

MarketLine Case Study

Royal Mail

The UK postal service succumbs
to the privatization trend

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OVERVIEW

Catalyst

The Royal Mail is one of the oldest postal services in the world and has been a nationalized industry for most of its history, funded and scrutinized by the UK government. However in recent years the organization has been targeted by successive governments as one that could potentially be pushed down the path towards privatization and certain decisions within the organization have been implemented to help towards that end game. In the fourth quarter of 2013 the government decided to float the company on the stock market, with the help of Goldman Sachs and UBS, despite strong protests from areas of the public and employees. When the company was floated it immediately gained a great deal of interest and in December 2013 the stock price had risen 77.3% since it was originally floated leading many to suggest that the company was heavily undervalued. There are a number of questions to be considered around this controversial IPO, such as will the consumer benefit from the company being privatized? Will this have a major effect on staffing levels? Is this going to encourage and introduce rival delivery options?

Summary

- Royal Mail is the largest post operator in the UK and has an annual turnover of around £9bn, with a wide array of postal services. Since privatization process began, competitors have been entering the market and have managed to take some key customers from Royal Mail but despite this it commands a large market share.
- Royal Mail was floated on the stock market in 2013 and since October that year there has been an exceptional jump in its value leading some commentators to question the original pricing and suggest that the UK tax payer has lost out in this deal.
- Along with the deal to float the company there have also been some important changes to the way that the company is regulated; certain factors such as pricing, universal service and downstream access for competitors have been eased somewhat and it remains to be seen just how this will affect the market.
- There is a strong trend towards privatization and increasing competition in traditionally governmental dominated markets. The selling off of monopolies is not necessarily something which is seen as a positive and many argue that loss of service and reduction in quality will ensue when a greater priority on profit is introduced.

TABLE OF CONTENTS

Overview	2
Catalyst.....	2
Summary	2
The Royal Mail Group	6
Royal Mail.....	6
Standard Mail	6
Special Delivery	7
Business services	7
Parcelforce Worldwide.....	7
How Privatization may affect royal Mail.....	8
Principle that privatizing firms makes them more efficient	8
More emphasis on making profit may alter priorities	8
In practice profit over service may be observed in the future.....	9
Ofcom criticizes the Royal Mail on missing targets.....	9
There has been public resistance.....	9
Rapid share price growth since floatation.....	11
How the floatation was organized	11
How the share price moved	11
UBS, Goldman Sachs and Vince Cable accused of negligence and foul play.....	12
Regulation changes	13
Postcomm to Ofcom	13
Previously unfair market conditions for Royal Mail	14
Competition in the UK postal service market.....	15
UK Mail	15
DHL	16
TNT.....	16
Conclusions.....	17
The Royal Mail floatation initially appeared shambolic	17
Change in priorities could see Royal Mail's services change	17
Major changes to regulation could alter the market dramatically	17
Appendix	18
Sources	18
Further Reading.....	18

Ask the analyst	19
About MarketLine	19
Disclaimer	19

TABLE OF FIGURES

Figure 1: Royal Mail logo and insignia 6

Figure 2: Save our Royal Mail Campaign..... 10

Figure 3: Royal Mail's share price since floatation 12

Figure 4: UK Mail Share price since Royal Mail privatization began 15

THE ROYAL MAIL GROUP

The Royal Mail Group is by far the largest mail delivery company in the UK and as such has a wide variety of services and commitments in the UK. The company runs services including first and second class mail, special delivery, business services and courier services.

Royal Mail

Royal Mail is the sole provider of the universal postal services in the UK. The group delivers a six-days-a-week, one-price-goes-anywhere postal service to about 29 million addresses across the UK. During FY2013, it collected and delivered around one billion parcels and 14 billion addressed letters across the country. It has an annual turnover of around £9bn (approximately \$14.2bn). The company has 150,000 permanent workers and around 18,000 casual staff during peak periods, such as the months leading up to Christmas. Royal Mail has wide array of services including standard first and second class mail services, "special delivery" same and next day services, international air mail services and business services. The Royal Mail was traditionally tied into telecom and the post office service in the UK but these have now been separated from the group with telecoms becoming British Telecom which was privatized in the 1980's and the Post Office which remains government owned but still offers and completes much of Royal Mail's customer facing functions. For most of its history, the Royal Mail Group has been a publicly owned company operating as a government department or public corporation but in 2013 took its final step towards privatization with stock market floatation.

