

# CONSIGNED TO OBLIVION



What future for Consignia?

By Ian Senior



# Consigned to oblivion

## What future for Consignia?

By

Ian Senior<sup>1</sup>



ADAM SMITH INSTITUTE

London 2002

---

<sup>1</sup> Ian Senior has been an economic consultant for 31 years and has written about postal matters since 1970. Previous publications include 'Post Office reform: its importance and practicability', Adam Smith Institute 1996

# Contents

---

<b>1. Background</b>	<b>2</b>
Not whether to liberalise, but when	3
Postcomm	5
Cost of universal service	5
The Treasury's stealth tax on the Post Office	6
Liberalisation options	6
<b>2. Where we are now</b>	<b>8</b>
1. Royal Mail	8
Too high a price for too much service?	8
Efficiency and profits	10
What future for paper-based mail?	11
2. Post Office Counters	12
Falling prospects	12
Rural communities	13
2. Parcelforce	14
<b>3. Vision of the future</b>	<b>15</b>
Electronic cash	15
Planning for progress — pain before gain	15
Postcomm's role	16
Conclusion	17

## Bibliographical information

Published in the UK in 2002 by ASI (Research) Ltd  
© Adam Smith Research Trust 2002

All rights reserved. Apart from fair dealing for the purpose of private study, criticism or review, no part of this publication may be reproduced, stored in a retrieval system, or transmitted in any way or by any means, without the consent of the publisher.

The views expressed in this publication are those of the author alone and do not necessarily reflect any views held by the publisher or copyright owner. They have been selected for their intellectual vigour and are presented as a contribution to public debate.

ISBN 1-902737-25-3

# 1. Background

---

Fugitives commonly change their name in the hope of escaping justice. In 2001 The Post Office changed its corporate name to Consignia and adopted a new logo, which appears to depict the view down the barrel of a gun.

The wisdom of changing a brand name that has been established since the days of Rowland Hill is unclear, but according to Consignia:

'Our new name, Consignia, will support our moves into the wider distribution market and onto the global stage. However, we will continue to serve our UK customers through our trusted brands — Royal Mail, Parcelforce Worldwide and Post Office for our network of retail branches.'<sup>2</sup>

Two points can be made:

- globally there are no other postal administrations called 'The Post Office'. Australia, Canada, New Zealand and the US Postal Service have all attached their national identities to the word 'post' or 'postal' in their titles so there could have been no confusion on the 'global stage'; and
- by long-established precedent British postal stamps do not include a national designation because they were first in the field. By analogy the UK Post Office could robustly have argued that it was the first organisation in the field named The Post Office and should therefore be known worldwide as such. It is extraordinary that the Post Office's managers abandoned the huge asset of this brand name in favour of one that is meaningless and, to the general public both in the UK and worldwide, unknown.

By restricting the brand name 'Post Office' to what used to be Post Office Counters in the UK, Consignia's identity will take years to establish. Its management might reflect that a tall tower in central London is still wrongly known by many as 'The Post Office Tower' a quarter of a century since BT was hived off from the Post Office. Unfortunately time is not on Consignia's side. It may not have 25 years, nor even five, to consolidate a new brand name, given the pace of change in its marketplace.

And what is the justice from which Consignia is trying to escape? The justice of market forces which liberalisation will introduce and whose introduction Consignia has consistently opposed. The institution that used to provide the best postal service

---

<sup>2</sup> Consignia website, December 2001

in Europe and make profits as well, is in disarray. Its primary strategy was to cling to the letter monopoly even when the tide of liberalisation was sweeping through other state-owned utilities and was being spread to postal services by the European Commission. That strategy is in tatters.

### Not whether to liberalise, but when

In 1970 I first argued that the Post Office's letter monopoly should be abolished<sup>3</sup>, and over the years I have developed the case for liberalisation and privatisation.<sup>4</sup> Today the concept that Consignia and other EU postal administrations must now compete with each other, with new entrants and with the new technologies has become mainstream thought. Paul Waterschoot of the European Commission has spelled it out: 'The question is no longer to know if liberalisation is needed but what the time schedule will be.'<sup>5</sup>

With the exception of *Argentina*, whose entire economy is in turmoil for other reasons, postal liberalisation so far has been encouraging.

Thus the postal market in *Sweden* was fully liberalised in 1994, with the enthusiastic support of the Swedish post office. Posten has improved efficiency, provides a universal service without subsidy, and has remained profitable until the most recent year. *Finland* has had no letter monopoly since 1992. (In practice, no competitors have come to the market because they would be required to pay a levy of up to 20 per cent of their turnover according to the population density of the areas they chose to supply. Regulation that stifles competition clearly is an unsatisfactory model.) In *New Zealand* the letter monopoly was abolished in 1998, again with full support from the NZ Post Office.

