



# POSTCOMM



## **Postcomm's vision of the UK postal market**

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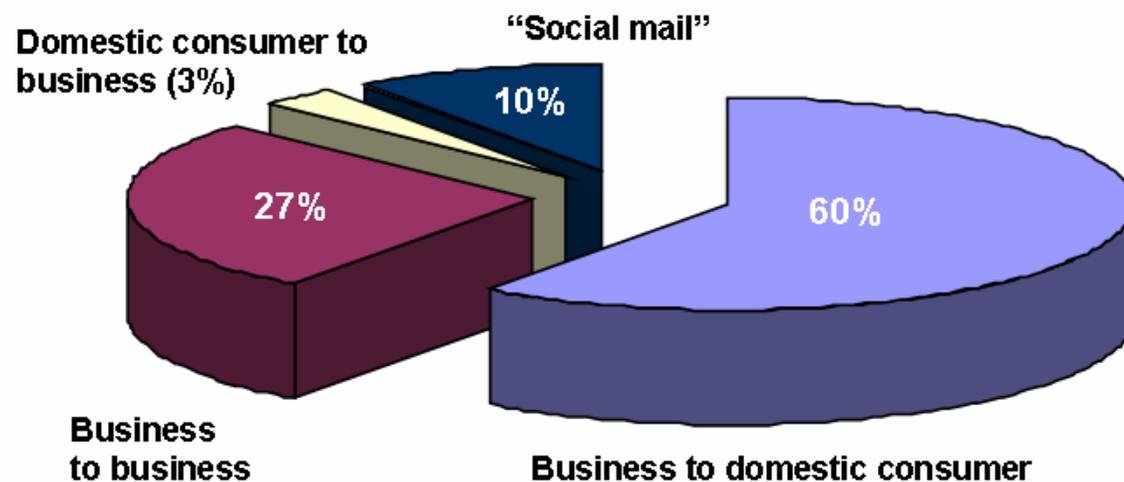
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- The current state of the mail market
- Implications for Royal Mail
- Why there are real grounds for optimism for the industry
- The need for a new regulatory framework to secure an affordable and sustainable universal service
- The role of competition as a means of driving innovation and efficiency – not as an end in itself

- Businesses generate 87% of all UK mail

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

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# Changes in the Mail Market

## Volumes down 3.5% on last year

- Transactional mail volumes declining at around 3% per year
- Advertising mail declined by 7% in 2007
- Unaddressed mail static
- Periodicals, publications and fulfilment are growing
- Social mail has declined by 3.6% over the last three years but the greetings card market is showing signs of growth

**Customers are changing their mailing habits, e.g., using 2c instead of 1c, switching to DSA mail etc;**

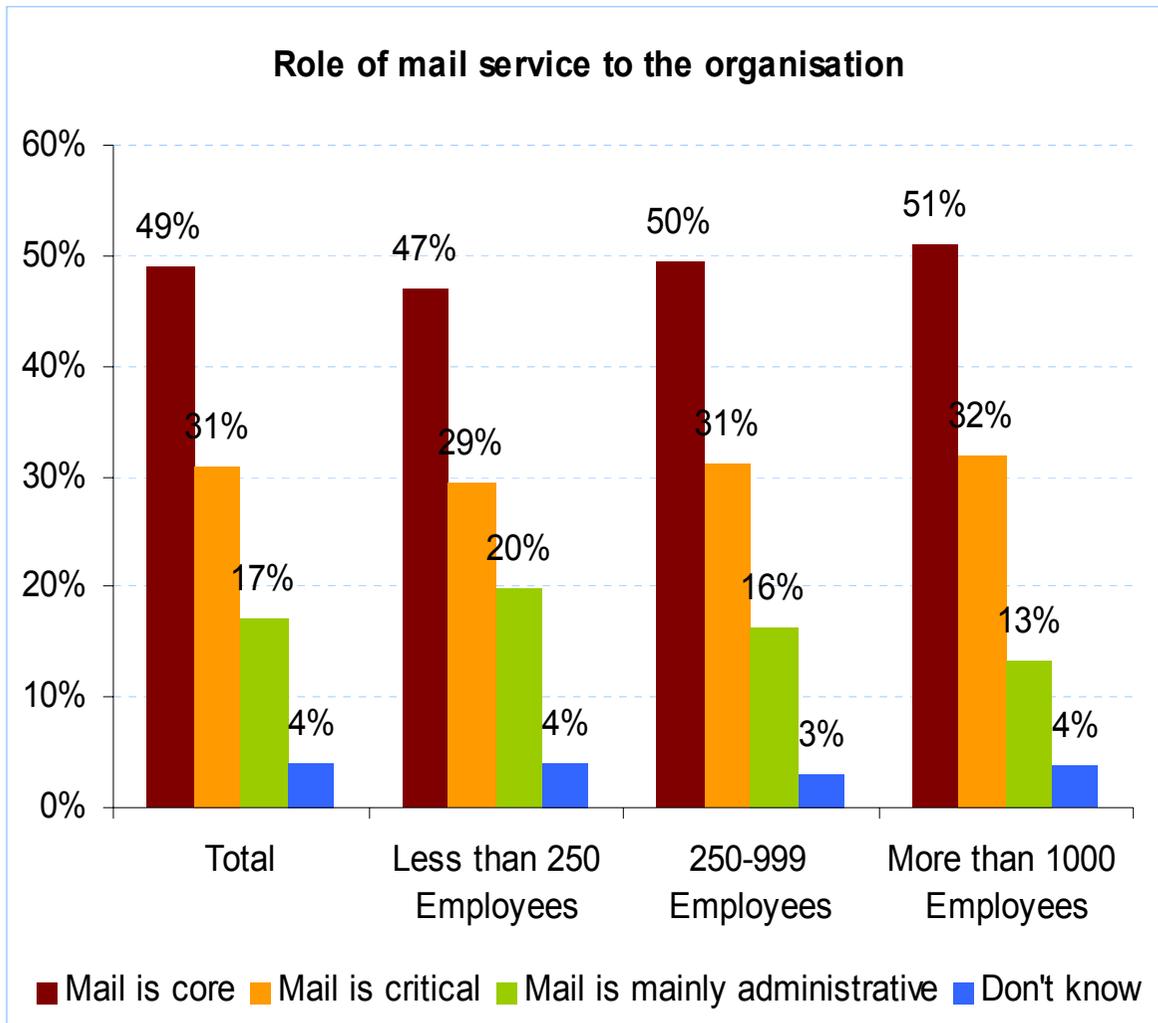
**The market is becoming more price sensitive and the ability to raise revenue through price increases is more difficult;**

