

Stamp of Approval

Since the opening up the UK postal market from January 2006 it has evolved into specific segments. Michael Herson has conducted face-to-face interviews with the top five Licensees in the UK and others in the market to assess the impact of this change on heavy users of mail

ON JANUARY 1ST THIS YEAR THE UK POSTAL MARKET was opened up to full competition, effectively ending Royal Mail's 350 year monopoly. The establishment in 2000 of the industry regulator, Postcomm, acted as the catalyst for new entrants to apply for a licence. Following a three year 'lead-in' period, initial restrictions placed on weight / volume thresholds for the new carriers have now been removed. Three distinct sectors have evolved – Downstream access, Consolidated mail and End to end.

Downstream access

Downstream access was the first segment of the market to be opened up to competition in 2003. This allowed mail operators to collect mail from end customers, sort and distribute it regionally and then inject it back into Royal Mail's distribution centres for them to complete the 'final mile' delivery. The main protagonists in this sector (both from a B2B and B2C perspective) have been TNT, UK Mail and DHL. All have concentrated on high volumes of transactional mail typically sent out by the major banks, telco's and utilities, all heavy mailers of statements. These were the obvious targets for predictable volume mail streams, enabling new players to gain a foothold in the market. According to Steve Patrick, Managing Director of UK Mail "It's highly predictable which made it better for us in terms of arranging collections and forecasting to Royal Mail"

The Downstream Access product is marketed by all three as a two-day service. This clearly appeals to end customers when positioned

against Royal Mail's Mail Sort 2 – classified as a two to three-day service - a factor which has persuaded high volume mailers, such as Royal Bank of Scotland to switch and enjoy a share of the discounts that are available. Operators work on slender margins based on the difference they pay for access to Royal Mail's infrastructure and the retail prices they can charge customers. However, Patrick confirms UK Mail "are making a reasonable margin".

Alex Batchelor, marketing director of Royal Mail Group, feels this is not a 'like for like' comparison: "Effectively we are two-day as well, it's just our quality of service for that particular product says three. In order to change that we need approval from our regulator. Our competitors do not have to pay compensation if they fail to meet that standard, whereas we do. If they fail to meet their two-day service, they don't. It's not measured."

Downstream Access volumes have now reached 121m letters/per month, according to data on the Postcomm website - just less than 3 per cent of the market. Both UK Mail and TNT claim market leadership. TNT's clients include Lloyds, Barclays, NPower and Telewest and UK Mail's include Royal Bank of Scotland, Powergen, Dell and Vodafone. DHL delivers Tesco Club Card.

Having picked off the obvious targets, the way ahead is going to become more complex for the Downstream Access operators, who need to identify less predictable volume mail streams, such as tactical direct mail. Also, in 2006 tenders are coming up for renewal for the first time which will be a test of how customers view the service they have received - many are likely to trial different operators.

Unlike its rivals, UK Mail only uses its parent company, Business Post's courier infrastructure, whereas TNT has both set up an independent network apart from its Express business. DHL use its Express network, but have also set up a stand alone postal network for B2B. Both UK Mail and TNT have invested heavily in automatic sortation equipment with both companies favouring Bowe, Bell and Howell as their supplier.

Consolidated mail

Effectively an extension of Downstream Access, Consolidated Mail allows the new operators to target SME's, collecting lower volumes of mail and consolidating it into the Downstream Access network. Thresholds are different for the major operators. Only UK Mail is prepared to go down

Photo: Mark Edwards



to 250 items per pick up, whereas TNT and DHL have higher thresholds of 500.

All the main players recognise the importance of consolidation and the need to invest in increasing awareness. "Consolidation is becoming more and more important and we are working in different environments to prove it" according to Andy Barrett, managing director of DHL. Nick Wells, CEO of TNT Mail confirmed TNT's commitment to the consolidated market: "We are interested in the SME market and for Consolidation we have set up sorting machines around the country, with smart technologies, which have a high level of read rates, so there are less rejections, which ultimately means that our customers will save more money".

UK Mail's Consolidation strategy is based on where the machines are located - the hubs for their sales effort. "While we offer an Economy 3-Day service nationwide, our 2-Day service is influenced by the proximity of our machines to the mail collection point to enable us to collect it, sort it and get it into Royal Mail in time." explains Patrick.

