

Postal competition the first year

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 commissioners, headed by the chairman, Nigel Stapleton.

Competition in postal services got off to a promising start in 2006 but there are challenging times ahead for postal operators.



On 1 January 2007 – the first anniversary of full postal competition – Postcomm chairman Nigel Stapleton said the mail market faced a growing challenge from e-substitution, and called on postal operators to step up the introduction of innovative mail products.

“Full competition got off to an encouraging start in 2006 and now there are 20 licensed operators, including Royal Mail, in the market,” Mr Stapleton said. “Many large mailers have switched to new operators whom they have found to be reliable and sensitive to their specific needs. Everybody has benefited because, in response to competition, Royal Mail has delivered record service levels.

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“As the market develops, alternative providers are moving more into the unsorted and smaller volume markets. We are also seeing increased activity in the end-to-end market where TNT is holding trials and other operators are looking to invest in networks during 2007. However, Royal Mail’s exemption from VAT is still a considerable barrier to entry and to switching.”

Royal Mail has itself benefited from the competitive market by charging some of its rivals to deliver mail they have collected and sorted. Many alternative providers have these so-called ‘access arrangements’ under which regular postmen and post women deliver their mail ‘the final mile’. In the eight months to November, access arrangements accounted for 11.1% of Royal Mail’s operational volumes, up from 5.6% in 2005/06. But Royal Mail’s total delivered mail volume, including access, fell by 1.8% over the same period compared to 2005/06.

In the face of full competition, Royal Mail has dramatically improved its service quality. Between April and September 2006, the company:

- exceeded its target for both 1st class mail (94.4% against a target of 93.0%) and 2nd class (99.1% against 98.5%)
- serviced 99.95% of its collection points (against a target of 99.90%)
- completed 99.98% of delivery routes (target 99.90), and
- correctly delivered 99.65% of items (target 99.50).



Only one postcode area out of the UK’s total of 118 is still missing the new target of 91.5% for delivered quality of service.

Postcomm’s *Business Customer Survey* (see page 4) shows that customers perceive service quality to be high across Royal Mail and its main competitors. When respondents were asked to award marks out of ten, Royal Mail scored an average of 7.2, TNT Post UK 7.3, DX Network Services 7.8 and DHL Global Mail 8.1.

“Mail is a challenging market that is being impacted by e-substitution and is price sensitive – particularly for direct mailers,” Mr Stapleton added. “However, we believe there is more scope for all postal operators to introduce innovative products which will be valued by customers”.

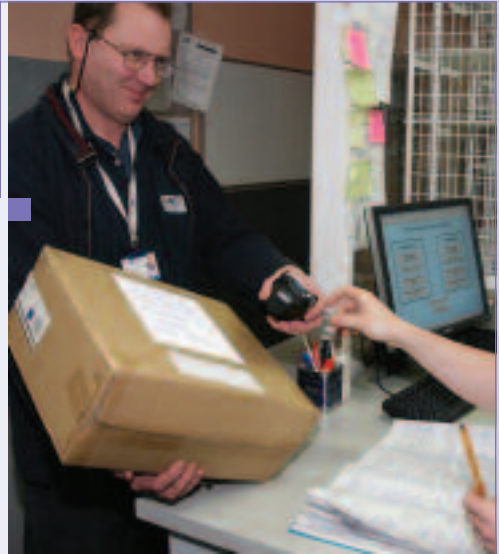
As the European Union moves towards the goal of full postal liberalisation by 2009, European postal operators and EU Member States are studying closely the UK experience of a fully open postal market. Postcomm is actively involved in discussions on the new draft Postal Services Directive, which we hope will bring the benefits of competition to postal users throughout Europe.

Royal Mail wants more price flexibility for *Sameday*

Royal Mail wants to be able to quickly change the prices it charges for its Sameday delivery service to keep up with the competition.

At present, Royal Mail's licence requires it to tell Postcomm about any changes to prices and services three months before they are introduced, and to publish information about the changes it makes.

Postcomm is now assessing responses to an application from Royal Mail for an exemption from this requirement because it says the Sameday service operates in a competitive market. We expect to make a final decision by the end of March 2007.



Sameday is a courier service that collects urgent items from customers and delivers them to specified addresses almost anywhere in the UK, on the same day.

