

ANNUAL REVIEW AND PLAN

2016

Supporting subpostmasters to maximise income from their Post Office and retail business



FACING THE CHALLENGES

Introduction

2015 was one of the most significant years in our history. In July, we signed a landmark, 15-year agreement with Post Office Ltd that will transform the landscape for subpostmasters' representation and support.

The NFSP has turned a corner. For the first time in many years we are growing our membership and have a solid platform from which to plan, modernise and build a new organisation.

The agreement provides for significant investment, enabling us to design and develop a wider range of services built around the changing needs of subpostmasters. It entitles all subpostmasters to free membership of the NFSP.

Our aim is to support all subpostmasters maximise income from their Post Office and retail business. The focus for 2016 is to accelerate change and strengthen the support and services we offer, including re-invigorating our local branch structure. We are building the support we can offer to grow sales, both from the Post Office and retail sides of the business.

We'll also be pressing Post Office and Government to secure a viable future for the business and its operators, including community branches. We'll intensify pressure on Royal Mail to ensure Post Office branches continue to be the customer-facing side of the business and that subpostmasters are properly rewarded for the work and value they provide.

We'll also work with the Government and Post Office to ensure post office branches play a full role in providing banking infrastructure services across the country.

It's a wide and challenging agenda. It addresses both the immediate, practical needs of subpostmasters as well as seeking to influence the wider external business and policy environment affecting subpostmasters.

CONTENTS

- 3 Foreward from Jim Nott, NFSP National President**
- 4 Welcome from George Thomson, NFSP Chief Executive**
- 5 Welcome from Paula Vennells, Post Office Ltd Chief Executive**
- 6 The Post Office – still fighting for a future**
The relentless march of digital – can Post Office compete?
- 16 The NFSP – building for the future**
Embracing the new reality

Foreward

As National President I have had the pleasure of visiting many regions, branches and individual post offices.

Like thousands of other subpostmasters I have changed to a new model, with all the challenges that this presents. Many friends and colleagues have decided to leave the business, supported by the compensation package the NFSP secured for them. Just as many decided to stay within the business and change their offices, some being less dependent on Post Office and pushing ahead with their retail side of the business.

This is where I would like to see the Federation become more active. Due to a lack of promised work coming through from the Government - indeed, we have seen a reduction in the work it puts through the Post Office - it will become increasingly necessary that the NFSP provides practical retail support and advice so that we all can maximise our retail businesses.

Network Transformation has resulted in a position where many of our offices are better placed to take on any increase in work that Post Office may provide. We welcome the extension of the POca contract but would push for more work from all the banking institutions.

As a working subpostmaster I urge you all to get involved with the NFSP, using its strength and yours to ensure we have a viable business in the years ahead.



Jim Nott
NFSP National President

Welcome



George Thomson,
NFSP Chief Executive

“ We have to be positive and committed to building a successful, sustainable Post Office ”

Every day, every week, the pressure on subpostmasters intensifies - from growing competition, rising costs and the challenges of managing a Post Office franchise.

Subpostmasters continually evaluate their options and decide what's best for them and their families - whether to continue investing time and money to try and build a successful local business, or call time and move on.

As Network Transformation reaches its end, its crunch time for the Post Office. There will be no more large injections of public money, no lifeboat. The future is now and we have to make this work.

For me, the strategy and battle lines are clear.

We have to take the world as we find it, not how we would like it to be. We have to be positive and committed to building a successful, sustainable Post Office.

This requires a fundamental shift in culture.

Subpostmasters invest in the Post Office, building the local branches and network without which the Post Office wouldn't exist. For customers, the Post Office is the subpostmaster.

That's why the Post Office must be shaped by an understanding of what it takes to run a Post Office and retail business.

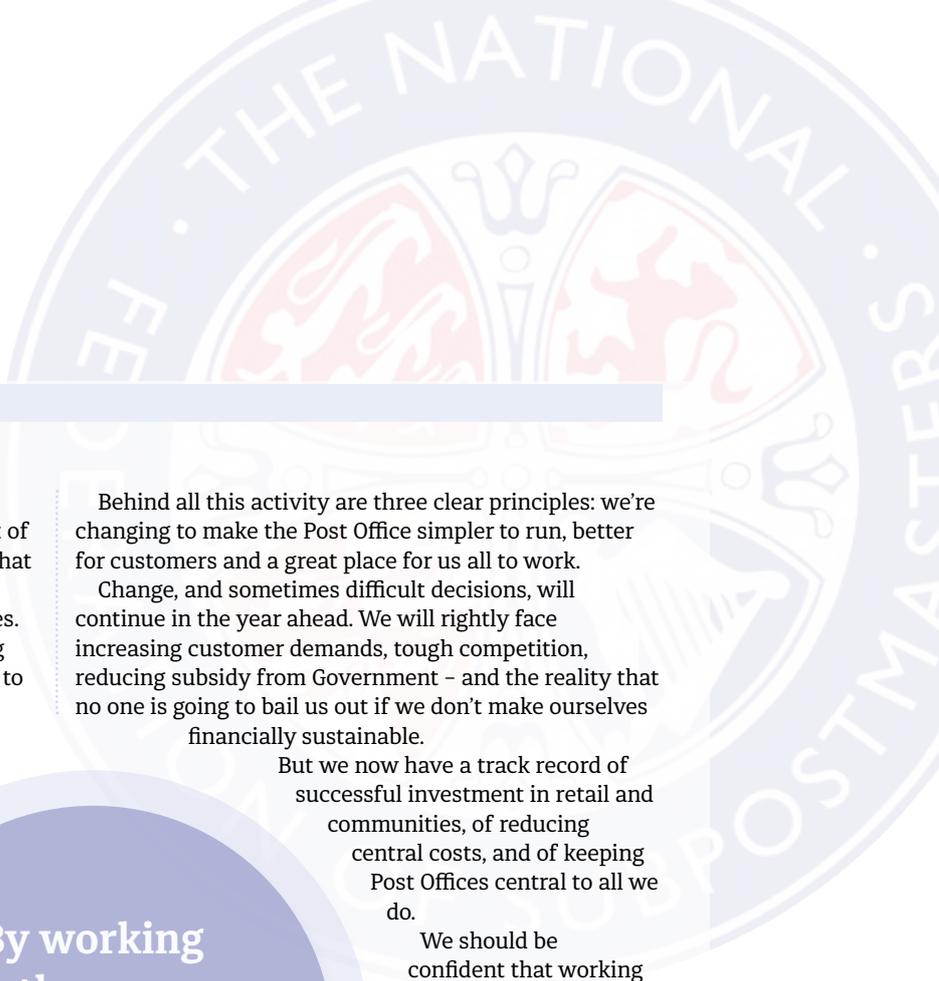
The ground-breaking agreement signed last year by the Post Office and NFSP recognises the need to change and work together more effectively. It's the platform to strengthen our voice as the small business champion within the Post Office, fighting for a sustainable franchise business model, one that rewards subpostmasters fairly for the work they do.