**Significant growth in e-fulfilment;**

**Continued market uncertainty;**

**A new regulatory framework needs to take account of these changes.**

# Is Mail Seen as Core or Critical?



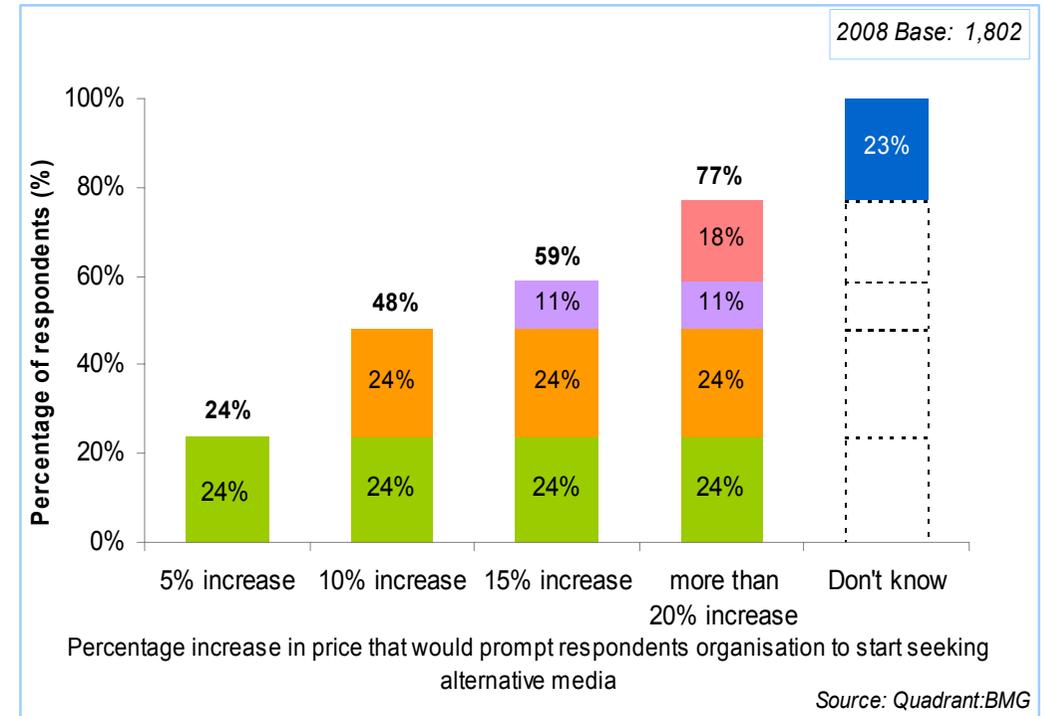
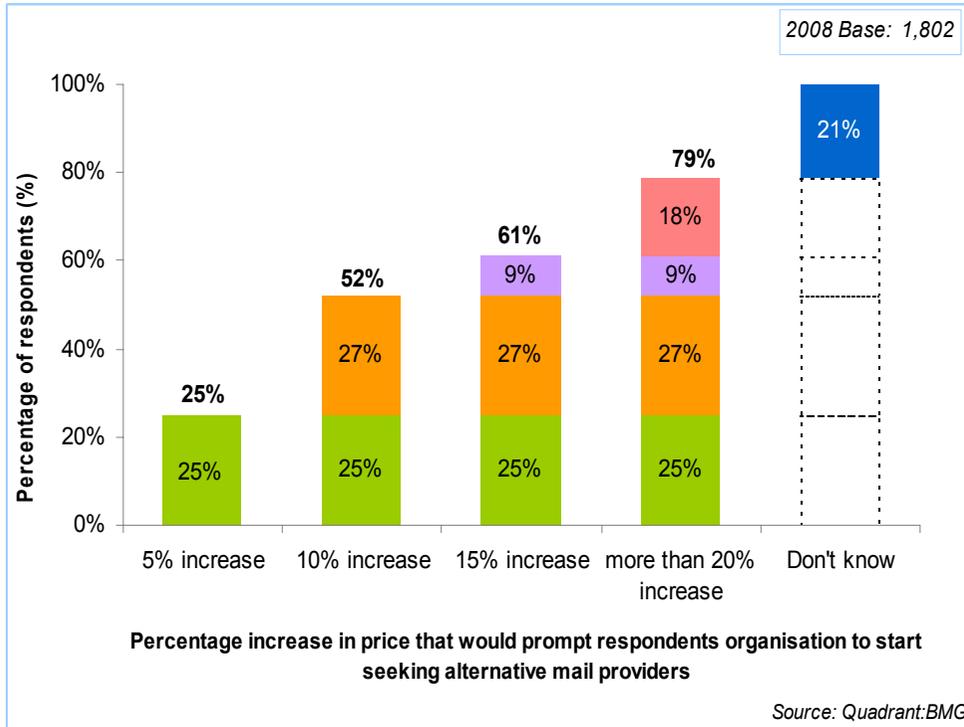
- Mail services are seen as core by half of the respondents.
- 63% of top spenders think mail is critical.

