POSTAL NEWS
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1. Royal Mail privatisation: Disaster or solution?

Tuesday, January 25th, 2011

Dan Derry, managing director, OPS Logistics Consultancy, looks at the Royal Mail privatisation push for Post&Parcel.

After a four-month evaluation, in September 2010, the UK government announced and committed to privatising Royal Mail (RM) in an attempt to breathe life into the organisation.

RM provides a service for every business, man, woman and child in the UK, so changes of this magnitude can potentially have a dramatic effect on the populace and the service they receive, so it is worth asking the title question and investigating the matter in order to try and uncover an answer.

Let's first start by asking some basic questions:

Is RM fit to be privatised?

RM is, from a high level position, in the main four different bodies: 1) Royal Mail Retail - the company who moves your mail posted through the normal means, 2) Royal Mail Wholesale - the company that interfaces with the independent companies who provide for a down stream access service, whereby RMW do the final mile delivery, 3) Post Office Counters, who provide a number of services, e.g., stamps, various licences, etc, and 4) parcels, through Parcelforce and GLS. There are other elements to RM, but for the moment we will keep to a high-level view.

Although RM has made a profit in recent years, there is some doubt over its longer term financial viability. This is especially exasperated when you take into account a c. £8bn deficit in its pension scheme. There are also other issues in that the RM operating model is still too expensive, with too many touch points, although there has been both investment and reduction in staff, there is still some way to go, before RM can face any truly competitive environment. You then have the Quality of Service issues, whereby RM offers an on-time delivery target for 1st class of only 93%. Or put it another way, 7% of your customer mailings are not being targeted for on-time delivery. If a business produces 100m items of mail per year, then 7m items would fail. That's 7m times a business has failed to meet their customers expectations or potential loss of revenue opportunities. The standard on-time delivery target for parcel deliveries within the commercial sector is >98.5%. RM also lacks the ability of a best-in- class customer relationship management system, as compared to their competition. This is partly down to regulation constraints and partly down to simple ability / skills.

With the government announcing that the Post Office will be mutualised and that the government will take on the Pension liabilities, this eases the ability to privatise RM, but there are still a number of risks, which would need to be weighed up.

What are the risks?

The Communications Workers Union (CWU) has vowed to fight any privatisation, including the use of industrial action. The CWU has a number of stated concerns, including jobs will be lost, service will degrade and prices will rise, all under the banner of a threat on the cessation of the universal service.

Yes, there are liable to be job losses and yes this probably needs to happen, but not before a more efficient and effective operational model is developed. This is a simple fact of a competitive environment; unfortunately, it is not in the interest of the CWU to have fewer members. Will the service degrade? Probably not (excluding industrial action), in fact it is more than likely to improve, as commercially focused companies know that securing revenue is about customer satisfaction. Prices could or could not rise. There are a number of variables, including decreasing cost of operation and competitive pricing. The universal offering could be affected, but if so, it would not be the end of civilisation, as we know it. Currently, if you send a parcel to outer lying locations, you will pay more, yet people still send to these locations.

A big risk is the likely inclusion of VAT being added to the price of postage. Currently RM, being a public sector company, do not charge VAT, a sore point with the competition, as they have to charge VAT. However, if RM is privatised then there is a strong likelihood that this status will change, meaning VAT will need to be levied to the price of a stamp. This will mean a higher cost to the public consumer and to some businesses, which cannot reclaim VAT, such as financial institutions. This might cause a rethink on the amount spent on postage and thus equate to even fewer volumes to RM. It will, on the other hand, mean an additional revenue stream for the Chancellor, a thought, which I am sure has not been overlooked, especially as they will be losing their golden share upon privatisation.

What are the benefits?

With an increase in private capital and investment, you would expect to see a more modern mail service emerge, thus providing an improved and cost effective service. The taxpayer would no longer be funding an organisation, which is currently facing financial questionability, although they would still carry responsibility of the pension scheme.

The Post Office would still provide a social service to the community.

What would happen to the Royal Mail name?

A largely unanswered question. It would need to be assumed that a privatised company could not carry the ‘Royal’ name and would therefore need to change it. This is not new, as some of you will no doubt remember the last attempt at changing the name of Royal Mail, in the great Consignia adventure.

A further idea for thought would be that if the company was no longer carrying the name Royal, does that mean the Monarch’s portrait would no longer be on the stamp? The government are currently pushing the idea that this would be commercial suicide to remove it, but it is difficult to see how it could remain, as the company would no longer be a national asset, especially if RM were to be foreign owned.