The postal service in the *Netherlands* has been privatised and only a minority of shares remains with the government, but the letter monopoly has been retained. In *Germany*, Deutsche Post is now a company operating under a licence. Twenty-nine percent of its shares were sold to the public in 2000. It still retains a *de facto* monopoly on letters: competition is permitted for direct mail items over 50g, but so far this has had no significant impact on opening the market to competition.

Taken together, the experience in other countries shows that markets *can* be partly or fully liberalised, while leaving the incumbent with an obligation to provide universal collection and delivery of letters.

In the *United Kingdom*, the time has come to learn from the successes and mistakes elsewhere and to spur Consignia into regaining its place as the EU's premier postal administration. The introduction of competition is the first essential step.

---

<sup>3</sup> Senior, I. 'The postal service: competition or monopoly?' Institute of Economic Affairs, background memorandum 3.

<sup>4</sup> See, for example 'Post Office reform: its importance and practicability.' Adam Smith Institute, 1996

<sup>5</sup> Institute of Economic Affairs 4<sup>th</sup> annual conference, Brussels, 13 March 2001

## Postcomm

The Postal Services Act of 2000 set up a postal regulator, the Postal Services Commission, which styles itself *Postcomm*. Postcomm has the authority to liberalise the postal market, but must ensure the continuation of a *universal postal service* consisting of at least one collection and one delivery of letters every working day throughout the land. For political reasons the present and the previous governments have required a *uniform postal tariff*, though big mailers in practice for years have received large discounts for pre-sorting and other forms of work-sharing. In effect the uniform tariff applies only to small mailers and individuals.

On 28 March 2001 Postcomm awarded Consignia a licence to deliver letters. A licence has been awarded to the UK's sole document exchange company, Hays DX, which for many years has provided a specialist, closed-loop postal service between designated 'exchanges' for defined sectors such as law firms. In November 2001, Postcomm issued two one-year licences: to UK Mail Ltd and Deya Ltd. The former will provide a collection and consolidation service and hand the mail over to Royal Mail's local offices for delivery over 'the last mile'. The latter will allow Deya to provide a UK-wide postal service for local authorities and utilities in the event of industrial action by Consignia's employees.<sup>6</sup>

Taken together, these three competitive licences are a signal of Postcomm's intent to open the postal market to competition. More licence applications are in the pipeline, and Consignia must now face a future in which potentially significant postal competitors will be established in the market.

## Cost of universal service

At the heart of the debate about liberalisation lies the question of the *universal service obligation* (USO), which is part of Consignia's licence. The USO requires Consignia — through Royal Mail and Parcelforce — to provide deliveries to every address in the UK.

Costing the USO is a technical matter requiring considerable data — held only by Consignia — and there are various ways of calculating it. In 1998, using 1997 data provided by Consignia, the London office of NERA<sup>7</sup> estimated the net avoidable cost of the letters USO in the UK, including braille and related material, at £17-23m, but on the basis of fully distributed costs the USO became £200m.<sup>8</sup> In 2001 Postcomm made further estimates. They used a model developed by Consignia that classifies mail into around 30,000 different categories — confusingly termed 'routes' — some of which lose money. Adding together the loss-making 'routes', Postcomm came to a figure of £81m as the net avoidable cost to Royal Mail of the letters USO.<sup>9</sup>

---

<sup>6</sup> Postcomm press release, 20 November 2001

<sup>7</sup> National Economic Research Associates.

<sup>8</sup> NERA: 'Costing and financing of universal services in the postal sector in the European Union', chapter 6. p62.

<sup>9</sup> Postal Services Commission. 'An assessment of the costs and benefits of Consignia's current universal service provision. A discussion document, June 2001', p6

As Postcomm noted, universal delivery is what customers want, and as such it provides Consignia with a positive (though unquantified) benefit compared with carriers that do not provide universal delivery. This benefit should be offset against the net avoidable cost. Further, the main private-sector parcel carriers provide universal delivery throughout the UK at standard tariffs with only minor exceptions for extremely remote addresses such as the Scottish islands. In essence, it seems that the 'burden' of the USO is more apparent than real.

I should add that Consignia's model for costing the universal service obligation does not pass a simple sanity test. An 'avoidable cost' is one that can genuinely be avoided in a real postal production system. This may seem obvious, but Consignia's model is based on the academic notion that the 30,000 'routes' (i.e. categories of mail) could all be segregated on the sorting office floor so that loss-making 'routes' would be refused treatment. The Consignia model has given rise to a number of academic papers but has no practical relevance in the real world.

