

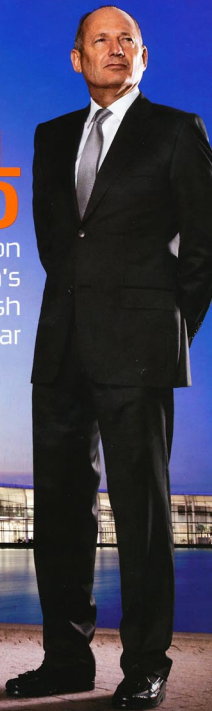
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There's a fierce battle for Royal Mail's future. Managers want to modernise services as electronic communications grow rapidly but union leaders hold fears over jobs, pay and pensions. We asked three turnaround experts how they would sort out the mess

LAST POST

Neil Chesterton director,
The MacDonald Partnership

The origins of Royal Mail date back to 1660 and the reign of King Charles II. If the organisation is to survive another 350 years enormous changes must take place. The big caveat is that there is no balance sheet, or at least not one recognisable in the City. Royal Mail's other problems are familiar from our success in transforming dozens of large failed private companies such as Global Marine and PowerPlan.

The first step would be to assess every aspect of the service, including how it operates and its liabilities and assets. Royal Mail's provision of a universal network may only continue if there are further branch closures and reduced rural deliveries, or if the government agrees to fund loss-making activities judged essential on social grounds.

The crucial first step is for a turnaround manager or chief restructuring officer to be appointed. The task then is to implement a cost-cutting programme as well as improve viability. Top of the list of



jobs is tackling the £10bn pension deficit. Pension fund shortfalls are a key problem for thousands of UK companies. First, Royal Mail must crystallise the loss, close the pension scheme and start again. It would be controversial to start an employee contributory scheme, with no

"THE FIRST THING ROYAL MAIL MUST DO IS CRYSTALLISE THE PENSION DEFICIT, CLOSE THE SCHEME AND START AGAIN"

fixed link to either salary or years of service. But Royal Mail would make more top-up payments to close the deficit, with the government sharing the burden.

Labour is still keen for a private company to take a stake in Royal Mail despite scrapping its original plans because of a backbench revolt. A Conservative government can be expected to press ahead, primarily to provide more cash for the organisation but also to sharpen up the management and speed up the planned modernisation.

The main priority is establishing a viable business. Effectively, the public owns the mail network and wants it to provide a good service at a fair price—but not one subsidised by the taxpayer. Possible models



include TNT in the Netherlands and Germany's Deutsche Post.

It is essential to cut out as much fat as possible in a failing business to ensure its long-term success. Royal Mail is massively overstaffed and costly to run. Cutting the 162,000-strong workforce by around a quarter looks feasible. Greater productivity would result from mechanising sorting offices and slashing rural delivery costs.

The organisation can reverse its decline by buying businesses in growth sectors to boost sales and profits, and achieve greater synergies between the three divisions. Royal Mail must look closely at its marketplace, which is declining by 10 per cent a year as the use of email, websites, text messaging and social network services grows phenomenally.

Arguably, Royal Mail undercharges for delivery of smaller parcels because no privately owned competitor is able to offer such low prices. Its assets need to be revalued and could provide essential finance if some property can be sold, redeveloped or rented to other businesses.

Christine Elliott chief executive, Institute for Turnaround

Look at the history of corporate turnaround and you will realise that every great failure was once a big success. Royal Mail is suffering death by a thousand cuts—and I don't mean cuts in the headcount. It is losing customers (including lucrative commercial contracts) as well as credibility and confidence. It's a lingering decline accelerated by strikes. You can set up an organisation's turnaround in the first 100 days, but in the same short time you can also destroy its prospects.

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**"HAVE UNIONS GOT
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Allan Leighton, a man used to turning around adversity, made huge strides in transforming Royal Mail when he was its chairman. He's moved on, but embattled chief executive Adam Crozier and his management team seem to be in a last-ditch stand to drive through the necessary changes. Trust and mutual respect have been eroded and a further exodus of talent would be unsurprising.

Royal Mail's problems are typical of a business in trouble. The shareholder—or the government in this case—has lost the will to deliver the investment it promised. Consequently, governance is shot to pieces. In a turnaround, finance matters are usually easier to fix than governance issues.

But a major roadblock to a turnaround is the pension scheme. Failure to tackle UK plc's pension timebomb has the potential to cause financial chaos in the public sector and Royal Mail is a case in point. For postal workers who have spent the best part of their careers in the organisation, the biggest worry must be what will happen to their pensions. From the business perspective, the service could end up being run as a vehicle to fund the deficit—in the unlikely event such an operation would be viable.

Barrier number two is the non-aligned agendas. Let's suppose that unions and management agree about the numbers underlying the business. That counts for virtually nothing if the parties' respective aims and destinations are radically different. For a start, individual members, not the Royal Mail's consumers, are the unions' customers.

If there was no prospect of making the interests converge, a turnaround specialist could try to design an exit package for one set of stakeholders. Have the unions got the resources to finance and run the operation, or the appetite for the responsibility? Could Royal Mail become a co-operative? Or is the privatisation route a better option?

The third hurdle is the changed landscape in which delivery services operate. Much has been done to focus and then broaden Royal Mail's product portfolio, improve the time to market for new products, attract more customers and reduce costs. But further automation,