Who is best to own / run Royal Mail?

There are a number of potential solutions, although few are ideal:

a) Leave RM as a Public Sector company, with an injection of investment funds, although governed by reorganisation requirements, with set targets on operational cost and service. The problem with this is any government has little to no ability to

manage a company and they often find themselves making decisions based on political short term gains, instead of on long term viability.
b) RM purchased and run by an existing down stream access provider. This would provide both the right skill base and investment. However, it does have a distinct danger of putting the other down stream access providers (competition) either out of business or present an unfair competitive advantage to them, as this new entity would still have the requirement for final mile delivery and would have to pay for this activity.
c) RM purchased by a Private Equity (PE) firm but run by the existing management structure. Whilst there would be an injection of investment capital, there would no doubt be a defined repayment structure as most PE firms operate on a short-term basis, with quick returns and high margins. If the management fails to deliver, they will be quickly replaced, which would cause further stability issues.
d) A Management Buy-Out (MBO) to include employee ownership, similar to a John Lewis style of structure. This would still require a degree of Venture Capital funding, but would have greater ownership from management and employees who would have a vested interest in providing for a modern postal service.
The above is not all-inclusive, as there are also other solutions and potential pitfalls, including a new regulator, but this is not a dissertation.
So would privatising RM be a disaster or solution? It is hard to say given the number of potential variables involved. We know that the operational model of RM is too costly and that the CWU is reluctant in supporting change, which will mean drastic restructuring. We also know that governments are not capable of running companies as they cloud service, cost and political gains. Whatever the decision, one thing must remain constant. Any change must see the consumer benefit with improved service and greater value for money.

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2. Strike at TNT Australia and USPS look to close more branches…

Friday, January 28th, 2011

Workers at TNT Express Australia are striking today (Friday) after negotiations with the Transport Workers Union (TWU) broke down. On Thursday, officials from both parties met in an attempt to settle their differences before the industrial action began, but a deal was not struck. Employees are pushing ahead with a series of four-hour stoppages across Australia, with workers also voting to impose an indefinite ban on the loading and unloading of vehicles operated by outside hire companies at all TNT sites tomorrow (Saturday). The industrial action was voted on by members last month and passed with an 88% majority. A previous agreement will see employees receive an 8% rise of two years, but TNT and the TWU remain at loggerheads over the Union's request for an extra 2% employer contribution to superannuation (pension scheme). The TWU is also demanding an increase in site rates for casual or labour hire employees. TNT said it was "disappointed with the outright rejection of our genuine attempts to bring the current negotiations to a positive conclusion". However, no sympathy was spared by TWU national secretary Tony Sheldon. He said: "This is a company that employs 4,500 permanent staff, but also pays the wages of over 3,000

casual and labour-hire employees. By not including a site-rate for the agreement, TNT is effectively refusing to include almost half its workforce in the negotiations and any improvements in the agreement."
USPS could close 2,000 branches from March - telling Post&Parcel that it wants its "customers to stop looking at the Postal Service as only brick and mortar post offices". The move follows the closure of 491 branches last year, as the company continues to battle huge losses. For the last financial year, USPS lost $8.5bn - prompting the company to search for ways to cut costs even further. Currently, USPS has a network of more than 32,000 stores. The operator argues that many of the offices are now outdated with the rise of the digital era, prompted by falling mail volumes. When contacted by Post&Parcel, Brennan said: "We want customers to stop looking at the Postal Service as only brick and mortar post offices with the flag pole in front - look online at usps.com, look at the USPS app on iPhones (the #1 free business app), look at the more than 63,000 retail locations like Office Depot, grocery stores, drug stores and bank ATMs that sell stamps and in some cases, other postal products and services. And look at the more than 3,800 contract postal units across the nation." Brennan said that "mail volume has declined by 43.1bn pieces in the past five years alone and [that USPS is] trying to do everything we can to reduce costs, save money, provide a national service".

