

POSTCOMM



Nigel Stapleton
Chairman

**IEA Conference, The Future of
UK Postal Services,
25 June 2008**

The role of Postcomm – independent regulator of UK postal services

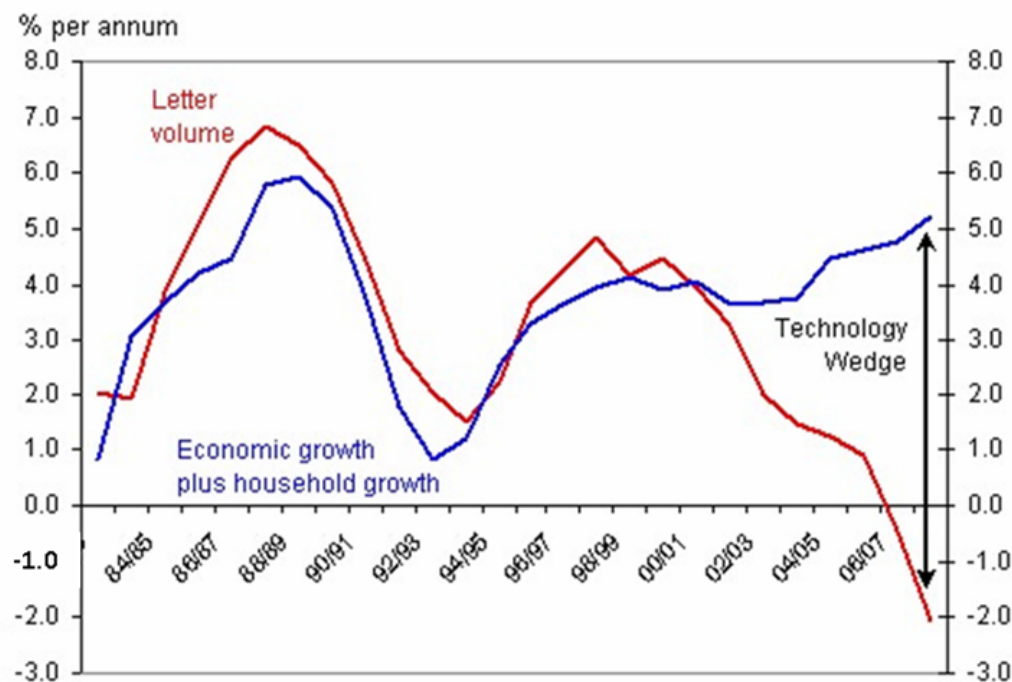
- Secure the provision of the universal service
- License postal operators
- Further the interests of consumers, where appropriate by introducing competition into mail services
- Regulate Royal Mail as the dominant supplier
- Advise the Government on the Post Office network



The challenges are significant...

- The mail market is in structural decline
- All mail operators must adapt to the digital world, including exploiting the potential of e-fulfilment
- Mail operators need to be much more innovative, efficient, and customer-responsive
- Legacy issues mean that these changes are particularly difficult for Royal Mail

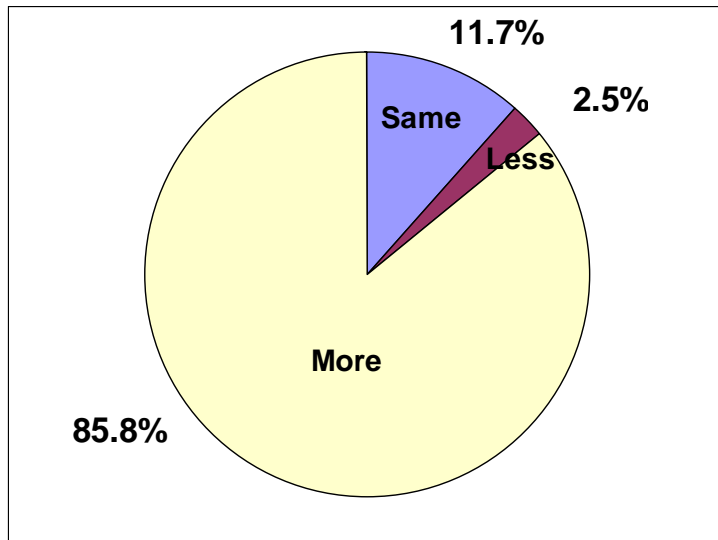
Growth trends of UK addressed inland letter traffic, versus economic and demographic growth trends.



