

emap

DCcd828

30th January 2007

By hand and by email

Mr. Tony Spencer
Postcomm
Hercules House
6 Hercules Road
London
SE1 7DB

Dear Tony,

ZONAL PRICING – A RESPONSE BY EMAP COMMUNICATIONS

BACKGROUND

Emap Communication is part of Emap PLC. We publish a range of Business to Business magazines in a variety of market sectors including Construction & Engineering, Retail, Media, Local Government and the Public Sector.

With little by way of alternatives, postal distribution is the primary route to market for our products. Approximately 13 million copies are distributed through this channel annually, and our spend on postal services and postal distribution is in excess of £5.5 million. In fact, postal distribution is by far the largest single production cost we have to bear.

Emap Communications welcomes the opportunity to contribute to Postcomm's initial consultation on the Royal Mail application to replace the existing bulk mail pricing structure with a zonal price based on the geographical distribution profile of each mailing.

RESPONSE

Having already been forced to absorb above inflationary increases to postal charges for a number of years and with another substantial, above inflation increase due this coming April, Emap Communications is seriously concerned about the Royal Mail application to charge bulk mailings based on the geographical profile of each mailing. Listed below are details of the effect we believe this proposal will have upon our business and operations if it is approved by Postcomm.

Impact on annual spend

- Enclosed with this letter is a spreadsheet which clearly demonstrates the severity of the increases Emap Communications would be facing were Royal Mail allowed to introduce zonal pricing on their bulk mail products and services.
- From the indicative prices released by Royal Mail, we believe many of our products, particularly those with an existing profile price discount, would be facing an increase of between 10% and 20%, the highest we have identified so far being +38%.

Impact on market liberalisation

- Emap Communications has supported liberalisation of the postal industry for some time now. In fact, we believe we were one of the first companies within our sector to switch traffic from Royal Mail to one of the new entrants into the market. Having spoken at length with a number of Royal Mail competitors about the effect zonal pricing would have on their businesses, we believe that the opportunities for Royal Mail competitors would be severely restricted if zonal pricing were introduced.

Impact on our customers

- Our customers currently benefit from the existing postal pricing structure as the delivery costs for rural customers are the same as they are for urban dwellers. Zonal pricing would force us to re-evaluate our pricing strategies with the likelihood that customers living in rural areas would be asked to pay a considerably higher price than customers living in urban areas.
- A number of our products and magazines are available free of charge to qualifying readers. Zonal pricing may force us to limit availability of these products to those where the postal delivery costs are lowest, which would result in a reduction in overall volumes of magazines mailed.

Impact on our business models

- Each magazine is a cost centre in its own right. The existing uniform tariff enables us to estimate our annual postal spend on a product by product basis which therefore enables us to measure the profitability of each product. As existing subscriptions lapse and new orders are received, the distribution profiles of subscription mailings change from issue to issue. As such, zonal pricing effectively limits our ability to budget accurately, resulting in a lack of transparency as to the long term viability and short term profitability of each product.
- It is likely that money currently allocated to postal based marketing activity would be reassigned to a more cost effective marketing channel e.g. email and digital. This would significantly reduce mail volumes originating from Emap Communications.
- Above inflationary increases are unsustainable for many products published by Emap Communications. It is highly likely that further increases to postal charges would bring the viability of some products into question, and at worst result in closure.
- Many magazines and products we publish are already facing a significant threat from digital and web based methods of communicating with our customers. Were we forced to increase our magazine costs and our pricing as a direct result of increases to our production costs, it would make magazines a less attractive medium and potentially result in investment being redirected to digital channels with the inevitable result that magazine circulations would decline.

Impact on 3rd party suppliers

- Most magazine publishing companies, including Emap Communications, use third party companies to package, address and mail their magazines. We have taken the opportunity to discuss the likely impact zonal pricing might have on suppliers, and were disappointed, though not surprised, to find that many felt that their prices would increase to reflect the additional work they would be asked to undertake. Most felt this would be between 2% or 3%.

SUMMARY

- Increased costs –
 - Costs for some products would increase by up to 38%, and between 10% to 15% overall.
 - Costs at 3rd party suppliers would increase.
- Liberalisation of the postal market place would be severely hindered.

- Reduction of mail volumes –
 - Overall volumes of both paid for and controlled magazines would most likely fall.
 - Postal based marketing activity would reduce and be replaced by digital marketing activity.
 - Some magazines may be forced to close
- Accuracy of annual postal budgets would be almost impossible to verify.
- Pricing of our products for all customers would have to re-evaluated with the probability being that rural customers would be asked to pay significantly more than urban customers.
- Magazines whose circulation is controlled would be targeted at city based customers rather than rural.
- Threat from digital media increases.

CONCLUSION

Emap Communications does not support the Royal Mail Zonal Pricing application.

Zonal pricing would have a negative effect on our customers, our business and ultimately put some products at risk of closure. As such we would whole heartedly support Postcomm were they to decide to reject the Royal Mail application

Yours sincerely,



DEREK CARTER
Chief Executive

Attachment