

Competition countdown

Businesses believe competition will deliver lower prices and a better service when the postal market fully opens on 1 January after 350 years of monopoly by Royal Mail.

Of 300 business mailers, ranging from companies with an annual postal spend of £500,000 to small firms with an annual bill of £5,000, eight out of 10 were in favour of postal competition. More than half (52%) expected it to reduce prices, 75% said it would improve choice and 66% expected Royal Mail's service to improve in the competitive market.

All businesses contacted as part of Postcomm's 2005 Business Customer Survey, published on 29 September, expected sustained growth in mail volumes over the next five years.

Despite their support for competition – and although awareness has improved since our 2004 survey – potential customers are still poorly informed. Most businesses could not identify 1 January 2006 as the starting date for full competition, and with the exception of the biggest spenders, most could not identify alternative suppliers of postal services.

About Postcomm

Postcomm – *The Postal Services Commission* – is an independent regulator. It was set up under the Postal Services Act 2000 to further the interests of users of postal services. Postcomm's main tasks are to:

- seek to ensure a universal postal service at an affordable uniform tariff
- further the interests of users where appropriate through competition
- license postal operators
- control Royal Mail's prices and quality of service
- give advice to the government on the future of the Post Office network.

Postcomm's policies are steered by a board of seven commissioners, headed by the chairman, Nigel Stapleton.

Postcomm's programme of roadshows, seminars and workshops to promote the competition message is being enhanced as a result of the survey and we are linking up with Postwatch, the consumer body, to generate more awareness in the business community. A list of future events is on the back page.

Bigger mailers already know about competition because, since 2003, companies sending out at least 4000 items of mail at a time, such as major banks, have had a choice of using a number of companies, as well as Royal Mail. Some big names – among them Tesco, Royal Bank of Scotland, Lloyds TSB, BSKyB and HM Revenue and Customs – are already using new postal operators.

New operators will either provide an end-to-end service where they collect and sort mail, then deliver it to its final destination, or a 'consolidation' service where they collect mail from customers, pre-sort it, then deliver it in bulk to the appropriate Royal Mail mail centre for eventual delivery by postmen and postwomen.

So far Postcomm has issued long-term licenses to 14 operators to provide services in addition to Royal Mail. Their contact details are on our website www.psc.gov.uk

New licenses for a new market

After consultation, and with the initial agreement of all licensees, Postcomm is to modify the postal licenses of Royal Mail and other long term licence holders to include conditions on common operating procedures and mail integrity.

“This initiative, on Postcomm’s part, is an important step in underpinning customer confidence in using alternative operators to carry their mail, apart from Royal Mail,” said Postcomm’s chairman, Nigel Stapleton.



Royal Mail’s price control

Postcomm is evaluating responses to its consultation on Royal Mail’s next price and service quality control which is due to take effect from April next year.

We have had responses from local authorities, postal operators, trade associations, consumer bodies and, of course, Royal Mail itself.

We are seeking clarification from some respondents and expect to publish our final proposals towards the end of November. Royal Mail will then have three months to decide whether or not to accept the proposals. If it cannot agree, the proposals will be referred to the Competition Commission for a decision.

“In a multi-operator and fully liberalised market it is essential that arrangements are in place to make sure different mail operators work together to meet common standards – for example ensuring security of the mail and handling misdirected letters. These licensing arrangements will make sure the efforts of Royal Mail staff and other credible mail companies are not undermined by cowboy operators.”

The new arrangements are contained in three documents, which cover the following areas:

Licensing framework This will apply to all operators other than Royal Mail (which, as the super dominant company, is already subject to strict price and service quality requirements). While encouraging entry of new companies to the market, the framework will safeguard customers’ interests by ensuring mail is handled properly. Licenses issued under this framework will operate on the same basis as Royal Mail’s licence (currently 15 years from 2001).

Mail integrity All licensed operators in the open market, including Royal Mail, must meet the minimum standards laid down in this code of practice. It includes rules on:

- Recruitment and vetting of staff
- Training
- Disciplinary procedures
- Security of the mail
- Information and reporting requirements
- Use of agents and sub-contractors

Common operational procedures Among other things this deals with mail that goes astray or is marked ‘return to sender’. These are likely to be put in a Royal Mail post box for return, since, at the moment, there is no other public collection box for mail. In the multi-operator market envelopes will carry an identifier to indicate which operator has carried the mail so that mail put in a Royal Mail post box can be ‘repatriated’ to, and dealt with by, the company concerned.

The procedures also require operators who are wrongly contacted by customers of other operators to redirect enquiries to the company that handled their mail.