It's the vehicle to transform the NFSP, ensuring we grow to represent all branch operators including the multiples as well as the independents.

We have begun the journey and, over the coming months and years, we will roll-out a wide range of practical services to help subpostmasters maximise their Post Office and retail incomes.

We will work with Post Office to ensure we remain the high street presence for Royal Mail and become the heart of community banking. We will fight for public subsidy post-2018 for community branches to support fixed pay.

This is our agenda, our mission. Success will be hard fought, but it's a fight I believe we can win.



The day-to-day service Post Offices give to customers throughout the UK is at the heart of communities. Post Offices show the nation that commercial acumen and social value can go hand in hand to the benefit of local shops and services.

But the environment in which we trade is changing quickly and so Post Offices, large and small, have had to step up to meet the challenge.

2015 has been a year of progress where this has happened.

There are now 6,000 Post Offices which have modernised themselves through Network Transformation. Over 500 further branches have taken advantage of the Community Fund to access investment that develops their businesses. As a result, our network is more convenient and modern for customers, more sustainable – and is better placed to serve communities into the future.

I would like to congratulate postmasters for embracing change in this way.

Similarly the NFSP has had the courage and foresight to change as it seeks the most effective ways of representing, supporting and enhancing the businesses of postmasters. By so doing, it has enhanced its position as the constructive voice of postmasters both inside and outside our business.

And Post Office Ltd, in order to support the network of Post Offices, has rapidly changed. 2015 saw significant reduction in the costs of our central support functions; a Crown network that no longer makes a loss and the start of technology developments that will renew our business infrastructure.

Behind all this activity are three clear principles: we're changing to make the Post Office simpler to run, better for customers and a great place for us all to work.

Change, and sometimes difficult decisions, will continue in the year ahead. We will rightly face increasing customer demands, tough competition, reducing subsidy from Government – and the reality that no one is going to bail us out if we don't make ourselves financially sustainable.

But we now have a track record of successful investment in retail and communities, of reducing central costs, and of keeping Post Offices central to all we do.

We should be confident that working together, building on what we have done so far, we can both trade successfully and remain a force for good in communities across the UK.

“
By working together we can remain a force for good in communities across the UK
”



Paula Vennells,
Post Office Ltd
Chief Executive

The Post Office – still fighting for a future

The relentless march of digital – can Post Office compete?

The arrival of television in the 1930s caused many to fear for the future of radio and predict its demise. Very few could've predicted that almost a century later, 90% of us would still be listening to the radio (on average, three hours every day). Similar fears were expressed for cinema in the 1980s when home video arrived but since then, cinema audiences have more than doubled.

The point is, the arrival of a shiny new medium does not necessitate the destruction of the existing one. Rather, consumers change their habits to both embrace the new arrival while continuing to enjoy the old. At first seen as competing enemies, the old and the new eventually learn to live together before coming together to support one another.

The Internet emerged in the 1990s to be probably the most disruptive and transformative development since the arrival of the motor car. Widespread adoption of broadband and mobile Internet use has fuelled a phenomenal growth in online shopping, causing many to predict the death of the high street.

There were some early retail casualties, Woolworths and Blockbuster perhaps the most notable. The high street remains subject to intense competitive pressures.

As history shows, however, it would be wrong to suggest high street shops will disappear.

On the contrary, there are some positive signs that the high street is fighting back, as shops learn to adapt, compete for and share customers with online retailers. Some offer bespoke, local physical services that the Internet can never replicate. Others are using the Internet to market their business and drive in-branch sales.

For most retailers, a successful future is dependent upon a clever blending of their high street and digital presence.

In other words, the rise of digital is not a relentless path of destruction of everything that went before it. Following the rise of CDs and more latterly online music, for example, very few would have been brave enough to forecast that vinyl records would make a comeback, carving out a new role alongside digital music.

Who could've predicted that sales of e-books like Kindles would fall as rapidly as they rose, and that old-fashioned paper books would have a resurgence?

Early predictions that digital would see off the high street appear to be unfounded





The Post Office today – keeping its head above the water

With the UK's largest network of high street outlets, the Post Office is very much a traditional bricks-and-mortar organisation. Despite losing around 1m customers every year, the Post Office has so far withstood the potentially catastrophic impact of the Internet, cushioned by almost £2bn of Government investment and subsidy since 2010.

This investment, through the Network Transformation (NT) programme, has supported the modernisation of over 6,000 branches. Over 2,000 subpostmasters have either left the network or are in the process of leaving with compensation to be replaced by new operators. It has underpinned new contracts that demand longer opening hours and encourage a more entrepreneurial spirit.

The programme has allowed the Post Office network some much-needed breathing space, a time to consolidate, stabilise and modernise in a market and era characterised by fierce and dynamic competition.

The programme will end in 2018, after which subsidy will fall significantly. With the likely exception of 3,000 'last shop in the community' branches (which the

current Government has committed to supporting and which therefore are likely to retain some element of core payment), the majority of Post Office branches will be fully exposed to competition.

The objective of Network Transformation is to break through decades of decline and poor performance to create a financially sustainable Post Office network and business, one no longer dependent upon significant levels of taxpayers' money.

Achieving this requires a successful commercial strategy, one that enables the business to exploit its investment, its unequalled reach into every community and highly trusted brand. In a competitive marketplace, at its core must be compelling and attractive products and services. As an agency-based business, it must also offer branch operators sufficient incentives and opportunity to make an appropriate return on investment.