### **The Treasury's stealth tax on the Post Office**

For decades the USO was the bastion of the then Post Office's arguments against liberalisation. Of more financial impact in practice was the requirement that it should pay an annual levy to the Treasury. The theory was that the Treasury was entitled to a 'dividend' because it owned the Post Office. This concept was flawed because the Treasury made no investment in postal services whatever. The Post Office financed investment from retained profit after paying an arbitrary levy to the Treasury. The Treasury's 'dividend' represented a return for providing no capital and taking no risk.

Consignia's annual payment was effectively a stealth tax on postal users that disappeared into the Treasury's maw. It resulted from a tacit agreement between the taxpayer and the taxed. The Post Office was willing to pay the tax provided that the government left its letter monopoly intact. Both the Treasury and the Post Office had a vested interest in doing so — but no longer.

### **Liberalisation options**

Let us start from the fact that letter services supplied by a dominant Royal Mail have historically been profitable, and that they could and should be so again. Let us accept that some minor parts of Consignia's postal service are unprofitable — notably deliveries in sparsely populated rural areas and to houses with long drives in the gin-and-Jag belts of the Home Counties. And let us imagine that Consignia was able to make a robust estimate of this burden.

The question then becomes: by how much could the letter monopoly be reduced while still leaving Royal Mail sufficient revenue and profits to serve these uneconomic areas without requiring a special subsidy for doing so?

Various ways of reducing the letter monopoly while maintaining the USO have been put forward.<sup>10</sup> The possibilities include:

- requiring new entrants also to accept a USO;
- requiring new entrants pay a levy to Consignia or to a common fund administered independently as their contribution to the USO burden;
- geographical licences;
- progressively reducing the £1 threshold below which no competitor may price a letter, say, to 30p but leaving Royal Mail with a monopoly of letters below this figure;
- reducing the weight limit below which competitors may not carry letters, say, to 50g; and/or
- excluding direct mail (i.e. advertising material) from Consignia's monopoly altogether.

All these could have significant effects on Consignia's revenue and profits. Clearly, in the transitional period of liberalisation, Consignia must be allowed to make sufficient profits needed to attract investment and reward risk. Lessons must be learned from the Railtrack fiasco to prevent Consignia degenerating into Mailtrack.

The question is how to enable Consignia to return to profit while keeping up the momentum of liberalisation. I now turn to the issues and choices that Consignia must consider, looking at each of its three main operations in turn.

---

<sup>10</sup> For a fuller discussion of these possibilities see NERA: 'Costing and financing of universal services in the postal sector in the European Union', chapter 6.



## 2. Where we are now

---

### 1. Royal Mail

#### *Too high a price for too much service?*

In several respects, Royal Mail's standards of service are well above those found in the EU and beyond. But is our postal monopoly actually providing a level of service beyond what its customers would like, if they had a choice? In this context 'customers' mean both those who send letters (mainly businesses) and those who receive them (mainly residential).

Urban residential addresses historically have had two deliveries a day from Monday to Friday and all addresses have one on Saturday, except businesses that are closed. Table 1 shows that this was better than any of the comparator countries. In November 2001 Consignia announced that it would abandon the second delivery. Yet in doing so, it failed to take the obvious step of extending the single delivery to cover the hours of 8.00 a.m. to 4.00 p.m., which are daylight hours throughout the year. A single delivery spread over eight hours would make more efficient use of posties' time than trying to complete a single delivery by 9.30. Further, the single delivery would be able to provide *100 per cent delivery of first class mail on the next working day*. Every posting box would show the latest posting time for this to be achieved. In rural areas the last collection might be at 2.00 p.m. or earlier in the Scottish islands.

Second class mail, as now, would be delivered by the third working day following posting. Since two second class items are posted for every one sent first class, second class mail enables the traffic flow to be smoothed, which is operationally desirable. Bulk second class mail enters the system separated off from other traffic, with much of it pre-sorted by the sender down to postal districts and even individual postal walks. At any stage of the production chain, this mail can be held over to the next day, which benefits the system as a whole.

Delivery organised in this way would be operationally efficient and acceptable to customers. People who leave for work have no time to deal with mail even if it is delivered before 8.00 a.m. People who are at home all day, such as many retired people and parents with young children, do not require early delivery. Even people who work from home mainly use e-mail for time-sensitive information. For the diminishing number of businesses for which opening the morning mail first thing is

a significant part of their work schedules, delivery routes could cover office-intensive areas from 8.00 a.m. to 9.00 a.m.

Freed from the pressure of completing the delivery by 9.30 a.m. postal staff would be able to work more congenial hours, which would improve morale and help to retain staff.