End-to-end

Perhaps the biggest potential threat to Royal Mail - end-to-end deliveries for high volume B2C mail - has not yet fully emerged. Sixty per cent of all mail is B2C. Although Secure Mail Services with its £47m turnover is the smallest of the Top 5 Licensees by some way, it has managed to build up an effective B2C end-to-end delivery alternative to Royal Mail for secure (signed for) mail. "We're second only to the Royal Mail in terms of the number of residential addresses delivered to", confirms Dave Miller, Sales and Marketing Director. Secure Mail Services has recently changed its name in order to better reflect its customer base and the type of traffic it carries - bank cards, passports and tickets to high risk post code areas.

DX offer an end-to-end B2B service through their exchange network that is available to members who pay DX an up-front annual subscription. DHL and DX also have a B2B end-to-end offering to specific post codes, but without doubt the 'sleeper' in the market is TNT who are committed to developing an end-to-end offering, but not one based on the Royal Mail model. Wells is convinced on this point, "As

Royal Mail have this well trodden infrastructure, clearly you'd be a bit crazy to try and take them on head-to-head. Also they have the USO obligations and therefore trying to replicate what Royal Mail do is unrealistic, unsustainable and probably wouldn't be profitable."

Interestingly, neither TNT or DHL regard Holland (where end-to-end options are more developed) as a suitable model for the UK, without adaptation. Patrick confirms that UK Mail have no end to end ambitions within the foreseeable future.

Nicola Rowe of the Periodical Publishers Association (PPA) represents magazine publishers, a sector that has long enjoyed very competitive rates with Royal Mail's Press Stream product and the one most likely to benefit initially from end-to-end competition. However, she says, "The end-to-end competition that we need to meet the needs of publishers and their customers is not there currently and will not be established overnight."

From August this year Royal Mail break with a 350-year old tradition and will price mail by size rather than by weight. Explains Royal Mail's Batchelor: "We are doing it because it is more cost reflective. The things that drive our costs are not just weight but a combination of weight and size".

All the main protagonists agree Pricing in Proportion has been introduced primarily to bring operational benefits to Royal Mail but understand the reasons. All are resigned to it, with only UK Mail seeing it as an opportunity to launch a product in competition. "We are planning to offer customers a solution that mitigates or avoids the significant cost hits", promises Patrick. The majority view on PIP is summed up by Wells of TNT: "If it costs you more to handle operationally, you should be able to charge. However you should not discourage customers from using mail by being too operationally driven".

Alex Walsh of the Direct Marketing Association (DMA) believes Pricing in

From the top: Barratt, Wells, Batchelor, Miller and Maple



Proportion offers his members, "As many opportunities as there are problems." Walsh feels members should be "excited" by it because of the 'free weight' opportunities (the first threshold will rise from 60g – 100g).

More than mail

All the major mail operators respect the increasing importance of Business Process Outsourcers (BPOs) as influencers within the decision making process. Deutsche Post World Net, owners of DHL, became the first company to move 'upstream' in February this year acquiring a 75 per cent stake in Williams Lea. Barrett explains, "We want to cover more than just mail distribution in this marketplace, so we're interested in information, printing, production, document management and finally mail delivery and distribution". However, leading industry consultant, David Robottom, feels this will make it "harder for them to be seen as independent brokers".

DX, who de-merged from Hays over a year ago, feel they are in a different market. "Downstream access is detrimental to first class. We're not in that arena. We see our arena as being next-day, early morning, next-day delivery for business" states Keith Maple, marketing director of DX, whose focus is towards legal and professional services (97 of the top 100 legal firms) and high street retailers: "We're about

mail and parcels that require regular, time critical distribution within the high street, retail parks and business intense locations", confirms Maple. Having dabbled with delivery to all business addresses and found it to be unprofitable, DX have no plans at present to activate their dormant DSA agreement with Royal Mail, "We are concentrating on delivery around our existing footprint, thereby incrementally increasing the network" confirms Maple.

One feature of the market, all interviewees are unanimous about, is that competition has spurred Royal Mail into greater efficiencies and higher standards of customer service. Walsh of the DMA agrees: "Competition has acted as a wake-up call with a joint 'stick and carrot' approach – the stick being the fines and the carrot being the spur of competition."

But clearly the opening up of competition has yet to develop its full market potential. Consultant, Robottom sums it up neatly by looking to the future, "We cannot rely solely on the large mailers; we need the medium and small mailers to benefit, for competition to really work."

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