

Royal Mail's Experience of Downstream Access

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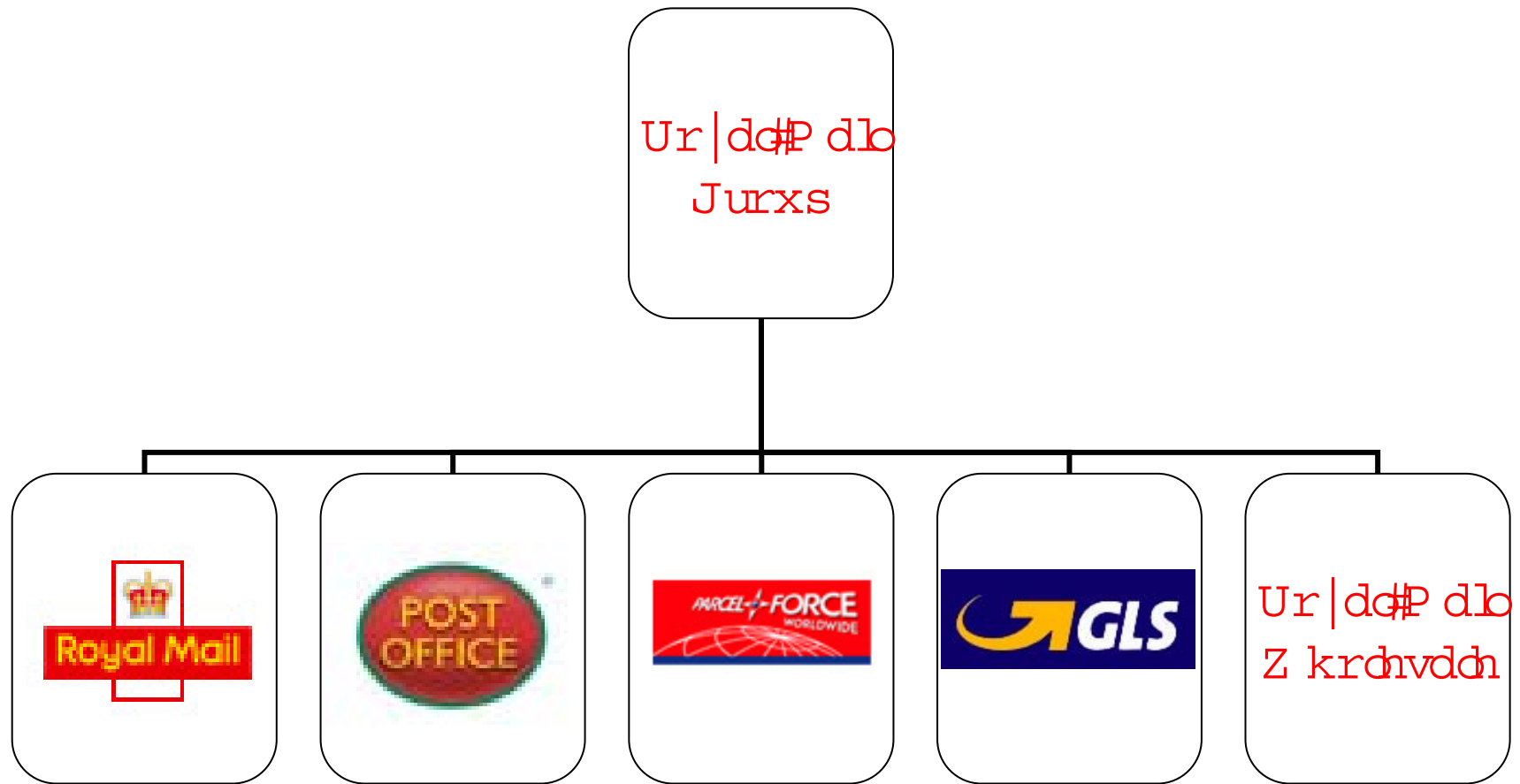
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So Far...