Postcomm allows PiP

Pricing in Proportion (PiP) – Royal Mail’s new pricing arrangements which take account of the size of a mail item as well as its weight – have been agreed by Postcomm.

The new prices, which will come into operation next August, will mean some postage will cost less than it does now, but lightweight items that are bulky will cost more.

The agreement follows two years of extensive consultation and reflects substantially revised proposals from Royal Mail.

The case Royal Mail made to Postcomm was that lightweight mail that is large or bulky costs more to transport, sort, handle and deliver than regular sized items. As a result of its current price structure the company has been under-charging for some items and over-charging for others. The new arrangements will allow it to bring its prices more closely in line with its costs, but it will not make any extra revenue from the pricing structure.

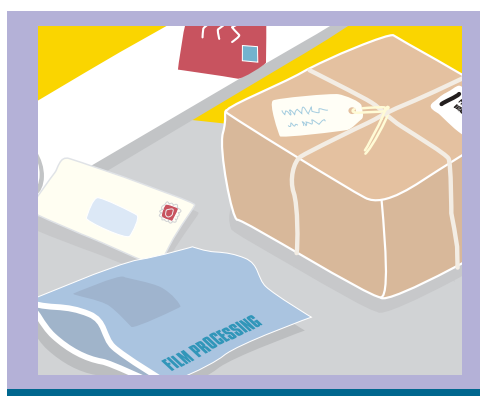
Postcomm approved the change to the pricing structure and mandated a year’s notice to customers. Royal Mail complied with this and will introduce the changes on 21 August 2006.

Pricing in Proportion will apply to most of Royal Mail’s inland services, including first and second class post.

However, because the vast majority of post is flat and weighs less than 60 grams, most people will find the price of posting a letter the same. The prices of around 70% of items posted each day will be unchanged. Of the remaining 30%, about half will cost less and half will cost more.

There will be winners and losers under the scheme. Winners will include those who post heavier items, such as books and catalogues, which will cost less to post. Losers will be those posting items such as large greetings cards and video tapes. The table gives a comparison of present stamp prices with Royal Mail’s proposed PiP prices.

More details are available at www.royalmail.com/pip



The table gives a comparison of present stamp prices with Royal Mail’s proposed PiP prices*

Format	Maximum size	Maximum thickness	Weight	First class current stamp prices	PiP first class	Second class current stamp prices	PiP second class
Letter	240 x 165mm	5mm	0 – 100g	30 – 46p	30p	21 – 35p	21p
Large letter	353 x 250mm	25mm	0 – 100g	30 – 46p	42p	21 – 35p	35p
			101 – 250g	64 – 94p	61p	47 – 71p	53p
			251 – 500g	107 – 178p	85p	83 – 148p	72p
			501 – 750g	215 – 271p	123p	175 – 212p	105p
Packet	<i>All items larger than large letters</i>	Over 25mm	0 – 100g	30 – 46p	94p	21 – 35p	80p
			101 – 250g	64 – 94p	119p	47 – 71p	104p
			251 – 500g	107 – 178p	159p	83 – 148p	132p
			501 – 750g	215 – 271p	206p	175 – 212p	166p
			751 – 1000g	290 – 364p	253p		199p

* Prices quoted are for 2005/06. There may be changes as a result of Postcomm’s next price control due to operate from April next year. Metered and PPI customers pay slightly less for first class.

Royal Mail's share 'over 97%'

Postcomm's annual Competitive Market Review, due to be published in November, is expected to show that Royal Mail still has more than 97% of the letters market, despite an increase in the number of rival licensed companies.

At the moment competition in letter post is restricted to bulk mailings of 4000 items or more. Excluding Royal Mail there are now 14 operators with long term licenses, and despite Royal Mail's dominance, an increase in overall mail volumes meant that end to end mail deliveries by alternative providers increased.

Respondents to the review highlighted eight key barriers to the development of competition: Royal Mail's VAT status, Royal Mail's size and low prices, the potential for anti-competitive behaviour, customer inertia, operational difficulties of access arrangements, licensing/mail integrity regulations, Royal Mail's pricing behaviour, and Postcomm's time to make decisions.

In the document Postcomm will outline proposals for minimising the impact of these barriers in the development of competition.

More innovation needed in the rural Post Office network

The rural Post Office network should be planned using more innovative methods of service provision such as mobile post offices and partnerships with other organisations or communities, Postcomm said in its annual report on the Post Office network to the Secretary of State for Trade and Industry.

