An Post’s price application

Submissions to Consultation 12/138

Submissions to Consultation

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Submissions Received from Respondents

Consultation:	12/138
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1: An Post

An Post's Price Application: Consultation on ComReg's consent to change the charges of certain postal services within the scope of the universal postal service relating to postal packets weighing less than 50 grams

COMREG DOCUMENT 12/138 dated 20 December 2012

An Post Response
28 January 2013

Contents

Introductory Statement

An Post welcomes the opportunity to make a number of observations in response to ComReg's preliminary assessment in relation to the increases sought in An Post's Price Application to change the charges[1] of certain postal services within the scope of the universal postal service relating to postal packets weighing less than 50 grams ('the Price Application').

An Post submitted its Price Application on 3 February 2012 to have tariffs adjusted to reflect what it believes is necessary to ensure a sustainable Universal Service, which comply with the relevant legislative provisions and are reflective of the trend across Europe for similar price adjustments.

The Price Application together with supporting documentation were published by ComReg at the same time as this Consultation[2]. The Price Application sets out clearly the supporting rationale for the price increases sought. In this response to the Consultation An Post wishes to:

- Briefly reiterate the relevant components of its Five Year Plan to address the challenges which have arisen in the postal sector;
- Provide information specifically requested by ComReg;
- Address some specific comments included in the Consultation; and
- Emphasise the need for an ongoing price review which will be provided through the Price Cap mechanism set out in Section 30 of the Communications Regulation (Postal Services) Act 2011 ('the Act')

ComReg's preliminary assessment of the Price Application sets out the charges which ComReg 'could be minded to consent to', provided An Post submits an adjusted Price Application and subject to other responses to the Consultation. In some cases, the charges that ComReg wish to see in an adjusted Price Application are lower than those sought by An Post in its Price Application. An Post is disappointed in this regard as the original Price Application was carefully considered against the Tariff Principles set out in Section 28 of the Act, namely, that prices are cost-oriented, affordable, transparent and non-discriminatory[3].

[1] The terms „charges', „tariffs' and „prices' are used interchangeably
[2] The Price Application is published as ComReg document 12/138s1
[3] Section 28 also requires that prices are uniform for universal postal services provided at single piece tariff.

An Post wishes to reassure customers of its commitment to a first class postal service and to ongoing innovation and improvements which will, even at the revised charges, ensure that the service continues to represent real value for money.

General Observations

An Post faces the same challenges as other postal operators worldwide which arise from the significant decline in mails volumes resulting in a loss of revenue of a similar magnitude. Despite this decline in mails volumes and the continuing erosion of the core business through electronic substitution and economic factors, the Universal Service Obligation remains largely unchanged. The cost of providing the Universal Service requires significant elements of fixed costs and the decline in mails volumes has, therefore, caused unit costs to rise.

The Executive Summary of the Consultation[4] sets out ComReg's view that increased prices, at best, can only form part of an overall solution to An Post's financial challenges. An Post concurs fully with this view and has set out its detailed plans to address the challenges which are arising primarily due to the ongoing significant decline in mail volumes[5].

The key components of the An Post Five Year Plan include:

- Significant cost reductions including a reduction in employee Full Time Equivalents ('FTE') of 2,600 in the period from 2008 to 2016 together with substantial non payroll savings;
- Development of new revenue streams, mainly in the non USO area; and
- Appropriate price increases in Mails services, including Universal Services.

Although price increases are a necessary component of the Plan to ensure a financially sustainable Universal Service, it was never the case that this was the only component.

[4] Paragraph 10
[5] See Page 21 of the An Post Price Application

Other Postal Operators across Europe and elsewhere have put in place similar strategic responses to the challenges posed by the decline in mails volumes and almost all are increasing prices; e.g. Royal Mail increased its prices significantly in 2012 (the First Class rate increased by 30% to 60p, which is equivalent to 72c).

The assessment against the various Tariff Principles included in the Frontier Economics Report[6] indicates that the An Post proposals are likely to improve the cost reflectivity of tariffs.

However, ComReg's concern is in the area of affordability particularly in the SME sector. In response, An Post notes that Frontier Economics, in their review of the Price Application, found that there was unlikely to be any issue regarding affordability for consumers[7]. Regarding the impact on the SME sector a quote from Ofcom, the regulator in the UK, is relevant:

"While the issue of affordability is more complicated for small business, it is our working hypothesis that if prices are affordable for consumers they will also be affordable for small businesses."[8]

An Post has demonstrated in its Price Application[9] that in real terms, the headline price is less than the price that applied in 1990 when the first weight step was 20 grams compared with the proposed 100 grams limit. Postage costs form a small component of household expenditure and operating costs for most businesses. As already mentioned, other Postal Operators have increased their prices as demonstrated in the Price Application[10]. An Post has one of the lowest headline tariffs in Europe and Frontier Economic recognised this fact in their report[11]. Therefore, all the indications are that the prices proposed will not present an affordability issue.