- First access contract signed in February 2004 with UK Mail and TNT
- **Royal Mail Wholesale** was established in April 2006 in order to manage the access business
- From 3 people managing access in 2004 we now have over 50 people
- RMW has 26 customers using 8 products.....
- Already >32% of letters posted in the UK go through Royal Mail Wholesale
- Forecast to rise to c35% by the end of 2008-2009

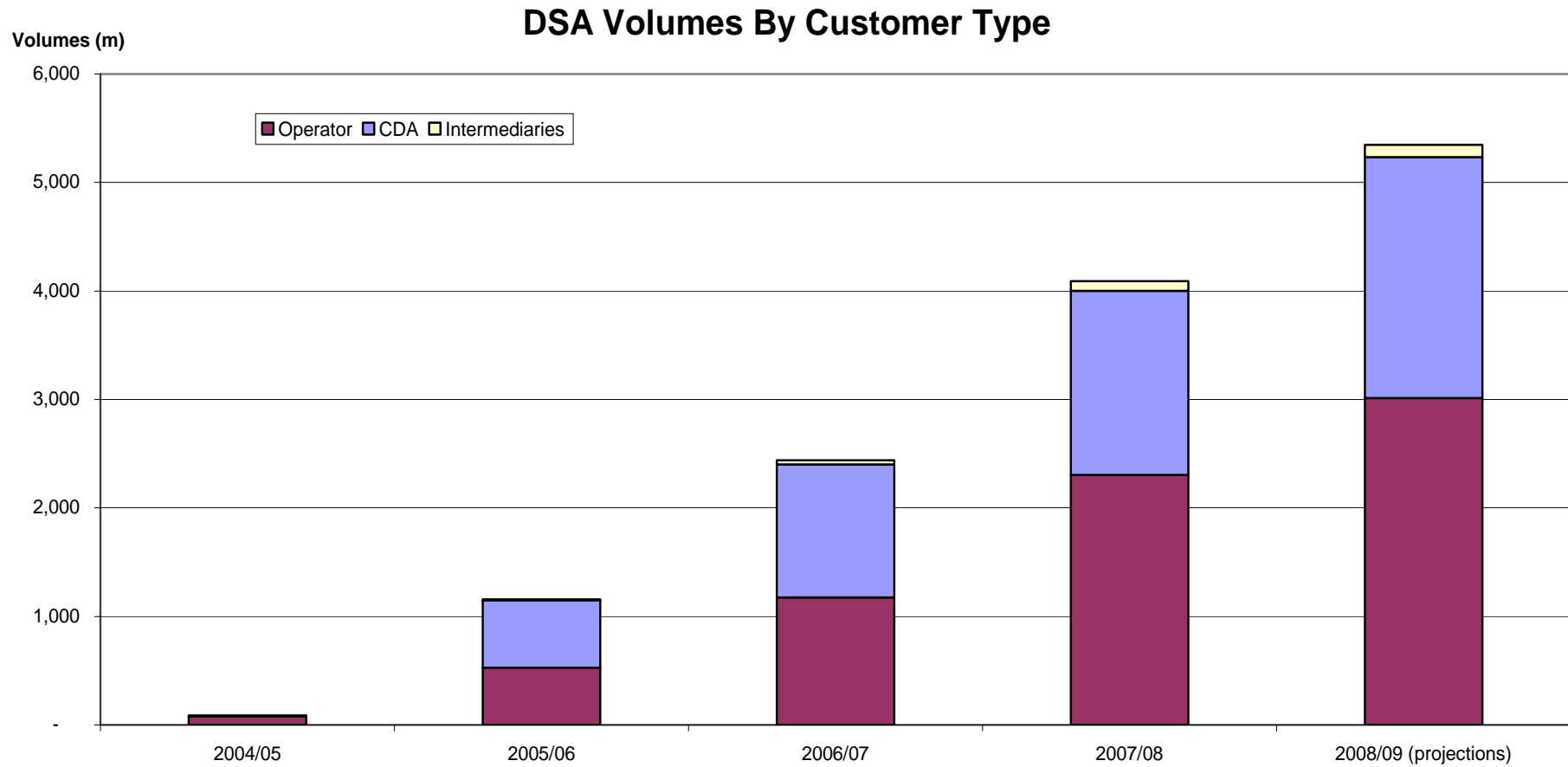
RM Group Structure



RM Wholesale Objectives

- First Choice For Mail Delivery Services in UK
- Develop Innovative and Profitable Products
- Foster Efficient Ways of Working
- Ensure Compliance

