

[Letter losses + parcel profits = Royal Mail privatisation](#) [1]

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This week Royal Mail, the UK's state-owned letters and parcels delivery business, is expected to announce profits of £300m-£400m. A few years back, the Royal Mail looked like a loss-making sunset business. Emails were replacing letters, and delivering bits of paper to 28m homes in every corner of the UK seemed like a good way to go broke.

Now we are sending even more emails ? the Royal Mail's staples of greetings cards are being replaced by e-cards too. Bills and statements are going increasingly online, and more of us pay them online rather than putting a cheque in the mail.

But what is saving the Royal Mail is its parcels business. With email we are sending fewer letters, but with the web we are shopping more online. Losses in the letters business are being overtaken by profits in parcels. The UK online retail market was £78bn, up 12.8% on the year before. Department stores' online sales grew by an astonishing 37%. Around one-fifth of our retail purchases are now made online. A business that can deliver to 28m homes now suddenly has a value again.

What Royal Mail needs, though, is new capital to invest in this parcel delivery business. They know they won't get it from the government, which is deep in debt. They need new capital from the market and new strategic partners from business to help them invest it wisely and develop the parcels business. That means privatisation. On this weeks figure, it could be a £3bn business, which means a share offering to the public. On past form, the government will sell 51% and pocket a useful sum. But once the new capital is invested and is making the parcels business even more profitable, it could pick up even more when it sells the other 49%.

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