



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

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#### **EU Postal Reforms – Are You Ready? (REVISED)**

As the deadline approaches for the start of new EU full postal competition rules, are EU national postal services prepared to operate in the new marketplace? That is, does each postal service understand the new rules and how the changes will impact their operations and revenue streams? Are required cost saving measures and automation already completed or near completion? Do strategies exist to defend against competitors capturing high margin services and profitable large volume customers? What are the strategies for maintaining the unprofitable and declining letters business, to include universal service, as greater postal competition results in further revenue declines? Are improvements to existing services underway to avoid as many customer defections as possible? Is there a strategy for identifying and introducing new innovative services vital for future success and self-sustainability?

The new rules open markets up to greater competition, but there is no mandate that every competitor offer unprofitable services (e.g., universal service). Likewise, the postal letters market is a distressed market, representing continued declining volumes and decreasing revenues. New postal competitors have every incentive to target only the more profitable services, placing further financial and operational pressures on the pure national postal services. Both Germany and The Netherlands have a distinct advantage due to their existing global logistics operations (DHL and TNT<sup>1</sup>, respectively); therefore, it is essential the remaining EU postal services be properly prepared for the new competition rules as quickly as possible. The worst possible scenario is waiting until customers defect to competitors before recognising threats and attempting to react.

A year ago, the focus for postal reforms was on the UK, with many proposing that other EU postal services would likely follow the direction taken to reform Royal Mail. The rationale for adopting one approach for all is unclear. Although EU postal competition rules are the same for each country, each country's postal service, and its respective postal services market, differs enough that one approach for all is unrealistic, unless the approach calls for a single EU Postal Service.

So, what direction should EU countries take as they prepare for full competition? For each country, the answer depends on a number of factors, but there is no need for each country to address the many issues (common and otherwise) in independent isolation. Since it is not feasible for the majority of EU countries to pursue an expansion plan (i.e., expand services into other EU countries), then there is an advantage to working together to understand the rules, markets, major issues, suppliers or potential suppliers, threats, in-border opportunities, (more so) cross-border opportunities, et cetera. DHL views their operations as EU-wide

(grouping of many in-country operations), which is a definite advantage for them. Only by agreeing to work together as much as possible can national postal services take full advantage of the many common issues they each face, while potentially assisting others with (perceived) unique issues. National postal services have a distinct market strength themselves, and until it is recognised and exploited, the full competition rules are likely to cause further postal services market distress.

If national postal services agree that working in relative isolation on issues is not to their advantage, then the best first step is to organise an EU National Postal Services Summit (the "Summit") before year's end. Ideally, the initial Summit's agenda should focus on facilitating introductions among the various counterparties, identifying working groups and setting the foundation for further summits and working group meetings. Until there is a meeting like the proposed Summit—and I am presuming the majority of postal services have not spoken to many of their counterparts in detail—then the scope and depth of unity or disunity on the issues is unknown. Even with total disunity on how each country intends to proceed, there are still common threats, issues and opportunities. Note, the purpose of the proposed Summit is not to establish, challenge or formulate legislative agendas, legal partnerships, or other such activities, but rather, to facilitate the grouping of entities facing similar or identical circumstances, with the goal of better preparing for full EU-wide postal competition to insure future viability without unnecessary reduction or loss of service.

Two facts regarding postal services are undeniable. First, the letters market is in decline, or what is known as a distressed market. Second, universal service is an inherently inefficient service. Most, if not all, national postal services provide universal service by mandate and also operate in the distressed letters market. That combination can place national postal services at a strategic disadvantage. Furthermore, because competition rules protected national postal services from most competition in the past, efficiencies—financial, operational and managerial—were not an absolute necessity for a national postal service to maintain customers and remain in business. Going forward, specific changes must occur if national postal services are to remain competitive. From my experience and perspective, national postal services, and certainly Royal Mail, can underestimate the scope and depth of what is necessary to remain competitive in a full, open competition postal market.

Turning around a distressed firm in a normal business market is nothing like the more difficult task of turning around a firm, distressed or not, that operates in a distressed market. If the market is distressed (like the letters market for example), it is not enough to automate, trim the labor force, adjust pricing or introduce products/services. Strategies must take into account the distressed market, and if the plan or approach is incorrect, the results will be disastrous. For example, during the decline of the steel industry in the US, raising prices was not a solution because demand was declining. Trimming the labor force reduced costs, but without a strategy to grow business sales, the inevitable fate is continued labor reductions. This is not a growth strategy. Introducing incremental improvements in steel products to consumers not wanting steel did not work either. When the new competition rules take effect, national postal services will have to compete on both price and service, while continuing to deliver (the costly) universal service and operate in the distressed letters market, while its competitors can reduce their costs and build their market share by strategically using the national postal services mandated universal service to achieve such goals. If national postal services are not properly prepared for the competition once the rule changes take effect, the mistakes shall be costly, and for some, unrecoverable.

It is obvious today that efforts in the UK to reform Royal Mail are certainly not a model to be followed by any nation, and in general, postal reforms in the UK are likely to remain in turmoil most of next year. I wrote a five article series detailing many of the errors associated with the reform efforts of Royal Mail, with the first three articles ([I](#), [II](#), [III](#)) focused on the errors in the Hooper Report, and the last two articles ([IV](#), [V](#)) focused on how the UK has handled the

process. The *Hooper Report*, formally known as "*Modernise or decline, Policies to maintain the universal postal service in the United Kingdom*", was authored by Richard Hooper CBE, Dame Deirdre Hutton and Ian R. Smith. The report was an independent review of the UK postal services sector, which provided recommendations for change, as well as a number of assumptions regarding the postal market. Many considered the Hooper Report applicable to other postal services, which explains why others followed the UK postal reform so closely. However, errors contained in the Hooper Report hinder, more than help, the effort for successful postal reforms. Although the Hooper Report itself focused on Royal Mail (UK), my first three articles concerning the Hooper Report discussed the errors in a manner relevant to all postal services.

Due to the continued turmoil relative to UK postal reform, it is unproductive to consider Royal Mail as any model for reform. First, each of the major participants in the UK are only concerned with their issues, either ridiculing or attacking the other participant's positions or viewpoints, valid or not. There is little interest in working together to achieve success. Second, as all the articles discuss, there are numerous errors, which jeopardise postal reform efforts. In addition, the major participants are perfectly comfortable ignoring expertise, with no consensus on what direction to follow. As a result, the other EU countries must take the lead and set the tone for moving forward. Reform requires much more than automation, modernisation, capitalisation and guestimation. For anyone doubting that working together is a viable approach to solving issues, common or otherwise, I offer examples of the EU, G8, G20, UN, NATO, et cetera.

In closing, if facts and assumptions relative to postal reforms are incorrect or incorrectly interpreted, then proposed solutions based on those errors are unlikely to solve the problem at hand, resulting in even greater problems later. For some, it may not be financially possible to fix or undo prior errors, resulting in even more difficult decisions than exist today. Realistically, every national postal service should already have their strategies implemented or at least nearly complete. The competition will not care if you are prepared or not.

**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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1. The Netherlands has since divided their national postal service and TNT, offering both individually for sale, with TNT the only likely viable entity to attract a buyer or buyers.