* (the "*EDM428*"). For brevity, the full text of EDM428 is not included, but EDM428 states in broad terms what the Opposition is for and against, with against limited to the claim: "...rejects the recommendation of the *Hooper Report* to sell a minority stake in Royal Mail which would risk fracturing one of Britain's greatest public services." In other words, the Opposition is against part-privatising Royal Mail, but they offer no plan or option to settle the divide.

The Opposition acknowledges a solution is needed in a timely manner, but they also wish to defeat the only proposed solution without offering another plan. It is insufficient and illogical to agree change is required, and in a timely manner, while opposing the only plan put forth, as well as failing to offer another plan/option, or even to look at lesser publicised proposed alternatives. Since part-privatisation represents a better plan than doing nothing at all, there are only two logical options to pure opposition: either withdraw all opposition, or continue to oppose, while offering an alternative plan.

Consider a hypothetical house fire as an applicable analogy. Your house is on fire, with the fire currently concentrated on the southwest lower corner of your two-story house. The fire department arrives, but there is no water available to fight the fire. A ranking firefighter presents a plan to knock out the windows to let smoke out of the house (reduce smoke damage) and then to cut a half-meter slice out of the house, separating the burning part from the rest of the two-story house. A number of firefighters oppose to the plan (and stop it), but they offer no other plan. Nothing is done as the house continues to burn. If you truly imagine yourself as the homeowner, are you comfortable with either side's approach? Is opposition without a plan, while halting any effort to extinguish the fire, acceptable? The real question for the Oppositions is, "*What happens next if you are successful at defeating the PSB?*" If there is

an answer, then it should be presented now, after all, it is acknowledged something must be done in a timely manner.

Next, [executive, not legislative] Proponents agree with most, if not all, of the content in the Hooper Report and desire passage of the PSB in its current form, although there may be differences of opinion even among Proponents. Some of the issues were covered in prior articles (Part I, Part II and Part III), so the emphasis now is on not repeating topics already covered.

First, Prime Minister Gordon Brown and Business Secretary Lord Mandelson state the only solution for Royal Mail is part-privatisation, and the change is needed immediately. If there assumption is correct, then what they actually are saying is that no other solutions exist. Therefore, if part of Royal Mail is offered to outside investors, and no outside investor (buyer) steps forward, then Royal Mail must be dissolved. After all, selling part of Royal Mail is the "*only solution*" and should they not be able to sell it and no other solutions exists, then any other approach would be a failure, hence, Royal Mail would fail as well, so it must be dissolved. Likewise, if an outside investor steps forward, but offers less than the valuation desired, then the sale at the lower valuation must occur, or Royal Mail must be dissolved because a partial sale of Royal Mail is the "*only solution*". Consequently, if Proponents agree Royal Mail does not have to be dissolved if no buyer is found, nor sold at a price below the desired valuation, then by definition, part-privatisation is not the only solution, or urgency does not exist, or both.

Furthermore, one cannot logically argue all three positions, that is, a sale is the only solution and urgency is required, but rejection of an offer to buy is somehow acceptable, which would lead to an indefinite and no action. One or more of the basic claims must be false, and therefore, illogical. That is, part-privatisation is not the only solution, action is not immediately required or both. As a result, the Proponents themselves proved their own claims of "*only solution*" and "*must act now*" false by their own statements.

One could argue they may not have known of the consequences in advance, but I respectfully submit two pieces of evidence to counter such argument. First, Prime Minister Gordon Brown, Conservative Party leader David Cameron, originator of EDM428 (the Opposition) MP Geraldine Smith, and CWU official "Billy" Hayes all directly received, at least once each between January and July 2009 (well in advance of TNT's bid price), a full "proof" or statement similar to what is presented above, some in a detailed extensive report, and others in a letter/email identifying the errors in detail. Second, one should never require an event to actually take place in the future before realising such action would negate a prior claim (i.e., must sell and must do it quickly, but refuse to sell to the only buyer and willing to wait) [or one's own claim for that matter]. It is understandable a proper valuation is desired, in which case, part-privatisation is one of many possible solutions. Q.E.D.