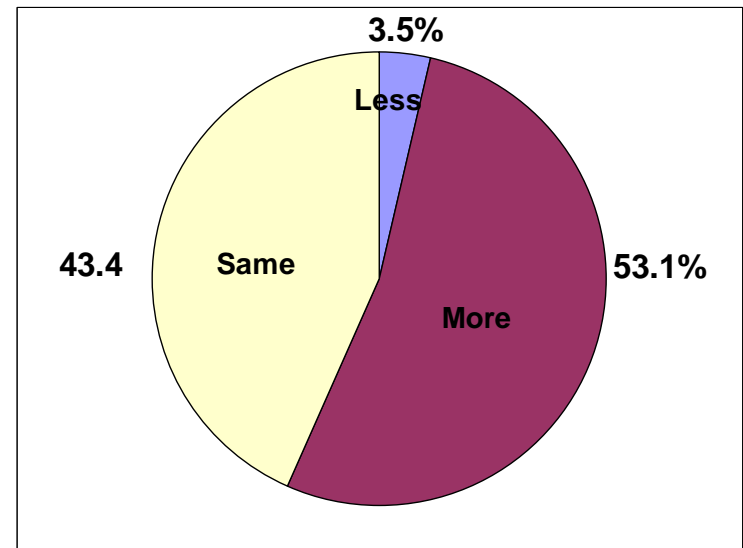
Source: Independent Review Panel 'The challenges and opportunities facing UK postal services: An initial response to evidence', May 2008

What customers say about postal services – British Chambers of Commerce Survey 2008

*Do you use the internet/
email for transactions that
five years ago you would
have used Royal Mail?*



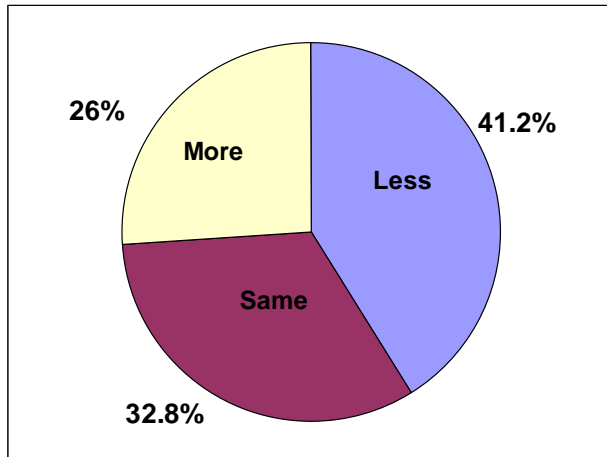
*Compared with five years
ago do you use paperless
billing?*



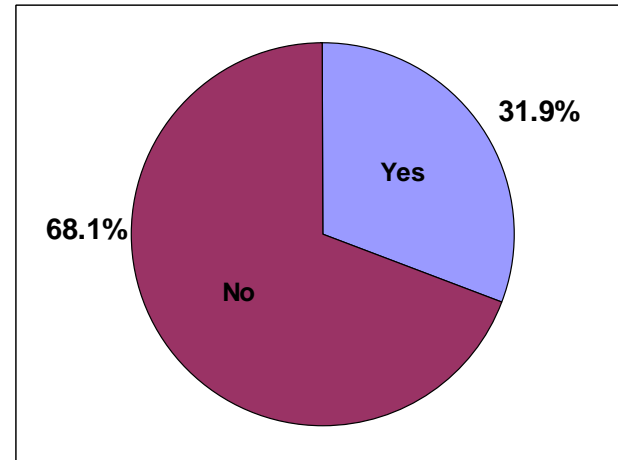
What customers say about Royal Mail - British Chambers of Commerce Survey Results 2008