**Table 1. Some international comparisons**

	Consignia UK	La Poste France	Deutsche Post	TPG Neths	Sweden Posten	Australia Post	NZ Post
Rural deliveries per week	6	6	6	6	5	5	6
Average urban deliveries per working day	2	1	1	1	1	1	1
Full price letters delivered On D+1 or "on time"	91%	81%	95%	95%	95%	92% on time	96% on time
Basic price of ordinary letter	27.0p	28.4p	34.8p	22.6p	33.9p	15.3p	11.2p
Letters per employee/year	96,993	128,049	91,250	73,620	108,810	184,119	154,789
Inhabitants per counter	3,222	3,433	6,074	6,503	4,911	3,946	851
Profit before tax, 1999 or 2000	-£275m	£317m	£1,478m	£327m	-£89m	£132m	£10m
Letter monopoly?							
- Legal status	No	Yes	No	Yes	Ended '94	Under review	Ended '98
- Practical status	Yes	Yes	Yes	Yes	Com-petitors		Com-petitors
Direct mail monopoly?							
- Legal status	No	Yes	No	Yes	Ended '94	Under review	Ended '98
- Practical status	Yes	Yes	Yes	Yes	Com-petitors		Com-petitors

Table 1 and intuition suggest that for some time *Royal Mail has been providing a standard of service that is no longer what is wanted*. If this analysis is correct, it helps to explain why *residential customers in the UK pay a significantly higher tariff* than in the Netherlands, Australia and New Zealand. NZ Post delivers a letter for under half the price of Royal Mail's first class stamp. Even if purchasing power parity is taken into account, which adjusts exchange rates for differences in the cost of living, the price of a letter in New Zealand — where there is no letter monopoly — is still far below that of the UK.

Consignia maintains that when nominal prices have been adjusted for purchasing power, the price of a standard (i.e. first class) letter in the UK is the cheapest in the EU other than in Ireland and Spain.<sup>11</sup> Even if this is so, it is likely that other postal administrations, which like Royal Mail still have letter monopolies, are also inefficient and that the price of letters in the UK and elsewhere will fall in real terms

<sup>11</sup> Consignia. Response to Postcomm consultation document 'Promoting effective competition in uk postal services, June 2001'

when liberalisation starts to bite. New Zealand Post managed to cut 10 cents from the price of a standard letter, a reduction of 20 per cent. This has not been increased since the letter monopoly was removed and, as noted, NZ Post has continued to make profits.

### *Efficiency and profits*

How efficient is Royal Mail? Table 1 compares the number of letters handled per employee by each administration. Consignia comes out better than Deutsche Post and TPG of the Netherlands but falls far behind Australia and New Zealand.

Consignia, which for a decade or so had been strongly profitable thanks to Royal Mail's letter monopoly, showed a loss of £275m in the year 1999-2000, though much of this was due to a large write-down of investment in automating counters. The year 2000-01 produced a loss of £27m, and in November 2001 Consignia announced an operating loss of £100m for the first six months of 2001-02. This loss was increased to £281m because Consignia wrote off £201m on Parcelforce.

Writing off bad debts now makes good sense: if Consignia is to be privatised at some stage, there must be no skeletons in the cupboard. But how a company, which for a decade was making annual profits of £300m or more, should slump into a huge operating loss *even before liberalisation has taken effect* is a matter for wonderment.

What has gone wrong? Some answers are found in an internal Consignia report prepared by Lord Sawyer, a former general secretary of the Labour Party.

'The levels of inefficiency in the business, despite our best efforts to control them, are crippling us... We are now living beyond our means and we need to get a grip of this now.'<sup>12</sup>

Lord Sawyer's enquiry was also spurred by a history of industrial unrest in Royal Mail, which has seen a large number of days lost through unofficial action. Now there is a real threat of a national strike, following Consignia's announcement of a massive programme of job cuts that may remove 15 per cent of its staff — or about 30,000 jobs.<sup>13</sup> In addition, Consignia wishes to make its Parcelforce drivers self-employed, thus saving on National Insurance and pension contributions. This also is likely to meet fierce union resistance.

It is evident that the mere threat of liberalisation has caused panic in Consignia. The prospects of voluntary staff reductions of 15 per cent within 18 months seem unlikely. Further, a nationwide strike would provide the opportunity for the competing licensees to build market shares. Having fought liberalisation for so long instead of planning for it or welcoming it, as in the cases of Sweden and New Zealand, Consignia now must pay the price.

