



### **Global Postal & Parcel Industry News**

ArticleID: 2273 [[Hellmail.co.uk](http://Hellmail.co.uk)]

28 June 2010\*

by *Timothy D. Nestved*

*\*Publication delay resulting from delay in publishing Part 2 of the series.*

### **Royal Mail Mid-2010 Review of Financials and Modernisation – Part 3** (REVISED)

Part I reviewed major events during the first half of 2010. Part II reviewed the financials for the second half-year and full-year reporting periods. This part, Part III, reviews the performance and modernisation claims made by both Royal Mail and the CWU.

Royal Mail is a distressed business in a distressed industry, and the topic of managing a distressed turnaround is beyond the scope of any article, but a brief definition and three select rules are sufficient to properly evaluate the claims made by Royal Mail and the CWU.

*Brief Definition:* An overall modernisation effort (overall effort) is comprised of one or more component processes, with each individual component process having a specific ordering and sequencing, as well as a "critical process" value (i.e., ranking) in which the ranking, ordering, and sequencing of component processes plays a significant role in the success or failure of the overall effort.

*Select Rules:* The three (3) selected rules establish parameters and standardisation:

1. *Do not refer to individual component processes using a generic reference or by a name designated for the overall effort, as it creates confusion, ambiguity and potential for error. That is, do not say modernisation if the task you are referring to is actually automation. ↓↓*
2. *Individual component processes and the overall effort each have their own status, so do not refer to a process' status as that of the overall effort's status, and vice versa, as it misrepresents the facts and has the potential to lead to errors. That is, if automation and asset disposal are 60% completed and resulting in continued cost savings, then automation and asset disposal are 60% complete and not modernisation is working as evidenced by continued cost savings.*
3. *Assign a critical process value to each component process and higher valued processes should receive greater weight relative to importance, prioritisation and resources (given defined constraints of course).*

Managing a normal project (via project management) and managing a distressed turnaround (via turnaround management) differ significantly, although their definitions are somewhat similar. Status for an overall modernisation effort mostly follows that of a project from the project management discipline, namely, acceptable forms of status are total percent complete; within budget/on schedule relative to time, money or other managed attributes; or completed/not completed, to name three. However, use of the terms "working" and "not

working" are not valid or standard relative to defining overall status, as a later analogy shall demonstrate.

Because Royal Mail used the non-standard and invalid term "working" in their claim relative to the status of an overall modernisation effort, continued use of the inappropriate terms "working" and "not working" are required here for consistency, but are restricted to simply proving or disproving the claim made by Royal Mail. Moving on, according to Royal Mail, *"Pre-Operating Profit (POP) increased for the financial reporting period, once again proving modernisation is working"*. As for the CWU, they again attributed the *"increased POP to hard work by postal workers"*. Are either or both group's claims (Royal Mail/CWU) substantiated by the facts?

Royal Mail's claim that *"modernisation is working"* is very easy to refute as stated. Most everything concerning Royal Mail these days is called modernisation, whether it is pension deficit reform, labour union agreement, automation, UK postal regulator change, et cetera. Is pension reform working? Most would say no, and rightly so. In that respect, modernisation is not working. Automation, on the other hand, does appear to be working. In that respect, modernisation is working. Is UK postal regulator change working? Again, most would likely say no. In that respect, modernisation is again not working. Not working, working, not working again, it is illogical to be both working and not working at the same time. So, which is it?

Clearly, terminology is a problem for some, or more precisely, for some, the problem is the use of the word modernisation to refer to individual modernisation processes, the overall modernisation effort, and the concept of modernisation, all at the same time, and interchangeably. To avoid continued errors on the subject of modernisation, differentiation of each term is required. That is, modernisation remains a general term to mean *"make or become modern, or new in some desirable way"*; the term "modernisation effort" refers to the *overall modernisation effort, which is comprised of one or more individual component processes*; and each modernisation process, or individual component process to be exact, is referred to by its appropriate name, for example, automation. To avoid confusion, give the overall effort an official name and use it extensively whenever referring to the overall modernisation effort, for example, *UK Postal Transformation (UKPT)* for Royal Mail's overall modernisation effort.