Figure 1: Royal Mail logo and insignia



SOURCE: ROYALMAIL

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Standard Mail

Standard mail options include first and second class mail. First class has a number of specific functions: to deliver the next working day including Saturdays, prices start at 60p for letters, send parcels up to 20kg in weight and includes compensation cover up to £20. Second class mail is a cheaper option when timed delivery is not a specific requirement and includes the following features some of which are similar to first class options: delivery in two to three working days including Saturdays, prices start at 50p for letters up to 100g, send parcels up to 20kg in weight and includes compensation cover up to £20. There are also signed for versions of both these classes which for an extra fee will retrieve a signature on delivery. These services have traditionally been the backbone of the company, but as the company states, its letters business is declining in general and so the company has had to manage reduced volumes of mail and custom as customers choose alternative forms of communication. However there is some security as business letters continues to be a crucial form of communication and this has helped soften the blow of the decline in personal letters.

Special Delivery

Special Delivery is the company's next day and same day guaranteed delivery premium service. There are a number of options with this service in terms of specific delivery times or days and prices alter accordingly. Some of the key features offered by this service include: money back guarantee if an item doesn't arrive on time, end to end tracking and signature, compensation cover up to £500 for loss and damage, items up to 20kg, guaranteed Saturday delivery for an additional fee and consequential loss cover up to a maximum of £10,000. This service is essentially a courier option that uses the Royal Mail's traditional logistics network and provides security in case of loss of items or damage.

Business services

Royal Mail runs a number of business services and it is these areas which are much more lucrative than the traditional person letters segment of the postal business. As many business services cannot be entirely handled by new means of communication such as email, these remains relatively secure but more and more businesses are turning to alternative means where possible and business is also lost to competitors such as UK Mail. Royal Mail offers a variety of business services and these include marketing services, discounts for bulk mail, pre printed impression (PPI) services, post collection, mailroom management, franked mail services and online postage printing. These are all designed to ensure that the large volumes of mail and packages from large and small business can be handled efficiently and automatically. Where company mail has a preprinted impression or a franked label it can be read by the automatic system and both Royal Mail and the business make a saving.

Parcelforce Worldwide

Parcelforce Worldwide provides express parcels services in the UK as a courier and is wholly owned by the Royal Mail group. It operates a separate UK network to the Royal Mail network and collects and delivers express parcels. During 2013, the group handled 1,461 million parcels through its three parcel networks in the UK and continental Europe. It is one of the top five courier services companies in the UK but is coming under increased pressure from new entrants to the market both domestic and large international companies.

HOW PRIVATIZATION MAY AFFECT ROYAL MAIL

Privatization in general is a trend that has been extremely tempting for governments as they try to cut costs and reduce commitments by selling their incumbent monopolies. Royal Mail is one of the last of these large government services in the UK to be privatized and its floatation on the stock market has divided opinion, with many believing that traditional services are likely to be reduced as a stronger emphasis on profit is introduced. The counter argument is that the organization will be modernized and made more efficient.

Principle that privatizing firms makes them more efficient

One of the primary theories observed in recent governmental economic actions throughout the world is for traditional large scale government run monopolies, to be broken up or privatized. This essentially changes the ownership, meaning that the government is no longer responsible for its running or its commitments. There are a number of reasons that a government uses to justify selling off its assets, these include: improving efficiency, adding a competitive element giving consumers more choice and driving down prices, rejuvenating old inefficient services and modernizing among others. However, often the primary driver is to raise money and reduce government involvement and commitment to the industry and take tax support out of the system. There have been several high profile examples where sell offs have not result in a corresponding reduction in taxes as would be expected, because in most instances government investment is still needed in these industries to ensure service quality, which does create something of a paradox. British gas and continuing energy subsidies and rail subsidies going to current train companies in the UK are examples of previously public industries which were privatized and still control government investment in the form of subsidies.