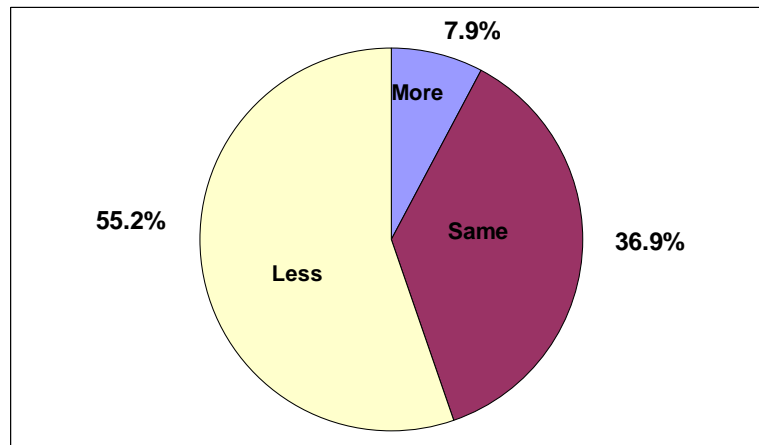
Compared with five years ago do you use Royal Mail?



Do you find Royal Mail a professional, efficient organisation to do business with?



Compared with five years ago do you find Royal Mail more or less reliable?



Who has gained from Royal Mail's efficiency savings?

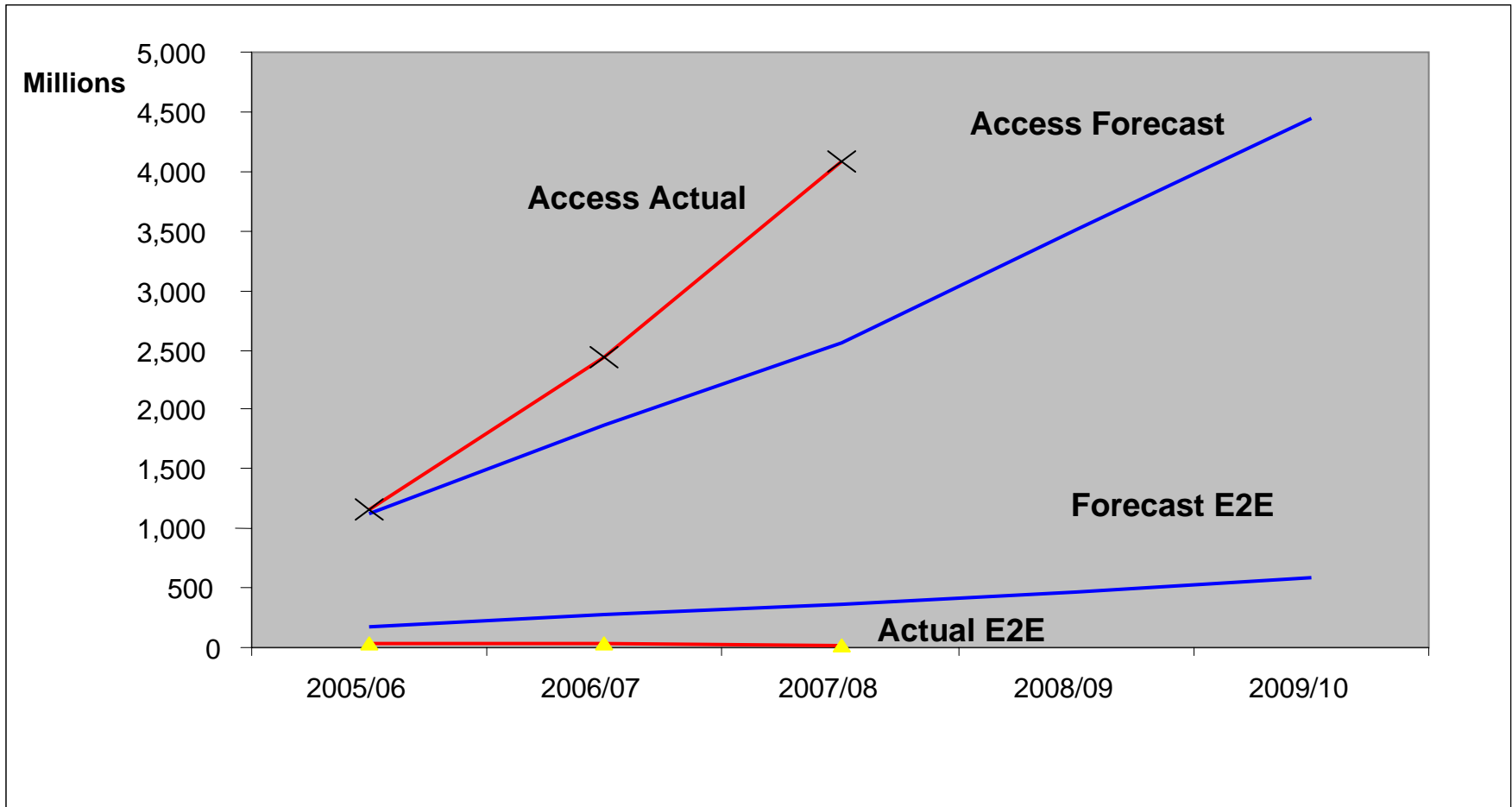
	2004/05	2005/06	2006/07	2007/08	2008/09
<i>Average price increase on regulated mail</i>	2%	1.9%	4%	2.2%	
<i>Annual increase in 1st class stamps (basic weight)</i>	0%	7.1%	6.7%	6.3%	5.8%
<i>Annual increase in 2nd class stamps (basic weight)</i>	5%	0%	9.5%	4.3%	12.5%
<i>Royal Mail Letters operating profit (£m)</i>	535	291	194	-3	
<i>Basic hourly wage increase for postal delivery staff</i>	10%	3.8%	2.9%	5.4%	
<i>Bonuses: ColleagueShare/Share in Success payment to postal employees and executive bonuses (£m, year accrued, year of performance excluding pensions)</i>	220.4	93.2	2.7	278.3	