Since separating from Royal Mail in 2012, the Post Office has published annual (and interim) financial results. This offers, for the first time, a more accurate understanding of how the Post Office is performing.

The decision by the last Government to separate Post

The rapid rise of e-commerce caught some venerable high street chains off-guard



“ The Post Office has suffered considerably from successive Governments reducing their use of the network ”



Government continues to press ahead with moving transactions online

Office from Royal Mail is seen by many as primarily politically expedient, necessary to progress the privatisation of Royal Mail. Privatising Post Office branches was seen as a political step too far and risked derailing the fraught process of moving Royal Mail into the private sector.

The decision to create an independent, publicly-owned Post Office therefore was not based on rigorous business analysis or assessment that it would be more successful if separate from Royal Mail. Indeed, before separating, Royal Mail locked itself into a 10-year exclusive agreement to work with Post Office, in order to maintain volume mail work and provide continuity for Post Office branches.

In creating a separate Post Office, the Government announced that it would build the delivery of public services around Post Office branches. This implied, at least, that without new government work, for which the Post Office receives payment, the Government believed Post Office would continue to struggle. In other words, the Government sought to create a new market.

Network Transformation meanwhile was designed to provide the investment necessary to enable the Post Office to halt its decline, provide stability and the platform to develop a new strategy to survive in a more competitive, digital world.

Since becoming an independent entity in 2012, the

Post Office has broadly maintained overall income from product sales (excluding network subsidy) at just under £1bn a year. Given that there has been a significant decline in Government work over this period (rather than an increase, as initially proposed), this achievement could be viewed particularly favourably and provide grounds for optimism.

The £23m fall in revenue from government services (down to £141m in 2015) has been largely off-set by a £26m annual increase from financial services (£290m in 2015). The largest single income stream, mail and retail (representing 40% of all income), declined by £4m a year over the period (now at £388m) while telecoms has remained flat at £120m.

The first half of 2015/16 has seen a continuance of this trend, with income from product sales broadly flat.

Post Office product income (£m)

	2012	2013	2014	2015
Mails and Retail	392	409	390	388
Financial Services	264	281	279	290
Government Services	164	164	146	141
Telecoms	120	129	124	120
Other income	40	41	40	37
Turnover	980	1,024	979	976

Source: Post Office Annual Report & Financial Statements (2012-13, 2013-14, 2014-15)

Maintaining income from product sales while losing customers can be viewed as something of an achievement. However, the decline in mails income is particularly worrying, given it is a growing market and one where Royal Mail and Post Office enjoy a fundamentally strong position.

It is Government subsidy that enables the Post Office to keep its head above the water and with that set to fall away markedly over the next few years, the business must start to deliver consistent and sustainable growth.

Continuing decline of Government work

The Post Office has suffered considerably from successive Governments reducing their use of the network to provide access to public services. Despite the commitment made by Government in 2010 to make Post Office the 'front office for government', if anything the



downward trend has accelerated as the Government sought to transfer services online. Since 2012, revenue from government work has fallen by £23m.

Reducing the public's need to use the Post Office to access public services has been a major cause of the decline in customer visits to branches, estimated to now stand at around 15-16m a week (compared to 28m a decade ago). These are still large numbers but it is proving difficult to halt this steady decline.

The decision in 2014 by DVLA to remove the need to display a visible vehicle tax disc was a serious blow, particularly following the Post Office's success in winning a competitive tender against fierce competition to continue providing motoring services. Similarly, the recent success in securing an extension to provide the Post Office card account (POca) on behalf of the Department for Work & Pensions is little more than a temporary relief, with Government determined to ensure all working age benefit recipients use bank accounts.

The loss of Government work hits the Post Office doubly hard, reducing income derived directly from Government departments and agencies for undertaking the service and then, at a branch level, where declining volumes reduce income from transactions.

The Post Office can expect to play only a limited role in the future delivery of public services, focused mostly on identity verification.

Growing competition in mails

The postal market remains the largest single revenue source for the Post Office and branch operators. Successfully navigating this rapidly changing market is critical for the viability of the business.

Subpostmasters witness first-hand both the ongoing decline in letter volumes and significant growth in parcel distribution, driven by the increase in shopping returns and e-Bay traders using Post Office branches.



Post Office income 2012-15 (£m)

	2012	2013	2014	2015	2016	2017	2018
Turnover	980	1024	979	976			
Network Subsidy	180	210	200	160	130	80	70
Revenue	1,160	1,234	1,179	1,136			
People costs	(254)	(259)	(255)	(238)			
Other operating costs	(876)	(913)	(850)	(834)			
Operating Profit (1)	61	94	107	100			

(1) Network Subsidy is put towards the cost of maintaining the Post Office network and if it were removed, Post Office would be trading at a loss. Network Subsidy is separate to Government grant funding for Network Transformation (£170m in 2015, £215m in 2014), which is accounted for as an operating exceptional item and used to offset £59m in capital expenditure (£94m in 2014), £43m for postmasters' compensation (£88m in 2014) and £68m in network and IT transformation costs (£135m in 2014). Funding for Network Transformation will end in 2018.

Source: Post Office Annual Report & Financial Statements (2012-13, 2013-14, 2014-15)

The mails market is fiercely competitive and becoming more so, as new entrants and technologies drive innovation.

Change is now a permanent feature of the market, with further disruption predicted with Amazon and Uber expected to mount significant attacks. Analysts are predicting Royal Mail will come under intense pressure and risks losing significant market share.

A growing mails market could and should be good news for the Post Office. A large, trusted and extensive high street network offers unique advantages and opportunities to exploit the growing demand for a physical interface between the online and real worlds.

This is especially true in an economy being re-shaped by dispersed and fragmented micro and small businesses.

The challenge for Post Office, however, is that it has only partial control over its mails strategy. The exclusive inter-business agreement with Royal Mail undoubtedly benefits Post Office (as indeed it benefits Royal Mail), providing it with significant volume. At the same time it also constrains Post Office, for example preventing it from handling parcels from competitors.

The Post Office is, to a large extent, dependent on the success of Royal Mail. Were both companies to have identical shared interests this would be welcome. However, as two separate companies competing in a



Bank branch closures will continue and offer opportunities for Post Office



dynamic market, pressure on remuneration and competition for the customer are key battlegrounds.