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3. **Rural post offices under threat**

January 29, 2011 11:58:00 PM
By Ben van der Meer/Appeal-Democrat
At post offices in Browns Valley, Smartsville, Dobbins and other small Yuba County burgs, residents stop in for their mail, and a chat.
Sometimes it's with the clerk, sometimes it's with neighbors. The topic can be the weather, where to get firewood, or general gossip.
But officials of the U.S. Postal Service, which continues to face financial woes and a mandate to cut costs, is mulling whether such post offices still make sense in a time when bills can be paid online and most people can't recall when they last sent a letter.
Beginning in March, the Postal Service will begin closing 2,000 offices nationwide, and postal officials are reviewing up to 16,000 more operating at a deficit.
U.S. Postal Service spokesman Gus Ruiz said that speculating on which offices may close, or when, is still premature.
"What we're doing right now is looking at current finances and revenues," he said. "But we have no 'going out of business' signs going up anywhere there."
But rural Yuba County postal clerks, who said they couldn't speak on the record, said their customers will frequently ask them how much longer the offices will be around. Those who use them said the possibility of closures would be at best inconvenient, and at worst a blow to the sense of community.
"It would be very difficult," said Elaine Peters of Browns Valley as she picked up her mail Friday afternoon. "I understand the term 'They have to do something,' but they should've seen this coming." Peters, 49, said she worries about Browns Valley losing its post office because the population is heavily retirement age, and thus less likely to switch to paying bills by Internet.

"Can you imagine them going in the fog down to Marysville? And then the price of gas on top of that?" she said.
Higher fuel costs are one factor in Postal Service losses in recent years, and the recession is another. Mail volume fell by 20 percent between 2006 and 2010, and postal officials said they don't expect it to ever return to previous highs.
In Dobbins and Oregon House, the two post offices are only a few miles apart, though both have an established constituency of patrons, particularly in Dobbins, where post office boxes are the only way some residents can get correspondence.
After picking up his mail on Friday, Stan Jacobs of Dobbins said he often runs into familiar faces at the office. If the post offices in both Dobbins and Oregon House closed, he said, he'd probably only check his mail once a week.
"This is a pretty busy post office," he said. "We're all pretty spread out here."
To avoid closure, one clerk said she'll try to draw as much traffic as she can. Each office is considered independent for financial reasons, so one operating at a loss has a greater chance of being closed.
In fiscal 2010, the Postal Service had a record $8.5 billion in losses.
Those numbers led Jeff Todd of Brownsville to take a more philosophical stance on the idea of closing smaller offices.
"Times are hard," said Todd, as he mailed a letter in Browns Valley. "If you want to make things work, there's going to have to be cuts.
"But I like the post office. It provides something valuable."

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4. **Czech Post Sees Profit Boost Through Efficiency Drive**

25 January 2011 - Franz Groter

Czech Post said this week that profits for the state-owned postal operator had exceeded expectations for 2010 and preliminary figures suggest it will be in the range 250-280 million CZK - the result of a great deal of restructuring in readiness for liberalisation of the postal market.

Whilst profits before tax had dropped from 661m CZK in 2009 to just 250m CZK, profit after tax had risen from 124m CZK in 2009 to 250m CZK in 2010.

Whilst it said the reorganisation was necessary in preparation for full market opening in the next five years, the optimisation of logistics, strengthening of the ICT infrastructure, investment in operational technology had all contributed to improved efficiency.

Since April last year, the revisions as well as new selection procedures saved Czech Post tens of millions.

"The substantial increase in profits were achieved through an increase in business during the second half of the year due to strengthening of the parcel market and reducing costs in all areas related to business development activities.

"At first glance it was obvious that the conditions of many contracts were no longer appropriate. Tenders were only accepted where it was clear that the company could gain more favorable prices. The result s of our new competitions that position to influence the management of not only this year but of course a positive effect in the subsequent period." said the Czech Post CEO, Marc Proud.

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5. Dutch Union agrees to TNT redundancy deal

Friday, January 28th, 2011

A Dutch union has voted in favour of the principle agreement on reducing redundancies at TNT.

The members of Abvakabo FNV voted 57% in favour of the deal, as TNT attempts to acquiesce with the unions ahead of the separation of its mail business.

In December, TNT reached an agreement with various unions to reduce the number compulsory redundancies by 1,700.

Due to falling mail volumes, TNT Post said it required 11,000 jobs to be cut.

Allowing for natural attrition and voluntary redundancies, 4,500 compulsory job cuts were originally planned.

The agreement - between TNT and Abvakabo FNV, CNV Publieke Zaak, and BVPP unions - saw that figure reduced to 2,800.

Peter Wiechmann, director at Abvakabo, said he had not expected a huge majority.

“The enormous discontent in the workplace played a big role,” he said.

Although the agreement has been adopted Wiechmann added that the union’s work is just beginning: “We have never agreed to redundancies and we will fight for every job.”

Members of CNV Publieke Zaak have until the end of January to vote on the deal.

The principle agreement brought an end to a series of strikes in the Netherlands late last year over the proposed job cuts.

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