The pace of progress

How far has the mail market come?

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Chief Executive
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25 June 2007

Postcomm aims to…

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- Safeguard a universal service that reflects the changing needs of customers
- Achieve a better mail service for customers which is facilitated by competition
- Be responsive to market conditions and, where possible, anticipating changing customer needs in policy making

2007: Where we are…

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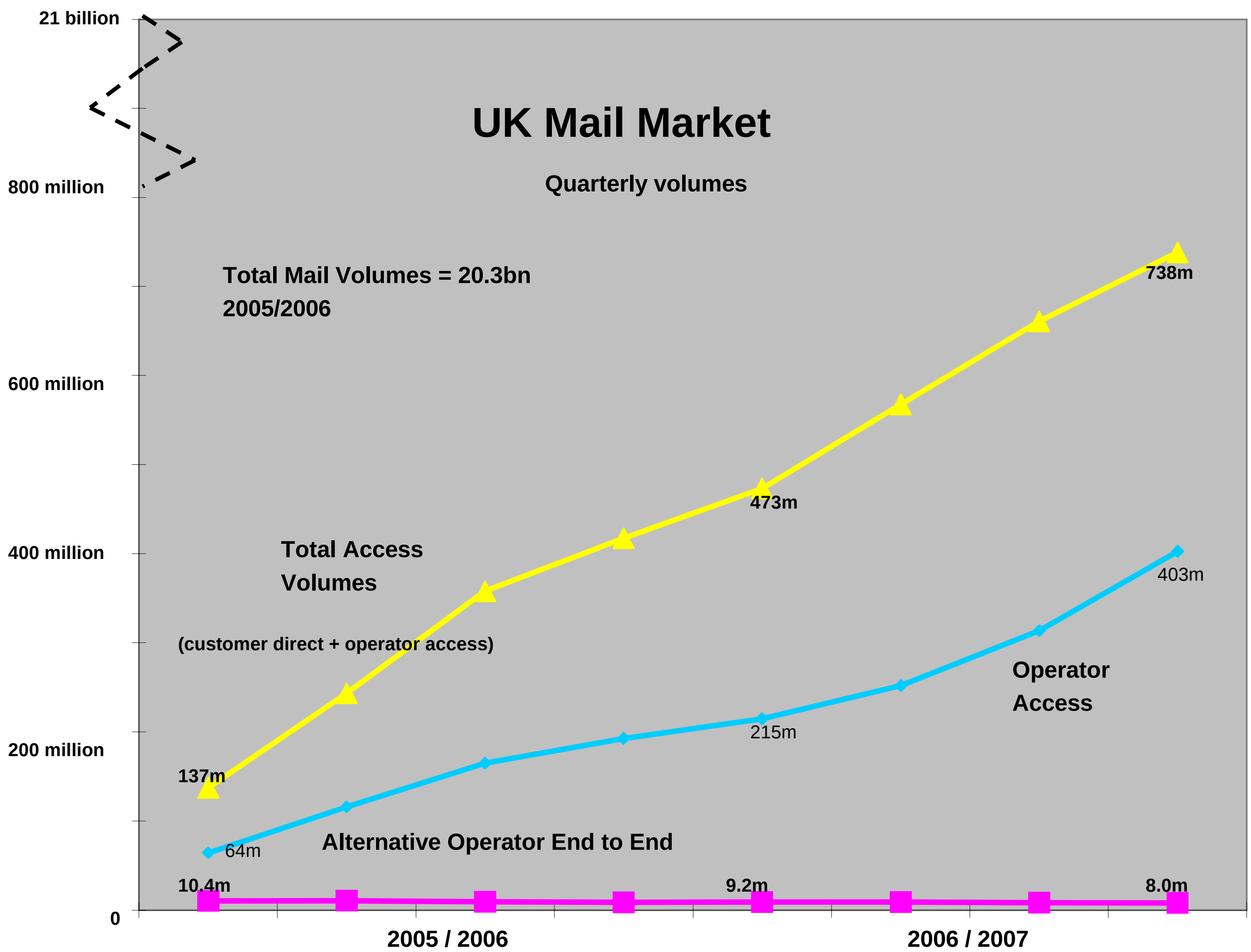
- **Four years since liberalisation**
- **Eighteen months since full market opening**
- **18 licensed operators**
- **Limited actual competition**
- **Some significant improvements for customers**
  - Large mailers: better services and competitive prices
  - Retail mailers: Q of S improvements

2007: Where we are…



Source: Postal Operators

2007: Where we are…

POSTCOMM

- **Universal Service is stronger since the end of Royal Mail's monopoly**
  - Fewer delivery exceptions
  - Better reliability
  - Still making a profit (though small)
- **Royal Mail**
  - Some productivity improvements
  - Some increased customer focus
  - Much further still to go

Access: What we have learned

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- **Bulk mail customers like access**
- **Giving customers many benefits**
  - Later pick-up times
  - Specific delivery days
  - Tracking of mail
- **Access has been sold by Royal Mail to their own customers (50 % of access volumes)**
- **Royal Mail should get fair deal from competitors' use of final mile**

Mail volumes: the trends…

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- **Alternative operators E2E mail down 10% from 05/06 to 06/07**
- **Alternative E2E accounts for 0.2% of total addressed letter volumes**
- **Access mail is around 12% of Royal Mail operational volumes, double 05/06 percentages. Customer Direct Access is around 50% of this figure.**
- **Royal Mail total operational volume 20.3bn items; down 1.6% from last year (link with economic and demographic growth broken)**

What is the future mail business?