But this investment is now not controlled directly anymore and is now at the mercy of the company's boardroom, which can swallow up investment in dividends. When state owned companies are privatized they can and do become more efficient, often because they are able to take extreme measures in order to achieve this, which governments wary of public opinion cannot (or do not wish to undertake), such as redundancies and wholesale service changes. Evidence from other industries seems to suggest that indeed this principle is right, but it comes at a significant cost to services and staff numbers. Also important to mention is the presumption that all industries can be effectively be fully open to competition which is not always the case in practice, for instance for bulk mail delivery it would mean that there would need to be multiple massive logistics systems in place from many carriers, all able to deliver to everywhere in the UK on similar universal contracts in order for there to be equal and open competition. This could result in multiple pickups and delivery services and in a declining letters industry it is hard to see how this would be profitable for so many companies as it looks likely that the services would slowly decline

More emphasis on making profit may alter priorities

Royal Mail it is now going to be governed by Ofcom (the independent regulator and competition authority for UK communications industries), which has rewritten the requirements for the company and catered for the fact that Royal Mail is expected to consistently make a reasonable net profit, which it has deemed at the rate of 5-10% of revenues but may initially need to be higher. So a commonly held belief by many observers is that service quality will deteriorate and indeed there has already been a slight easing in the terms that the watchdog holds the Royal Mail to such as the flexibility to set its prices. To an extent this is an understandable change, because the terms placed on the old government owned organization were unfair to be placed on a competitive business.

Some of the elements such as downstream access, mean that currently competitors can use the Royal Mail's vast delivery network to deliver the mail that it has collected. This has resulted in some large business contracts going to other new competitors such as UK Mail or TNT whilst Royal Mail is still committed to delivering items from those companies that it raises limited revenue from. These rules are now changing, with the result that the Royal Mail can now begin to set its own prices too, with less intervention from the watchdog. This will mean that Royal Mail is likely raise its prices to cover operational costs and secure dividends. This can be observed happening in other industries that have been nationalized in the UK, the government will retain some control over this via the watchdog, but its influence will not be as

direct. For instance British Gas and the other competing energy companies, can be observed making stable and large profits, but against a wave of negative public opinion consistently increase energy prices, to a level that some argue is unfair to poorer communities. In this situation even if the government wants to step in to help, it is in danger of disturbing market forces unless it acts only by making up the difference by providing money. In this way Royal Mail may be able to hike prices to protect profits placing higher costs on the consumer.

In practice profit over service may be observed in the future

The Royal Mail has certain universal service commitments which can be controlled by the government through the watchdog; however with the removal of government ownership, there is now a potential conflict of interests. The watchdog has recognized the growing need for profit and it seems likely that in certain instances the Royal Mail will be allowed to break the terms of universal service in order to guarantee profit. This is because the profit motive has now become the most important element, as if investor value is not created for the shareholders, then the business becomes largely unviable. There is a very careful balance that the regulator is trying to weave in order to ensure performance but also ensure profit margins. The problem with this new challenge is that committing Royal Mail to both elements, service and profit, means that efficiency savings must be made or prices must be raised, and whilst the private sector can provide this, they are also likely to enforce certain harsh measures to this end. Such as change in employees working conditions and hours, job cuts, price rises, site closures and changes in services all of which have been noted in other previously government run services when they moved to the private sector, examples including British Rail, British Gas, British Steel, British Leyland and British Telecom. So in this sense it seems inevitable that major changes will take place, but the pertinent question is whether Royal Mail's competitors will be able to fill any gaps left by a steadily reorganizing Royal Mail and currently it is hard to see them taking on some of the less profitable delivery areas in the UK, without strong governmental financial encouragement.

Ofcom criticizes the Royal Mail on missing targets

In November 2013, Ofcom criticized the Royal Mail for having not met its 2012/2013 performance targets, a situation that can result in hefty fines and constitute a failure to meet the universal service targets that were set and it is contractually committed to. Ofcom said Royal Mail had missed its target of delivering 93% of first-class letters the day after they were posted, achieving only a 91.7% rate, which is not a drastic difference but still represents a failure. However it did comment that the company seems to be in a better financial position since the floatation of its stock. Missing targets could be extremely damaging for the company if it is decided that there will be a charge set, damaging financial security and reputation. But also worth noting is that if the Royal Mail is not currently able to exactly hit its targets when profit was less of a priority, now profit is a priority it is hard to see how improvements will be made without a very drastic change implemented and one which may not sit well with employees or the paying public.

