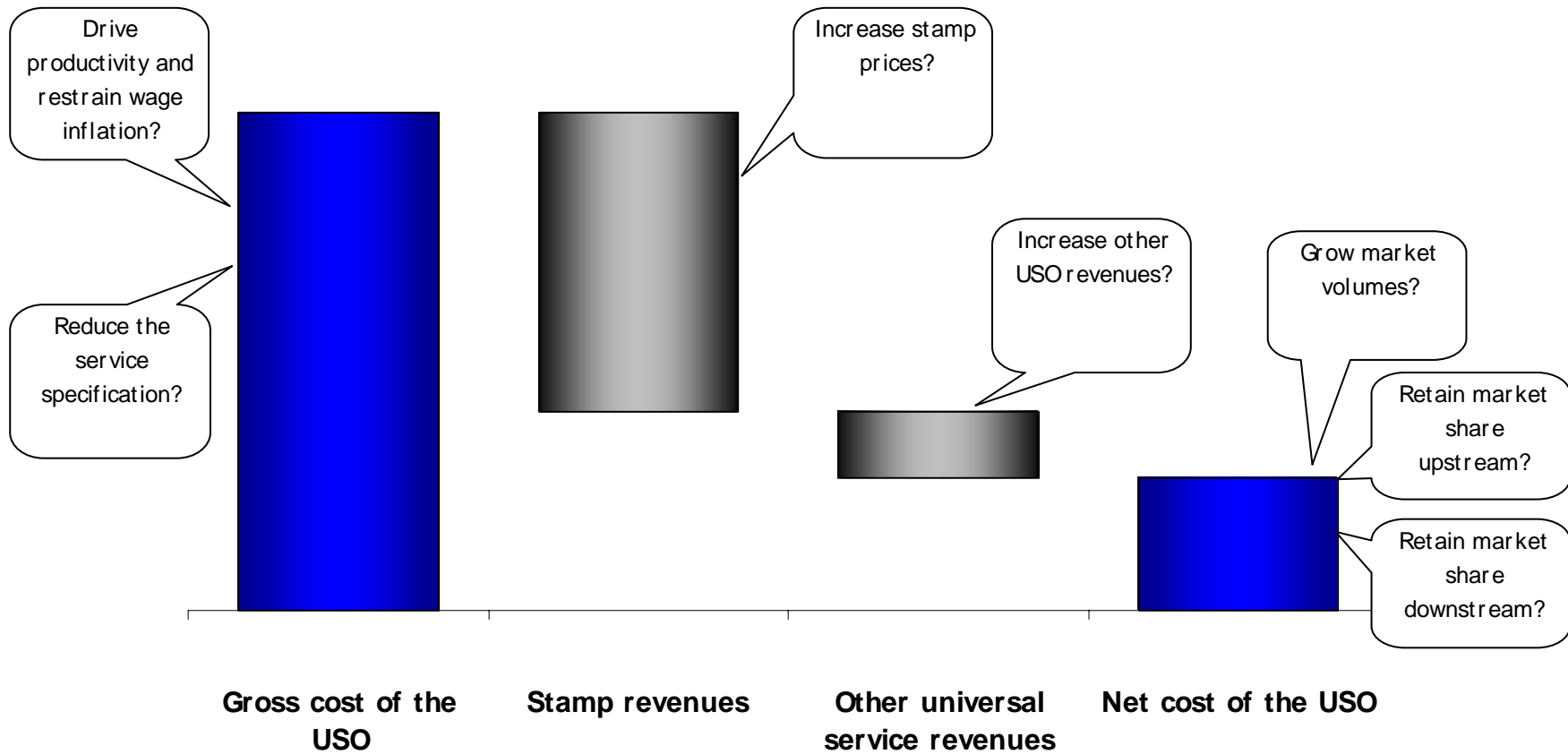


Providing a universal service in a competitive market

Alex Smith



PROVIDING A UNIVERSAL SERVICE IN A COMPETITIVE MARKET



REDUCING THE GROSS COST - EFFICIENCY

- Royal Mail has reduced headcount by 7,000 in 06/07 (4%), with significant reductions planned for coming years
- Increase automation levels across operations
 - c500 Walk sequencing machines (75% letters machine sequenced)
 - >85% automation levels upstream
 - 20 new flat sorting machines
 - Part-automation of packet handling
- Proposed closure of final salary pension scheme, to be replaced by average salary scheme
- Pay for success, not change
- Engage work force
- Share scheme to incentivise employees

REDUCING THE GROSS COST – SERVICE SPECIFICATION

- Current Specification:

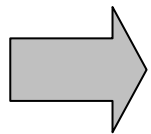
 - 6 day delivery

 - Next day service achieves 94% (above target)

 - D+3 service achieves 98% (on target)

- Consumer views/SMEs

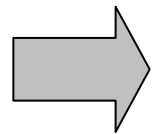
- Post vs other media



Royal Mail needs to maintain high specification to preserve perception of quality vs other media

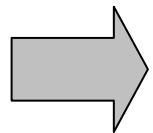
INCREASING USO REVENUES

- Stamp losses (c-£190m in 06/07, pre-exceptionals)
- Business profits (c+£350m in 06/07, pre-exceptionals)
- Elasticities
- Lowest stamp prices in EU behind Ireland and Spain



Raise stamp prices to unwind cross-subsidies

- Zonal costs/uniform prices



Minimise scope of USO

INCREASING NON-USO REVENUES – MARKET VOLUMES

- Trends in UK
- Outlook for revenues
- Innovations to grow the market
 - RM Tracked
 - D loves E
- Risks of heavy ex-ante regulation

INCREASING NON-USO REVENUES – UPSTREAM MARKET SHARE

- Pricing anomalies require re-balancing

Volume

Channel

Zonal

Machineability

- Reduce headroom

INCREASING NON-USO REVENUES – DOWNSTREAM MARKET SHARE

- Economics of bypass
- Zonal access prices
- But what to do about 2 day delivery?
- Implications for USO if bypass happens

ROYAL MAIL'S PRIORITIES TO ENSURE A HIGH QUALITY UNIVERSAL SERVICE

- Increase productivity
- Maintain high spec

- Raise stamp prices

- Minimise other USO products to allow price re-balancing

- Innovate to grow mail's share of comms and fulfilment market
- De-regulate to allow competition for business mail
- Retain the last mile (if possible)