---

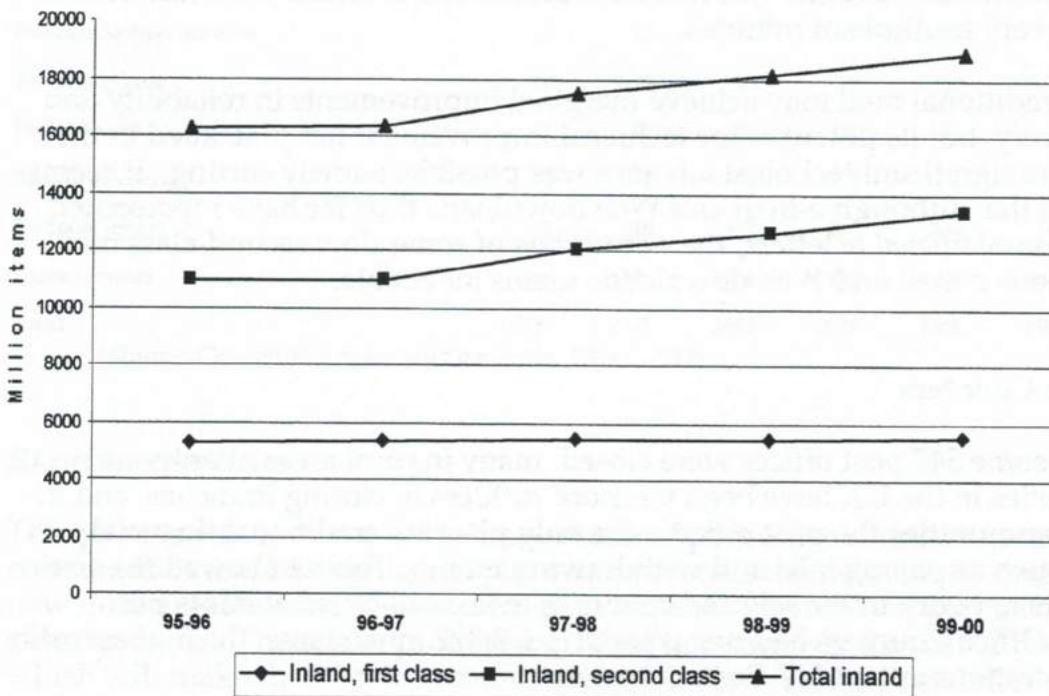
<sup>12</sup> BBC News Website, 3 October 01

<sup>13</sup> John Roberts, Consignia's CEO, to a parliamentary select committee, 11 December 2001

### What future for paper-based mail?

Predictions of the death of paper-based mail have been greatly exaggerated. A decade ago many commentators were also predicting the advent of the paperless office, but casual observation makes it clear that neither looks like coming for a considerable time. With hindsight the reasons are easy to understand. Electronic communication — mainly e-mail, because fax is far slower — has generated a huge volume of *additional* message traffic that previously would not have been sent at all.

Figure 1. Royal Mail. Inland letter traffic



It is as easy now to send two, 20 or 200 copies of an e-mail as to send a single message. E-mail is far more trustworthy than traditional mail because electronic 'postmasters' notify senders within seconds if delivery of an e-mail has failed. By contrast, Royal Mail is estimated to lose one million letters a week.<sup>14</sup>

First class letter traffic in the UK is not growing in volume, even though its cost has been falling in real terms. So far second-class mail has remained the growing segment of the paper-based letter market, as shown in Figure 1. But for how long?

Marketing by e-mail and the Web are in their infancy. Both are extremely cheap to produce but do not easily generate cash revenue. Already many PC users automatically delete unsolicited e-mails unopened not least because of the risk of viruses.

<sup>14</sup> Postwatch research reported in *The Times*, 27 June 2001

On the other hand, e-mails are no longer just simple messages of a few sentences. Lengthy reports can be attached which when downloaded and printed retain their full formatting. They can contain diagrams and images in colour that are reproduced instantaneously on recipients' screens and can be printed within minutes by a modern printer.

Advertising material on the Web is becoming more effective too. Finding sites of interest has been dramatically simplified by the improvement of search engines. The effectiveness of the Web as a marketing tool will rise as technology continues to improve. The speed of data transmission will continue to increase exponentially so that in two to three years even residential PCs will be able to browse through Web pages in fractions — rather than multiples — of a second. For those who want hard copy, personal printers at home will run off multiple colour sheets a minute instead of one sheet every multiple of minutes.

By contrast, traditional mail may achieve marginal improvements in reliability and speed of delivery, but its potential for technical improvement has plateaued in the one area where significant technical advance was possible, namely sorting. It seems safe to predict that although e-mail and Web downloads thus far have represented communication *additional to* letters, the *substitution* of some slow second-class mail by instantaneous e-mail and Web downloads seems inevitable.