[6] ComReg document 12/138a: Update to "Review and assessment of An Post's application for changes to the charges for postal services within the scope of the universal postal service", Frontier Economics, December 2012, Page 5
[7] *Ibid* Page 4
[8] Securing the Universal Postal Service, Section 6.95, Page 65, Ofcom, 20 November 2011
[9] Figure 17 on Page 27
[10] Figure 20 on Page 30
[11] ComReg document 12/109a, Review and assessment of An Post's application for changes to the charges for postal services within the scope of the universal postal service, Figure 6, Frontier, September 2012

It is important that we now look to the future in ensuring that the key components of An Post's Five Year Plan continue to be implemented. Section 30 of the Act sets out, at a high level, the Price Cap mechanism which is to apply where ComReg is of the opinion that there is no effective competition for the supply of postal services within the scope of the Universal Service. ComReg has set out its work programme in its Postal Strategy Statement for 2012-2014[12] and a Consultation on a Price Cap mechanism is signalled for Quarter 3, 2013. An Post welcomes this and is keen to ensure it is concluded within the timeframe set out which will provide more certainty to An Post in achieving the financial targets set out in the Five Year Plan.

Specific Query for An Post

ComReg requests specific information in relation to the Business Reply service[13].

The Business Reply service has a very similar cost per unit by format to that of mail prepaid by meters. This information is available from the Regulatory Accounts and was previously supplied to ComReg on 4 May 2012. The details requested are set out in the Appendix to this response.

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[12] ComReg document 12/116

[13] Paragraph 145 of the Consultation document

Response to Consultation Questions

The questions set out in the Consultation are replicated below followed by the An Post response to each question.

Question 1

Do you agree with the identification of the key challenges facing An Post and the relationship of these to the proposed price increases sought by An Post? Please support your answer with reasons and any supporting material.

Response to Question 1

An Post has already provided its views in the Price Application and supporting material and only wishes to now make a few comments in relation to each of the challenges identified.

Challenge 1: An Post would point out that the last increase in the headline tariff was in March 2007, some six years ago. The price of the headline tariff is, in real terms, lower now than it was in 1990 when the first weight step was 20 grams compared with a proposed first weight step of 100 grams. There is no evidence that there is an affordability issue.

Challenge 2: An Post does not and has never expected to cover the financial losses of the Universal Service through price increases alone. An Post's strategy has always been a combination of cost reductions, new revenue streams and appropriate price increases.

Challenge 3: ComReg's analysis of this issue does not reflect the realities of the cash management position within An Post. Cash has been strategically invested by An Post over the last number of years in voluntary staff exit schemes and significant capital investment which has resulted in lower operating costs, which, in turn, have facilitated improved and more efficient services to all our customers. These investments were funded by a once off receipt from the sale of certain surplus assets.

An Post operates, in addition to the mails business, the post office network and some significant subsidiaries including the National Lottery Company.

Managing cashflow is a critical component of this business and it is managed on a daily basis by a dedicated team of experts.

Challenge 4: In the period to the end of 2012, An Post has reduced its operating costs by c. €100m (which equates to 15% of the operating base). Further substantial savings are planned for the coming years.

An Post has also set out in detail the various initiatives it is undertaking in order to grow mail volumes.[14]

Question 2

Do you agree with ComReg's comments/ concerns in relation to the mail volume forecasts made by An Post in its application? Please support your answer with reasons and any supporting material.

Response to Question 2

There are three key payment methods, stamps, meter franks and Ceadunas (bulk mail). These payment methods are interchangeable for many customers. For example, many SMEs use stamps, others use meter franking machines and others use Ceadunas (Bulk). Many customers have changed the payment method over the last number of years as they look for the option that best suits them. This has made historical trends less than reliable in forecasting. The format (letter, flats, packets, parcels[15]) is of much more relevance as this has a larger impact on processing costs.

An Post has forecasted significant growth in the parcels service arising from e-fulfillment. Packets have a number of different influences including being impacted by the underlying decline in mail but offset by e-fulfillment. For example, the volume of domestic packets has remained stable between 2010 and 2011.

Historically, An Post has been accurate with its forecasts, for example, An Post had forecast a 5% decline in 2012 and it has actually declined by slightly less than 6%.

