

## Competition goes **live**

**More than 350 years of Royal Mail monopoly finally slipped away on 1 January when the UK letters market was fully opened to competition. Up to then, competition in letter post had been restricted to customers posting 4,000 items or more at a time.**

### 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.

**Already the 13 rival companies to Royal Mail that have long term licences from Postcomm are flexing their muscles. UK Mail, the first company to take advantage of accessing Royal Mail's network, has lowered its bulk mail threshold to 250 items, making competitive choice a reality for most businesses – not just the 'super mailers'. Others are likely to follow suit.**

The new market is also generating new services. ONEPOST, a Bristol-based company, entered the market last year with a software program which compares the prices and services of all licensed companies. It offers advice to bulk mailers to help them to make the most of their postal budgets. "The most economical option may be with one carrier or a combination of carriers", Tim Norman, commercial director, told us. That's something that you didn't get with a monopoly.

Although the new companies are targeting businesses first, private individuals are starting to benefit from the trickle-down effect. Business mail and private mail all share the same postbag, and with Royal Mail still delivering more than 97% of the mail, we are all enjoying improved standards of service from Royal Mail – improvements driven by the introduction of competition.



### What's next?

Don't expect to see rival post boxes on the street yet, but in a year or two there may be alternative post boxes in places such as supermarkets, railway stations and garages. What you can expect is a steady evolution of the mail market with companies – including Royal Mail – responding to customer demand and providing new levels of service. The take-it-or-leave-it services of the past 350 years have gone. The customer is now in charge.



## Higher stamp prices to safeguard the USO

**Small increases in stamp prices that will safeguard the universal postal service, and allow Royal Mail to modernise its operations, serve its customers better and help plug its £4bn pension fund deficit, are proposed by Postcomm in its second price control of Royal Mail.**

### **Postcomm's final price and service quality proposals for 2006-10:**

- **Provide £1.2 billion for Royal Mail to invest in modernising its operations**
- **Allow Royal Mail an average of £320m a year towards reducing its pension deficit**
- **Require the company to increase its efficiency by at least 3% per year.**

To provide this increased funding, the basic first and second class stamp prices will be allowed to rise in April by a maximum of 2p to 32p and 23p respectively. By 2010 these prices will be capped at a maximum of 36p and 26p. Royal Mail has indicated that it accepts the proposed price caps and its responsibility to finance its business within these constraints.

*"The rises in stamp prices are substantially less than Royal Mail wanted and a little more than we planned. But without a contribution from customers, Royal Mail's weak financial position, brought on by its large pension deficit, would have put its ability to provide the universal service at risk",* Postcomm chairman **Nigel Stapleton** said.

Royal Mail told Postcomm it needed first class stamp prices to rise to 39p by 2010. Postcomm's initial proposals, published on 1 June 2005, suggested 34p. The increase in these final proposals takes account of new information provided by Royal Mail on the threat posed by its pension deficit, revised volume forecasts and the value added by its investment programme.

The control includes a 'safety net' for the universal service, which Royal Mail is required to provide. If mail volumes (and therefore Royal Mail's revenue) fall significantly short of those forecast, or if the pension deficit increases substantially for reasons outside Royal Mail management's control, there will be an automatic adjustment to the price control.

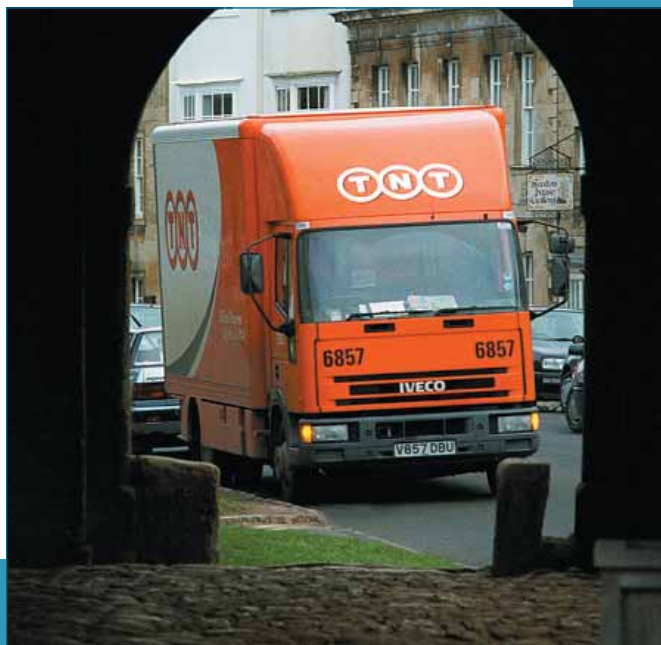
The control also strengthens protection for customers and new operators against anti-competitive behaviour by Royal Mail, by including a provision which prevents Royal Mail squeezing the margins between the access price operators pay Royal Mail and Royal Mail's retail price.