Bulk mail switchers

Two new access agreements hit the headlines in January. The Department for Work and Pensions (DWP) has switched the collection and sorting of its bulk mailings from Royal Mail to UK Mail. Meanwhile, BT – one of the country's biggest mailers – has switched to TNT Post. DWP posts 82 million pension statements, winter fuel payments, notifications and other items each year, and aims to trim up to £5m from its £70m annual bill for postal services. BT reckons its £90m three-year contract with TNT could result in savings of up to £3m a year.

The **future** of consumer services

Postwatch, the consumer body for postal services, is to be merged into a new consumer organisation along with energywatch and the National Consumer Council, under the government's Consumers, Estate Agents and Redress Bill.

The bill, which – at the time of writing – was being debated in the House of Lords, aims to set up regional offices in Scotland, Wales and Northern Ireland.

Postwatch has pledged to work with the Department of Trade and Industry, MPs and other consumer bodies to ensure that postal users are well represented in the future.

The new body will be called **Consumer Voice**.

How's business?

Did you know that one in five businesses reckons that over the past year their mail prices have reduced significantly? Or that 38% think the choice of mail services has improved? Did you know that one in ten letters delivered by Royal Mail has been brought to the sorting office by the company's competitors?

These and many more figures of interest to businesses are packed into two Postcomm documents published annually – our *Business Customer Survey*, and *Competitive Market Review*.

Figures in the *Business Customer Survey* are based on market research prepared for Postcomm by NERA Economic Consulting and Accent. Information in the *Competitive Market Review* comes from Postcomm's own sources.

Although the competitive market is still in its infancy and Royal Mail still has well over 90% of the addressed letters market, the *Business Customer Survey* shows that the company's competitors are expanding their customer base. Compared with last year, twice as many businesses switched to Royal Mail's top three competitors during 2005/06, while the proportion of businesses using other competitors was four times higher.

The *Competitive Market Review* found that mail carried through Royal Mail's 'access agreements' (which allow companies to collect and pre-sort mail from customers before transporting it to Royal Mail for final delivery) had increased dramatically. Royal Mail made 1.2 billion access deliveries in 2005/06, compared to 87 million in 2004/05.

"These documents show there is great promise for the further development of competition in the UK mail market, although it is clear that there is much still to be done, particularly to meet the challenges posed by alternative means of communication," said Postcomm chief executive Sarah Chambers.

"Although Royal Mail remains by far the largest operator in the market, competition has encouraged it to raise its game. There have been major changes in the business mail market, particularly the rapid growth of access, with operators using Royal Mail's trusted delivery network in partnership – not competition."

End-to-end competition has so far been slow to develop, due mainly to the difficulty of competing with Royal Mail's economies of scale and its exemption from VAT.

Postcomm prepares and commissions these reports each year as part of its monitoring of the UK postal market.

The *Competitive Market Review 2006* and the *2006 Business Customer Survey* can be downloaded from the Postcomm website. A *summary document* is also available. Printed copies are available free from Postcomm's office.

Postal system ‘crucial’: FSB

The postal system remains crucial to maintaining the smooth running of a small business, from both a communication and financial aspect, according to a report published in December 2006 by the Federation of Small Businesses (FSB).

In a survey of its members, FSB found:

- almost nine out of ten said they sent post every day
- fifty nine per cent said they use the postal system for the delivery of goods and services
- sixty three per cent send between 75% and 100% of their post first class because prompt delivery is important
- sixty nine per cent send invoices through the post.

On the competitive market, the report says that 94% of respondents use Royal Mail exclusively. “The majority of small businesses continue to solely use Royal Mail plc because they are not aware of the alternatives and because they perceive themselves to be too small to benefit from the open market,” it adds.



Almost all respondents (97%) were aware of Royal Mail’s new Pricing in Proportion (PiP) arrangements which came into operation in August 2006, and many have made changes to minimise any detriment from the new pricing system.

Since the introduction of full competition, the larger competitive operators are investing in sortation equipment to provide mail services to medium and smaller customers. Access operators are now offering mail consolidation and sortation services to businesses sending as few as 250 items per day.

Compensation Keep it simple

Royal Mail's compensation schemes for loss, damage and delay are so complicated that many customers do not understand them.

Royal Mail currently has four compensation schemes for loss and damage, but Postcomm would like to see a single loss and damage scheme governed by a clear and simple framework of principles.

A consultation now underway also seeks views on whether Postcomm should continue to make Royal Mail pay compensation to bulk mail customers for delivery delays, when in the competitive market they could now just take their business elsewhere.