There has been public resistance

A campaign has been attempting to stave off the privatization of Royal Mail since it became aware that the government had been building up political support for the floatation of the company. Largely the organization argues that selling Royal Mail will mean that its heritage dating back to the 1500's could be lost, it believes that many of the services such as to rural communities will be unprofitable and therefore will suffer, loss of the six days a week service is likely, prices may become unaffordable. It remains to be seen how much of this argument is true, but there is some evidence to support it in that on the day Royal Mail became able to set its own postage prices it introduced a 30% increase.

Figure 2: Save our Royal Mail Campaign



SOURCE: SAVEOURROYALMAIL.ORG

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RAPID SHARE PRICE GROWTH SINCE FLOATATION

Since its first release on the stock market there have been some doubts as the legitimacy of the valuation that the UK government chose and on the first day of trading the company's share price grew dramatically. There have been a number of accusations directed at government officials and the UBS and Goldman Sachs partnership which handled the IPO.

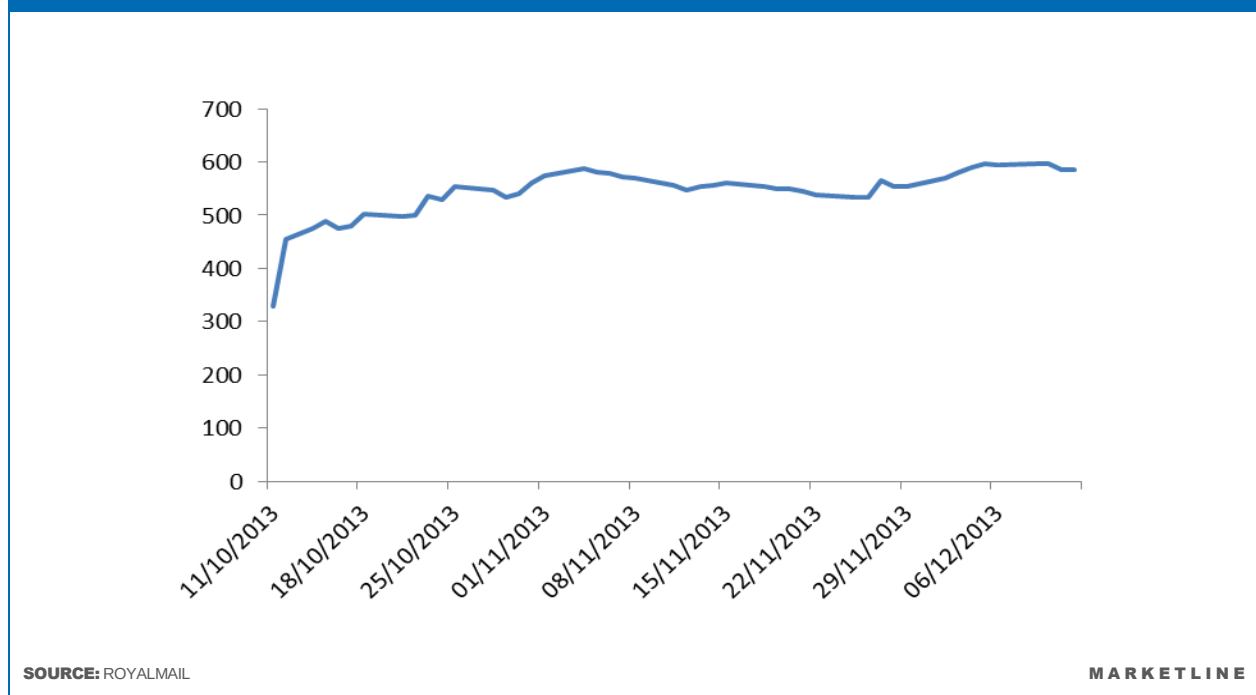
How the floatation was organized

A number of banks and financial institutions were consulted on what the share price should initial be, Citibank, Deutsche Bank, JP Morgan and Panmure Gordon were all consulted amongst others with a range of total value being estimated at £3.7bn-8.5bn (approximately \$5.8bn-\$13.4bn). But it was an offer from UBS and Goldman Sachs at £3.3bn (approximately \$5.2bn) which was used. The initial public offering (IPO) contained 600 million shares. The Government retained around 38% of total shares, to ensure a small measure of say in the company's future and Royal Mail workers too received some free shares. As many predicted in the days leading up to the floatation, the government received a vast amount of applications to buy shares, up to 15 times the amount that were on offer. City institutions were guaranteed to receive 70 per cent of the share issue and small investors 30 per cent. It is estimated that of the amount allocated to small investors, £3.5 billion worth of shares was applied for, when only around £500 million of stock was on offer to them, showing just how much demand for the stock was available. On the 23rd of December Royal Mail joined the FTSE 100 as was expected becoming one of the UK's largest trading public companies.