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- **Not logistics**
- **Communication, marketing, delivery and e-fulfilment**
- **Direct marketing = 40% of revenues**

Internet users receive more physical mail than those who don't use the internet

In a digital world…

- **Mail can and must work alongside internet and e-communication**
  - Personalisation
  - Customer targeting
  - Daily delivery by hand
  - Covers all 27m addresses

- **UK broadband penetration**
  - No. 5 world ranking*
  - No. 1 for internet advertising

- **Product innovation required to provide more value add from the mail product**

*Source: OECD

…and in the future.

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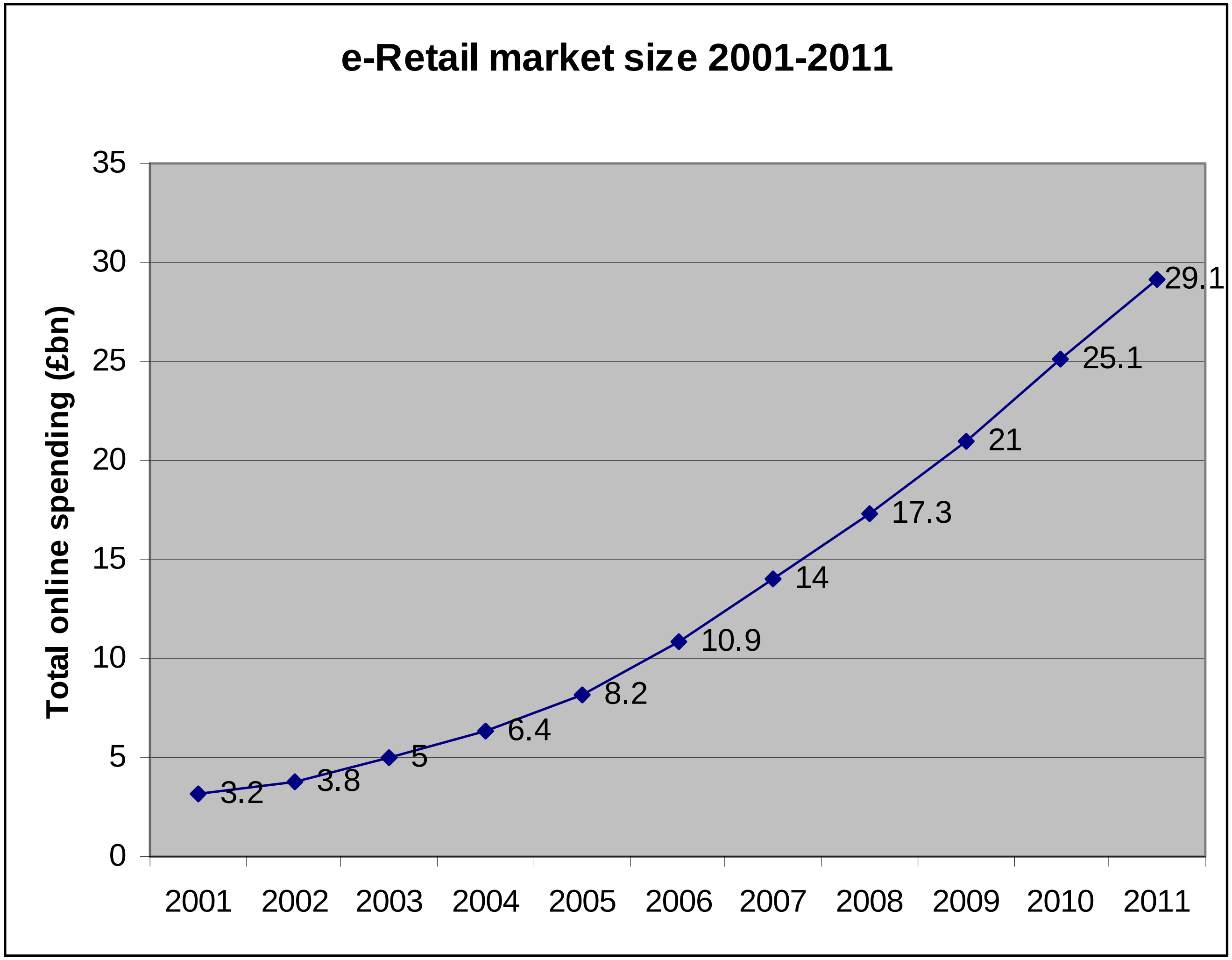

