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[www.royalmail.com](http://www.royalmail.com)

Dear Sean,

### Tailor Made Incentives ("TMI's")

In addition to the information which Royal Mail provided to Postcomm on 4 September, in response to Kate Walter's letter of 28 August which requested Royal Mail submit further factual information in support of its request (at Section 4 of the application), Royal Mail makes the following submission as agreed in the useful discussion held between Royal Mail and Postcomm on Thursday 4<sup>th</sup> October.

It is hoped that this information can be used by Postcomm's Executive in drafting any proposal to Postcomm's Commissioners that it recommends going to consultation on the issue of the application.

As Postcomm is aware, Royal Mail is keen to emphasise the very short term nature of TMIs as a one off incentive which was devised to raise the profile, and encourage innovative usage, of mail as a medium generally by customers who advertise their products/ services to consumers ("direct mailers"). The postage credit which is awarded in accordance with the criteria set out in the TMI Policy<sup>1</sup> will expire if not used within 6 months of the final posting of the mailing to which the TMI relates. Following the TMI mailing, the customer has the freedom to continue (or not) to use mail in the way in which it has experimented, and to choose which postal operator shall be its provider.

Royal Mail has already stated in its application that its TMIs are highly unlikely to have an effect on the overall competitiveness of the postal market generally, as the value of the postage credits issued, expressed as a percentage of the revenue received by Royal Mail from products to which TMIs may apply, is as little as 0.05%<sup>2</sup>.

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<sup>1</sup> Postcomm already has this in its possession.

<sup>2</sup> See the table that Royal Mail provided, in commercial confidence, on 4<sup>th</sup> September in which Royal Mail sets out for four financial years, 2003/ 2004, 2004/2005, 2005/2006, 2006/2007 the total product revenue for all product categories to which the TMI Policy may relate, and the total of TMI credits actually paid out. Please note that these figures are confidential and should not be disclosed in the public domain

Cont...

In terms of presenting this lack of materiality, Royal Mail would highlight to Postcomm the following conditions of applying the TMI Policy to a potential campaign:

- A TMI can be granted for a single mailing only, which may be posted in several separate stages over the duration of a TMI campaign. The average duration of Royal Mail customers' TMI campaigns for the financial year 2006/07 was under 12 weeks. The mailing may include a "follow up" chaser to non responders (see bullet point three below);
- Only 30% of the overall "target audience" volume which the customer wishes to test its innovative mail shot against may qualify for the application of the TMI postage credit. The target audience is a closely defined group of mail recipients<sup>3</sup>;
- Of that 30% of the Target Audience volume, only a further 30% "slice" of that number can qualify for the TMI postage credit on any follow up chaser mailing.

Finally, Royal Mail confirms that in relation to this *de minimis* proportion of mail volumes to which the TMI postage credit can apply, the level of credit is limited to a maximum of 30%. In fact, from the figures already shared with Postcomm, the average value of the TMI credit as a percentage of total TMI mailing revenue has been below 10% (8% for the last financial year).

Yours sincerely

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Commercial Policy & Pricing Director

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<sup>3</sup> The Policy states that a Target Audience is a discrete, clearly identifiable class of addressees defined by reference to three characteristics that have to be relevant to the product or service being promotion through the mailing. Examples include, age, occupation, buyer behaviour (see Section 1.3 of the Policy).