

Postcomm Zonal Forum

Lorna Clarkson

Commercial Director

30th November 2006



Royal Mail

Purpose of today's session is to present Royal Mail's Retail zonal pricing application

- The rationale
- The proposal
- Implications for customers
- Key dates
- Questions

The presentation does not address issues related to Downstream Access zonal pricing



Zonal Pricing achieves many objectives

- Allows customers to access lower prices
- Another step towards cost reflectivity, removes another cross subsidy
- Protects the USO services
- Ensures greater transparency in the market and sends the right pricing signals
- Aligns Royal Mail's offering to competitor and downstream access offering



The proposal



Royal Mail is applying for approval to offer zonal prices for end-to-end bulkmail services

- What is Zonal Pricing?

Pricing mechanism whereby customers are charged varying rates according to delivery destination

Zonal pricing is not about the distance mail travels or origin of mail

- Which services will be zonally priced?

All classes of Mailsort 120, 700 and Walksort, Presstream and Mailsort 3 1400

The services inside the universal service will continue to incur a uniform price

- How will it be deployed?

Phased replacement programme - zonally priced services will be introduced whilst retaining the uniformly priced service

Uniform prices will be withdrawn from service 6 months later



Licence and customer considerations determined zonal structure

- Revenue neutrality
- More cost reflective
- Simple customer communication and avoidance of unreasonable change

Retain the same structure as downstream access to ensure consistent definitions in the market place

Maintain a zone that relates back to the uniform tariff

Define zones using existing postcode structure

Adopt same discount structure for all services and formats



Zonal Pricing structure is based on 5 zones

- It is important that the mapping of postcodes to zones is transparent, objective and consistent
- Postcodes are allocated to one of five zones on the basis of the postcode sector - the first numeric digit of the inward area code

eg [BN1 6]YD

Zone	Name	Business Density	Delivery Point Density
A	Business District	>10%	>500 per km ²
B	High Density		>1000 per km ²
C	Average Density		<1000 per km ² and >100 per km ²
D	Low Density		<100 per km ² and >10 per km ²
E	Very low Density		<10 per km ²

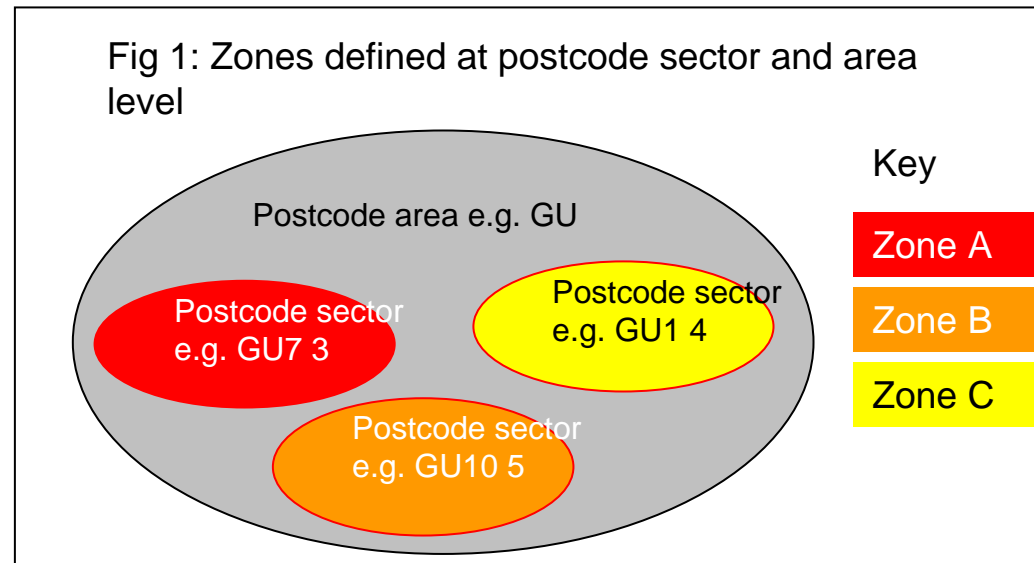


Zonal pricing is based on postcode sectors

- We chose postcode sectors as the basis for allocating postcodes to zones rather than postcode areas, districts or codes because this:

