

Delivering a postal service for customers — **the story so far**

Postcomm, the postal service regulator, was given two main tasks by Parliament when it was established in 2000: to secure a universal postal service and to promote the interests of customers, wherever appropriate through the introduction of effective competition.

As a result of competition and regulation, universal postal services throughout the UK are among the most affordable in Europe, are more secure, reliable and innovative – and are provided to an increasing number of addresses.

Today's mail market is a startling contrast to that of four years ago when Royal Mail – then the monopoly mail service provider – was losing more than a million pounds a day and failing almost all of its quality of service targets. Its future, and the future of the universal postal service, looked bleak.

Postal liberalisation began in 2003 when a third of Royal Mail's letters market was opened to competitors. In January 2006 the whole of the UK postal market was liberalised and Royal Mail now shares the

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letters market with 17 competing companies, all licensed by Postcomm.

However, Royal Mail is still by far the dominant operator with a virtual monopoly of delivery over 'the final mile'. The reason other operators deliver only a tiny percentage of letters is because of Royal Mail's advantages in terms of economies of scale, ubiquity and its exemption from charging VAT for its postal services. Alternative mail operators have to apply the full rate of 17.5%.

Royal Mail's scale and reach have led to the growth of the so-called access mail market, where alternative operators and some large bulk mailers collect, pre-sort and transport business mail to Royal Mail sorting centres for final delivery by postmen and women. Alternative operators pay Royal Mail around 13p to deliver a typical access letter and earn about 2-3p for the collection, sorting and trunking (and other services such as track and trace).

The combination of regulation, which protects customers and operators, and competition, which encourages Royal Mail and others to raise their game, is delivering a wide range of benefits. Here are some examples.

Better security and compensation

Less mail is going missing after we introduced tougher requirements for the security of mail. Our Mail Integrity Code, introduced in January 2006, requires licensed operators to check employment records when taking on new staff and to train them properly. If the Code is breached we can take enforcement action, including the imposition of a financial penalty. Since these arrangements were put in place, the amount of lost mail has steadily declined.

In 2003 Postcomm directed Royal Mail to introduce formal arrangements to pay compensation to customers whose mail was delayed. Previously, Royal Mail had only operated its own compensation schemes in relation to lost and damaged mail.

In 2008, following a review by Postcomm, Royal Mail will introduce improved compensation arrangements for domestic and small business customers.

These will cover delayed, lost, and damaged mail, while customers who use the company's 'articles for the blind' service will, for the first time, be able to claim compensation, as will customers whose items are delayed by Royal Mail's official redirections service.

Reliability

Postal strikes in 2007 significantly affected Royal Mail's reliability; but until then, the company was breaking its records for the reliability of its service.

In the previous year Royal Mail met or exceeded almost all its licence targets for end-to-end transit times. The quality of service on next day delivery was the best yet, with 94.1% of 1st class letters delivered the next day, against a target of 93%.

Customers are now also getting business mail, subscription magazines and other items on specific days agreed with their providers. This rarely happened when Royal Mail had a monopoly. Mail delivers many more magazine titles than are available to customers in the average supermarket or newsagent.

In 2006 Postcomm introduced these new targets for Royal Mail to reflect customer priorities:

- 99.5% of all items must be correctly delivered
- 99.9% of all collection points must be served each working day
- 99.9% of all delivery routes must be completed each working day

UK stamp prices are among the best value in Europe

If you buy stamps you are getting one of the best deals in Europe in terms of value and service. In 2006, 1st class stamp prices for mail weighing less than 20g were 32p in the UK, 37p in France and 38p in Germany. The UK is also near the top of the European league table in terms of quality of service.

The universal service is becoming more 'universal'

The number of addresses where post cannot be delivered because of difficult access or for health and safety reasons (such as to addresses in very isolated spots or on islands) has reduced from 4,323 to 2,697 following Postcomm's intervention. This is at a time when the number of UK addresses is increasing by around 200,000 to 250,000 a year.

Mail and electronic media

Electronic communications such as email and text messaging are changing the way people keep in touch, and mail is beginning to adapt to these changes.

For example, the internet has made paying for postage more accessible and flexible. Customers can use their computer and a Royal Mail product called Online Postage to print out their postage. They can pay using an account, debit or credit card. Another postage service, SmartStamp, enables companies to print their logo on an item along with the postage. In addition:

- Royal Mail has teamed-up with eBay to allow sellers to pay for and print off postage stamps from the eBay site
- Internet shopping is huge (62% year-on-year growth) with 64 million parcels sent and delivered per month. The Interactive Media in Retail Group (IMRG) has a delivery forum where Royal Mail, ANC, DHL and others are working to ensure minimum standards of delivery for customers ordering online.

- Business customers are increasingly recognising the potential of online communication to back up direct mail or catalogues distributed by post
- Post offices are running trials with Argos to enable online customers to pick up purchases at their local post office
- Hybrid mail is being developed in the UK. It allows customers to send letters direct from their computers to a secure print facility near the destination where it is automatically printed, folded and enveloped for local delivery by Royal Mail.

Mail and the environment

In July 2007, Royal Mail launched its Carbon Neutral Door-to-Door scheme to encourage business mailers of unaddressed mail to be more environmentally aware. In exchange for more environmentally friendly mail – for example using paper with 50% recycled content and reduced and recyclable packaging, Royal Mail will pay to offset any remaining carbon footprint through schemes such as the Woodland Trust's Carbon Plus programme, which plants native trees in the UK.

TNT Post UK Ltd has launched a 'Planet Me' initiative with the aim of becoming the world's first zero emissions express and mail company. Measures include reducing energy consumption in its buildings worldwide; reducing business air travel by 20% in 2008, by increased use of videoconferencing; and lowering the harmful emissions of its company car fleet by 6% by 2011.

Operators such as ViaPost are developing hybrid mail systems (see Mail and electronic media) which reduce emissions by cutting out long distance transportation.

A new quarterly publication from the Direct Marketing Association (DMA) gives mailers advice on green issues. DMA is working to meet Defra targets to ensure that 55% of all direct mail is recycled by 2009.

Customer satisfaction

In a joint customer survey by Postcomm, Postwatch and Royal Mail last year, 73% of residential respondents, 70% of very small enterprises, 72% of small enterprises and 83% of medium enterprises rated quality of service as 'quite good' and 'very good'.

Stamp prices and service levels

Royal Mail has made some changes to its service specification in response to demands to improve staff conditions and to meet the heavy costs of its historic pension fund deficit. The changes include cutting the second delivery, making some deliveries later in the day and increasing stamp prices.

However, through regulation Postcomm has minimised the effects of these changes on customers – for example we have ensured final collection times are as late as practical and that stamp prices are still affordable.

Competition, Royal Mail and the universal service

The challenge of competition has helped Royal Mail focus more keenly than before on its quality of service to maintain the value and the use of mail.

Competition from other operators has taken virtually no business from the delivery part of the mail operation, so Royal Mail has not lost the advantage of its economies of scale. The universal service has been profitable in every year since liberalisation. Further efficiency improvements will be necessary to sustain this in the years to come – particularly if large customers move towards electronic communications and away from mail.

Access competition has been achieved on terms freely negotiated by Royal Mail, which retains around 80% of the total revenue from access transactions.