



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

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#### **Royal Mail – Insurrection, Strikes, Strategy and Missed Opportunity** *(REVISED)*

The UK government (i.e., Labour party) is proposing a partial sale of Royal Mail (i.e., 30%, but permitting up to 49%), while the "opposition"—as they call themselves (Tories/Conservative party)—wants to sell off 100% of Royal Mail. Furthermore, the Postal Services Bill (the "PSB"), which authorises or legalises the sale, has been in a state of limbo since July 2009.

On 22 October, shadow business secretary Kenneth Clarke (the "opposition") stated he has held "private, confidential meetings" with potential bidders of Royal Mail, and the "opposition" will sell off all of Royal Mail should they win the election (in 2010). Granted the content of the discussions is unknown, but the discussions themselves represent a serious problem. Why is it important, or even necessary, for "*the opposition*" to engage in discussions that could be just as easily handled by their official counterparts. The situation is not dissimilar to a majority of Board members officially speaking with potential buyers, while a minority of Board members, having publicly proclaimed a differing set of objectives, speaks separately and confidentially to the same potential buyers.

Place yourself in the position of the buyer for a moment. Buying solely into Royal Mail's declining letters business is unattractive. Buying only 30% of Royal Mail is less attractive than buying 100%. If 30% of Royal Mail is sold off, then a subsequent sale is offered, the subsequent sale is less attractive to "new" potential buyers. The number of potential buyers will increase if 100% of Royal Mail is for sale versus a partial sale or partial then full sale (even I would purchase 100% Royal Mail).

Obviously, for potential buyers, it is more attractive to speak with, and negotiate with, the "*group*" that represents the scenario most desirable to the buyers (that is, the "*group*" proposing full ownership of Royal Mail versus the lesser ownership option). In this case, potential buyers are bias toward the "*opposition*", which is not the current government. Traitor, treason or subversion are each too strong and incorrect, but insurrection could easily be argued, especially since the two parties have differing approaches to a sale and "*private, confidential*" meetings are completely unwarranted, unnecessary, and likely to complicate any selling processes should one be finally approved (e.g., bidding, negotiations, price, et cetera).

The quantity of unknowns (7+) will produce a sufficiently large number of possible permutations (2,520+); therefore, talking with any potential buyer adds absolutely no value whatsoever and is completely premature. The approach of having one government, but two external voices speaking on the same subject (and the unauthorised one speaks in private and confidentially to potential buyers), where the two voices have known differing objectives,

unnecessarily creates the potential for seriously unattractive results. Note, those in favor of selling off all of Royal Mail may attempt to conclude the arguments prove full-privatisation is a better option. However, the arguments only prove that a seller with significant internal fractions (or inconsistencies) can allow a buyer to gain ownership at a reduced overall cost, and for this specific case, purchasing 100% is the best option for a buyer, while the seller's best options are not even discussed or presented.

Moving on to strikes and strategy, it appears the Communications Workers Union (CWU) has created and executed the best (or a superior) strategy so far, although that is not an endorsement of any kind. The CWU has talked tough on all out strikes, but their actions suggest, or at least demonstrate, they know full industrial action leading up to the Christmas season is too risky and suicidal. The CWU recognises that public support is vital to them maintaining a strong bargaining position for resolving the current dispute in their favor. Put another way, as long as there is no public rebellion against the CWU due to the strikes, the union will have the advantage and can continue to strike without conceding much in return. That is why all the prior strikes were limited in scope, depth and duration. Even the two strikes on 06 Nov (Friday) and 09 Nov (Monday), although they were full stoppage, were extended over a weekend and not on consecutive business days. The CWU created and executed a limited-public-impact (LPI) strike strategy, which both Royal Mail and the whole of government failed to properly recognise, thus playing directly into the hands of the CWU.

Royal Mail's response to that LPI strike strategy should have been to focus their limited resources during the strikes on businesses first, and the public last, for businesses are the current and future profit-based clientele for Royal Mail. Employing this counterstrategy would have negated the advantage the CWU built into their LPI strike strategy. Instead, Royal Mail attempted to minimise or "*play down*" the strike's impact by feverishly moving as much mail as possible (at high costs). Obviously, Royal Mail would essentially be shut down given a traditional full stoppage strike, so attempting to show or demonstrate limited impact during the LPI strikes would provide virtually no bargaining power to the negotiations and ended up playing directly into the hands of the CWU. Going into negotiations, it is imperative to know and understand your opponent's strategy, as well as their primary goal; otherwise, you become essentially a reactive participant in the process and do not realise the negotiations have reached the conclusion your opponent desired until they tell you so by making no further demands. For those who wish to challenge the statement, watch a chess champion play an average player, and you will come to recognise the champion can make the average player move exactly where they want them to move, even though the average player believes they are in control right up to checkmate.

The TUC earlier stated Royal Mail and the CWU were continuing to work to resolve the current issue, and both agreed not to publically discuss the matter. The CWU had an all work-stoppage strike schedule for the coming Friday and Monday, which they did not cancel during the mediation process. There was no need for the CWU to further escalate the situation, yet they gave notice they would seek legal action to halt Royal Mail from using some 30,000 temporary workers to process backlogs caused by their impending full stoppage strikes. The inference is that the "*TUC led resolution talks*" were not resulting in the outcome the CWU desired (that does not mean the talks were breaking down), so the CWU's strategy or hope was to create additional pressure on Royal Mail's management with the lawsuit announcement, or outright provoke Royal Mail management to withdraw from the discussions. To the credit of Royal Mail management or the TUC or both, the latter did not occur.