**Royal Mail's standards of service have been simplified to align them more closely with what customers need, and there will be stronger financial incentives for Royal Mail to meet its service standards.**

The proposals are subject to three months' consultation which ends on 6 March. During that time Postcomm will discuss with Royal Mail, and others, details of the licence modifications needed to implement them. If Royal Mail refuses to accept the licence changes, Postcomm will refer the proposals to the Competition Commission.

**Full details are published in:** *2006 Royal Mail Price and Service Quality Review. Final Proposals*, on Postcomm's website.

# Competition Questions and Answers



## Q What's the point of all this?

To deliver better services to customers. In the run-up to competition, Royal Mail delivered its best levels of service so far. That is unlikely to have happened if Royal Mail was still a monopoly.

## Q How many companies are there?

So far 14 companies, including Royal Mail, have long-term licences from Postcomm to compete in the new market, and this number is growing.

## Q What services will they offer?

Mainly services to businesses who send out mail in batches. Services to individual mailers will probably follow later.

## Q Can we trust the new companies?

Yes. All companies in the letters market are licensed by Postcomm. The licences require them to deliver a proper service and take care of the mail (see page 5).

## Q Will Royal Mail suffer?

It will have to become more efficient, but we expect Royal Mail to remain profitable and the dominant operator in the competitive market. After nearly three years of competition in bulk mail, it still has more than 97% of the letters market.

## Q Can I post some letters with Royal Mail and some with a competitor?

Yes. The choices available in the competitive market make it highly likely that businesses will choose from a range of companies to handle different types of mail.

## Q Can I go back to Royal Mail if I am not happy?

Yes, but the timing may depend on the terms of your contract.

## Q Who has switched?

Many household names, including Tesco, Vodafone, BSkyB, Powergen, Lloyds TSB and Royal Bank of Scotland are using an alternative service provider.

## Q Can only large businesses benefit?

Until 1 January this year only companies mailing out 4,000 letters or more at a time were able to choose their mail operator. That limit is now removed and some mail operators are looking for smaller business clients who send as few as 250 items at a time.

## Q You set prices and quality standards for Royal Mail, but not other companies – is this fair?

Yes. In a competitive market, companies that deliver a poor service will see the results in the balance sheet. Nobody regulates the prices and quality standards of the likes of Tesco, Sainsburys and Asda – they succeed or fail on how well they serve their customers. Royal Mail is different: it still has a virtual monopoly of the letters market and we impose price and service standards to ensure it does not take unfair advantage of its dominant position.

## Q Who do I complain to if the service is poor?

If you have a complaint, speak to the operator first. If that doesn't resolve the matter, contact Postwatch, the consumer body, which handles customer complaints about all licensed operators. Its number is **08456 013265**, email **info@postwatch.co.uk**.

# Access all areas

Just imagine trying to reach every one of the 27 million or so households in the UK without the help of Royal Mail.

It would mean creating your own UK-wide delivery network, which is a very tall order.

**This is why there is a condition in Royal Mail's licence which requires it to make its nationwide network available – at a reasonable price – to rival postal operators.**

Royal Mail wasn't keen on the idea at first, but in 2004 it signed the first access agreement with UK Mail, a Birmingham-based operator.

Under the agreement, UK Mail collects post from its clients and then trucks it to the appropriate 'downstream' mail centre, sorting mail if necessary. From there it is sent to local delivery offices to be delivered by postmen and post women.

Royal Mail has around a dozen access agreements with postal operators and mailers. Royal Mail receives a fee – around 13p for a letter weighing up to 60 grams – to take their mail 'the final mile'. The 13p enables Royal Mail to make a profit, while the new postal operators involved make their profit by seeking to be more efficient and providing value-added features such as later collection times and the tracking of mailbags in their care.



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## Don't get *pipped* at the post!

**Royal Mail is to change the way it charges for mail to take account of its size as well as its weight. The new arrangements, called PiP (Pricing in Proportion), take effect from 21 August. They replace the existing system of charging for mail solely by weight – which is no longer fully cost reflective. Weight based pricing dates from the time when mail was carried on horseback.**

PiP will mean some mail prices will go up – for example for bulky items that are light in weight – and some will come down: it will be cheaper to post heavy catalogues and books.