How the share price moved

After the release of shares on to the stock market on the 11th of October 2013, Royal Mail became a hotly traded commodity and doubled its share price within a month. It was initially offered at 330p per share but has reached highs of 650p per share since. Despite the UK government having the opportunity to set the share price via an advisor bank, the stock still rocketed up in price meaning in the end that billions of pounds have been lost to the markets. Certainly the price couldn't have been set at the highest pricing as that would have discouraged investors, but with hindsight the company was undervalued to the sum of billions leading commentators in the UK press to suggest either foul play or negligence to some degree on behalf of the advisor banks or the government office responsible. Since that rapid initial rise the company has remained relatively flat and stable in the following months, which is a sign that the newly privatized company may not be subject to the harshness of the market as it adapts to its new ownership. These rises in the share price and predictions of instant profit were similar to privatizations of other large British public companies such as British Gas, whose share price grew dramatically initially.

Figure 3: Royal Mail's share price since floatation



UBS, Goldman Sachs and Vince Cable accused of negligence and foul play

UBS and Goldman Sachs were charged with the valuation and floatation of Royal Mail and since it is such a large and historic institution with revenues approaching £10bn every year, one would expect the government to be trying to make as much money on the sale as possible. This is largely because one of the main reasons of the entire exercise of privatizing a nationalized industry is to raise money in certain times of recession and to increase government liquidity. However it immediately became obvious on the same day that the shares were released, that the banks and the government had massively undervalued the company as the share instantly shot up and have stayed up ever since. This effectively meant that those investors which bought shares early were able to gain a massive return on them and the government and ultimately the UK tax payer lost out in this transaction. Blame has been apportioned to numerous government officials and the banks themselves, but there are also rumors of foul play as there was an unusual difference between different banks estimations of how much Royal Mail was really worth. Goldman Sachs and UBS valued Royal Mail at just £3.3bn, JP Morgan, priced it at between £6.8bn and £8.5bn, the Department for Business, Skills and Innovation headed by Vince Cable, went for the lower valuation from the former pair of banks. However, British tabloid, The Independent, challenges the fairness of this, suggesting that Goldman Sachs had shares in Royal Mail on behalf of clients and accurately sold them at the top of the market value resulting in around £25m worth of shares sold for around £12m profit. It remains to be seen whether there is any truth in these allegations of foul play and if so, whether there will be any repercussions on account of foul play or negligence.

REGULATION CHANGES

With Royal Mail being privatized there have been some significant changes to the way it is regulated and this means that the company will have to adapt. The most significant is the absorption of PostComm into Ofcom and the changes in universal service and downstream access that will affect Royal Mail, its competitors, and the entire postal market in the UK.

Postcomm to Ofcom

With the change to privatization announced in the postal services act of 2011, there has been a specific alteration in the way the group is regulated. Firstly there is a transfer of authority from the watchdog Postcomm to Ofcom, which is largely in place at time of writing (December 2013). Secondly there are large scale changes to the regulations that the group has to adhere to, these are very important for the group's future as the rules, specifically around universal service, set the market conditions that the Royal Mail has had to deal with and guarantees certain principles and standards that consumers can expect from the company, such as fixed prices and consistent service everywhere in the UK. Some of the key changes have been highlighted by the Royal Mail Group, and it is pertinent to express and analyze them now.