Annual Volumes

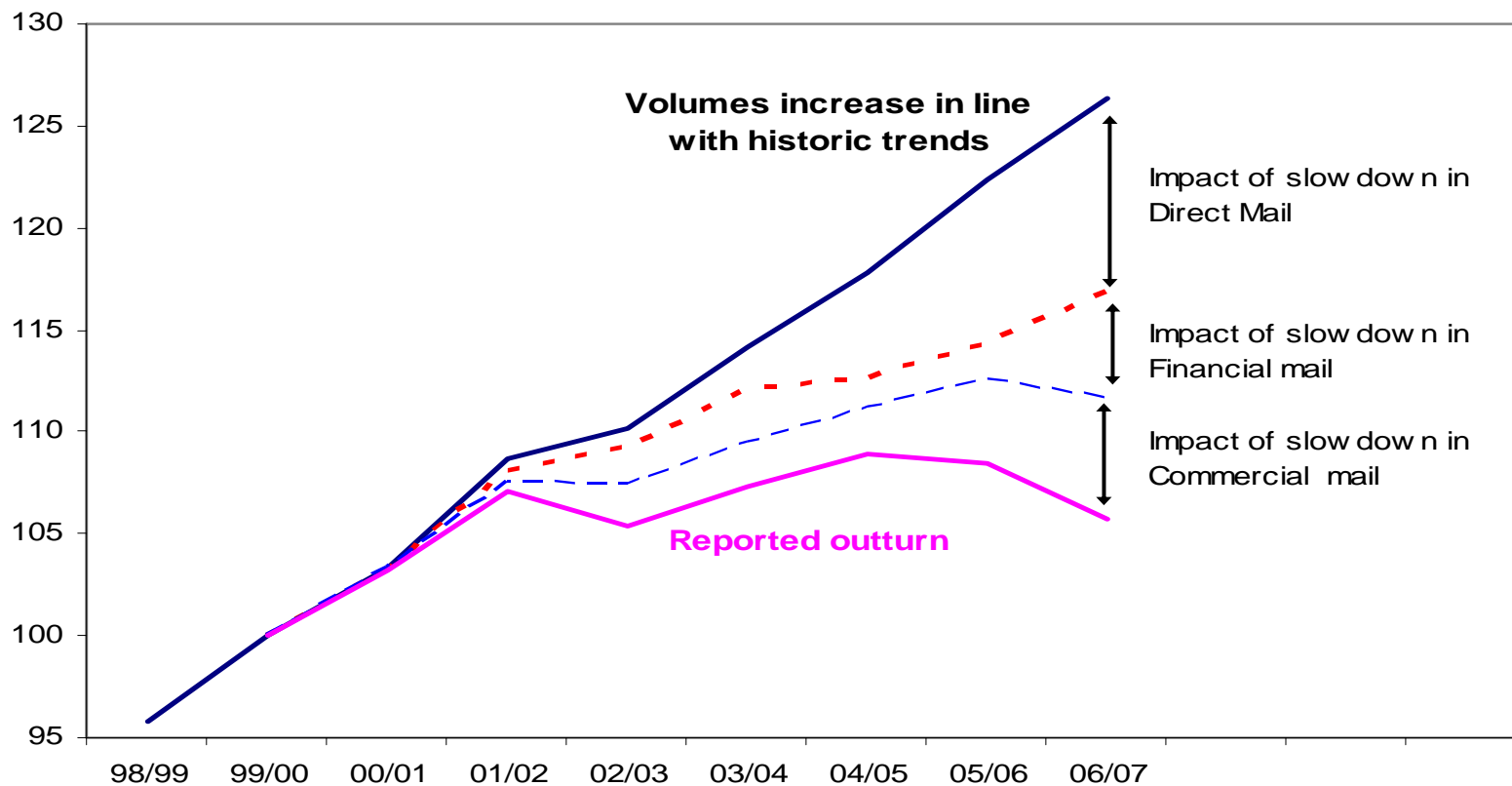


Has Access Been Innovative?