Mail can survive and thrive in the digital world but only if:

- The benefits of competition in the UK postal services market are enjoyed by more users;
- Royal Mail's very substantial pensions deficit can be addressed without detriment to the competitiveness of mail versus alternative media; and
- The regulatory framework is developed to reflect the changing mail market

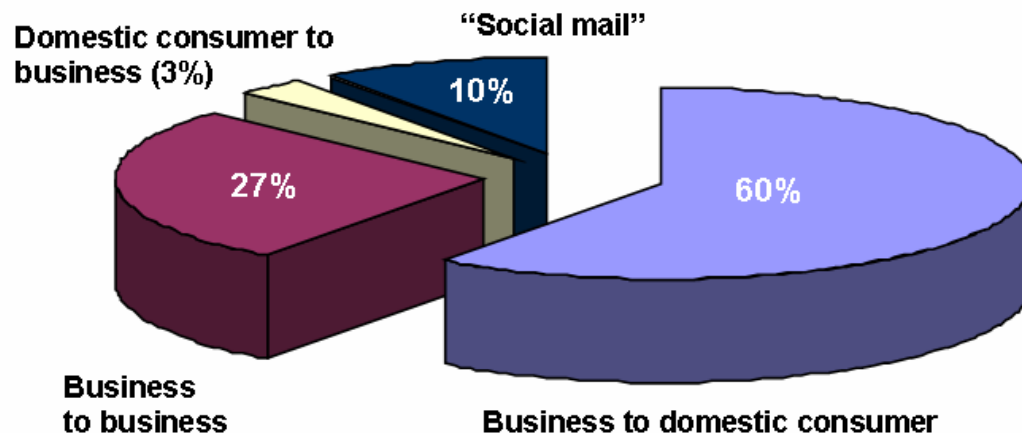
The current state of competition

- 22 companies have been licensed to provide postal services
- New entrants have 20 per cent share of the upstream market
- Royal Mail has 99 per cent share of the 'end-to-end' market



- Large customers are the bedrock of the market

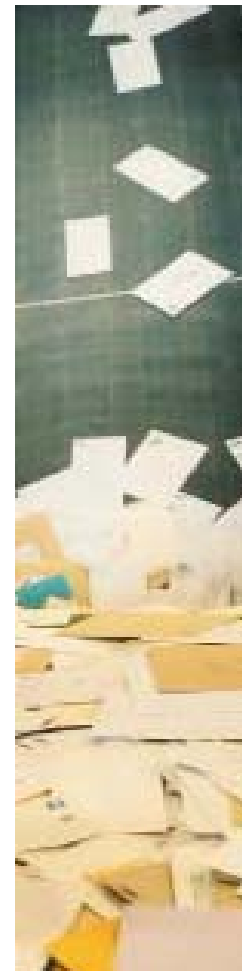
Segmentation of the letters market (volume)
by sender and recipient



Source: Independent Review Panel 'The challenges and opportunities facing UK postal services: An initial response to evidence', May 2008

Although benefits of competition initially gained by biggest users, all postal customers now benefiting:

- **Improved quality of service** – Royal Mail met 11 of its 12 targets in 2006-07, and better provision of the Universal Service
- **Product innovation** – Hybrid mail e.g. UK Mail's I-mail service
- **Bulk mail prices reduced by competition** – Europe Economics estimates that prices are 5% lower



What others say about competition



“

“..our major customers have already given business to competitors. This is now a fact of life... and will accelerate... and this is the sole reason to keep our quality up... and our costs down... so we can compete!”