“Royal Mail's current compensation schemes for loss and damage have developed over many years and have become difficult for customers to understand,” said Postcomm chairman Nigel Stapleton. “We think it important to cut through this complexity and make sure mail customers have access to a clear, fair and user-friendly compensation system.”

Postcomm is asking mail customers a number of questions, including:

- how to resolve the inequality between compensation for lost and damaged mail and for delayed mail
- Royal Mail's use of stamps as a form of compensation
- the evidence required to support a claim for compensation
- eligibility for compensation for users of Royal Mail's Articles for the Blind Service
- whether a mandatory compensation scheme for bulk mail customers, enforced by Postcomm, should continue.



The table shows Royal Mail's estimates of the level of lost, damaged and delayed mail in 2005/06:

Compensation issue	Number of items	Complaints received ¹	Compensation paid ¹
Lost mail ²	11.4 million ⁴	734,000	£7.7 million
Damaged Mail	1.3 million ⁴	56,000	£640,000
Delayed Mail ³	243 million	37,000	£301,000
Totals	256 million	827,000	£8.6 million

¹ Excluding Special Delivery Next Day and Special Delivery 9am. ² Including complaints categories loss and part loss.

³ Including complaints categories delay and substantial delay. This category includes delay to 1st and 2nd Class Stamped and Metered mail and Standard Parcel, but not delay to bulk mail. ⁴ Including Royal Mail's licensed products and services only.

The consultation document, *Royal Mail's Compensation Schemes for Delay and Loss and Damage*, can be downloaded from Postcomm's website. Printed copies are available from Postcomm's office. **Responses to the consultation are requested by 13 February 2007.**

Big test for PiP at Christmas

After the successful introduction of Pricing in Proportion (PiP) by Royal Mail – under which letters and packets are now charged according to their size and thickness as well as their weight – the new system faced its toughest test over the Christmas period when mail volumes increased from around 85 million to 120 million items a day.

According to research conducted by consumer body Postwatch, more than eight out of ten people are aware of PiP, which was introduced on 21 August 2006.

However in late summer, when researchers asked a sample of post office staff for stamps under the new prices, 12% gave the wrong postage.

Usually, mail with a stamp of too low a value is held at the sorting office. To retrieve their mail, recipients have to visit the sorting office and pay a £1 surcharge plus the balance of the postage. Royal Mail did not operate these surcharges over Christmas, but says it will introduce them when people are seen to have adapted to PiP.

The next four years

In November 2006, the Secretary of State for Trade and Industry reappointed Nigel Stapleton as chairman of Postcomm for a further four years. At the start of his new term, Chris Webb asked him what he saw as the main challenges ahead.



Nigel Stapleton is Postcomm's second chairman. His predecessor was Graham Corbett, a former deputy chairman of the Competition Commission, who together with Postcomm's Commissioners set out much of the regulatory framework under which Postcomm now operates.

Nigel makes no secret of the fact that he went up a steep learning curve on regulatory issues after he took over from Graham in January 2004. "Having spent a career in business, where change management and competition had been my everyday priorities, my skills have, I believe, built on Graham's significant achievements and are directed to making sure that competition in the postal market delivers benefits to all customers."

Competition has changed the postal market more quickly than was the case when other former state monopolies were subject to competition, he believes, and quite substantial progress has been made over the past three years. "We have a very able and committed team at Postcomm and it has been rewarding to work with them and to see the benefits of competition and innovation beginning to come through," he says.

However there are some very real challenges ahead because Royal Mail is finding it difficult to make the changes that are needed to react successfully to the competitive market and all mail operators have to fight off the threats from email and other forms of direct marketing.

"We have a very able and committed team at Postcomm and it has been rewarding to work with them"

He sees innovative products as the best way to grow the mail market. Innovation can be as simple as spotting a gap in the market. "For example, UK Mail saw there was a gap between Royal Mail's first class service with a delivery next day and its second class service which provides a three-day service. UK Mail offers a two-day guaranteed delivery service.



Postcomm's vision is a range of reliable, effective and innovative postal services, including a universal service, valued by customers and delivered through a competitive market.

“Direct mail that arrives on a Friday or Saturday draws more responses than post that comes on Monday. The guaranteed two-day service enables businesses to plan mail shots so they arrive at the most profitable moment. Guaranteed delivery also means that call centres can be staffed up to handle enquiries.”

Postcomm's vision is *a range of reliable, effective and innovative postal services, including a universal service, valued by customers and delivered through a competitive market.* “At the moment, competition is only just starting to offer mail users a real choice, and I want to see us making more progress towards realising that vision,” he says.