- Has generally delivered a quicker and cheaper service than Mailsort 2 for large customers
- Hasn't transformed the use of mail
- If anything, has encouraged down-trading, taking value out of the whole industry
- Have market players paid more attention to growing volume than innovative propositions?
- Given market challenges, can access do more than just further commoditise the market?

Mail Volumes

Index, 1999/00 = 100



Note: The impact of the Social Mail is negligible and for ease of viewing the data omitted from the chart.

Source: Data from MCS and CPS. Calculations undertaken by Economics, Group Regulation Team.

Market Challenges

- Transactional mail is declining
E-substitution
- Direct Mail growth has stalled
Alternative advertising media
- Economic Slowdown
How long will it last?
- “Green” issues
Will not go away
- Fulfilment Opportunities

What Next?

- Will Direct Mail continue to decline as a result of the growth of new advertising channels?
- Will transactional statement mailings continue to decline as customers move to e-statements?
- What is the future for 1st class? Can Wholesale help?
- Is there any room for growth in any part of the mail market?

Innovation in Wholesale

- We will continue to be more proactive in market
- We will launch new products that:
 - Support mail volumes
 - Address environmental issues
 - Have additional service features (e.g. secure, tracked)
 - Make even better use of zonal pricing (reviewing structure and prices)

Zonal Pricing

- RM Wholesale introduced zonal pricing in October 2004. Currently around 3 million items per week.
- Since then we have listened to customers and sought to make zonal pricing more customer friendly – especially for consolidators
- Doesn't suit everyone – but it is not compulsory
- Does suit customers with particular business models based around specific geography

Access Premium

- Encourages electronic to physical business models
- Direct competition to RM First Class
- Features include:
 - Very late access window
 - 95% Q of S aim next working day
 - 'Automatic release'
 - OCR letter price 23.3p

“Responsible Mail”

- Aims to give the direct mail industry a real incentive to embrace new ways of producing direct mail
 - Price discounts for specified mailpiece characteristics
 - ‘Entry’ and ‘Intermediate’ levels of spec
 - Not an offset solution
 - Discounts: Entry 0.3p Intermediate further 0.4p

“Responsible Mail” Outline Features

- ‘Entry level’ criteria

- Virgin fibre content or 50% recycled
- Processed chlorine free paper
- All paper elements recyclable
- Promotion of recycling messages and info

“Responsible Mail”: Outline Features

- **‘Intermediate Level’** (in addition to Entry level)
 - Use of suppliers with accredited environmental management systems e.g. FSC or ISO14001
 - Returned gone-aways and opt-outs removed from future mailing lists within 90 days of receipt
 - Presentation in trays only
 - Opt-out and suppression procedures in place
 -
- Further criteria to come as we all embrace our responsibilities

Quality of Service

- End to end measurement of QoS:
 - RM Wholesale independently measured: 96.7% cum.
- But
 - c 32% of market not measured independently
 - no way to verify (some surprising) claims
 - consultation with Wholesale customers and media owners/stakeholders
 - share results
 - develop proposals based on customer feedback
 - propose industry way forward based on shared view
 - transparent and objective

RMW - a Partner in Innovation

- RM Wholesale will offer constructive advice to any customer who seeks to make use of RM's network in an innovative way
- Once a formal request is made we will provide an outline specification and price within 3 months
- We rule nothing in and nothing out and welcome any opportunity to make mail a more successful and sustainable medium.
- Contact Us!