Table 1: Royal Mails comparison of its regulations before and after the IPO

Before	After
Complex price regulation on the Universal Service Obligation. Obligation to provide the universal postal service. Universal Service Obligation and non-Universal Service Obligation products and services.	No price cap on the majority of products and services. A "safe-guard" price cap will remain for second class standard letters, second class large letters, and standard packets up to 2kg.
More than 80 per cent of Royal Mail's revenue subject to direct price regulation.	Royal Mail is now free to set prices that account for 90 per cent of revenue (subject to price control of access mail through margin control).
Royal Mail's rivals had potential access to any part of Royal Mail's universal service network and explicit price advantage through a prescriptive price control.	Access is mandated to a limited part of Royal Mail's universal service network but Royal Mail is free to set fair and reasonable commercial terms and to set access prices that give a reasonable commercial return. Access prices will be monitored under a "margin control" test. Access is now restricted to letters and large letters at the inward mail centre: Royal Mail facility at which mail is sorted and sent to a delivery office mail centre only.
Royal Mail was generally obliged to provide three months' notice when changing prices or terms and conditions for products. These restrictions limited innovation.	Royal Mail is now able to change prices and terms of service with no regulatory notice period for non-Universal Service products and 30 days' notice for Universal Service Obligation services. This allows us to innovate and introduce new products more quickly.
Royal Mail's competitors were able to take substantial volumes of business mail from its end-to-end letters business under a regulatory licensed regime, which established a guaranteed price differential between upstream and downstream mail activities,	Competitors will have to provide notice to Ofcom if they decide to introduce or expand any part of its letters business along the end-to-end delivery pipeline. Ofcom has the ability to impose regulatory conditions on operators offering services on parts of or on the entire end-to-end delivery pipeline where

subject to those competitors complying with their licence conditions.

No explicit statutory requirement for the regulator to have regard to the need for the Universal Service Provider company that provides the universal service - Royal Mail, in the UK. Universal Service Provider to make a commercial rate of return on its USO activities.

there is a demonstrable threat to provision of the Universal Service.

As part of its primary duty, Ofcom must now have regard for the need for the Universal Service Provider to make a "reasonable commercial rate of return" on its Universal Service activities. Ofcom has determined that 5-10 per cent EBIT is the appropriate range, but acknowledges that in the short term Royal Mail may need to return a higher margin.

SOURCE: ROYAL MAIL

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Many of the changes listed above are crucial and large changes but some of the most important ones that will affect both customers and competitors are: more freedom to alter prices both of particular products and downstream access from competitors with no specific price cap, recognition of the need to make a profit 5-10%,

Previously unfair market conditions for Royal Mail

The universal service contract, has in the past, been a hindrance for the Royal Mail. In the sense that it makes some sensible demands on the company which previously had the monopoly, such as cost of delivery is the same for everywhere in the UK and expected time scales on delivery remain the same wherever you are in the UK. This means practically that a letter posted in Cornwall heading to the Scottish highlands should be delivered on the same time scale as a letter heading a few miles. Largely the Royal Mail has been able to uphold this principle, even though it requires an expensive, robust and massive logistics operation in order to provide this level of service. However there are other conditions in place on Royal Mail service that, with the onset of privatization and other players entering the market, has made competition unfair for the company in recent years. For instance privatized new entrants have been able to enter the Royal Mail delivery network at any stage in the past, basically using their delivery service for their items, which is called downstream access. Almost all of its competitors take advantage of this service for standard mail items and this has allowed them to grow rapidly without establishing their own costly delivery network. This could be considered a positive condition if one wants the implementation of an effective competition, because it has allowed both domestic and international competitors the opportunity to grow, without a full scale commitment. However with this change in regulation conditions, only letters and large letters are allowed into this downstream access facility, so Royal Mail's competitors will need their own network for packages, which largely they have been doing, but also there will be an access rate applied charging for entry which is determined by Royal Mail and reviewed by Ofcom.

