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Royal Mail Mid-2010 Review of Financials and Modernisation *(REVISED)*

With another six months having transpired, it is time again for another review of Royal Mail's financials and its modernisation efforts. Major events for the period include postal strikes, the change in Royal Mail management, another postal union/management agreement, the Quality of Service (QoS) Monitoring violations, a change in the political landscape and Royal Mail's year-end financials.

The postal strikes, the change in Royal Mail management and the newest agreement between Royal Mail and the CWU—referred to as *Business Transformation 2010 and Beyond* (the "BT2010B")—are all interconnected. The strikes in the later part of 2009 were the result of growing conflicts between Royal Mail, specifically the management led by former CEO Adam Crozier and the main postal labour union, the CWU, relative to personnel-based modernisation efforts. The major participant heralded the BT2010B agreement as historic. Unfortunately, the events from 2009 are a repeat of substantially the same historical events from 2007, namely conflict between Royal Mail and the CWU over modernisation, national strikes, negotiations requiring mediation by an outside party and an agreement purported to finally end to the conflict so Royal Mail can move forward with modernisation without hindrance, or in this case, yet another strike *n* months from now.

History has proven the two sides have been unable to resolve their own differences without outside mediation, the agreements they reach are short lived, and history may well repeat itself once again, unless of course, substantial improvements occur on both sides (Royal Mail/CWU) in areas outside the boundaries of the agreement that include mutual respect, teamwork with clear and traditional delineation of responsibilities, concern and consideration for the other side's perspectives and issues, et cetera. A mediated agreement alone cannot achieve these goals, for definable milestones and set targets, like those found in an agreement, differ substantially from changes in mindsets, which agreements do not necessarily include, as repeat conflict and postal strikes in 2009 prove. A new CEO presents some hope of potential change, but it will require changes from all participants, (i.e., management, unions, employees, media, public, government, et cetera).

As for the agreement in particular, only two-thirds of the CWU member votes cast voted in favour of the agreement. Given it was widely understood that a failure to pass BT2010B by the CWU members meant postal strikes would resume, and there was significant resistance to members wanting to strike, the yes vote win was hardly a victory for either side. For many postal union workers, it was equivalent to selecting the lesser of two evils, but disliking either option immensely, with many wondering whether or not the negotiations properly reflected

what they felt was most important in an agreement. For Royal Mail management, I suspect they only see victory because strikes were averted [for now].

Before the agreement was reached, Royal Mail announced its CEO was departing. At that time, both sides should have called a "truce" with regard to strikes and worked to complete an informal agreement to mend their differences and work towards rebuilding Royal Mail as a business enterprise. Personally, that would have demonstrated a break from the "*us-versus-them*" mindset more so than any formal agreement, and potentially allowed the new management and the CWU to resolve the issues without a required mediator. I propose such an outcome would have been far better than the formal agreement that was reached, better for Royal Mail, its current and potential customers, the new CEO, the CWU and the workforce as a whole.

Furthermore, as to the vote itself, postal union members could have voted no to the BT2010B agreement with the intent of ignoring any call for a strike (or resigning if the CWU insisted on strikes) if the agreement failed to win a majority approval. Without a doubt, the CWU would have had either to abide by the majority of its members or risk further reduction of its membership. The CWU needs members more so than members need the CWU, so voting yes on BT2010B to avoid a strike alone was not in the best interest of union members.

Next is the Performance Delivery or QoS performance scandal, where a whistleblower provided evidence showing Royal Mail management personnel improperly shared information on the identity of QoS researchers. Now, Postcomm stated the evidence, while showing Royal Mail had violated the confidentiality of the system and could then manipulate the performance targets as a result of the violation, demonstrated there was no major impact on quality of service figures reported by Royal Mail.

Royal Mail "adamantly" defended itself by stating no quality of service figures were changed, with the presumption that because nothing was changed, one should conclude no "wrong" was performed. That is like an art thief breaking into a museum after hours and being caught before they could steal any of the precious art, and accepting the thief's "adamant" cries that nothing was stolen, so no "wrong" was performed.

One only has to look at intent, that is, what was the intent? At the less criminal end of the scale, the intent could be to gain advanced knowledge of poor performance numbers. The excuse for wanting advanced notice does not matter because the action itself is illogical; therefore, the excuse will be equally illogical. In the middle is the intent to improve poor performance during the measuring period so that results meet expected goals by the end of the measuring period (e.g., results are improved only for "items" researchers are recording rather than overall). And finally, the most egregious intent is to physically manipulate the performance numbers directly so they meet or exceed set or expected goals.

It really does not matter which intent Royal Mail management intended, as all are forms of deception—the willful intent to deceive through an improper set of premeditated actions, and with bonuses tied to performance targets, one cannot dismiss the most egregious of intents merely because Royal Mail management was never placed in a position to have to execute it. That is, because Royal Mail never had to modify the performance results, does not mean the intent was not there. It simply means they never had to execute their intent in a manner that would have clearly (exposed it) defined it. Bottom line, people should have been terminated and lost their pensions as a result of the fraud, and it was an act of fraud.