## 2. Post Office Counters

In 2000-2001, some 547 post offices were closed, many in rural areas. Banks and building societies in the UK have been far more ruthless in closing branches, and in most small communities the post office is the only place for traditional financial transactions such as paying bills and withdrawing money. Table 1 showed the size of the counters network in the selected countries measured by inhabitants per counter. Post Office Counters had one counter per 3,222 inhabitants, the highest ratio of all administrations except NZ Post.

### *Falling prospects*

The future for Consignia's counters is dull. Table 2 shows that over a five-year period the number of most traditional counter transactions has in fact fallen. The picture would have been far bleaker but for the arrival of the National Lottery, which in 1999-2000 accounted for 14 per cent of all transactions. However, even these appear to be on a downward trend since their peak in 1997-98.

A critical point about the future of Post Office counters, which is often overlooked by policy makers, is that their operations have little to do either with Royal Mail or Parcelforce. For example, Post Office Counters' data presented in Table 2 do not even mention Parcelforce transactions. Parcelforce itself does not disclose how many parcels a year it carries, thought to be about 155 million.<sup>15</sup> A large part of these is collected from mass senders, leaving, say, only 25 million to be taken in at Post

---

<sup>15</sup> Turnover of Parcelforce in 1998 was £465m. If the average price of a parcel was £3, the traffic was 155 million pieces.

Office Counters. This number would represent one per cent of Counters' transactions. Further, any shop other than a post office could do the same function and offer longer opening hours. Even filling stations might be suitable, some offering 24-7 service.

**Table 2. Post Office Counters' transactions**

Number of transactions, millions	95-96	96-97	97-98	98-99	99-00	Ratio	
						Percent	over period
Girobank	321	247	225	207	183	7	0.57
Pensions and allowances	962	898	863	831	799	33	0.83
Motor vehicle licences	34	35	35	36	38	2	1.12
National Savings services	23	22	20	19	18	1	0.78
Telephone bills	39	39	38	38	37	2	0.95
Postal orders	35	37	36	34	33	1	0.94
Bureau de change	0	1	2	2	3	0	
National lottery	33	346	393	361	349	14	10.58
Other services	553	1100	1034	994	998	41	1.80
<b>Total</b>	<b>2000</b>	<b>2725</b>	<b>2646</b>	<b>2522</b>	<b>2458</b>	<b>100</b>	

*Source: Consignia's report and accounts, 1999 - 2000*

### **Rural communities**

The government is aware of the importance of post office counters to rural communities and has published plans to rejuvenate the network by making it into a new universal banking system. This plan requires financial support from the clearing banks. They have promised £180 million towards the cost of the scheme, which will make their basic accounts accessible through the Post Office network.

The concept has merit. Whereas individual clearing banks in the past may have found it uneconomic to maintain a branch office in small settlements, if they share the overheads of doing so with other banks, with Post Office Counters and with the government, the cost of each transaction could fall substantially.

In February 2001, the government announced a new fund to help relocate and refurbish rural post offices with the intention of re-opening up to 200 offices nationwide. Further, a pilot scheme is being run to turn post offices into government 'general practitioners', a new service that will offer a wide range of information and access to government services. This recognises that Post Office counters are more an arm of government than a stand-alone commercial enterprise. The plan will entail a huge cultural change for traditional sub-post offices with their small counters tucked away within a general grocery store or newsagent.

Experience will tell whether the government's plan represents a viable long-term reinvention of the counters network or a short term cosmetic makeover. If (as predicted) pensioners and others receive payments electronically and individuals increasingly make payments over the Internet, the future for these physical transactions over the counter is questionable. The number of active Internet

users in Europe is forecast to increase from 70m at the end of 2000 to 255m at the end of 2004<sup>16</sup> and the number of online bank accounts to rise from 26.1m in 2000 to 66.2m by 2003.<sup>17</sup> Those 255m active Internet users are equivalent to about 68 per cent of the EU's population: so the threat to any postal or financial organisation relying on physical transactions is very real.

### 3. Parcelforce

For years, Parcelforce has been the weakest link in Consignia's business, but the parent company has never been able to say 'goodbye'. When I joined Post Office Headquarters in 1962, senior managers were resigned to losses on parcels and were content to pay for them from profits on the letter monopoly. In future this will not be possible.

In 1997 Parcelforce lost £21m, and in 1998 the loss was £14m. The 1999-2000 accounts have suppressed financial data about Parcelforce. In December 2001 Consignia said that Parcelforce's losses in the first six months put it on track for a loss of £200m in the full year.<sup>18</sup> Again, this ten-fold increase in the size of the loss is a cause for wonder.