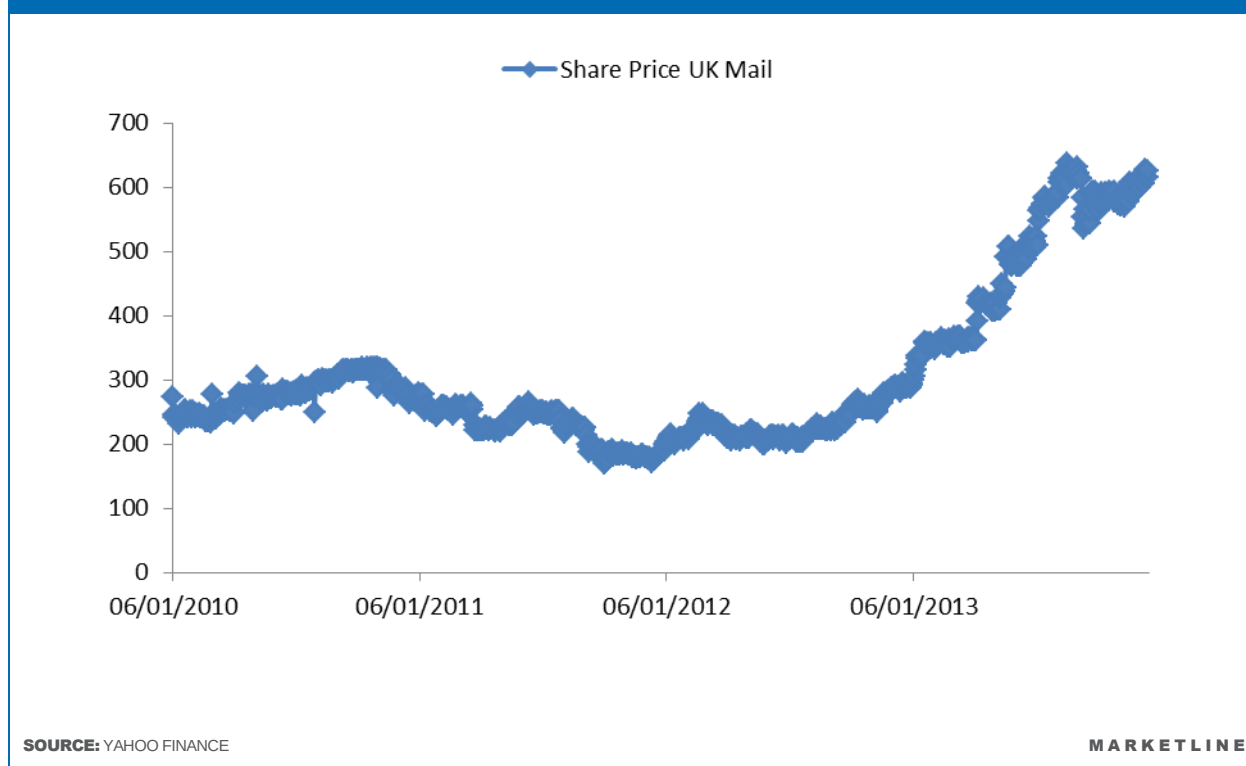
COMPETITION IN THE UK POSTAL SERVICE MARKET

The UK postal market has been fully open to competition since 2006. Since this time we have seen major new groups started in the UK and also international new entrants coming into the market. Some of these players have now gained a solid foothold in the market and with the alterations to the way Royal Mail is owned and regulated and certain inevitable changes to the company, it seems likely that competitors will be able to capture more market share.

UK Mail

UK Mail is the largest of the domestic based Royal Mail competitor companies and since 2006 has competed with Royal Mail for collection and distribution of mail. UK Mail has a network of 55 sites and 2500 vehicles. The company collects and moves mail using its own logistics systems and then hands mail to the Royal Mail sorting offices for delivery, as is its right under current conditions placed on the Royal Mail. The benefit of this to the company is that it can, in certain areas undercut the Royal Mail because it is not committed to running a huge delivery network, although this will change as Royal Mail dictates the price for access to its network. The advantage the company has had until now has led to UK Mail winning a number of large business contracts from Royal Mail such as O2 and TalkTalk. Business letter delivery is the most lucrative area of the market and these major contracts have increased its legitimacy and ability to handle big contracts in the eyes of the customers. As we can see below in 2013 the share price of UK Mail has risen drastically as investors look to become involved in Royal Mail's competitors as there was uncertainty over how Royal Mail's entry onto the stock market would actually pan out and investors look to find companies that may now be in a position to take more of Royal Mail's market share.

Figure 4: UK Mail Share price since Royal Mail privatization began



DHL

DHL is part of Deutsche Post, the world's largest courier company based in Germany. DHL is a division of the company that has operated in the UK since it won rights to enter the market in the early 2000's, and operates in the business letters and courier services area of the market. DHL has secured major contracts in the UK and one of the most lucrative was its contract to run the NHS supply chain in 2006 which was worth around £1.6bn and runs for ten years. Previously the contract was run by the Royal Mail and securing such a deal in the UK was a major coup and represented a large amount of trust in the company. It remains to be seen however how far the company will continue to push into the end-to-end pick-up and delivery market as it currently uses the downstream access it is afforded to use Royal Mail to fulfill final delivery.