Given the terminology definitions, the word "modernisation" in the previously refuted claim requires a correction; therefore, Royal Mail's corrected claim becomes, *"Pre-Operating Profit (POP) increased for the financial reporting period, once again proving the overall modernisation effort is working"* or *"...proving expense reduction is working"* or *"...proving automation is working"*.

Is the corrected claim valid? As strange as it may seem, a simple bicycle tyre (tire) analogy provides the answer. To stay in alignment with the wording used by Royal Mail, the analogy and analysis will continue using Royal Mail's non-standard terms *working* and *not working*.

Presume you have a bicycle, a bicycle tyre air pump, and no means to repair a damaged tyre yourself. Further presume one of the bicycle tyres is mostly deflated. You decide to "repair the tyre" (which is analogous to Royal Mail's overall modernisation effort). The overall effort is comprised of four (4) individual component processes:

- Process 1: visually inspect the tyre to determine the cause; and
- Process 2: attempt to re-inflate the tyre using the air pump, presuming the visual inspection did not locate severe damage making re-inflation impractical; and
- Process 3: take the bicycle/tyre to a repair shop; and finally,
- Process 4: repair the tyre.

Several points are important to establish. Process 4 has the highest critical process value. The outcome of Process 4, not Process 1, 2 or 3, likely exemplifies the outcome of the overall effort, although each process is important to success or failure of the overall effort. Finally, Rule 1 has been violated, which unfortunately is a common error in turnaround management, and tends to create a number of issues that can hinder a modernisation effort. The actual process should be: *Process 4: patch or replace tyre.*

Continuing, presume Process 1 resulted in no obvious damage or cause for deflation of the tyre, so Process 2 is next. Presume Process 2 works and the tyre is re-inflated, revealing a small air leak (puncture) in the tyre. Further presume there is no immediate concern for the tyre to quickly deflate.

At this point in time, Process 2 worked, but the outcome of Process 4, the critical process, is still undefined (may or may not work). Even though Process 2 worked, the leak still exists and the tyre will deflate once again, so completing Process 3 and Process 4 are required to complete the process.

Using the tyre analogy, Rule 1 and Rule 2 are validated, and in the process, the purpose for Rules 1 and 2 are demonstrated. As shown, re-inflating a tyre that has a puncture does not repair the tyre. That is, it is incorrect and improper to state Process 2: re-inflate the tyre (as in individual process) to mean Repair the tyre (as in overall effort), and vice versa, thus validating Rule 1. It is incorrect and illogical to use the status outcome of Process 2: re-inflate the tyre (as in individual process) to refer to the status outcome of Repair the tyre (as in overall effort), thus validating Rule 2.

There is sufficient evidence to refute Royal Mail's claim, but another example makes the point pungent. The other example is the metaphor "*win the battle, but lose the war*" which is essentially the same concept, but presented in a condensed military example, where a war is comprised of many battles (win means working; lose means not working; battle is one of the processes, say Process 2; no critical processes are defined; war means overall effort). It is invalid to define the outcome of the war (overall effort) before the outcome is determined (Rule 2), and invalid to define the outcome of the war (overall effort) based on the result of a single non-critical process (battle), especially if that battle will not determine the outcome of the war (overall effort).