Second, from a competitive standpoint, soliciting bids prior to obtaining the legal authority to sell a portion of Royal Mail represents a "*potential threat*" to Royal Mail going forward. If in fact proprietary or non-public information was disseminated to prospective bidders, then a "*potential threat*" becomes more probable if the final result is rejection of the part-privatisation option. It is the classic "*cart before the horse*" type situation, and it is unclear any benefits outweigh the risks. Then there is the £3.6 million spent, and possibly wasted, through June 2009 on consultants for advising on a plan that has not yet been legally approved. Clearly, if immediacy had been properly understood, the potential for waste would have been avoidable.

Third, the Proponents challenged the 130+ Labour MPs that oppose the part-privatisation plan, claiming the "*alternative would be worse*", and therefore, dropping their opposition is the best choice of action. Since the "worse alternative" does not actually bear directly on the

logical evaluation of the strategy employed, the alternatives are not presented here. Also, to simplify the description, "*action*" properly refers to both "*an action and an event*".

Opposition can only occur as a result of some action or proposed action; therefore, the action or proposed action (part-privatisation) precedes, and thus, must create the opposition (MPs opposition). Consequently, it is illogical to request the opposition change when that which caused the opposition (part-privatisation) still remains unchanged. The correct and logical solution to end or lessen any opposition is to withdraw or modify the action or proposed action that created the opposition. In other words, a future negative outcome (worse alternative) does not originate with the opposition, but rather, is the direct result of refusing to modify the initial action (part-privatisation plan) to eliminate or lessen opposition—barring four exceptions defined next.

Challenge exceptions: Challenging opposition, or even loyalty/patriotism, instead of addressing the oppositions' concerns is illogical, unless of course, it works, or there exist no better arguments for squelching said opposition. Challenging opposition would likely work if (1) the opposition were small in number (inconsequential minority), (2) highly fragmented (unorganised or no clear direction), (3) easily manipulated (lacking true opposition) or (4) founded on an unjustified stance/set of principles, but none of which appear to apply. The challenge is therefore illogical.

Fourth, the supposed 'John-Lewis' compromise was never a compromise. The proposal would give Royal Mail workers token or part ownership of Royal Mail (up to 19 percent maximum—a proposed total of 49 per cent less the 30 per cent sold off to outside investors) without changing any other part of the plan, presumably giving ownership shares to the worker's union. There is no compromise in the proposal (it offered something new, while not addressing the main opposition's concerns and issues, with the new offer going to another group), so it is not a compromise (refer to previous opposition proof). Since it is not a compromise, it must be yet another challenge. Of the four challenge exceptions, easily manipulated appears the most logical or likely.

The postal worker's union (the "CWU") is a vocal opponent to the part-privatisation plan and avid organiser of protest rallies (and strikes now), not to mention their statement to encourage members to withhold voting support in future elections for Labour Party members supporting part-privatisation. If the worker's union lacked true opposition (easily manipulated), then it is conceivable the union would accept the token part-ownership offer. Since the challenge failed, it is possible the opposition is true opposition, or the union recognises it is not in a weak position yet (pre August timeframe) or the union considers its strike capability a more powerful tool (post August timeframe) and may be able to negotiate a better outcome before any PSB vote. Regardless, the proposal was not a compromise.

Fifth is based on the actions from the fourth, namely, the percentage of Royal Mail available for sale as specified in the PSB. The current plan is for 30 percent only, but the PSB states 49 percent. There are those that oppose the higher percentage number, and the 'John-Lewis' challenge demonstrated that approval of 49 percent gives authority to sell 49 percent regardless of any claims otherwise. In short, if only 30 percent is the number, any value above 30 percent must be logically taken to be the actual number, for once the higher percentage is approved, 30 is no longer the limit. Again, the proof of exceeding the 30 percent was already demonstrated in the 'John Lewis' offer.

Finally, review of "*required rationale*", which is missing or lacking. Before approving the PSB, three (3) questions should be answered:

- What alternatives were considered?
- What was the rationale for rejecting each alternative?