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[14] See Pages 53 and 54 of the An Post Price Application.

[15] For definitions of each format, see the An Post Guide to Postal Rates, available on www.anpost.ie

Therefore An Post does not share the concerns that ComReg has expressed in relation to volume forecasting.

Question 3

Do you agree with ComReg's preliminary views on its consents for the universal postal services? If you disagree, please indicate what particular consents you disagree with. Please support your answer with reasons and any supporting material.

Response to Question 3

As previously indicated, An Post submitted what it believed to be required changes to tariffs in order to ensure a sustainable Universal Service.

ComReg has specifically requested views on the proposed tariff for the 'Deferred Delivery' service (Bulk Discount 6)[16]. An Post has carefully considered the proposed tariff for this service in the context of Frontier's comments and the Tariff Principles set out in the Act and remains of the view that the proposed rate of 45c is appropriate. An Post strongly believes that this rate continues to represent real value for money to our business customers.

ComReg has stated[17] that it was seeking the views of interested parties in relation to how discounted services are displayed in the schedule of charges. An Post has shown the discount prices in promotional literature with both the discount amount and the price payable being displayed. An Post contends that displaying the rates in this manner is sufficiently transparent.

[16] Paragraph 186 of the Consultation document
[17] Paragraph 175 of the Consultation document

Conclusion

An Post believes that the prices proposed in the Price Application of 3 February 2012 are justified in the context of ensuring a sustainable Universal Service.

However, further to ComReg's preliminary assessment as set out in the Consultation document and in order to expedite the required increases, An Post is submitting an adjusted Price Application. The adjusted Price Application reflects the tariffs which ComReg 'could be minded to consent to' as set out in the Consultation document.

An Post remains committed to providing a first class service and is confident that customers will continue to view the service at the new prices as continuing to represent real value for money.

An Post will continue to focus its attention on addressing the key challenges facing the mails business, including working with ComReg in the development of a Price Cap mechanism this year.

Appendix – Business Reply

In Commercial Confidence

€	Letters		Flats		Packets	
	Business Reply	**Meter**	**Business Reply**	**Meter**	**Business Reply**	**Meter**
2011 Cost Per Unit	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]

2: Communications Workers Union

SUBMISSION RE:

ComReg 12/138

January 2013

submitted by

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Communications Workers' Union Submission:
Response to the Commission Consultation re: An Post's Price Application

Introduction

The Communications Workers' Union (hereinafter referred to as "CWU" or the "Union") represents approximately 16,000 workers employed in the communications sector in the Republic of Ireland, of which over half are employed in the Postal & Courier Sectors. The CWU represents staff working in the following postal and courier companies:

- An Post
- UPS
- DPD
- Printpost
- Data Ireland
- IO Systems

As the trade union representing a significant number of workers in the postal & courier markets, the CWU welcomes this opportunity to respond to the Consultation on An Post's price application (hereinafter referred to as the "Consultation") issued by the Commission for Communications Regulation (hereinafter referred to as "ComReg" or the "Regulator").

Q. 1 Do you agree with the identification of the key challenges facing An Post and the relationship of these to the proposed price increases sought by An Post? Please support your answer with reasons and any supporting material.

Challenge 1 – Significant Decline in mail volumes – proposed price increases could result in further mail volume declines

At this point in time e-substitution represents the greatest threat to An Post's business. The traditional link that existed between GNP and mail volumes has been permanently broken. Until recently, the growth or contraction of GNP was a good indicator of mail volume growth or decline. The advent of email, social media and other forms of electronic communications has severed this link and in the case of Ireland we can see that whilst the economy is stabilising mail volumes continue to decline. An Post predicts a decline in volumes of 20.5% between 2010 and 2014 with a consequent decline in revenue predicted to be 16% during this period.

In the ComReg consultation it is noted that, *"A further significant decline in An Post's Mail Volumes, absent any commensurate reduction in its costs, would significantly increase An Post's costs per unit, thereby possibly placing the financial viability of the Universal Postal Service provider at risk"*.

This reflects recent outputs from research conducted by the European Commission whereby it was acknowledged that as mail volumes continue to decline across the European Union unit costs will increase and if national postal operators are not given flexibility to set their own prices, the universal service could face financial ruin.

It should be borne in mind that An Post has undertaken a comprehensive cost reduction programme which has already yielded savings in the cost base, which are forecast to be 15.4% by the end of 2012. In addition to this, the current five year plan which An Post outlined in considerable detail in its own submission as part of the price application, outlines that 2,600 Full Time Equivalents (FTEs) will be shed by 2016. In conjunction with this, the Company continues to pursue operational efficiencies alongside investments in mail processing technologies. It is clear therefore, that An Post is taking a pro-active approach to cost reduction in the face of declining mail volumes. ComReg notes that price increases will not fully compensate An Post for the financial challenges it is facing. However, it is obvious that an adequate pricing structure is an essential part of the solution.