Many subpostmasters report losing long-standing SME (small and medium enterprise) customers to Royal Mail. It is keen to grow its online customer base, supporting pre-paid postage and thereby remove potential revenue gain for Post Office branches. Yet the Post Office and Royal Mail agreement requires branches to accept customers' mail, despite receiving no remuneration for doing so.

Royal Mail is also pressing ahead with plans to grow direct collection services from customer premises, another means by which Post Office is being squeezed from potential revenue sources. The most recent and potentially far reaching development is the introduction of differential pricing between online and in-branch for small parcels.

Under pressure from both competitors and Royal Mail, the Post Office is struggling to maintain mail revenues, let alone achieve significant growth. Annual revenues since separation have fallen from a peak of £409m in 2013 to £388m last year.

Financial services – a beacon of hope

Success in the financial services sector is critical to the Post Office achieving commercial sustainability, particularly in light of declining Government work, flat mails revenue and reduced public subsidy.

Revenue from financial service products continues to grow, up £3m (2%) in the first six months of 2015/16, on the back of 3% growth the

previous full financial year. Since 2012, annual revenues have grown from £264m to £290m.

In a market where trust is at a premium, the Post Office sees significant opportunity for growth. It is one of the most trusted retail brands, one of the top three in the country along with Boots and the AA. It recently launched its Post Office Money brand, the platform for its attack on the personal financial market, and is seeking to progressively take greater control of product strategy and development.

A key tactical opportunity exists from the decision by high street banks to accelerate branch closure programmes and encourage customers to use the Post Office for basic banking transactions. Already providing an industry-wide offer for all current account holders, the Post Office is seeking agreement to support small business customers. These developments are welcome and represent a significant opportunity to attract and retain new customers.

Providing face-to-face banking in communities that have lost access to banking services will help reinforce Post Office ties with local communities and strengthen its

perceived social value. Potentially, this offers evidence for politicians and others struggling to recognise the full value of Post Office branches in today's digital world.

At a macro level these developments are highly welcome. However, subpostmasters remain concerned that remuneration rates for transactions, some of which are very time consuming, are

“ Providing face-to-face banking in communities where banks have closed will help strengthen Post Office ties ”



Post Office payment to postmasters (£m)

	2012	2013	2014	2015
Postmasters' Fees	483	478	448	435

Source: Post Office Annual Report & Financial Statements (2012-13, 2013-14, 2014-15)



very low. Local model branches meanwhile are constrained by a £1,000 cap on transactions. NFSP is urging Post Office to ensure banking transactions are viable for operators, and to consider how Locals can fully participate.

Managing costs and achieving growth

Headline revenue figures provide only a partial insight into the Post Office's performance. A key indicator is the ratio of costs incurred in generating income.

Currently, it costs the Post Office more than £1 to generate £1 of income, excluding public subsidy. The Post Office is loss-making and remains some way short of commercial sustainability.

This is critical as we move closer to 2018, during which time public subsidy falls dramatically, from a peak of £210m (2013) to £70m in 2018. Discussions are underway within Government to determine subsidy levels after 2018, expected to be in the region of £60m a year and largely targeted at community branches. The progressive reduction of public subsidy highlights

the true extent of the challenges ahead and the need for continued operational cost reduction.

Since 2012, the Post Office has reduced its cost base by around £50m, achieved through staff headcount reductions (in Crown branches and head office). Over the same period payments to subpostmasters have also fallen by almost £50m.

The NFSP has pressed Post Office for many years to tackle excessive head office costs. The Post Office continues to target removing costs out of the organisation. Without revenue growth, however it will need to accelerate cost reductions if it is to offset shortfalls arising from reductions in network subsidy.

Cost reduction is only one part of a viable strategy, necessary but on its own insufficient. At some point, Post Office must find a way to turn the corner and deliver sustained commercial revenue growth, across all its main commercial pillars but especially in mails and financial services.

The NFSP is concerned that the absence of real growth in revenues from sales will see growing pressure for a greater squeeze on remuneration for branch operators. Post Office has progressively reduced payment to subpostmasters since 2012, with total payments falling £50m a year to £435m by 2015. With overall revenues broadly flat, this reduction must largely be the result of the progressive elimination of core-tier payments. NFSP believes there is no room for further reductions in payments to operators, many of whom are already struggling to justify continuing with the Post Office business.

In October 2015, the NFSP undertook a membership survey (eliciting 475 responses, 8% response rate, of which approximately a third were modernised, a third unmodernised and a third were community branches).

Almost a quarter responded that revenue from Post Office sales represented less than 10% of their total retail sales, with nearly two thirds earning the majority of their revenue from non-Post Office sales.

In other words, most Post Office branch operators earn most of their income from retail and non-Post Office sales. Nearly half expect their Post Office sales to decline (to October 2016), with over a third expecting them to remain flat. Just 16% anticipate a growth in

“Today, operators must be increasingly proactive in attracting and retaining customers in order to grow sales”

sales. Less than a quarter meanwhile describe their attitude towards the next two-to-three years as 'positive' for their Post Office business.

With only a small minority of subpostmasters feeling positive about their Post Office business, the Post Office faces a careful balancing act, particularly as for most operators Post Office sales represent less than half of all income.

Further downward pressures on remuneration without a compensating growth in volume sales will increase the unit costs of the Post Office counter. In other words, the relative cost of running a Post Office franchise will increase. Lacking a fixed or core-tier payment and dependent solely on transaction-based sales, Post Office branch operators will critically evaluate the true value of their Post Office investment, especially in today's increasingly tough retail market.

NFSP recognises that subpostmasters have a vital role to play in helping to grow Post Office sales. The days of sitting behind the counter waiting for customers to arrive are fast receding. Subpostmasters must be increasingly proactive in attracting and retaining customers in order to grow sales, for example utilising local marketing and customer relationship management techniques.

Indeed, the vital role subpostmasters play in supporting customer retention and growing sales means it's now more important than ever that Post Office strengthens its relationship with subpostmasters.

The Post Office needs to retain and attract customers with compelling and competitively-priced products where and when they want them. Customers value very highly 'quality of service', whether that's online or face-to-face, and Post Office branches clearly have a critical role.