# An Increase in Multiple Sourcing

Currently using multiple providers	Total	Top	Large	Medium	Small	Very Small	Medium+	Small and Very Small
2008 Sample	1,802	104	110	511	546	531	725	1,077
<b>2008</b>	<b>23%</b>	<b>39%</b>	<b>35%</b>	<b>22%</b>	<b>22%</b>	<b>19%</b>	<b>27%</b>	<b>20%</b>
<b>2007</b>	<b>15%</b>	<b>35%</b>	<b>41%</b>	<b>21%</b>	<b>17%</b>	<b>9%</b>	<b>27%</b>	<b>12%</b>

- Overall 23%, or 414 business customers are using more than one provider of postal services

# Price Elasticity for Changes to Supplier or Media



The market is sensitive to price changes in:

- Looking for competition; and
- Looking for alternative media

Royal Mail needs to become more innovative and efficient to meet the challenges of volume decline and competition;

But, it is constrained by legacy issues such as:

- High fixed costs;
- Pension deficit;
- Difficult labour relations;
- Universal service with high specifications;
- Concentrated customer base (top 50 customers provide 40% of Royal Mail's revenue).

Combined effect of all structural changes is a threat to the continued provision of the universal service;

In 2007/08, Royal Mail made a loss of £105m on universal service products;

For the universal service to be financed, as well as price increases, Royal Mail has three levers:

- New revenue streams;
- Improve efficiency; and
- Increase cost variability.

Postcomm believes that the growth of competition to push Royal Mail to meet each of these challenges.

# What Needs to be Done?

- There are some major issues that need to be addressed by government – including Royal Mail's pension deficit
- All operators have to be more efficient, innovative and responsive to customer needs
- Postcomm needs to set a regulatory framework that secures the provision of an affordable universal service, protects customers, and promotes competition

## Market Uncertainties

- Difficult to predict how the market will develop

## Price Controls Are No Longer Enough

- Royal Mail ownership structure is unlike that of traditionally price controlled organisations
- RPI-X controls on their own are not giving the right incentives to find efficiency savings

Proposals for consultation:

- More targeted price control
- The need for better cost transparency
- Improvements to the way in which Royal Mail and other operators use its infrastructure
- Reduced regulatory burden

Regulatory Framework tools can be summarised under the following headings:

## **Cost Transparency**

- Greater cost and accounting transparency and more detailed and regular accounts;

## **Equivalence**

- Ring fencing the retail bulk mail segment of Royal Mail's pipeline;

## **Price Controls**

- Continuing to control prices where customers continue to need protection by use of effective benchmark services.

# Conclusion

Postcomm's new regulatory framework will facilitate change through allowing Royal Mail to innovate and become more efficient, enabling effective competition, and reducing regulatory burden

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