- Why is modernisation (i.e., expertise, change in management, et cetera) only possible with a part-privatisation partner?

Without detailed answers to these questions, it is almost impossible to conclude the PSB proposal is the best choice.

Without true dialog to include other plans, it is unlikely anything near the best plan will be selected and implemented. Productive dialog and discussions help formulate a good first step towards a solid plan. Consider the first analogy, where the ranking firefighter suggested breaking out the windows to reduce smoke damage. If you were told such action would allow fresh air (oxygen) to enter the house and cause the fire to spread more quickly, would it not make your decision easier to reject the idea, and thus, lead to the development of a better plan?

Part-privatisation offers money—capital from an outside source—in exchange for partial ownership of a State asset, and this is the most plausible reason for pushing insistently for the proposal to Part-Privatise Royal Mail. Many of the arguments used in an attempt to garner support for part-privatisation have been proven illogical or incorrect, and some of the actions taken were likewise illogical or ill-advised, but part-privatisation is still the only proposed remedy. If the real objective is to reduce the government's financial obligation by selling part of the State's asset, then that is what should be stated as the primary motivation for part-privatisation. After all, one cannot argue with a fact, although one can still argue the plan is not the best solution for the problem. The Hooper Report did not emphasise the financial benefit of part-privatisation for the UK government, nor have any of the principle participants, which begs the question, why not? The problems facing Royal Mail are both operational and financial, so if the solution does not properly target both aspects, then all you have is a remedy, which is likely to require a solution in the future, and at a higher overall cost. The greatest threat to any national postal service offering universal service is implementation of costly remedies, rather than true solutions.

In closing, a summary of sorts is presented, followed by a closing statement. *"You chose not to pay your mortgage for much of the last decade (Royal Mail's pension obligations) with the consent of your various mortgage holders (past and present UK governments, pension and Royal Mail officials, and others) and ignored most refinancing opportunities (modernisation/improvements) throughout that same period, creating financial and operational difficulties, as well as financial debt so large that your mortgage lender today is now hastily contemplating risking sole ownership of your home, even though your spouse, some of your kids, family, friends, neighbors and even some of the staff at the mortgage company itself, deeply disagree with the decision (all opposition), with the lead mortgage lender stubbornly seeking a remedy they had previously agreed not to pursue (pre-election promises), while providing vague or ambiguous information, no clear justification of rejected alternatives, and employing weak or illogical arguments, plus incurring huge operational expenses for undertaking a plan that has yet to be legally permitted (costing £3.6 million plus) and abruptly halting a process (formerly declared urgent, absolutely required and moving at near light-speed), after rejecting the only offer that met their own stated requirement, as an exact or close estimate of the actual mortgage debt still remains elusive (is it £9.0 billion or closer to £12.0 billion?), as well as the longer term plan for solvency remaining unclear, and finally, exhibiting no difficulty or hesitation to ignore the pursuit of other viable plans (not referring to Network Rail plan)."*

It is understandable that Labour party Opposition members wish to adhere to their campaign or pre-election promises, and the non-Labour members of the Opposition with no such promises just want a different approach to solve the problem, but opposition alone will not solve the problems relative to modernisation of Royal Mail. It is understandable the Proponents wish to sell State assets at their highest possible valuation, but inaction and mere

remedies will also not solve the problems at hand. Clearly there were many participants in the build up to the problem, and no easy solutions exist, but only true solutions will resolve the problem. Part-privatisation is one of many approaches to solving the problem of modernisation of Royal Mail, but is it the best—or one of the better—solutions or just a remedy? Implementing part-privatisation and waiting to see the consequences is an approach, but one everyone should agree is not advisable.

About the Author: Timothy Nestved is founder and president of Nestved LLC, as well as a principal consultant, with expertise in turning around firms in the delivery services industry, including distressed firms facing similar challenges to those of national postal service providers like the Royal Mail and USPS. Inquiries for Timothy may be submitted through the [Contact Us](#) page at Nestved, LLC.

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