Overall, any price increases will be balanced by price reductions for other items – an arrangement that economists call 'revenue neutrality' – which means Royal Mail doesn't make any more revenue overall from PiP.

For customers, PiP means all of us must in future think how big or how small as well as how heavy an item is before we post it. Post Offices will have templates for you to measure your mail.

Royal Mail has set aside around £10 million for a media campaign to tell us all about PiP and has already sent information on PiP to 500,000 businesses.

There's more information on Royal Mail's website at [www.royalmail.com/pricinginproportion](http://www.royalmail.com/pricinginproportion) or call 08456 113 113.

# Postal services you can trust

**How can you be sure your post will be safe in the hands of anyone other than Royal Mail? After all, the new postal market might be a charter for wide boys in white vans who pick up your letter and disappear in a haze of exhaust, never to be seen again. Except it isn't like that.**



One of the biggest changes when competition came in was the one you don't see: a set of new licensing requirements that commits all postal service companies to take care of the mail and make sure it is secure and delivered promptly to the right place.

The licence conditions are backed by enforcement powers vested in Postcomm. If there is any wrongdoing we will take action – as we have done in the past (see back page).

The new requirements, which came into force on 1 January, require licensees to:

- Meet minimum standards to ensure the integrity of mail and to have procedures on: recruitment, training and disciplining of staff, the physical security of mail, reporting incidents and responsibilities of agents and sub-contractors.
- Identify any mail that has entered their system in error and repatriate it to the correct carrier in a timely and efficient manner, and re-direct any misdirected customer enquiries to the appropriate carrier.

**All licensees, including Royal Mail, have agreed to the new conditions.**

## Postcomm's wwwizzier website



**Since we were set up in 2000, we have put everything we can in the public domain. That's why our website is one of the most comprehensive you'll find on the internet.**

But over the years as the information grew, our customers told us it was increasingly difficult to find what they wanted among the vast number of consultation papers, consultation responses, licensing details, press notices and policy information that was now on a huge website.

So we have done something about it and we hope it's easier now. The information is still there – and still growing as we continue our job of regulating the postal market – but thanks to a website redesign, it should be simpler to navigate and quicker to find what you want. We have also made it more accessible for people with impaired sight.

Of course, nothing's perfect, and we welcome constructive comments that will enable us to improve it still more. Click on [www.psc.gov.uk](http://www.psc.gov.uk) and tell us what you think. You can email us on [webmanager@psc.gov.uk](mailto:webmanager@psc.gov.uk).

# New Postwatch chairman



postwatch

**Urmila (Millie) Banerjee CBE was appointed chairman of Postwatch, on 1 December 2005. Postwatch acts as the 'voice of the consumer' in postal matters to ensure customers get the best possible service. Its nine regional committees look at postal service provision in their areas and ensure these are represented at a national level.**

Welcoming her appointment, Nigel Stapleton, Postcomm's chairman, said: "We look forward to working with Millie and her team. Now that the postal market is fully open it is essential that Postwatch and Postcomm work together to the benefit of all postal users".

Ms Banerjee is a non-executive director of Ofcom, the communications regulator, and a member of the Strategy Board of the Cabinet Office. She is also a commissioner of the Commission of Judicial Appointments, chair of the Carnegie UK Trust and a member of the Advisory Board of the Imperial College Tanaka Business School.

**Mr Stapleton acknowledged the work of Peter Carr, the outgoing chairman of Postwatch, who laid the foundation for his organisation's work on behalf of mail customers.**



## Keeping it legal

**Interfering with mail – either by delaying it, opening it, dumping it or stealing it – is a criminal offence. Royal Mail prosecutes if any such offences occur in its network.**

### Forthcoming events

**15 March** stakeholder meetings, Belfast

**17 May** London Forum: Putting the Customer First. Postcomm's third annual postal industry conference.

For more information contact: Jessica Collett, **020 7593 2156**, or email **Jessica.Collett@psc.gov.uk**.

For all other licensed mail operators Postcomm is a statutory prosecution authority and our enforcement team investigates all reports of mail interference or unlicensed trading and can instigate criminal proceedings

Since the competitive market began operating in 2003, Postcomm has investigated seven instances of companies allegedly operating without a licence and has successfully prosecuted one for providing an unlicensed mail service.

**On mail interference, Postcomm has carried out 47 investigations.**

Of these:

- Seven resulted in prosecutions.
- Nine led to Home Office cautions.
- Thirty one were dealt with internally by the company concerned.

For further information please contact: **Postal Services Commission**, Hercules House, 6 Hercules Road, London SE1 7DB  
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