

Dear sir/madam

I recently strongly expressed my concern about Royal Mail's competition environment and was asked to input my oppinions and put down my recommendations for the future.

Limiting Royal Mail's ability to undercut it's competitors in a "ringed market" is illegal and ultimately against the customer's interest. Royal Mail is forced to sort each item upto 5 times, transport to the door and provide free returns for unwanted or undeliverable items for 13p while the competition can enjoy a head-room of around 4.5p per item on transporting hundreds of thousands of letters to RM's major post-code depots with maybe only one sort involved. With "cherry picking" contracts, like county councils or water companies etc, this will involve a 4.5p margin on hundreds of thousands of letters bringing in tens of thousands of pounds for maybe moving letters that are already sorted, labelled and crated just a few miles. Not all contracts are this lucrative but even if it is say Barclaycard letters going to, say Truro, then the figures will still be in the low hundred thousand and will involve transporting the pre-sorted, pre-crated items to the TNT depot in Northampton where it is transfered to a lorry going to Truro and dropped off at the TR depot for around 450,000 pence or £4,500. This is rediculous and RM would probably transport this contract for a small fraction of this, the TNT cost of moving a slightly smaller than average pallet weighing around 125 kgs, with a height of 2 feet is around £272.95p,refl0726479. This means that the pure transport cost is maybe 0.2p per item and Royal Mail could compete at around this figure and absorb the difference by undercutting the competition, the main costs of delivery being within the depot. Unfortunately the cartel that Post-comm has created bans RM from pricing less than 20p when, before competition started, they used to deliver for Barclaycard nationwide for 19p and has therefore lost this contract. Large, bulk, pre-sorted, pre-labelled, precrated and machineable contracts like this would subsidised stamped items that are far more costly to handle and if Royal Mail loses all the "cherry picked" contracts, then it may have to raise the price of stamped letters and it may hamper Royal Mail's ability to invest in modernization.

Post-comm quote the US model, where private companies compete to deliver to the depot, and I think that this is plausible as long as TNT and DHL are seen as this and RM is allowed is allowed to compete fairly and I think that US Mail would be disgusted by the terms that Royal Mail is working under, especially as TNT and DHL etc. have a vested interest in under-mining and damaging RM in order to steal it's contracts and maybe buy it up later cut-price if it is run down. Of course they want to increase their bloated margins and further weaken the competition, the British market is seen as easy meat. DHL is fiercely trying to maitain it's monopoly in Germany and is one of the most expensive deliverers in Europe and TNT is under threat in the Neatherlands and has high hopes of expanding here, where Post-comm is making it so easy. Another factor is whether we should allow Dutch and German companies to threaten and maybe take-over British compaies when the experiences of Rover, Leyland and many others call this into question. There is also the question of security, Royal Mail delivers in mail only lorries and sort inside, while TNT deliver the letters along-side other goods going to that area and have much lower security. The labour costs of RM are higher but the skills levels are higher, with TNT employing more casual staff who do no sorting. If they did more sorting, then labour turn-over may be a be a problem if wages do not increase and it takes years to become prolific in many areas.

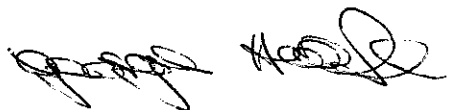
At present, Royal Mail has to deliver letters from the post-code depot

to the door for 13p. RM says it lost 1.8p per item, Post-comm says it lost 0.5p with a margin of error of 1p - say the average is 1.4p. In 2004/5 RM costed it at 13.8p and in 2006/7 at 15.2p and, as margins have been squeezed elsewhere, then it is essential not to deliver at a loss when the competition is making a fortune. RM's parcel prices are far lower than the competition and Royal Mail's stamp rate is fairly average in Europe, when German DHL prices are some of the most expensive and it would be interesting to ask them to deliver for 13p. There is another figure, apart from the the 5 sorts and the delivery from the depot to the door, and that is the returns cost. In some contacts the rate of return of unwanted or undeliverable items is significant and this may entail around 5 further sortings for free plus transport back to the customer that used say TNT anyway. This factor should be included and push up the access price further or expect DHL or TNT etc. to retrieve their own returns from depot and return them to the customer themselves - they would go white at the prospect. There is also the question of whether transport costs should be considered nationally as an average or per area, meaning that a contract to Coventry or Glasgow may be cheaper than to Inverness. If nationally, then some areas may be "cherry picked" by TNT etc., leaving Royal Mail with the expensive ones, so there may be need for a contract by contract factor for bulk items, stamps being exempt, and close scrutiny maintained on miss-sorts. Machineability should also be a factor as TNT etc. does no letter sorting but Royal Mail may be left with bulky, stuck together letters which need to be sorted by hand.

In conclusion, competition should be good but it must be fair competition with Royal Mail allowed to under-cut it's competitors. If TNT etc. want to deliver letters nationally on the full price of the letters then let them and if they want to compete on the transport costs of delivery to the depots then let them as long as you do not pay them tens of thousands of pounds for say moving a pallet of Northampton county council letters from say Mailforce at Moulton Park for 2 miles to the Crow Lane depot. If TNT etc. want to compete on these contracts then there is still room for profit as they will be going to the destinations with other pallets while RM may not. The price saving to the customer may be significant and Royal Mail would always face the threat of competition and yet benefit from the savings.

There is also space to talk about Royal Mail's quality record, which I think is still very good and improving. They meet most of the very stringent targets and even those that are missed are missed by very little. Continual training, vigilance and flexibility are key here and all of these are in place. There is also a question about who checks the competitor's errors as RM is forced to make do the best they can with no chance of come-back. Finally, I would like to talk about the recent strike. Royal Mail staff are not militant and the action was caused by extremely poor management at top level. Mr Leyton and Mr Crozier should go as anyone who publishes such an ambiguous, misleading and inflammatory document and makes as many gaffs as they do should be sacked on the spot without references and Royal Mail should find someone who knows the business and knows how to handle people.

Your's sincerely



G. HOWSE

NORTHAMPTON DEPOT

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