Therefore, based on the facts presented, Royal Mail's corrected claim is *invalid, inaccurate, and therefore, incorrect (a.k.a., refuted)*. In the case of "...proves the overall modernisation effort is working," Rule 2 is violated. In the case of "...proves expense reduction is working," Royal Mail acknowledges increased POP is the result of expense reduction, so via substitution, the claim becomes "*Expense reduction for the financial reporting period, proves expense reduction is working,*" which is obviously invalid. It would be like having a dictionary where every word's definition is simply the word—ridiculous, *adjective*, to be ridiculous. As for the claim that "automation is working", the expected outcome of automation is expense reduction, so via substitution, the claim becomes the already refuted claim: "*Expense reduction for the financial reporting period, proves expense reduction is working.*" As a result, *all variations of the claim are absolutely refuted.*

Furthermore, the terms working or not working are invalid as a status for the overall effort, whereas quantitative values, such as x% completed, or qualitative descriptors upon completion, such as failure, are valid. In addition, the outcome of the overall effort is likely intrinsically linked to the outcome or outcomes of the individual processes with the highest critical process values. In addition, expense reduction—in the case of Royal Mail's modernisation effort—is not one of those higher critical processes (refer to Rule 3), noting yet again, expense reduction due to automation is an expected outcome!

As for the CWU's claim, "*proof of hard work by postal workers*," is even easier to refute. There is no cause-effect link between expense reduction due to automation and postal workers working harder. Part II of this article established increasing POP is the result of expense reduction, and the expense reduction was mostly People Costs reductions due to increased usage of automation equipment, with multiple statements in Royal Mail's 2010 Annual Report substantiating the statement. Claims of fewer postal workers results in a decline in people expenses; or fewer hours worked results in a decline in people expenses, these can be claimed, but working harder cannot. In order for the CWU's claim of postal workers working harder to be valid, an automation machine must displace more workers than the automation device is designed to replace, thus creating more work for the workers that remain.

The CWU has made no such claim, thus *the CWU's claim is absolutely refuted* as well. Note, that does not mean postal workers do not work hard! For those postal workers that have to work harder because there is more "junk" mail to handle, for example, or a cut back in staff unrelated to automation causes more work for existing workers, these may very well be valid claims to working harder, but expense reduction due to automation is an unrelated and unsubstantiated claim. For union postal workers reading this, please do not "*shoot the messenger*," but rather, insist on valid and substantiated claims.

Both Royal Mail and the CWU have made the same two false and invalid claims for the last two reporting periods (1st and 2nd half-year reporting periods of 2010). It is not difficult to blame either Royal Mail or the CWU for repeatedly using such false claims when most people are perfectly willing to accept the incorrect claims without objection or negative recourse.

*Expense reduction due to automation and the selling of excess assets are NOT sustainable business operations.* When all automation is completed and all the excess assets are sold or disposed of, the resulting cost reductions also end! Then, *revenues are once again the only sustainable source for increasing profit*, presuming revenues will exceed expenses at that time. Currently, revenues are declining and competition is increasing, while certain segments of Royal Mail's business model are experiencing market declines, continued and accelerating market declines.

My applicable experience turning around the impossible, and solving what others have been unable to solve, allows me to say with absolute confidence and certainty, *Royal Mail's overall modernisation effort lacks meaningful and timely progress, but automation and excess asset disposal are reducing the firm's expenses as expected, with the undesirable—and completely avoidable—effect of alienating the firm's workforce and negatively impacting its UK customer/potential customer base in the process.*

In closing, too much emphasis is placed on automation and expense reduction, and POP for that matter, while the more pressing issues have no solutions. But no worries, because I've heard somewhere, "*modernisation is working!*"

**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.

**About Us:** Nestved LLC is a management consulting firm specializing in strategy formulation and disruptive technology ideation and innovation across a multitude of industries, with unique turnaround and distressed industry/market expertise. Our strategy formulation is centered in the areas of strategic, turnaround and crisis management. We deliver inventive

solutions for unprecedented to seemingly perplexing problems, including sui generis and catastrophic events. Established in 1995, our clients range from recognized global leaders to innovative startups, as well as governments. When faced with a business or market crisis, unprecedented challenge or "events" others failed to properly identify and solve, the astute call on us. Nestved LLC — *"Formulating Strategies for Global Success"* Visit us at <http://www.nestvedllc.com/>

---

[About Us](#) | [Site Map](#) | [Contact Us](#) | Copyright ©2010 Nestved, LLC All Rights Reserved.