Postcomm is at present conducting a strategy review. “The aim is to make sure we do everything we can to build on the positives and we take action to address the negatives in the early stages of competition,” he says. “This is a very dynamic marketplace. It is critical that we should sort out difficulties at an early stage rather than leaving the corrective action until later in the process.”

“The aim is to make sure we do everything we can to build on the positives and we take action to address the negatives”

How would he like to see the market at the end of his second term?

“We want to see everything that people value from their postal service, and in particular the universal service, being just as available in 2010 as it is today but with customers having a genuine choice between Royal Mail and other suppliers.

“If, in those areas where the mail can grow – in e-procurement, in innovative services for package mail and letter-cost timed delivery products – progress has been made and people are using mail to a greater extent than now, that would be the icing on the cake.”



Postcomm welcomes the Government's consultation on the Post Office network

Postcomm has welcomed the Government's consultation on its plans for the future of the Post Office network.

The three-month consultation, which ends on 8 March 2007, seeks views on wide-ranging government proposals to make the network more viable.

These include:

- investment – subject to European state aid approval – of up to £1.7 billion over five years to continue to maintain the uneconomic parts of the rural network (social network payment)
- compensation for up to 2,500 subpostmasters who will be expected to close their post offices
- modernisation and restructuring of the network in line with the new post office access criteria

Postcomm chairman Nigel Stapleton said the Government's proposals were a good first step towards addressing the serious problems facing the network, which Postcomm, along with many others, has highlighted over the last two years.

"It is vitally important for the Government to ensure that its actions result in a network that is genuinely sustainable and that there is enough business and revenue to secure it, particularly for vulnerable people, and those who live in deprived or isolated areas," he said.

Among other things, the Government wants Post Office Ltd to develop new market and business opportunities for the network among internet companies and other mail operators. Up to now subpostmasters have been prevented by their contract from seeking this sort of business.



Other proposals include:

- continuing the annual subsidy of around £150m until at least March 2011 to help safeguard a national network
- five hundred innovative outlets for small, remote communities – including mobile post offices, and services in village halls, community centres and pubs
- support to enable the Post Office to expand financial services for customers, including a roll-out of up to 4,000 free-to-use ATMs across the network

Following the consultation, Post Office Ltd will consult locally on post office closures, at a mix of urban and rural sites.

In the past two years, customer visits to post offices fell as people increasingly used other ways to carry out transactions such as receiving pensions – a service previously provided by post offices.

Currently there are around 14,200 post offices throughout the UK which between them, in 2005/06, lost around £2 million a week. Over the last few years, Royal Mail has had to absorb the Post Office's losses from its reserves of accumulated historic profits, much of it from the company's monopoly mails business.

On average the 800 smallest rural post offices served just 16 people a week. A total of 1,600 branches served fewer than 20 customers a day.

A copy of the consultation, *The Post Office network: a consultation document*, can be downloaded from www.dti.gov.uk/consultations/page36024.html

Out and about with Postcomm

In 2007 Postcomm will continue its programme of visit to various parts of the UK. This year's itinerary includes visits to **Chester** and **Manchester** (in April), **Belfast** and **Newry** (May), **Tunbridge Wells** (June), **Cardiff** and **Aberystwyth** (June), **Plymouth** (July), and **Edinburgh, Glasgow** and **Ayrshire** (October). At each venue we aim to meet a range of stakeholders. In particular we are keen to meet with major mail users. If you are one of these and are located in or near any of the places mentioned and would like to meet us then we'd like to hear from you.

Back in London, **Postcomm's fourth annual Forum**, on 12 June, will provide an opportunity for industry stakeholders to engage in a discussion with all the major players in the UK postal service. This is a complimentary event for those in the industry who have an interest in the developing postal market in the UK.

This year's Forum is in two parts:

The morning session will be dedicated to a workshop on zonal pricing. In the afternoon, panels of leading industry representatives will discuss a range of issues including the universal service, the European landscape, customer expectations and postal regulation.

For further information and to register for the event – or to express interest in our regional visits – please contact **Jessica Collett** on **020 7593 2156** or email her on Jessica.Collett@psc.gov.uk

What can we do for you?

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Factsheets, which answer the many questions posed by securing the universal postal service in a competitive mail market, can be downloaded from our website. From the home page select *About the mail market* and click on *UK market reviews*.

Electronic updates To receive instant news from Postcomm, scroll to the bottom of the website home page and fill in your email address. We'll keep you posted on all announcements.

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