

Zonal Pricing For Bulk Business Mail

Introduction

Royal Mail is unique in offering a one-price-goes-anywhere universal service to the UK's 27 million addresses. This is enshrined in law, and is a condition of Royal Mail's licence from its regulator Postcomm. It is at the heart of what we do, and our great strength in a competitive marketplace.

Since January 1 2006, the UK postal has been open to full competition. It's vital that Royal Mail competes successfully for bulk mail. Business mail makes up more than 90% of all letters, much of it in bulk mailings, and the revenue Royal Mail earns from business mail is crucial to enabling Royal Mail to continue providing a service to every address and to handling stamped mail – including birthday cards, personal letters and Christmas cards. In fact, Royal Mail makes large losses on stamped mail, underlining the need for us to compete successfully for bulk business mail.

Royal Mail's quality of service to all its customers is at a record high level. We're determined to do even better – it's our number one priority – and we believe that offering our customers the best service in the market is key to how we compete with rivals.

But the price of postage is another important factor in how we compete, especially in the bulk mail market where competitors are active. We have to ensure we have a bulk mail pricing structure that's competitive and that means a structure where the prices we charge are more closely aligned than at present to the cost to Royal Mail of providing our services.

The cost of providing a delivery service to the UK's 27 million addresses by our 70,000 postmen and women is a major component of Royal Mail's overall costs. But delivery costs vary widely depending on the nature of the address. Delivery costs are relatively low in high density areas such as town centres where there are large volumes of mail going to a large number of addresses in a relatively small area. Conversely, delivery costs are much higher in areas where there are very addresses and small amounts of mail to deliver.

Royal Mail is, therefore, proposing a new pricing structure for bulk mail which reflect the variation in delivery costs. We have called the proposed new system **Zonal Pricing**. We stress – the proposals do **NOT** affect stamped mail or the franked mail posted by many business customers and it will be **revenue neutral** for Royal Mail.

The proposed changes apply to bulk mail with the notable exception of Mailsort 1400 1st and 2nd Class. The changes cover Mailsort 120 1st, 2nd and 3rd Class, Mailsort 700 1st, 2nd and 3rd Class, Presstream 1st and 2nd Class, Walksort 1st and 2nd Class and Mailsort 1400 3rd Class – all these services are outside the universal service obligation.

We have defined five zones based on the density of delivery points. These range from A (business district, ie very high density) through to D (very low density). There will also be a Greater London zone (referred to as London) which is defined here to comprise approximately the area within the M25 motorway. Discounts will be given to bulk business mail customers for deliveries to higher density zones, where delivery costs are lower than average, and surcharges made for deliveries to low density zones, where delivery costs are higher than average. The London zone will incur a surcharge.

Proposed Timescales

We have submitted an application to Postcomm to allow us to introduce a zonal pricing structure for bulk business mail from April 2008. We expect Postcomm to undertake a public consultation on this pricing structure and customers will have the opportunity to feed back their opinions to our regulator. Royal Mail also welcomes feedback from our bulk mail customers who should contact their account manager or directly via pricing@royalmail.com. Should the application be approved Royal Mail will give three months notice of the price change and customers will have six months to migrate to the new pricing structure.

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