

# Royal Mail's Plan to Charge More for Stamps Than for Franked Business Post

## Introduction

Postcomm is seeking views of Royal Mail's intention to charge customers different prices depending on how they pay for their post. From 1 April 2005, Royal Mail proposes to charge customers who pay for postage using a meter/franking machine, or Printed Postage Impression (PPI), less than those who pay by stamp. These changes are expected to be implemented during the year beginning 1 April 2005. The proposed price differential at the basic weight step for public tariff first class is 1p. There would be proportionate price increases at higher weight steps. Similar changes would be made to international mail products. This is the National Federation of SubPostmaster's response to the consultation.

## National Federation of SubPostmasters

The National Federation of SubPostmasters (NFSP) represents the interests of 16,000 subpostmasters throughout the United Kingdom, Sub post offices make up 96% of the national network of post offices and are run by private business people, subpostmasters.

## Mails Revenue

Revenue from Royal Mail and Parcelforce for stamp sales and the handling of parcels, express, international and special delivery mail has long been a main source of income for Post Office Ltd. In 1998/99 income from mails services made up 23% of the total income for the post office network.<sup>1</sup> NFSP understands that last year (2003), income from Royal Mail contributed over 25% of the total sum paid to subpostmasters for undertaking product transactions. Payment for Royal Mail services brought subpostmasters more income than any other category of product, with the exception of processing benefits and pensions.

## Business Customers

Post offices currently provide many services for local businesses. Not only do post offices provide stamps and posting services, but they also provide bill payment services, licensing services and cash and deposit facilities for small businesses. Business users make frequent use of shops attached to post offices.

Postcomm research carried out in 2001, found that in rural areas 9% of customers were using the post office on behalf of their employer or business.<sup>2</sup> In a Countryside Agency survey, 12% of post office customers in towns and villages were businesses.<sup>3</sup> The Government's Performance and Innovation Unit also emphasised the extensive use of post offices by businesses – they found 90% of businesses with under ten employees use the Post Office®.<sup>4</sup>

The Countryside Agency discovered that 64% of businesses use the Post Office® for purchase of stamps and mailing. A total of 34% of businesses use the Post Office® for purchases from the shop attached to the post office. The Countryside Agency stated the average yearly spend per business on post office services is £2,274.

## Disincentive to Use Post Offices

NFSP is extremely concerned that Royal Mail's plan to charge more for stamps than for franked post will result in a disincentive for businesses to come into post offices and use Post Office® services. We believe that these proposals could result in many businesses switching from stamps to franked or PPI mail in order to take advantage of the cheaper postage rates.

We are concerned that this will lead to post offices not only losing out on income from stamp sales,

but also from the allied footfall. If business customers are not coming into post offices to purchase stamps, post offices will inevitably lose out on the income they derive from customers' other Post Office® purchases, including those from attached shops, which are made simply because the customer is at the post office.

## Two-Tier Postage Rates

Royal Mail's proposals would, in effect, introduce a two-tier postage rate with cheaper mail prices for business. Franking machines and PPI services will only be used by businesses and other large mail users. It is not worthwhile for domestic users and most very small businesses and organisations to invest in the alternative postage method. This will result in very small businesses and domestic mail users paying more to post their mail than the majority of businesses.

Postcomm states that these proposals do not contravene the universal service obligation, since the obligation does not require the same price to be charged irrespective of the payment method used by customers. However, NFSP does not support the principle of a two-tier postage rate, with domestic users paying higher rates than businesses. We believe this represents a clear example of competition, or liberalisation, favouring medium and large business customers over the general public and very small businesses.

## Payment for Handling Franked Post

NFSP anticipates Royal Mail's proposals would result in subpostmasters losing income from the sale of stamps and the concomitant footfall, and that it would also lead to an increase in the amount of mail brought into the post office for distribution into the postal system. We are concerned that subpostmasters should be paid for handling this mail.

Currently subpostmasters are paid for dealing with pouches of franked mail under their "mails baseline" payment, this now additionally has to cover Smartstamp and internet stamps. For most subpostmasters these payments were calculated many years ago as a percentage of the overall product payment made to an individual subpostmaster. NFSP is concerned that if Royal Mails' proposals are introduced, the mails baseline should be increased accordingly.

## Conclusion

Our national post office network is currently under considerable pressure. This is due to a range of factors including trends in retailing, travel and technology. NFSP is seriously concerned that Royal Mail's proposals will result in a further threat to the UK's post offices. We fear these plans will simply result in fewer businesses using the post office network. With each business spending a yearly average of over £2,000 in its local post office, such a loss would deal a serious blow to the viability of many of our post offices.

## References

<sup>1</sup> Performance and Innovation Unit, June 2000, Counter Revolution – modernising the post office network

<sup>2</sup> Postcomm, December 2001, Serving the Community I – evidence of the community value of post offices in rural areas

<sup>3</sup> Countryside Agency, July 2000, The Economic Significance of Rural Post Offices

<sup>4</sup> See 1