As far back as December 1997, the European Commission issued a directive that banned the cross-subsidising of services in the competitive sector (such as parcels) by monopoly services (notably letters). Despite this, Consignia continued the cross-subsidies regardless. The creation of Postcomm, whose function is to implement the Directive, has finally made Consignia realise that Parcelforce can no longer be subsidised.

Yet parcels should be a strong card in Consignia's hand. Congested roads, parking charges, restrictions on building out-of-town shopping malls, and the rising cost of petrol should all make goods delivery to the home increasingly attractive. Add to this the development of Internet-based shopping pioneered by sites such as Amazon.com and Tesco.com, intuition suggests that the carriage of parcels must be a growth market. Meanwhile private sector parcel carriers exist in large numbers, presumably making profits. The largest ones provide universal delivery without any universal service obligation. By contrast, Parcelforce's operations and performance remain opaque and loss-making.

---

<sup>16</sup> eMarketer, reported in Nua Internet Surveys, [www.nua.ie/surveys](http://www.nua.ie/surveys) 17 April 2001

<sup>17</sup> Datamonitor, reported in Nua Internet Surveys, 17 April 2001

<sup>18</sup> John Roberts, CEO Consignia, giving evidence to the Commons select committee on industry, December 2001

### 3. Vision of the future

---

So far, we have seen that two of Consignia's traditional operations — letters and counters — have historically made profits but now face stagnant or falling demand. We have also noted Consignia's headlong plunge into loss and its belated measures to turn the huge ship around. A reduction in Royal Mail's letter monopoly is inevitable, and Counters face the removal of a large volume of the government's benefits payments.

*Consignia's first priority must be to ensure that Parcelforce is profitable.* If it cannot do so, Parcelforce must be sold or closed.

Its second priority must be to *increase Royal Mail's efficiency.* We have noted that Consignia's internal review has found plenty of scope for this. My proposal for extending delivery to 4.0 p.m. and ensuring 100 per cent delivery of first-class mail the next working day should have been implemented years ago.

Its third priority must be to *modernise the Counters network.* This may be the most difficult of the three. For example, on commercial grounds it would be logical to reduce the network further and to relocate many post office counters to within big supermarkets and shopping malls. However, people who shop locally without cars, the elderly and people with least mobility could become excluded. This would be politically unpopular.

#### **Electronic cash**

The universal banking venture offers Post Office Counters the best hope of profitability. In this context the Counters network seems the ideal medium by which to drive forward the concept of electronic cash.

Some years ago experiments in which smart cards were used to replace cash for small and medium transactions were tried, but have lost momentum. Transferring to electronic cash would reduce the number of cash transactions over the counter and would make Counters a leading player in a new technology whose time appears to be ripe. Most postal transactions entail small amounts that would be well suited to electronic cash. The banks too would welcome the advance of a technology that would make cumbersome cash dispensers and security vans obsolete. And another good reason for exploring this initiative is that post offices today, being so heavily cash-based, are regularly the target for armed robbery.



### 3. Vision of the future

---

So far, we have seen that two of Consignia's traditional operations — letters and counters — have historically made profits but now face stagnant or falling demand. We have also noted Consignia's headlong plunge into loss and its belated measures to turn the huge ship around. A reduction in Royal Mail's letter monopoly is inevitable, and Counters face the removal of a large volume of the government's benefits payments.

*Consignia's first priority must be to ensure that Parcelforce is profitable.* If it cannot do so, Parcelforce must be sold or closed.

Its second priority must be to *increase Royal Mail's efficiency.* We have noted that Consignia's internal review has found plenty of scope for this. My proposal for extending delivery to 4.0 p.m. and ensuring 100 per cent delivery of first-class mail the next working day should have been implemented years ago.

Its third priority must be to *modernise the Counters network.* This may be the most difficult of the three. For example, on commercial grounds it would be logical to reduce the network further and to relocate many post office counters to within big supermarkets and shopping malls. However, people who shop locally without cars, the elderly and people with least mobility could become excluded. This would be politically unpopular.

#### **Electronic cash**

The universal banking venture offers Post Office Counters the best hope of profitability. In this context the Counters network seems the ideal medium by which to drive forward the concept of electronic cash.

Some years ago experiments in which smart cards were used to replace cash for small and medium transactions were tried, but have lost momentum. Transferring to electronic cash would reduce the number of cash transactions over the counter and would make Counters a leading player in a new technology whose time appears to be ripe. Most postal transactions entail small amounts that would be well suited to electronic cash. The banks too would welcome the advance of a technology that would make cumbersome cash dispensers and security vans obsolete. And another good reason for exploring this initiative is that post offices today, being so heavily cash-based, are regularly the target for armed robbery.