One cannot change the culture of "*us-versus-them*" merely with words or agreements, for it takes appropriate actions, and one of those actions is to clearly demonstrate that there are no double standards. Likewise, management has the responsibility to oversee the business and management is quick to argue their responsibilities demand higher pay, but it also demands

more accountability and less tolerance for fraud. I suspect Royal Mail management's initial reaction is to speak out against the facts presented here. But, I propose it would be far better for Royal Mail to demonstrate the trust building they claim to desire by simply admitting guilt (dispensing with all forms of excuses) when wrongdoing has occurred, cleaning up the mess, ensuring it does not occur in the future and apologising to the workforce and those it serves when it fails at its responsibilities and violates their trust. I also think it is best for me not to hold my breath on this.

Next, the general elections resulted in a change in the UK political leadership, and with that change are several changes for Royal Mail. First, the coalition government has renewed the effort to sell Royal Mail, and it appears for the time being, the sell-off does not include a total sale of Royal Mail. The Labour party never stated the sell-off was to raise funds, but the coalition government has made this claim. As I stated [in a prior article analysis](#), one can logically argue that a sell-off will raise funds, so in that respect, a sell-off is logical. However, if sell-off means more than simply selling a portion of the business interest to raise funds (an investment by the buyer), then the many arguments against a partial sale still apply.

Second, the CWU was aligned with Labour, so the change in government means less political influence for the CWU in the current government. If you recall, the CWU threatened to withdraw support for Labour candidates at the start of 2009 when the concept of a [Postal Services Bill](#) (the "PSB") was first discussed. At that time, I stated the threat was illogical and likely not to occur. Back in late 2009, it was clearly understood, and publically stated, the PSB was still "alive" and would once again be presented to Parliament when the UK economy turned around or a buyer came forward, and reaffirmed by Labour just prior to the election. Thus, the CWU's threats to drop support for Labour candidates was merely rhetoric, as demonstrated by their support for Labour during the election. The CWU lacks any comparable support in the Liberal Democratic and Conservative parties, so withdrawing actual support for Labour candidates during an election is equivalent to self-destruction (form of suicide/cannibalism) and the CWU knew this when they made the empty threat. Today, the CWU has to adjust its strategies, but I will forgo the analysis of their new strategy and simply say, anyone knowing and understanding the new strategy will have the advantage.

Third, the popular view and political view differ, so much so that changes for Royal Mail Group are anything but a certainty relative to privatisation. About 80% of people in the UK are happy with postal services in general, and about 70% are opposed to Royal Mail privatisation. Regardless of the political party, not all of its party members support Royal Mail privatisation. The party in control of the government during the last decade or two has failed at efforts for postal privatisation, while also contributing (directly and indirectly) to the pension deficient issues Royal Mail faces today. A full sell-off of Royal Mail is the superior selling option, but that does not mean a sell-off is the best strategy for Royal Mail long term. In fact, anybody that understands the market, current and future, as well as understanding the other vitally important deficiencies a sale presents, which by the way are rarely mentioned, would adamantly oppose any sale, partial or whole.

Fourth, with the initial media reports of no interested Royal Mail buyers, the coalition government made mention of re-engaging Sir Richard Hooper to update the so-called *Hooper Report* (officially known as "[Modernise or decline, Policies to maintain the universal postal services in the United Kingdom](#)", 16 December 2008). For those that read my articles on the subject, there are many errors and incorrect assumptions and conclusions in the Hooper Report (references: [17Sep09 RM Part-Privatisation I](#); [22Sep09 RM Part-Privatisation II](#); and [07Oct09 RM Part-Privatisation III](#)). Instead providing any analysis of an updated Hooper Report, I will only ask one question and provide two hints. The question is: *What has changed since the Hooper Report was published to justify a differing set of conclusions and recommendations in a "Sequel" Hooper Report?* Keep in mind, any changes must be substantial and the result of events occurring since the original report was completed. In

addition, the sequel report cannot contain anything not already stated as known/projected to change in the original report without invalidating the original report as incomplete and in error. The astute will properly identify the only two changes. If one knows what has changed, then one does not need to commission a new report, for one already has the answer; or if a report is commissioned, it shall take no time to complete...a few hours at the most because just two items need updating.

It is ironic, the Hooper Report correctly stated political separation was required for Royal Mail; however, the PSB presented to Parliament in 2009, as a result of the Hooper Report, does not address the issue of political separation, yet the politicians have apparently asked the same group to update their report for the politicians to use to presumably define how to proceed in 2010 and beyond.

[Part II](#) contains analysis of Royal Mail's financials and the year-end report.

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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