However, they need the right products at the right price in order to provide that quality of service. Disenfranchised and demoralised operators are not going to deliver the growth needed. Ensuring sufficient and appropriate incentives and rewards for subpostmasters are essential if Post Office is to realise its ambitions for commercial sustainability.

A retail future

Falling customer numbers and declining margins are rendering the traditional, stand-alone Post Office increasingly a thing of the past. Indeed, for most NFSP members, income from their Post Office business represents a minority of total revenue, including a quarter for whom Post Office revenues account for 10% or less.



Caverswall
Post Office
(top)

Portmahomack
Post Office (left)

The Post Office Crown transformation programme is progressively migrating large, stand-alone urban Post Office-owned branches into franchised premises. The number of stand-alone Crown branches has fallen to less than 300, compared to 1,900 just a few years ago.

Network Transformation follows a similar path, incentivising agency branches to create Main and Local models involving a retail offer alongside the Post Office counter. The rationale is that co-location will help drive footfall and sales, both from Post Office to retail and vice versa.

Co-location is a sensible option, one used by many franchise operations and retail operators looking to meet local customer needs, manage costs and maximise sales.





“NFSP is determined to ensure subpostmasters' voices are properly valued and incorporated in the Post Office of the future”

However, evidence to support the success of the Post Office model is mixed.

Space in a retail outlet has a value, determined by the costs incurred (most notably rent, rateable value and staff) and the sales it generates. Space must be utilised efficiently, sufficient to generate a positive return to justify continued support and investment. If one area of a shop isn't delivering sufficient return, then a retailer must evaluate options with a view to increasing and maximising their return.

For some retailers, the Post Office franchise is struggling to justify its presence. They hold little or no

truck with the notion of the Post Office as a 'footfall generator'. For them, a product or service must justify its presence on its own ability to generate sufficient sales and return. Even allowing for a 'footfall factor', some operators report that it's their retail offer that is supporting and effectively subsidising the Post Office side of the business.

The drive across the Post Office business for greater commercial realism, one that demands operators take greater responsibility for developing entrepreneurial skills and retail acumen, will see subpostmasters critically evaluate the value of their Post Office franchise. Post Office must ensure that an opportunity exists to earn a sufficient rate of return on Post Office sales alone, and not rely on the 'footfall generator' argument, if it wishes to see both existing and potential new operators maintain and develop investment in a Post Office franchise.

Under its new chairman, Tim Parker, the Post Office is reviewing its core strategy and operations. Mr Parker has attributed the positive Post Office brand being the result of customers seeing subpostmasters, who effectively



embody the brand. He argues that if subpostmasters do not have a future then neither does the Post Office, hence the need to build a sustainable business for subpostmasters and to understand what drives the economics of running a Post Office branch.

The NFSP believes Post Office must include subpostmasters in strategic development and operational planning, including providing the options for subpostmasters to profit from their investment. Continuing to see subpostmasters simply as a channel and overhead, from which savings can be achieved, increases the risk of undermining the viability of individual branches and the network as a whole.

Post Office - now and in the future

As we head towards the end of Network Transformation and a new political funding settlement, the Post Office faces a critical juncture.

Network Transformation has succeeded on many levels. It has enabled many branch operators who were unable or unwilling to adopt the new models to leave

with compensation, unequalled on the high street. The programme has also attracted new operators willing to invest, as well as support thousands of existing subpostmasters with much-needed capital investment. The programme has given the network the opportunity to invest, stabilise and modernise but, as the figures show, the performance of the business is still some way short of financial sustainability. With network subsidy rapidly declining and shortly to settle on a much lower level of support, it is vital that the business kicks on and achieves year-on-year growth, especially in mails. There is no room for complacency.

Achieving success across the business will require a whole new approach to commercial strategy, culture and internal engagement. Historically Post Office has often seen network operators as channels, little more than 'instruments on the dial', with scant consideration given to harnessing the insight and expertise subpostmasters possess on the needs of our customers and the market. NFSP is determined to ensure subpostmasters' voices are properly valued and incorporated in the Post Office of the future.

Emmer Green
Post Office
(left)

Horneadean
Post Office
(above)

The NFSP – building for the future

Embracing the new reality

The NFSP has long recognised the need for modernisation of the Post Office. In a rapidly changing market with consumers migrating online, the Post Office risked being left behind. Avoiding or ignoring the need to adapt will condemn the Post Office to irrelevance and ultimately oblivion.

The NFSP supported Network Transformation. It worked with the Post Office to ensure it provided the necessary investment opportunities for subpostmasters to develop a new approach to running their business. It has also enabled many subpostmasters to leave the business with their investment and pride intact.

Not everything has gone to plan. The failure of the last Government to make Post Office the 'Front Office for Government' has created a significant shortfall in revenue, placing even greater pressure on mails, financial services, and a wider retail offer, to sustain the business.

This is the reality and challenge. It is necessary to address and confront today's economic and political climate, understand the world as it is, not as some might wish it to be. Demanding a return to an idyllic past serves only to betray all subpostmasters and their customers.

The retail market is intensely competitive with little space for sentiment. Politicians today are not particularly sympathetic to calls for Post Office to be exempt from change. Public money is in short supply, customers and the market is king. If customers prefer to use the Internet to access services and purchase goods, then precious few politicians will support spending taxpayers' money to subsidise Post Office branches.

That is not to suggest ignoring the past and condemning the Post Office as irrelevant. Post Office retains many key tangible and intangible assets, not least huge footfall and transaction volumes. It has a formidable, trusted brand, a pivotal role in the mails market and an extensive, almost ubiquitous high street presence. These are key competitive strengths.

The NFSP is committed to supporting and working with subpostmasters, the Post Office and Royal Mail to build a successful Post Office business.

We recognise a stand-alone Post Office branch is difficult to sustain on a commercially viable basis. A Post Office branch is increasingly only viable as part of a wider retail operation, contributing to both overall footfall and revenue from sales.

A survey of NFSP members (October 2015) revealed that there is significant scope for branches to develop their retail offer.

While around nine in 10 already offer greeting cards and stationery, and over two thirds offer confectionery and soft drinks, only around a half sell snacks, gifts, household goods, tobacco and lottery tickets.