Significantly improves cost reflectivity (much more so for example than using the postcode area)

Without becoming too impractical (10,000 pricing selections rather than 1.7m postcode units ie EC1V 9HQ)



Zonal prices will be presented as a discount and surcharge on Zone C

- At the outset, zonal prices will range from a discount of 4.6% in zone A to a surcharge of 7.3% in zone E
- To keep the pricing structure simple and easy to understand, the same % discount and surcharge will be applied to all zonally priced services across all weights and formats
- Price of Zone C will be the same as the geographically uniform price to facilitate understanding and price comparison

	Zones				
	A	B	C	D	E
Letter	-4.6%	-1.6%	0%	+4.5%	+7.3%
Large Letter	-4.6%	-1.6%	0%	+4.5%	+7.3%
Packet	-4.6%	-1.6%	0%	+4.5%	+7.3%

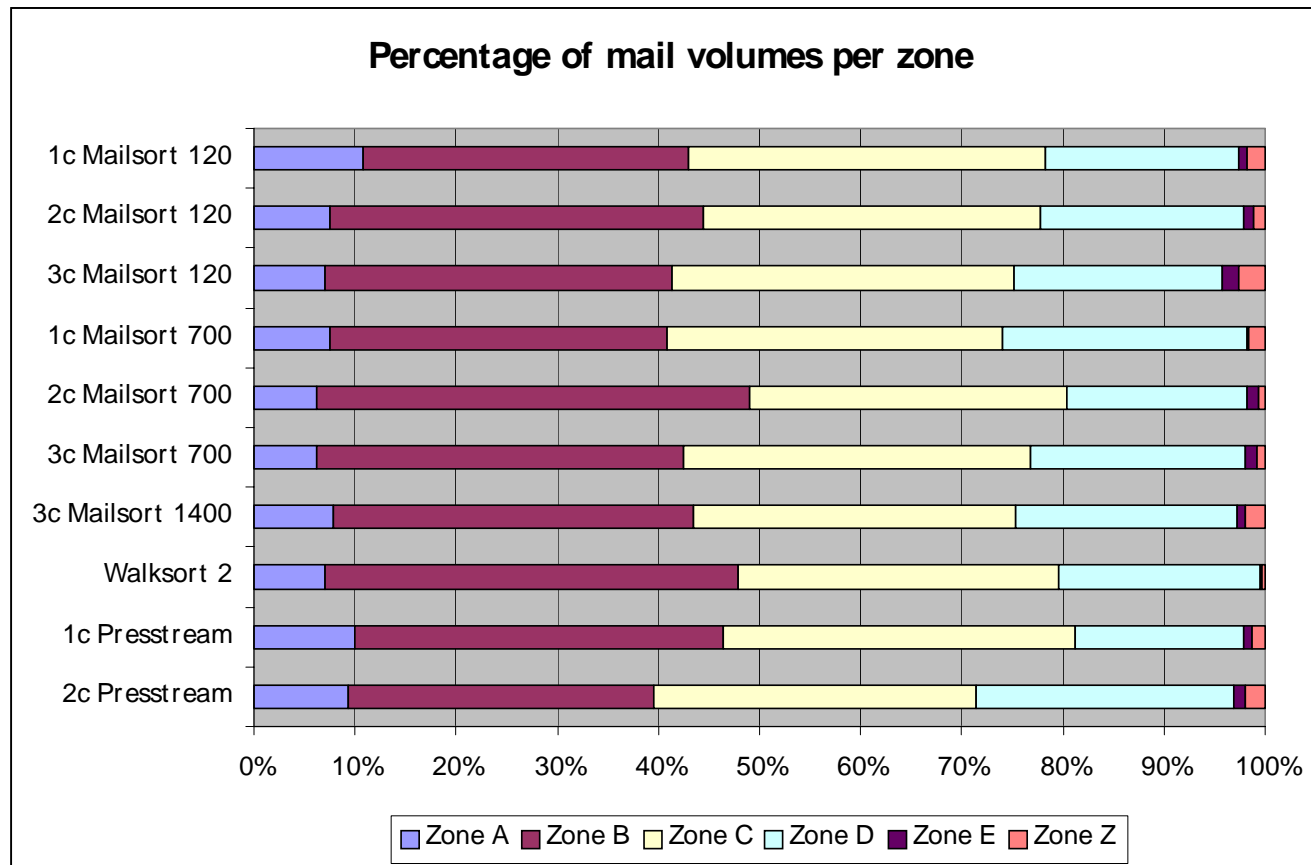


Implications for customers



Zonal Pricing only affects business customers – 7000 accounts

- 70% of items are mailed to Zones A - C



Customers agree with the principle of zonal pricing

- 52% of businesses support the principle of geographically differentiated prices
- Respondents did not think that zonal pricing would significantly affect their mailing behaviour in the short term
- There is a concern regarding complexity

Source: Postcomm competitive market review 2006



We believe that zonal pricing will have a limited (if any) impact on future mailing profiles

- Customer profile will continue to be the main driver for mailing a customer – but there may be a different impact by type of database

Database type	Impact of Zonal Pricing
Customer database	<ul style="list-style-type: none">• Low impact
Advertising database	<ul style="list-style-type: none">• Customer profiling and geo-demographics determine decision to mail
Testing database	<ul style="list-style-type: none">• Given customer profiles, testing to Zones A – C could increase as costs decrease

Zonal pricing will necessitate slight changes to mail presentation requirements

