

Zonal pricing by Royal Mail

Postcomm's decision

In December 2007, Postcomm announced that it had rejected Royal Mail's application to charge large mailers – using products that are not part of the universal service – different prices, depending on where in the UK their mail was delivered. Royal Mail calls this 'retail zonal pricing'.

The reasons for this decision are, broadly, that Postcomm was not satisfied that the change would be introduced in a manner that avoided unreasonable changes to users, and because it involved discrimination. (We plan to publish full reasons in February 2008.)

The decision does not mean that Postcomm has ruled out any future moves towards retail zonal pricing for products outside the universal serve, should Royal Mail propose an alternative approach. We are generally supportive of pricing that is more reflective of costs.

Application by Royal Mail to introduce "retail zonal pricing"

In July 2006, Postcomm received an application from Royal Mail which proposed the introduction of zonal prices for certain bulk retail mail products used by the largest mailers (e.g. banks, utilities, advertisers, charities and government).


In February 2007, Royal Mail submitted a modified version of its application, which still proposed zonal pricing, but amended the proposed zones and prices. In July 2007, Royal Mail submitted a further modified version of its initial proposal.

The bulk mail products concerned were:

- **Mailsort 120** - first and second class, OCR and CBC
- **Mailsort 700** - first, second and third class
- **Mailsort 1400** - third class
- **Presstream** - first and second class
- **Walksort** - first and second class

Currently, Royal Mail charges these bulk mail customers geographically uniform prices, but the company said that introducing zonal prices would have helped it more closely align its prices with its costs.

Under the terms of Royal Mail's licence, we had nine months to make a decision on this application, with that nine months starting once we were



satisfied we had received "sufficient information of good quality" to assess the application. We began this nine month assessment period on 2 April 2007 and therefore had until 2 January 2008 to make a final decision.

Royal Mail's retail zonal pricing proposal raises important issues and, if approved by Postcomm, it could have led to significant changes in the postal services market, with implications for customers and for the business plans of Royal Mail and other operators.

However, unlike Pricing in Proportion (PiP) - which was introduced on 21 August 2006 after a lengthy consultation and implementation period - this zonal pricing application would not have affected:

- stamp prices;
- any other service commonly used by household and small business customers, or
- the bulk mail products included within the definition of the universal service.

Background

Royal Mail already applies zonal pricing to some of its "access" agreements, under which it delivers mail to "the final mile" for large customers and other postal operators. It also offers discounts to its Presstream customers, depending on the geographic mix of delivery addresses for each mailing.

Useful links

- **www.psc.gov.uk** – Postcomm's website, for further information on all aspects of the postal market, including a full list of documents relating to "zonal pricing".
- **www.royalmail.com** - Royal Mail's website.

Please contact Postcomm for a full list of titles available in this series.

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Postcomm is the independent regulator for postal services in the UK. This is one of a series of fact sheets designed to provide background information on key issues in the postal services sector. Contact us at 6 Hercules Road, London, SE1 7DB. **Tel** 020 7593 2100, **Email** info@psc.gov.uk

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