Less than a quarter offer food-to-go, and around a third offer bakery and dairy, alcohol, fresh fruit and vegetables, packaged groceries and health and beauty products.

There is, of course, no universal, quick fix solution. Each branch operates in a unique local market and every subpostmaster will need to determine what will work for their branch. NFSP will work with subpostmasters to develop their retail offer, build a network to bring together commercial suppliers and retail experts to provide practical advice and local support.

“A Post Office branch is increasingly only viable as part of a wider retail operation”



A momentous year for NFSP

Last year was truly historical for the NFSP. After years of falling membership, the result of a shrinking Post Office network and the changing nature of branch ownership (most notably the growth of multiple branch operators), the NFSP secured a platform from which it can invest and build.

For some years NFSP had faced an uncertain future. Falling membership placed the organisation and its finances under considerable pressure. The NFSP's Executive Council began exploratory talks with potential partner organisations including other retail trade bodies and a trade union. It also entered into talks with the Post Office.

Three options were put to members in 2015: becoming part of the Communication Workers Union or the National Federation of Retail Newsagents, or remain independent and become a trade association with significant investment from the Post Office.

At an NFSP Special Conference in June 2015, members voted overwhelmingly for the Post Office option.

Post Office agreement

The NFSP negotiating team secured a landmark agreement, one that offered a solid platform for the NFSP to invest and build for the future.

KEY ELEMENTS:

- › 15-year term
- › Post Office to invest grant funding up to £1.5m a year in NFSP to support core activities
- › Post Office to invest a further £1m a year to support individual projects
- › NFSP to become a professional trade association
- › NFSP to develop a wider range of services for branch operators, particularly aimed at strengthening retail skills and capabilities
- › Free membership for all post office branch operators



June Special Conference 2015: members voted overwhelmingly to support the Post Office option



“ Our mission is to support subpostmasters to maximise income from their Post Office and retail business ”

The agreement recognises the need for a stronger, more productive relationship between subpostmasters and Post Office, and that the NFSP is the only organisation capable of meeting this challenge.

This means ensuring subpostmasters have a greater influence with the Post Office. Following endorsement from members, the NFSP has begun building a new organisation ready to meet the challenges ahead.

Organisational reform

Since securing overwhelming membership support in June for the Post Office agreement, the NFSP has been putting in place the essential building blocks of the new organisation.

› Complete incorporation of new company (April 2016)

The NFSP has established a new company limited by guarantee. New articles of association are in place and the transfer of assets and liabilities is complete.

› Establish New Board of Directors (to replace Executive Council)

A new Board of Directors is now in place to provide strategic direction, operational oversight and accountability for the new organisation. Nominations are being sought for new members.



› Increase membership (on-going)

Membership of the NFSP is now growing. Following an initial communication to new operators late last year, approximately 750 new members joined the NFSP, increasing membership to around 6,000. NFSP will intensify recruitment efforts, particularly from April when all Post Office operators become eligible for free membership. The NFSP is continuing to press Post Office to resolve the issue of automatic enrolment for all Post Office operators.

› Trial new branch formats (April 2016 onwards)

The NFSP is trialling new formats for local branch and regional meetings. Taking place on Sundays, the new events involve commercial suppliers, Post Office and retail experts to provide members with more engaging meetings and practical support.

› Appoint in-house retail expertise (from April 2016)

The NFSP has appointed a new retail director to develop an extensive programme of practical retail support and advice. The new director will build a team to strengthen NFSP's capabilities to help members grow their Post Office and retail sales, and build new relationships with commercial suppliers.

› Strengthen communications

In October 2015 the NFSP launched a redesigned monthly magazine, overseen by a new editor and advertising team to offer more practical retail advice, information and analysis. In February this year it launched a new corporate website, part of a new approach to exploiting digital communications that will include regular email news alerts. A new communications team will also be appointed.



The Sub

THE OFFICIAL JOURNAL OF THE NATIONAL FEDERATION OF SUBPOSTMASTERS MARCH 2016

Postmaster

Mail examined
How shake-ups in the Mails market may affect your business now and in the future

NOW OPEN SUNDAYS
Seventh day advantage lost? Fury as Government presses on with plans to devolve Sunday trading decisions P4

Results business
Post Office Ltd's latest six-month figures come under the spotlight P7

Crunch time...
Did you know 97% of UK households shop for crisps or snacks at least once a fortnight? P20

Membership Benefits P13

BE HEARD!
The trade's liveliest letters on pp14-15

Retail Masterclasses

MASTERCLASS IN RETAILING

On target
POL officially opened the 5,000th NT branch last month

It is a marriage made in heaven having a Post Office and convenience store combined

In December of last year, Post Office Ltd's (often controversial, it has to be said) Network Transformation programme reached a significant milestone with the opening of the 5,000th modernised branch. POL's £2bn investment programme reached the milestone with the opening of a new Post Office for the Londis Caterways convenience store on the outskirts of Horsham, West Sussex. Caterways did not have a Post Office, but with two new housing developments built nearby, both POL and the shop's new owner - award-winning retailer Ramesh Shingadia - identified a significant business opportunity.

The Londis convenience store was already at the heart of the Horsham community, and Ramesh, whose family had already run another sub post office - Southwater Londis on Worthing Road, Southwater - nearby, jumped at the opportunity to install a post office within the store and widen its appeal.

Baroness Neville-Rolfe, the Parliamentary Under-Secretary of State and Minister for Intellectual Property and Minister for Postal Affairs, was there, with POL chief executive Paula Vennells to officially open the new store and PO on December 4.

Paula Vennells said: "Transforming our network of Post Offices is crucial to our commercial sustainability while preserving our critical social purpose. "We have come a long way transforming 5,000 branches so far and our customers are reaping the benefit of branches with longer opening hours and a modern retail environment. We continue to work with our existing postmasters and existing postmaster operators to complete our transformation programme. We remain committed to maintaining the size of our network and we are seeing new branches opening in communities like Caterways and others will be announced over the next few months."