	Obligatory electronic ordering	Obligation to print SSC code on mail item	Obligation to print Zone code on mail item	Obligation to produce mail in zone order within SSC	Obligation to quote exact no. of bags in mailing
Uniform pricing	☒	☒	NA	NA	☒
Zonal pricing	✓	✓	✓	✓	✓

- Main change is the requirement to interface electronically with Royal Mail
 - Dynamic pricing much more accurate than profile pricing
 - Online Business Account (OBA) available from 2007
 - Electronic interface is increasingly the accepted way of doing business
- Customers will need to purchase upgraded software



Tools are available to enable customers to assess the financial impact of zonal pricing

Mailsort pricing calculator	<ul style="list-style-type: none">• Mailsort pricing calculator extended to include zonal pricing• Comparison with existing calculator, which will continue to be available, allows customers to calculate the financial impact of zonal pricing
Zonal mailings analyser	<ul style="list-style-type: none">• Analyser enables customers to calculate the number of items per zone in a mailing
Zonal look-up tool	<ul style="list-style-type: none">• Tool enables customers to establish which zone a postcode is tagged to

http://www.mailsorttechnical.com/zonal_pricing.cfm?sbl=true



As we have shown, our proposals mitigate the impact on customers

- The price change is small – much smaller than PiP
- The price structure is transparent and easy to understand
- A range of tools are available for customers to evaluate the impact
- Deployment will not be difficult
- The transition period allows time for change



Timeframes



Likely deployment date for Zonal Pricing is now April 2008

- Subject to Postcomm approval we are working to the following revised timetable:

Activity	Date
• Royal Mail publish application	7 July 2006
• Postcomm consultation on how to appraise the application	September - December 2006
• Postcomm consultation on application	3 month period in 2007
• Royal Mail publish final prices	December 2007
• Royal Mail deploy zonal prices	April 2008
• Migration period	April – September 2008
• Royal Mail cease uniformly priced services	October 2008



questions?



Royal Mail