ComReg has a statutory objective to ensure that there is an affordable universal postal service for all. Central to this is a properly financed postal operator. It is clear that doing nothing is simply not an option at this time. ComReg expresses concern over whether the proposed price increase, if implemented, might lead to a further decline in mail volumes. It is important to note that mail volumes have been declining without any adjustment to current prices. Therefore, the question is whether the decline will accelerate on foot of an increase in the price of a stamp?

Frontier Economics report that, according to An Post data, a price increase will increase the overall volume decline by 1 percentage point and reduce the overall revenue decline by 5.3 percentage points. The same report accepts the modelling that An Post has put forward in terms of price elasticity albeit that it is considered to be the best case assessment of revenue and volume. Frontier Economics also proposes that according to its sensitivity analysis, that the improvement on USO losses will be closer to €13 million on 2014 as opposed to the An Post estimate of €19.2 million.

Since the last price increase in 2007, the financial position of the USO has deteriorated. The KPMG audit of the accounts of An Post show the USO lost €50.2 million in 2011 and that the forecast losses for 2012 are likely to increase to €65 million. This is a very serious turn of events and clearly demonstrates the importance of an appropriate increase in postal tariffs.

While An Post has committed to funding the USO from its own resources, there is a limit to the extent to which this can be achieved without adequate flexibility and pricing. By way of comparison it is worth considering the situation as it pertains in the UK and in doing so bearing in mind a couple of things. Firstly, regulated pricing in relation to Downstream Access within Royal Mail led to a collapse in revenues for the UK Postal Operator, which put the financial viability of the USO at risk as noted in the Hooper Report. Secondly, the newly appointed UK Regulator Ofcom has stated that they believe *"that there are considerable risks in pursuing an additional price control based approach. We therefore propose to provide Royal Mail with more freedom in relation to the pricing of most products and services, and do not propose to impose a traditional price control on Royal Mail"*. This is a direct acknowledgement of the very serious challenges Postal Operators are facing. It is interesting to note that the regulatory approach in this instance is to allow the operator more freedom in setting its own prices. This reflects recent reports from the European Commission which observed that as volumes continued to decline, that operators should be allowed greater pricing flexibility.

Challenge 2 - Claimed Significant Financial Losses Associated with the Provision of the Universal Postal Service - these claimed financial losses will not be fully remedied by the proposed price increases

An Post estimates that its incurred financial loss from providing the Universal Postal Service will be circa €65m in 2012. It is also estimated by An Post that price increases being sought would yield an additional circa €22m in gross revenue in the first full year. It is noted by ComReg in its consultation that if the price increases being sought are granted, that they would only cover one third of the projected An Post losses and that other measures are required by the Company to deal with the challenge of the losses associated with the provision of the Universal Postal Service. It is also noted that these additional revenues will be generated in the first year only and that it would be expected that they would subsequently decline on a year to year basis as mail volumes continue to decline as expected.

The projected additional €22m in gross revenue is comprised of €8m from the price increase (already made by An Post on 1st May 2012 for postal packets above 50 grams) and around €14m which would accrue to the Company based on the increases being sought.

As outlined above An Post is already pursuing a comprehensive cost reduction programme comprising of head count reduction, realignment of the work force, operational and supply chain efficiencies, automation and route optimisation design. However, the simple fact remains that the payroll costs in An Post are 74.1%. Whilst the Company intends to reduce the number of employee FTEs by 2,600 in the period up to 2016, it should be understood that the labour cost is essentially a fixed cost that is essential to delivering the Universal Service Obligation as well as maintaining quality of service standards.

In March 2011, Deutsche Post conducted a survey across 29 European countries comparing prices and efficiencies in the Postal Sector and it found that Ireland compared very favourably with its counterparts in a number of categories. When letter prices are adjusted for labour costs, Ireland is the 7th lowest in Europe. In looking at the work in minutes per letter price, it is found that Ireland is the 4th lowest in Europe. This is a key indicator of affordability.

It is also worth noting at this juncture that An Post has operated to date without any state subvention or tax payer support. This is unlikely to remain the case in light of the fact that the provision of the Universal Service is leading to serious losses in the organisation. The 2011 Act does provide a mechanism whereby the Universal Postal Service provider can seek funding of the net costs if it is found to be an unfair burden. It is noted by ComReg's consultation that if it is determined that the net cost is an unfair burden that it will be An Post itself who will be the main contributor to any fund that may be set up to cover such costs. This is because the anticipated new market entrants have not materialised to the extent that they are in a position to contribute to such a fund. Some may consider this a damning indictment of the liberalisation agenda itself; however it does not take away from the fact that a serious financial challenge must be met by An Post.