Ramesh Shingadia and his family have run Southwater Londis for many years, but their PO experience is relatively recent. In 2014 they took on a post office at Southwater to safeguard the community service and they have not looked back since. Son Alpesh is the manager at Caterways. Ramesh said: "I am delighted to open a Post Office at my Caterways store. It is a marriage made in heaven having a Post Office and convenience store combined. My existing customers and the whole community were thrilled to hear the news they were getting a Post Office. It will make their lives much easier having a Post Office which is open seven days a week from early until late, with lots of free parking. The new branch removes the need for customers to travel into town to do most of their Post Office transactions."

The new Caterways Post Office is one of POL's 'new style' Local branches with a low-screened, open-plan PO service point integrated into the retail counter, which can offer a wide range of Post Office transactions alongside retail purchases.

Horsham Crown branch, in the town centre, continues to provide the full range of Crown Post Office services.

18 The Subpostmaster • January 2016

➤ **New-style annual conference**
The NFSP is transforming its Annual Conference, moving away from internal policy motions to focus more on external and practical issues facing subpostmasters. Involving the Post Office and commercial partners, the 2016 Conference will adopt a new format to debate and examine the big issues facing Post Office operators

including partnership banking, the mails market, public subsidy and potential structural changes to the network beyond 2018. It will also include a series of practical workshops. The NFSP is making more delegate places available, and hosting an exhibition and Annual General Meeting open to all NFSP members.



“ The 2016 Conference will use a new format to debate and examine the big issues facing Post Office operators ”

FACING THE CHALLENGES – agenda for change

Having put in place the building blocks for the new organisation, NFSP will continue throughout 2016 and beyond to transform the organisation, strengthen its core capabilities and focus its resources and energy on seven key priorities.

1 SUPPORTING GROWTH IN POST OFFICE SALES
Some subpostmasters are more successful than others in growing sales and income from Post Office products, NFSP will work with Post Office and others will provide support for subpostmasters to grow their Post Office sales.

A new NFSP retail director and team to develop practical advice and training sessions, to take place at both new-style local and regional branch meetings, as well as bespoke and individual one-to-one sessions. This new approach has started trialling in the North West and Midlands.

NFSP Annual Exhibition, AGM and Conference 2016

FACING THE CHALLENGES – WORKING TO BUILD A SUCCESSFUL POST OFFICE AND RETAIL BUSINESS



Sunday 8 May to Wednesday 11 May

St. Johns Hotel, 651 Warwick Road, Solihull Bg1 1AT

Please join us at this year's NFSP Conference, which will incorporate the biggest changes in the NFSP's history.

Conference delegates will debate and explore some of the most pressing issues facing subpostmasters including partnership banking, the mails market, potential structural changes to the Post Office network and future public subsidy.

As part of its change to a Company Limited by Guarantee, the NFSP will host an Annual General Meeting. The event will also include an exhibition. **Both the AGM and exhibition are open to all NFSP members.**

A Gala Dinner will be held on the evening of 9 May, and a Charity Quiz Night will take place on 10 May.

Exhibition:

Sunday 8 and Monday 9 May

Annual General Meeting:

2pm, Monday 9 May

Conference:

Tuesday 10 and Wednesday 11 May (delegates only)

If you would like to attend the exhibition and / or the AGM, please register in advance with NFSP by emailing sharon.merryweather@nfsp.org.uk.

To attend the main conference as a delegate you must be nominated through your branch and regional structure and notified to NFSP on regional booking forms. Please contact your Branch Secretary for further information.

In addition to nominated delegates for the main conference, 20 delegate places are available on a 'first come, first served' basis. Please contact sharon.merryweather@nfsp.org.uk for details.

The Sub

THE OFFICIAL JOURNAL
OF THE NATIONAL
FEDERATION OF
SUBPOSTMASTERS
APRIL 2016



Postmaster

2 SUPPORTING GROWTH IN RETAIL SALES

Subpostmasters cannot rely on income from Post Office sales alone. They must develop a wider retail offer to help generate sufficient income to build a viable retail business. Many subpostmasters are highly successful in this but, across the network, considerable scope exists for development.

This year the NFSP retail team will begin working with subpostmasters to strengthen their retail offer, developing a comprehensive range of services including, for example, support on merchandising and planograms.

3 PROVIDING A SINGLE VOICE FOR ALL SUBPOSTMASTERS

The new agreement with Post Office entitles all branch operators to free membership of the NFSP, providing the platform for creating a genuine single, comprehensive voice for all subpostmasters. This will ensure all subpostmasters have access to the support, services and representation they need.

The NFSP continues to work closely with Post Office to implement automatic enrolment for all branch operators.

4 SECURING A VIABLE POST OFFICE FUTURE

The Post Office faces considerable commercial challenges as competition in the retail market continues to intensify. The NFSP is fully committed to building a strong, viable Post Office that will enable subpostmasters to build successful businesses. To achieve this, it is essential that the voice of subpostmasters is integrated into strategic decision-making, and that they have sufficient financial incentives and remuneration to make a return on their investment.

The NFSP is intensifying efforts to ensure Post Office fully understands and incorporates the true value subpostmasters provide in delivering Post Office products.



Euro 2016

With three home nations competing, this could be your biggest footy opportunity in years P9, P18-19



Conference

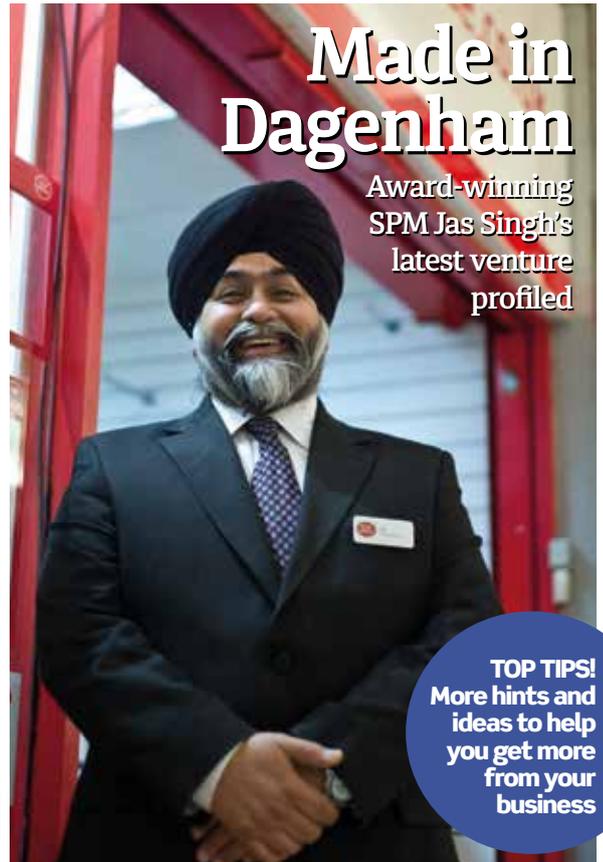
We preview next month's NFSP Conference and exhibition P20



Save money!