The explosion in demand for mobile telephones might be an indicator of the potential demand for electronic cash. Mobile phones effectively represent stores of electronic cash which can be remotely topped up without even a visit to a 'hole in the wall'. At present the cash element inside a mobile phone can be used only for communication, but G3 instruments could be used to order, and pay for, groceries and other cash items.

Post Office Counters, effectively an extended arm of government, is ideally placed to be the leader in the development and use of electronic cash. But it would certainly need to form an alliance with a mobile phone company if it were to harness the technology of both smart cards and G3 telephones. Its Post Office brand name (and not Consignia) would give confidence to customers particularly to the elderly who might not possess a G3 (or any) mobile phone but for whom a smart card would be less daunting. Electronic cash machines could be sited inside or outside every post office and bank branch as well as in supermarkets and shopping malls. They will be much cheaper to install than cash dispensers, which require heavy armour to prevent theft. Above all, Consignia badly needs to launch itself into the IT revolution, and this seems an ideal opening.

If Consignia successfully launched electronic cash, it would feel more confident about entering other electronic ventures. For example, card-based systems for medical records and for prescription charges<sup>19</sup> could be developed out of the technology of electronic cash and, again, would benefit from the strength of the Post Office's network accessibility and brand image. It is trite but true to say that Royal Mail and Post Office Counters must think of themselves as being in the communications business and not just in physical transactions.

### **Planning for progress — pain before gain**

Transition to a fully competitive postal market will entail pain before gain. Both Sweden's Posten and NZ Post experienced a sharp drop in profits following the removal of their letter monopolies. Posten's profits peaked in 1997-98 only to fall into loss towards the end of 1999. NZ Post has made no losses, and over the past three years profits have increased, though not to the level of the monopoly era.

The number of full-time-equivalent employees at Posten fell 10% in four years, from 46,000 in 1995 to 42,000 in 1999. In Deutsche Post, although other carriers have not yet been licensed within the letter monopoly, the number of staff has been reduced 37 per cent from 380,000 in 1990 to 240,000 in 1999. This has been through natural wastage and voluntary redundancies. The absence of industrial action should be a model to Consignia.

### **Postcomm's role**

Postcomm is driving liberalisation forward by issuing licences for firms to compete with Royal Mail's letter services. It must ensure that Royal Mail competes fairly, notably by avoiding predatory pricing.

---

<sup>19</sup> See Ian Senior. 'Paying for medicines. Overseas models for a UK re-thing'. Adam Smith Institute, 2001

However, Postcomm should not under any circumstances impose caps on the prices that Consignia wishes to set for letter or parcel services. Price capping may be suitable for industries with a homogenous unit of output such as a KW hour of electricity or a cubic metre of gas but it would be cumbersome and counterproductive in the case of postal services in which the output is very varied. Ignoring Consignia's 30,000 'routes' (classes) of mail, we can still easily see the difference between a registered and unregistered letter, a postcard, a letter weighing 100gm and so on. For Postcomm to set itself up as a pricing authority would be a retrograde step reminiscent of Harold Wilson's dismal National Prices and Incomes Board and the National Prices Commission, both of which were rightly consigned to oblivion.

Price setting is a crucial part of management within a competitive market. If Consignia's prices are perceived to be high, new entrants will wish to enter the market and Postcomm can license as many as it wishes. If Postcomm were to cap Consignia's prices in some arbitrary way there will be less competition and Consignia will have grounds for blaming the regulator if it makes losses.

The share of postage in the cost of living is insignificant so higher postal prices, if required, should not noticeably hurt those in the lowest income groups. (Indeed, if Consignia raised prices, making direct mail more expensive, this might reduce the volume of such mail. Some households would welcome this.)

## **Conclusion**

Up to 2001 the only clear elements of Consignia's strategy were to oppose liberalisation and to avoid entry to the new IT-based markets. In the closing months of 2001 Consignia had a Pauline conversion. It accepted that it had lost the battle against liberalisation and that it must now take belated and urgent steps to become more efficient in its home letter and parcel markets. Paper-based communication must accept static and ultimately declining demand, but from the experience of other countries Royal Mail will initially keep at least a 90 per cent share of a fully liberalised market. The future is far from bleak.

In Consignia's counters market, developing a new retail banking network with the commercial banks and pioneering electronic cash, possibly with additional services such as electronic prescription charge cards, could bring new profitable business. This gives grounds for optimism.

Parcelforce should be given a limit of two years in which to make profits or be sold off or closed.

Finally, the brand name 'Post Office' still has real value. It is not too late to bury the meaningless 'Consignia' just as British Airways rightly decided to bury the meaningless tail-fin artwork that blurred its strong image and was disliked by the only people who matter — its passengers.