



July 2007

## Zonal Pricing For Bulk Business Mail

### Amended Application: Summary for Presstream users

#### Introduction

Royal Mail submitted the Zonal Pricing Application to Postcomm in July 2006. Postcomm consulted on this application and discussed with Royal Mail all aspects of the application. In light of these discussions, Royal Mail modified the pricing structure and the discount and surcharge levels proposed in February 2007. Most notably a London Zone was introduced and Zones D and E were combined. All other aspects of the application remained unchanged.

Following representation from the PPA and publishers, Royal Mail has further modified the application to mitigate the impact for customers using Presstream Profile Price. To mitigate the impact of the removal of Presstream Profile discount, we propose to reduce the full price of the Large Letter format for Presstream 1 and 2 Standard with effect from the implementation date for zonal pricing. Customers switching from a Profile discount to Zonal Pricing will be able to access these lower Presstream Standard prices. In the rest of this document we explain these changes in details. All other prices in the application remain unchanged.

#### The price change

Tables 1 and 2 below compare the existing Presstream Standard prices with those proposed as from the introduction of zonal pricing for specific price points. Table 3 shows the prices of the individual components of the price line to enable the computation of the price for all the weight steps in the Large Letter format between 250 and 750g.

Table 1 – Presstream 1 Full Prices (to which sortation and zonal discounts are added)

	Presstream 1 Standard April 07 prices (p)	Presstream 1 Standard Prices after introduction of zonal pricing (p)	% Difference
Letter 0-100g	N/A	N/A	N/A
Large Letter 0-100g	36.3	34.4	-5.2%
Large Letter 101 - 250g	39.5	37.4	-5.3%
Large Letter at 750g	95.9	95.1	-0.8%
Packet 0-100g	81.6	81.6	0%
Packet 101 - 250g	86.5	86.5	0%
Packet at 750g	1.229	1.229	0%

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Table 2 – Presstream 2 Full Prices (to which sortation and zonal discounts are added)

	Presstream 2 Standard April 07 prices (p)	Presstream 2 Standard Prices after introduction of zonal pricing (p)	% Difference
Letter 0-100g	NA	NA	NA
Large Letter 0-100g	26.2	26.2	-0%
Large Letter 101 – 250g	32.9	31.6	-4.0%
Large Letter at 750g	81.9	75.6	-7.7%
Packet 0-100g	71.2	71.2	0%
Packet 101 – 250g	75.2	75.2	0%
Packet at 750g	1.077	1.077	0%

Table 3 – Presstream Standard Large Letter format price line

	Weight	Presstream 1		Presstream 2	
		Full price	Price per gram increment	Full price	Price per gram increment
Large Letter format current prices	251-750g	39.5p	0.1128p	32.9p	0.0980p
Large Letter format prices as from the introduction of zonal pricing	251-750g	37.4p	0.1154p	31.6p	0.088p

The zonal discount and surcharges proposed in our application would then apply to the Presstream 1 and 2 Standard prices (see Table 4).

Table 4 – Zonal Pricing Discounts and Surcharges at the Introduction of Zonal Pricing

Zones				
London	A	B	C	D
+2.5%	-4.9%	-2.0%	-1.7%	+4.8%

Negative numbers are discounts off the uniform tariff whilst positive numbers are surcharges on the uniform tariff

Under the revised prices, Presstream standard customers would benefit from a price discount, 86% of Presstream accounts would benefit from zonal pricing and over 50% of items sent by Presstream would enjoy a lower price under zonal pricing. Presstream profile customers would incur a smaller price increase upon switching from profile price discount to zonal pricing structure.

Having listened to Presstream customers' concerns about the impact of the price changes on their business models, we considered the options for mitigation which would address these concerns whilst remaining true to the principals of zonal pricing. We believe the revised Presstream Standard prices will benefit the majority of publishers.

We welcome your feedback, which can be emailed to [pricing@royalmail.com](mailto:pricing@royalmail.com).

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## FAQ

### **1) Why are customers not able to use the reduced standard prices in conjunction with their existing profile price discount during the transition period?**

The principal reason for making the changes to the Presstream standard price is to address customers' concerns at price increases incurred by moving from a Profile Price discount to zonal pricing. The lower prices are available once customers have switched to zonal pricing. In addition we want to encourage as much migration as soon as possible to ensure the uptake of zonal pricing is not left until the end of the migration period. At the end of the six month transition period, all customers using Presstream will be able to access the lower prices.

### **2) How can I calculate the new zonal prices taking these latest changes into account?**

If you have already analysed your mailing file and have worked out your revised costs under zonal pricing as per Feb application, you can apply the percentage discounts in tables 1 and 2 to the zonal price. This will have the same effect as applying the zonal discount/surcharge to a reduced Presstream standard price line.

This is straightforward if your magazine weight falls within the straight line price bands ie 0-100g and 101-250g as the percentage discount is constant. However if your magazine weighs between 251-750g where the discount percentage varies by weight, you can calculate the exact discount off the full standard price by using the revised per gram increments.

If you haven't yet analysed your mailing file, we suggest you wait until the updated zonal calculator is available, the date of which will be advised as soon as possible.

### **3) How will this affect Presstream prices in April 2008?**

At the end of the six month transition period, all customers using Presstream will be able to access the lower prices. Normal tariff rules will apply thereafter. Thus, in April 2008, the price changes made to Presstream would apply to the lower prices.

### **4) Is zonal pricing still revenue neutral for Royal Mail**

Yes, it is.