

Wind of change blowing through Royal Mail as top investor gives stamp of approval to shake-up

Executive chairman faces a daunting task to cope with the changing consumer habits post-Covid, writes *Oliver Gill*

Keith Williams was supposed to be on holiday in Madeira. But even if the 64-year-old was sunning himself on a beach, those that know him say his mind would likely be on work.

With a challenging winter ahead for the Royal Mail, it is hardly surprising the Teessider has little time to relax.

Williams, who is also Halford's chairman, has been reducing his other commitments to focus on the daunting task ahead. He has spent the last two years conducting the biggest government review of the railways since privatisation, and until recently was on the boards of John Lewis and Aviva. "We are at a crucial juncture," he explains, sitting in the company's otherwise deathly quiet London headquarters next to the Thames.

Williams went from non-executive to executive chairman at Royal Mail five months ago after the resignation of Swiss chief executive Rico Back. In many ways the issues facing the former FTSE 100 company are no different to those encountered by Back or Dame Moya Greene, whose eight-year tenure spanned Royal Mail's controversial privatisation seven years ago. These problems have festered to become an existential threat this year, according to Williams.

"Covid-19 has accelerated all the changes we have been seeing – fewer letters, more parcels – by three or four years in just a few short months. Whilst some of these trends may slow after the pandemic is over, we don't expect them to reverse. A new world is now with us," he says.

More than one billion fewer letters were posted in the five months to August. This represented a drop of 28pc compared with the same period in 2019 – dramatically different to the rate of between 4pc and 6pc in recent years. The sharp downturn in fortunes contrasts with Royal Mail's peers. Amazon has posted a surge in profits, while the likes of DPD and Hermes have embarked on hiring sprees to satisfy demand for at-home deliveries.

The Communication Workers' Union, which represents most of Royal Mail's 162,000-strong workforce, is regularly blamed for resisting change. This has provided an opportunity for the company's tech-savvy rivals to take advantage. Attempts to automate the sorting of parcels in particular have been met with resistance from union leaders fearful of headcount reductions and new working patterns.

Barclays analyst Mark McVicar has covered the logistics sector for more than two decades. He points

out that nearly all of Royal Mail's parcels were sorted by hand when it floated in 2013. Automated sorting has now risen to more 33pc, but this is considerably lower than figures of around 90pc on the continent. "I've been involved in many of the other privatisations of the European postal businesses. In every other case, apart from Royal Mail, a major

modernisation took place before the float," he says. "For example Deutsche Post spent six years modernising the business. They already had automated letter and parcel sorting; early-stage track and trace. There was a major reduction in headcount and sweeping changes to working practices."

Italy provides a more recent example. Despite being privatised after Royal Mail, in 2014, the business has flourished. Parcels are now delivered seven days a week. Since being floated it has overtaken, rather than fallen behind, its rivals. Matteo Del Fante, the chief executive and former JP Morgan investment banker, says: "The health emergency turned out to be an opportunity of growth particularly in two areas of activity: ecommerce and digital, with the acceleration of trends [previously] envisaged. Poste Italiane has succeeded with the diversification of the business model, transforming into a large 'Amazon' of logistics, financial services, and digital payment systems."

Williams hopes he can convince the CWU, whose bosses did not respond to a request for comment, of the need for urgent action. But this extends beyond greater automation. So-called "last-mile optimisation", where technology is used to plan routes more efficiently, is treated with suspicion by posties. The prospect of "Big Brother watching over them" – computers tracking their every move – is unappealing to many who have long enjoyed freedom and independence that has historically come with the job.

Those who know him believe Williams can persuade union leaders. A recent fellow board member says: "Keith is a good guy and he has got a track record at British Airways with all the difficult union situations and found resolutions with them."

Between 2011 and 2015 Williams ran British Airways, and began in the middle of a two-year battle with cabin crew that cost the carrier £150m in strikes and cancellations.

Industrial relations were sufficiently improved at the airline that Len McCluskey, the combative Unite general secretary, labelled Williams a "decent, genuine, honest" man.

Another thing working in Williams' favour is that the perennial threat of Christmas strike action has less potency after a year where lives have been racked by Covid.

This time last year the CWU was emboldened by vociferous calls from

Jeremy Corbyn and John McDonnell to renationalise the business ahead of the general election. But with the next election four years away the imminent threat that loomed over the business this time last year has been removed.

Eyebrows were raised when Williams announced the UK and overseas businesses would be run separately in May. Speculation was rife across the Square Mile that the business was ripe for a break-up. This was further fuelled by the emergence of an activist investor on the share register, Daniel Kretinsky. But the billionaire power magnate, known as the "Czech sphinx", sees things differently. For now at least.

"It is clear that the Royal Mail has to find a new and accelerated approach in order to continue its great traditions," he says. "It is our view that the only way to secure a sustainable future for the company, combined with excellent service for the general public, is the transformation of its UK business into a modern and highly efficient postal and logistic company which addresses and fulfils the current and future needs of its customers. The best postal companies in Europe have completed such transformations over the last few years. We fully support chairman Keith Williams and his management team in their efforts in this direction."

His patience, however, will not last forever. Kretinsky, Royal Mail's biggest investor with a 13pc stake, says: "We strongly believe, in the current environment, that failure to achieve such a transformation would be heavily detrimental to all stakeholders in the Royal Mail."

Williams has the air of a man who will not be flustered: whether that be from union leaders or billionaire shareholders. And he will not let opportunities pass him by. His team is bidding for a £785m contract as part of Boris Johnson's "Operation Moonshot" to deliver mass home testing.

"We have challenges, but we have a fantastic opportunity here too in the growing customer demand for parcels. If we can adapt our business quickly enough, we will be well positioned to meet our customers' demands. If we don't, the market will move away from us and we will be consigned to delivering a reducing volume of letters and struggling to meet demand in the growing parcels market."

"The window of opportunity is open to us now. The change in the market is there for us to capture and if we don't rise to that challenge, others will."

