

Competition through Access agreements

Since the UK postal services market was fully liberalised on 1 January 2006, the benefits for consumers of end-to-end competition have developed much more slowly than predicted (Express Dairies, for example, which aimed to deliver mail with the milk gave up in 2005). This means that Royal Mail still has a virtual monopoly over delivery of letters to the doorstep.

To put this in context, in Germany, consumers have a full end-to-end choice in nearly 10% of the postal market, and, in the Netherlands, the corresponding figure is 12.5%, even though both of these markets are not yet fully liberalised.

Postcomm does not expect Royal Mail's dominance over the 'final mile' in the UK market to reduce very much in the medium term, because new operators seem to find it difficult to establish nationwide networks and compete against Royal Mail's economies of scale, and its unique privilege of VAT exemption at 17.5%.

This is why it is important that consumers are seeing benefits from so called 'access' arrangements. Access provides large mailers with the choice of later customer pick-up times, specific delivery days and tracking of the mail through the network. Large mailers also report that they

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have secured lower costs and a service better tailored to their specific needs from rival operators using 'access' agreements. Lately, rivals have begun investing in mail sortation equipment which enables them to make attractive offers to medium and small mailers as well.

'Access' arrangements are when rival postal operators, or large mail customers, pay Royal Mail to deliver letters on their behalf, having themselves collected and sorted the letters and carried them across the country using their own transport networks. Therefore, this business is not 'lost' by Royal Mail; it is shared between the new operators and Royal Mail, with Royal Mail still getting the lion's share of the revenue from it.

Royal Mail is still paid around 13p of the total price of an average 'access' letter (which is about 18 or 19p), while competitors typically receive only around 2-3p for the work they do in collecting mail, sorting it and getting it to Royal Mail for final delivery.

The first access agreement was negotiated between Royal Mail and UK Mail in 2004.

These agreements were commercially negotiated with the other mail operators and large mailers by Royal Mail itself – independently of Postcomm – but if organisations are unable to agree with Royal Mail a fair price for access, we can intervene to ensure that it is made available on appropriate terms.

The growth in 'access' competition has shown that customers are keen to take advantage of the services that rival operators now provide and which Royal Mail in the past has not.

For licensed operators, access can provide a launch pad to build up their contacts with customers, as well as the volumes necessary to consider developing an end-to-end (collection through to delivery) network.

Since then, more agreements have been set up and, according to Postcomm's latest figures (November 2007), approximately 2.4 billion items of mail were handled under access arrangements in 2006/07.

Indeed, in those parts of the mail market where 'access' competition has developed, volumes are growing but Royal Mail has lost share. This reflects competitors' greater efficiency and customer focus. In all other parts of the mail market, where Royal Mail is not yet challenged by competition, mail volumes have declined in the past 12 months, because customers are resisting the higher prices that the company charges to recover its costs.

Useful links

- **www.psc.gov.uk** – Postcomm’s website, for further information on all aspects of the mail market and a glossary of postal terms, including those relating to access
- **www.royalmail.com** – Royal Mail’s website
- **www.royalmailwholesale.com/default.cfm** – Royal Mail’s website for access services.

Please contact Postcomm for a full list of factsheet titles available in this series.