"Some of the 8,000 rural branches throughout the UK are in busy market towns, but others may serve only five customers a week," Nigel Stapleton, chairman of Postcomm said.

"There is no single model for all these situations and Post Office Ltd needs to be flexible to sustain access to postal services – perhaps a travelling Post Office – in the smaller and more remote communities."

Post Office Ltd is due to report to the government at the end of 2005 on pilot schemes for more flexible provision of Post Office services in rural areas. Postcomm recommends that the rural network should be planned to reflect the local population and small business distribution to ensure access to cash and to help village stores and other rural businesses to survive.

Postcomm believes that the opening of the UK postal market to competition from operators other than Royal Mail could provide a business opportunity for Post Office Ltd and an opportunity for subpostmasters to increase their income. At present sub-postmasters have a contract with Post Office Ltd, a subsidiary of Royal Mail, that allows them only to provide services for Royal Mail and Parcelforce. If Post Office Ltd fails to respond the danger is that the initiative will be lost, the report says.



Postcomm and the mail market

Postcomm regulates Royal Mail's prices and service quality in the letters market



In the UK postal market

- Over 80 million items are delivered each day six days a week to more than 27 million addresses
- The market for large mailers (more than 4000 items in a single posting) was opened in 2003
- Postcomm has issued 14 long term licenses to companies to compete with Royal Mail
- Royal Mail is by far the biggest operator with more than 99% of the market in 2004-05
- Royal Mail made a profit from operations of £452 million on its regulated activities last year (excluding exceptionals and pension deficit payments)
- The letters market will be open to full competition on 1 January 2006.

Enforcement action

As well as being able to take enforcement action against companies that contravene their licenses – or operate without a licence – Postcomm has powers to deal with interference with mail (mail dumping).

So far this year there have been 40 incidents reported which have resulted in three successful prosecutions, with three further prosecutions pending.

Of the remainder, seven received Home Office cautions and 27 were dealt with by the company concerned under its internal disciplinary procedures.

Postcomm is introducing procedures to protect the integrity of mail as part of its licensing arrangements for the future competitive market.

We are nearing the conclusion of an investigation into Royal Mail's application of mail integrity procedures.

Opening the European Postal Market

The European Commission is now drawing up proposals on the next stage of market opening in Europe.

In early November the European Commission will launch a consultation on the universal postal service and full market opening to invite comments from stakeholders across Europe.

For further information, and to have your say, contact the Postal Services Unit in DG Internal Market on

http://europa.eu.int/comm/internal_market/post/index_en.htm

Commission news



Wanda Goldwag joined Postcomm's commissioners at the end of May, she succeeds Julia Kaufmann, whose term with the commission ended.

Ms Goldwag has more than 20 years' experience in direct marketing and was an executive director of the British Airways owned Air Miles loyalty scheme. Currently she is a part-time adviser to Smedwig Venture Capital on marketing investments. She is also a non-executive director of the Performing Right Society, director of two training companies and executive chair of Goldwag Empson and Otitoju Ltd, the loyalty services agency.



Robin Aaronson has been reappointed as a commissioner for a period of 18 months, until 30 November 2006.

Postcomm removes most bulk mail products from universal service

Postcomm has proposed removing all but two bulk mail products from Royal Mail's universal service provision from April next year.

The two products which remain within the universal service are:

- Mailsort 1400 (first and second class), which covers mail of all formats up to 2kg and pre-sorted according to the locations of 1400 delivery offices, and
- Cleanmail (first and second class) which is the 'entry level' bulk mail product most used by small businesses as it does not require users to have sorting machines.

Postcomm is responsible for ensuring Royal Mail meets its universal service obligation of daily collections and deliveries at a 'one price goes anywhere' rate. These proposals will help bring greater clarity for businesses using bulk mail services.

Postcomm online



Postcomm's new website 'went live' at the beginning of October.

It features full details of all licensed mail operators, as well as guidance for mail customers and for companies considering moving into the mail market once it's fully open.

See the site at www.psc.gov.uk.

Stakeholder events

Postcomm does not have a regional structure. Instead we organise events and visits throughout the UK to keep in contact with our major stakeholders. Recent events have included a price control workshop, Postcomm's London Forum and seminar to discuss Royal Mail's Pricing in Proportion (PiP) proposals and Postcomm roadshows in Scotland and Wales.

Upcoming events include:

8 November 2005 – Small business seminar, Birmingham.

29 November 2005 – Industry workshop on Postcomm's role in dealing with anti-competitive behaviour, London.

Postcomm is also able to offer speakers for conferences and a range of other events.

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