Source: Verdict Research, UK e-Retails 2007

Mail volumes: the trends…

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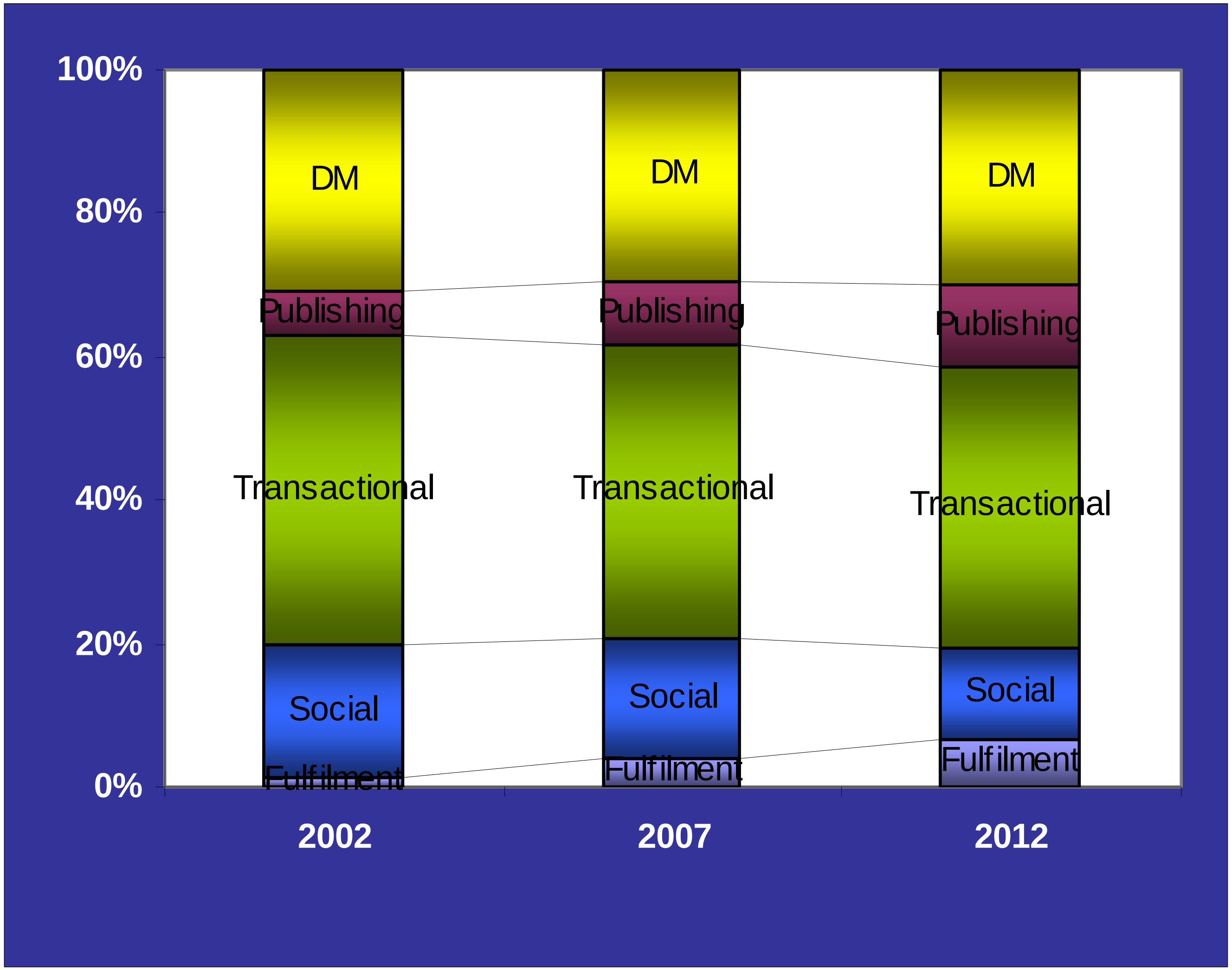
Difficult to predict accurately: Experience suggests a gradual shift over time



Total Mail	**-1.5%**
Transactional	**-2%**
Social	**-1.2%**
Publishing	**+**
Fulfilment	**+**
Direct Mail	**?**

Royal Mail pricing actions can have significant impact

Source: Postcomm, CMR

Looking ahead…

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- Royal Mail has to take leadership role in the developing mail market and challenging the traditional concept of the USO …
- New operators must also focus on innovation and growing the mail market
- Vigorous competition in the mail industry provides the stimulus for mail to win out against (or with) alternative media
- USO in the future: evolving in scope and service to meet the changing needs of customers

Role of regulator in the future

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- Hope to reduce progressively the scope of price controls as barriers to effective competition come down (VAT, behaviour, transparency)
- Must continue to protect a universal service, but possibly with changing scope and service specification
- Residual controls necessary to protect vulnerable customers and to act against anticompetitive behaviour

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