Allan Leighton, Chairman, Royal Mail, January 2006

“We believe that competition can benefit small businesses in the future”

Federation of Small Businesses, March 2008

“The quality of service improvements experienced by the market have principally been brought about by the introduction of competitive pressures into the market”

Mail Users' Association, May 2008

Access competition - rebutting the myths

- Private operators pay Royal Mail a negotiated price for carrying mail over the final mile
- Royal Mail's preferred new costing methodology shows that access charges fully cover cost of delivery over the final mile
- Access operators are contractually obliged to ensure that the mail they send to Royal Mail for final delivery has a “national fall to earth profile” – or pay a zonal price
- Access operators are winning business because their costs of handling mail are less than half of Royal Mail's

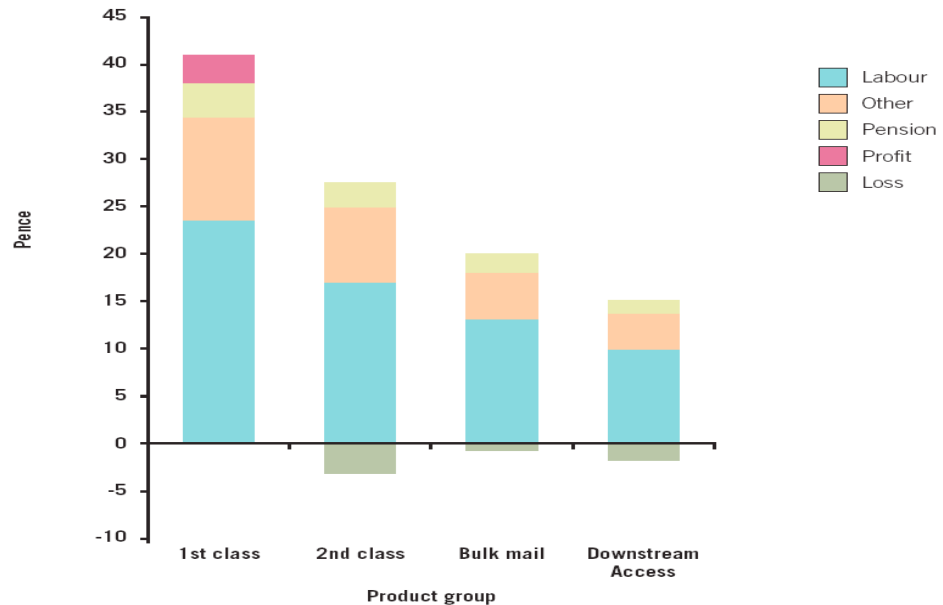
Key objectives:

- Maintain a USO that meets the changing needs of customers
- Ensure 'equivalence' of access to all parts of Royal Mail's network for third parties, as well as greater transparency of costs
- Where competition exists, cease price regulation
- Promote "level playing field" for development of competition in delivery and access

The pensions deficit

- **£5bn** – current accounting deficit, which is likely to grow due to longevity and equity prices
- **£260m** – annual cost of funding deficit over 17 years
- **The impact on stamp prices:**

Figure 5: Costs and profit/loss on Unit Revenue, 2006-07



Source: Royal Mail regulatory accounts, 2006-07, Postcomm analysis.

The way forward.....

- Competition in the postal market has delivered choice, innovation, and improved quality of service
- An affordable universal service can only be sustained if the Government, Royal Mail and the regulator take radical action
- Postcomm is confident that the benefits of competition will be enjoyed more widely by residential and SME customers
- Royal Mail transforms to become proactive to its customers' needs and the changing market, with a highly efficient network, and where customers and employees receive the rewards of success
- Less regulation, more competition

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