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The New Royal Mail (REVISED)

Labour candidates campaigned on a platform of not selling Royal Mail, and once elected, the government changed position, pushing for a partial sale. Liberal-Democrat candidates campaigned on a platform for a variation of a partial sale, and once elected, that part of the government has moved ever closer to pushing for a full sale. The Conservatives campaigned on a platform of a full sale, and have pushed for a full sale, but not changing their position after being elected does not imply, nor mean, their view of postal reforms is the correct one. It merely demonstrates their position did not change after being elected.

Make no mistake, a sale merely generates funds in exchange for ownership rights, and it does not solve anything else. Given the valuation of Royal Mail and its financial obligations, even a full sale will likely generate, at most, roughly half of the funds necessary to clear Royal Mail's debt obligations. Thus, a full sale will transfer ownership, as well as the transfer of many other issues facing Royal Mail, but it does not solve any of the issues. Broader ownership will likely only complicate postal reform processes, and then there is the issue of postal union national Industrial Action (the "IA") if any sale is approved.

After the original *Hooper Report* was completed in late 2008, the Labour Government used the report as the basis for pushing their version of UK postal reform, the *Postal Services Bill* (the "PSB"). After twenty (20) months, time passed, but not much else in the form of real, measurable progress towards turning around Royal Mail (as predicted). Some will argue the agreement in early 2010, between Royal Mail and the postal union (the "CWU"), was an achievement, and Royal Mail will definitely argue their automation and cost reductions constitute real, measurable progress, but within the context of the overall problem, their arguments fade in importance. In a repeat of history, the Lib-Con Government is having a *Hooper Report 2* completed, and will use that report as the basis for pushing their version of UK postal reform, the *Revised Postal Services Bill* (the "RPSB") is as good a name for it as any.

The most likely consequence of the RPSB will be a change in the opposition, to include more, as well as greater vocal opposition. That is, those that were unopposed or neutral to a partial sale because the Government still owned a majority of Royal Mail will have to oppose the RPSB if they are opposed to a full sale of Royal Mail. So, those that were not opposed may now be opposed, and more people are opposed to a full sale than a partial sale. The result is more opposition to the RPSB. Likewise, there will be more opposition in the *House of Commons*, noting the public in general still mostly opposes privatising Royal Mail. Since the *Hooper Report 2* will be the basis for the RPSB, then the report, as well as the RPSB, will receive greater scrutiny this time around, and greater scrutiny will uncover deficiencies and errors,

which will lead to greater vocal opposition.

As for a full sale, of all the options for selling Royal Mail, a full sale is the best option for generating the most money. That does not mean it is the best solution. Option and solution are different. No matter what the RPSB contains relative to selling Royal Mail, opposition will slow down the process, if not halt it, and by the holiday season, one of two outcomes will materialise. Either the RPSB suffers the same fate as its predecessor, the PSB, or an RPSB approval will cause the postal union to call for national IA ahead of the busy holiday season. Either way, progress on the overall modernisation effort of Royal Mail for the remainder of 2010 will mostly resemble what occurred in 2009, relatively speaking of course.

This week will usher in the change in Royal Mail management, with the former *Canada Post* CEO, Ms. Moya Greene, taking over as CEO of Royal Mail. Time will tell if the selection was a good one or not, but reports comparing Canada Post to Royal Mail seem over emphasised, to say the least. Competitively, from a market perspective, the UK and Canada are not similar. No disrespect to Canada or Canadians, but name one Canadian city with global recognition as a world centre of anything. London has that distinction, and as such, the UK draws international attention, global firms and the competitive business environment normally associated with status as a global leader.

In addition, there are cultural and persona differences that equate to differences in the two country's unions and their workforces. Some may remember, during the most recent *Winter Olympic Games in Canada*, Canadians were asked to step out of their normal personas, something I suspect the UK Government would never have to ask of its citizens. The *Canadian Union of Postal Workers* (CUPW) publically denounced Ms. Greene shortly after news of her acceptance as CEO of Royal Mail was made public. Mr. Denis Lemelin, CUPW national president, was quoted as saying; Ms. Green's departure would "*bring a sigh of relief*" to some. He explained, "*A manager who didn't understand the social responsibility of a public corporation like Canada Post. A manager who never accepted the fact that Canada Post's workers are unionised and for the most part represented by CUPW.*" The CUPW regional grievance officer, Mr. Ken Mooney, was a bit more direct, writing that Ms. Greene would be remembered for "*short-staffing, overburdening, martial law, dysfunctional labour relations.*"

Not all comments about Ms. Greene's tenure were negative. For example, Robert Campbell, *Mount Allison University* president, was an independent examiner of mail service and said, "*There's been very little in the way of crisis at Canada Post [under Moya Greene's leadership].*" It is not mine to say if the statements are accurate or not, but given the normal reserve of Canadians, the negative public statements caught my attention. To the credit of the *CWU*, Deputy General Secretary Dave Ward said in response, "*While we've heard stories and rumours about Moya Green's time at Canada Post, we will judge her by her actions at Royal Mail.*" I suspect the honeymoon will expire before the end of October.

The Chairman of Royal Mail, Mr. Donald Brydon, laid out a long list of requirements for the new CEO of Royal Mail, and although the list was long, it was missing three important attributes. He is also taking the position Royal Mail will be sold, in part or in whole, which may explain Ms. Greene's selection. As for big issues facing Royal Mail, Mr. Brydon listed three, the pension deficit, regulation and funding of the Post Office network. Ms. Greene listed the same issues, but I contend that pension deficits are not what the CEO should focus on resolving. What really matters, relative to CEO's responsibilities, is reforming Royal Mail, which will not receive the attention it deserves if pension deficits are a focus. The pension deficit issue may be one for the Chairman to focus on, but certainly not the CEO.

As I have stated over and over again, managing a distressed business is not the same as managing a normal business, and to do so, manage them the same that is, will result in

unattractive consequences. The major reform issues have yet to be addressed, and as previously stated, the competition will not wait for Royal Mail to learn through trial and error what should be a priority and what is secondary. For example, TNT just announced an increase in staffing in the UK as they increase competition and it is reasonable to conclude the majority of new business will come at the expense of Royal Mail's current business portfolio.

Modernisation of postal services is more than just automation, cost reduction and raising postal rates. One only has to look at the USPS to see the claim is valid. Automation and cost reductions were implemented a decade ago, and yet, the USPS is still not self-sustaining. The USPS keeps proposing failed strategies to get their financial situation under control, mainly by proposing service reductions to cut expenses, while asking for rate increases, both of which result in further demand destruction. Although automation and cost reduction are important, they are not the priority tasks or processes to turnaround a postal service that offers universal service.

Both Mr. Brydon and Ms. Greene see the postal future more electronic-based, and as such, it is reasonable to expect Royal Mail's future plans to include more electronic based offerings. It was expected that the future plans would be outlined before the end of the month, and hopefully, the plans include specifics on preserving and protecting universal service. In Canada, publicity and exposure as CEO of Canada Post will be nothing like the experience in the UK, and it will be interesting to see how Ms. Greene handles the exposure. Every little detail will be covered, which may prove challenging for Ms. Greene. In any respect, good luck with your new post and transforming Royal Mail.

From my perspective, *the new Royal Mail looks a lot like the old Royal Mail.*

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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