Royal Mail management's strategy for handling the strike, and more so the lead up to the strikes, was lacking to say the least. Clearly, strikes will negatively impact Royal Mail long after the strikes end, so allowing even a partial strike on one day is unacceptable. If the CWU's claims for justifying the strike action were as unwarranted as Royal Mail management had

repeatedly stated, then there was no logical reason for Royal Mail not to agree to the CWU's request for an independent review. Are some or all of the CWU's claims valid? Unfortunately, there are not enough public facts to make an absolute determination either way, but Royal Mail management's inaction surely suggests a number of, if not all of, the claims have some level of merit. Given the risk strikes present, it is completely irresponsible for Royal Mail management to have allowed the situation to deteriorate to a level where strikes were imminent, when the logical solution would have been to substantiate their verbal claims that the CWU was "*out of line*", offering facts and evidence, rather than mere insults and finger pointing.

The government stated they did not want to get involved so as not to bring the matter into the political arena. The government owns Royal Mail, politicians are determining its future, all of the political parties made campaign promises regarding Royal Mail in the prior election, EDM428 opposition and the PSB are both political, and even the House of Commons "*back-and-forth bickering*" last week regarding Royal Mail between PM Brown and MP David Cameron was completely political. Clearly, the subject matter is already in the political arena, and more so, the many, many issues facing Royal Mail and its workforce, to include the strikes and events that have caused the strikes, can only begin to be resolved if politicians recognise they are active participants, whether they wish to be or not.

Since the dispute and strikes back in 2007 between Royal Mail and the CWU involved essentially the same personnel, and mediation was required then, it is reasonable to conclude mediation would again be required because the people are the same and working relationships have not improved. As such, at the first signs of trouble, the hands-off strategy by the government essentially insured the escalation of the problem from threats of strikes to strike action. The government should have at least arranged for mediation through either TUC or ACAS at the first mention of strikes. As for the "*opposition*" (David Cameron and Kenneth Clarke), it is unclear what their strategy is or was. Mr. Clarke, with no opposition from Mr. Cameron, went to hold talks with potential buyers of Royal Mail, but neither Mr. Clarke nor Mr. Cameron ever held or considered holding talks to assist in resolving the lead up to strikes or the strike situation itself. Neither proposed mediation, or even better, arranged for mediation through either TUC or ACAS. Since the UK government owns Royal Mail, all political parties should be working together to identify the issues and encourage workable solutions, otherwise, everybody loses.

In the current TUC mediation efforts, noticeable absences are the leaders of the two entities: Adam Crozier (Royal Mail) and Billy Hayes (CWU). Yet, both leaders have no shyness from public statements. If the two cannot sit at the same table at the same time, listen to, present and resolve relevant issues, with the objective of working together and reaching a joint resolution, then there is no hope, except for repeats of what is already in its second act—an agreement, a dispute, no resolution, rejected agreement, verbal attacks and finally strikes. Change in an organisation must come from the top, and second from the top is not the top.

On the topic of reaching a resolution, the prior mediated settlement did not include any "*mitigation constraints*" and if the current dispute is resolved without any mitigation constraints, it is not likely to withstand the test of time (i.e., more strikes sooner rather than later). Mitigation constraints can be thought of as limits or conditions built into the agreement so each party knows what to expect from the other and under what terms a party violates the agreement, such that expectation and violations are verifiable (not subjective), with detailed mitigation constraints including what remedies or actions can be taken or expected. Clearly, including constraints is extra work, but mediated disputes are generally the result of mistrust all the way up to intense conflict, so the extra work ensures the resolution stays in force and future disputes do not escalate out of control. In short, top officials from both sides need to engage in direct talks (and listen too), avoiding any interim agreement and finalising a truce that includes recourse and validation to avoid any repeat "*disruptions*". If neither can do so,

then maybe top officials need replacement by their respective constituents. After all, management needs the labor force, and the labor force needs the employer (management).

In past articles on the subject of Royal Mail modernisation, I have repeatedly emphasised Royal Mail must know its primary market (physical delivery services, not communications), develop higher margin products and services (know markets, customers, needs versus wants, innovation and foresee trends) and avoid failed strategies (EU-wide expansion, chasing lost letters markets and electronic services, et cetera). On 03 November, News International awarded DP-DHL with a five-year, multi-million pound contract to deliver The Sun, The Times, News of the World and The Sunday Times to wholesalers across England and Wales. This is a huge loss and missed opportunity for Royal Mail—*no excuses*. First, the entire operation is within the UK. Second, it is physical delivery. Third, the requirements are well within the means of Royal Mail. Fourth, it offers higher margins and is long-term. Was Royal Mail bidding on the service? I may be wrong, but I doubt Royal Mail management recognised the value in securing this opportunity. If News International did not consider Royal Mail as a viable service provider, then the priority for Royal Mail should have been to propose a service that proved Royal Mail deserved consideration (no excuses). If Royal Mail passed on the opportunity or failed to recognise the value, the lesson to learn is that the changes are not occurring fast enough and not at the proper levels. Consider the following: suppose DP-DHL offered an acceptably high bid for Royal Mail back in June, and the PSB was subsequently approved, with DP-DHL purchasing 30% of Royal Mail. Further assume all the transfer of talent and expertise that was touted does occur. Creating new sources of revenue is a goal of the new Royal Mail; so the new Royal Mail should target the News International contract. Now, DP-DHL "*proper*" is still going to bid on the News International contract. It is a five-year, multi-million pound contract. Honestly, nobody sees the conflicts and everybody is comfortable nothing "*abnormal*" would occur relative to who would bid on the contract?

In the end, Royal Mail management and the CWU's inability to work together to avoid disputes and work out issues must be solved immediately, and this is in addition to whatever resolution the TUC mediates. Likewise, modernisation can continue to be performed in the current piecemeal process without a formal strategy in place, but that is equivalent to eating an ice-cream cone from the bottom up. It can be done, but there are much better approaches with less "*sloppy*" results.

**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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