Use less energy, get smaller bills. We give you tips from the experts P22-23

Membership Benefits P11



Made in Dagenham

Award-winning SPM Jas Singh's latest venture profiled

TOP TIPS!
More hints and ideas to help you get more from your business

SPECIAL THANKS

Mervyn Jones, a former NFSP President and Commercial and Network Director, left the organisation in 2015. Mervyn dedicated decades of service to the NFSP and its members, helping negotiate with Post Office the terms of Network Transformation and providing support to hundreds of individual subpostmasters.



RISK OF NEW REGULATORY FRAMEWORK FOR ROYAL MAIL



In 2015 Ofcom, the communications regulator, announced that it was undertaking a review of the regulation of Royal Mail. It questioned whether Royal Mail's position in the mail market posed a threat to competition and consumer interest, particularly following the withdrawal of Whistl from the end-to-end letters delivery market.

The NFSP submitted evidence to Ofcom arguing that the mails market is characterised by intense and growing competition, and that introducing a new, more intrusive regulatory framework on Royal Mail risked undermining Royal Mail's ability to develop its commercial strategy and deliver universal service.

In its evidence, the NFSP highlighted the vital role Post Office branches play in the delivery of universal service, for example by providing ubiquitous access to the mails network. The NFSP expressed concern that any increase in regulation that sought greater cost savings and productivity gains on the part of Royal Mail risked further pressure being exercised on the exclusive agreement between Post Office and Royal Mail, and therefore remuneration levels for subpostmasters.

In 2016 Ofcom is expected to announce its conclusions and recommendations for any changes to the regulatory framework.

NFSP will continue to press Government and Ofcom to recognise the critical role post office branches play in delivering universal service and oppose any proposals to increase the regulatory burden on Royal Mail.

5 SECURING NETWORK SUBSIDY

The Government is considering what level of public subsidy the Post Office should receive from 2018, following the end of Network Transformation.

In its election manifesto, the Conservative Party committed to supporting 3,000 community branches. It is expected that public subsidy will be orientated around the needs of these 'last shop in the community' branches, which play a vital role for many rural and isolated communities, particularly in relation to access to cash and benefits.

The NFSP will focus on securing the best possible settlement from Government. We will work with Post Office and MPs, for example through a newly-formed Parliamentary All-Party Post Office Group, to demonstrate the value and vital role these branches play and the cash-in-transit part of the Post Office business.

6 SUPPORTING POST OFFICE ROLE IN MAILS

Separation of Post Office from Royal Mail has resulted in some dislocation and conflict of interest between the two companies. Increasingly, Royal Mail is developing its commercial strategy without fully incorporating the needs and aspirations of Post Office and subpostmasters into its thinking. This poses a considerable risk, not just to Post Office but Royal Mail as well. Post Office branches provide Royal Mail with a customer-facing high street presence in every community, offering the ability to cross-sell Royal Mail products and manage customer issues.

NFSP is committed to working with Royal Mail and Post Office to promote and demonstrate the critical role of branches and subpostmasters, and ensure that subpostmasters receive fair remuneration for the service they provide.

7 SECURING POST OFFICE AS A KEY PLATFORM IN UK BANKING

The continued decline of the high street bank network offers considerable opportunities for Post



“ The new agreement with Post Office entitles all branch operators to free membership of the NFSP ”

Office branches to support customers requiring face-to-face services. It offers scope for the Post Office network to strengthen its position as an essential platform and aggregator of the UK banking infrastructure to provide partner and retail services. The challenge is to ensure Post Office and subpostmasters receive fair compensation and remuneration for the costs involved in delivering these services.

The NFSP will work more closely with Post Office and the Government to demonstrate the critical economic and social value of post office branches in support of banking and the cash economy, and ensure subpostmasters receive fair remuneration for the services they provide.

Concluding comments

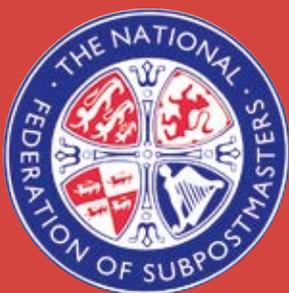
The pressure on Post Office and subpostmasters is intense and relentless. Increasing competition, the end of Network Transformation and reducing public subsidy mean that decisions taken now and over the next few years by Post Office and the Government will determine the shape and health of the network for the 2020s.

Subpostmasters are critical to the outcome. Without subpostmasters, there is no Post Office. New approaches must be found to support subpostmasters to build successful businesses.

This means Post Office adopting a more positive, inclusive approach to decision-making and operational matters, and to establish a model of remuneration and reward that provides sufficient incentives for subpostmasters to continue investing time and money into their branches.

Subpostmasters themselves need improved, better targeted support to help them build successful retail businesses. The NFSP will be at the forefront of the drive to change, working with the Post Office and subpostmasters to support a successful Post Office business, nationally and locally.

There is an immense amount of work to be done, there is no time to wait.



Supporting
subpostmasters to
maximise income
from their Post Office
and retail business

NFSP

National Federation of SubPostmasters Ltd
Evelyn House, 22 Windlesham Gardens,
Shoreham-by-Sea,
West Sussex, BN43 5AZ

Tel: 01273 452324 **Fax:** 01273 465403

Email: admin@nfsp.org.uk

Web: www.nfsp.org.uk

Forum: www.forum.nfsp.org.uk

Follow us on Twitter:

[@NFSP_UK](https://twitter.com/NFSP_UK)

The NFSP is a company limited by guarantee
(company number 9771284 England)