TNT

TNT is another of the world's largest logistics companies and has extensive networks in the UK, Like DHL it runs courier services and collection services for mail in the UK. The company has 10,000 staff and 53 delivery depots in the UK. Some of its primary services include: national or international delivery, same day or next day delivery and warehousing or fulfillment services. For TNT it remains to be seen just how it will react to the IPO of Royal Mail, as it will now have to deal with higher charges for access to Royal Mails delivery network, so we may see a more comprehensive end to end network being put into operation.

CONCLUSIONS

The sale of Royal Mail was an instant stock market hit and proved to be one of the hottest stocks of 2013 in the UK. Within months the company was in the FTSE100 and it has registered a solid profit for 2013. However to retain this in the future with a new emphasis on profit and changes to regulation there are likely to be some major changes at the company.

The Royal Mail floatation initially appeared shambolic

The UK government decided to retain around 38% of total shares and then floated the rest on the London Stock Exchange. Whilst it was a major hot investment when it was released, there are some questions raised as to why it rose so rapidly so fast and the business select committee is due to look at this in more detail along with other questions as to why aggressive hedge funds such as TCI and foreign sovereign wealth funds were allocated such a large amount of the shares when the amount allocated to small investors was so oversubscribed. After examining the floatation it becomes clear that the UK government did in fact lose out due to the share price set for the company, which revealed itself to be massively undervaluing the company to the tune of billions of pounds. The price soared the second trading commenced and it had doubled in value a month later, where it has remained relatively stable ever since. The reasons for the miscalculation will probably not be established, but now there is another of the UKs huge national service providers which has joined the FTSE 100 and can be traded on the market. Interestingly though this undervaluing of companies due to be privatized is not new and has happened with other companies such as British Telecom and British Gas and the vast national sell offs of the 1980's. There have been counter arguments to say that the sell off at a lower price has secured long term investors, but it seems this is at the expense of the UK tax payer.

Change in priorities could see Royal Mail's services change

Whether or not to change a nationalized company to a privatized one has a number of strong principles surrounding it and there are numerous arguments on both sides that alter depending on your point of view. However one thing that can be established is that Royal Mail will have a renewed emphasis on the earning of yearly profit, due to shareholders being introduced and the slackening of the rules which regulate the company. The watchdog has recognized this need for it to secure profit and stated this in its regulation changes. However this is not necessarily a negative thing for its customers as it could help to modernize the company in ways that were not possible in the past and improve the efficiency of its operations.

Major changes to regulation could alter the market dramatically

The regulation changes that have been put in place with the move from regulation by Postcomm to Ofcom are fairly dramatic and it is currently difficult to see how competitors will respond to this. For instance Royal Mail now has more control over its prices, both in terms of prices that it charges customers to send and deliver mail, but also prices that it charges competitors to access and use its national delivery network. If Royal Mail decides to alter these dramatically in the future then it may force competitors to take different approaches. For instance if Royal Mail decide to secure profits by introducing more increases in postage prices, we could see a price war between UK mail companies. But also if Royal Mail introduces a heavy fee for downstream access, we could see competitors extending their delivery networks in order to avoid these penalties. However it is a fine balance as many rural areas in the UK are likely to be expensive and unprofitable for competitors to cover so we will most likely see them limited in many ways to using the traditional Royal Mail network and paying the charges. Ofcom has a very difficult task of balancing three very important interests at once, allowing Royal Mail to be profitable, securing universal service and allowing competitors to grow. In this sense then it is hard to see how all three will be possible at the same time since they represent conflicting issues. The most likely scenario is that competitors will grow in market share, prices will continue to rise for both downstream access and postage and some areas of universal service may be lost, such as six day delivery. The new strength Royal Mail has to control more of its business should help to keep the company profitable.

APPENDIX

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Further Reading

Royal Mail (2013) Company Profile

DHL (2013) Company Profile

UK Mail (2013) Company Profile

Ask the analyst

We hope that the data and analysis in this brief will help you make informed and imaginative business decisions. If you have any questions or further requirements, MarketLine's research team may be able to help you. The MarketLine Research team can be contacted at ReachUs@MarketLine.com.

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