In light of the fact that An Post is considered by international standards to be a very efficient postal operator and given that the Company continues to pursue improved efficiencies and cost reductions, it is totally justifiable to grant the full price increase that is being sought by the Company at this time. The fact that the increases being sought do not fully meet the anticipated losses serves to underline just how critical this price review is and that anything short of the full amount being sought will exacerbate the financial challenges for the Company. This would not be in the best interest of the postal market and would threaten the provision of the Universal Service Obligation itself. It would also run contrary to the statutory obligations imposed on ComReg under the 2011 Act.

Challenge 3 - The deteriorating cash position of An Post - the proposed price increases will not fully remedy this

There is a much skewed picture of An Post's so-called "cash burn" problem presented in the ComReg consultation document. Describing the situation with An Post's cash reserves, ComReg has chosen to present only four years from the Company's Annual Reports starting in 2008 and ending in 2011. In this time, An Post's cash reserves have been declining at a rate of €50m to €90m per annum. However, it should be noted that in 2008 after the sale of SDS, the Company's cash reserves were in very good condition but since then the outflow of cash arises from the wholly appropriate mix of one-off items such as investment in new machinery and provisions for voluntary severance schemes.

Both of these expenditures are directly related to the Company's pursuit of greater efficiency and cost containment. It is disingenuous to describe the declining cash reserves as a *"cash burn problem"*. It is noted that An Post plans to maintain a cash balance of €100m.

Challenge 4 - Efficient provision of the Universal Postal Service commensurate with the volume decline - the proposed price increases could accelerate volume declines requiring further cost adjustments

As previously noted above, An Post already operates a very efficient mail processing and delivery organisation and is doing so without any state subvention and currently with one of the lowest stamp prices in Europe. The Company remains committed to cost reductions and improved efficiencies but there is a limit to the extent that these measures can mitigate against a decline in mail volumes.

As noted by ComReg, staff costs account for three quarters of the total operating costs in the Company's mail business. These are fixed costs which are essential to the provision of the Universal Service Obligation, hence the limit to which they can be reduced. Therefore, the price increases being sought are critical to the continued provision of the USO and the future viability of the business. It should be noted that a Policy Direction was issued by the government under the Communications (Regulation) Act 2002 which states that "*The Commission shall ensure that in making regulatory decisions in relation to the Postal Universal Service obligation, it considers the impact of such decisions on the cost of sustaining the universal service, which cost includes per employee costs arising from National Pay Policy*" (21st February 2003).

An Post has implemented a pay freeze since August 2008. The actual average pay per full time employee has decreased by 9.4% in the period from 2008 to 2011. In conjunction with this it was noted in the McCarthy Report that An Post had the lowest average annual salary of all commercial semi-state companies listed.

Q. 2 Do you agree with ComReg's comments / concerns in relation to the mail volume forecasts made by An Post in its application? Please support your answer with reasons and any supporting material.

Considering the mail volume forecasts made by An Post in its application, it goes without saying that predicting mail volumes is not an exact science. On the one hand An Post cannot definitively state where mail volumes will be in the coming years. On the other hand ComReg cannot definitively say what effect any price increase might have on the rate of mail volume decline. It is without question however,that An Post will face a very uncertain future financially if the price application is not granted in full. The decline in mail volumes in not unique to Ireland, indeed mail volumes are declining across Europe and further afield as a result of either stagnant economies or e-substitution or in the case of Ireland, both.

In its report for ComReg, Frontier Economics have considered the impact of An Post's proposed price changes across a number of different criteria. It concluded that An Post's updated application forecasts an increased decline in volumes and revenues in the period to 2014, which are more closely aligned to recent trends and to international comparators. The report also observes that revenue declines for An Post's top 20 customers may have slowed substantially. The Frontier report notes that the forecasted decline in overall domestic and international outbound volumes over the 2010/2014 period is 20.5% with a consequent decline in revenues of 16% for the same period. In the light the fact that this represents an independent assessment commissioned by ComReg of the An Post price application, CWU sees no reason to disagree with these findings.

Q. 3 Do you agree with ComReg's preliminary views on its consents for the universal postal services? If you disagree, please indicate what particular consents you disagree with. Please support your answer with reasons and any supporting material.

An Post submitted a price application to ComReg in February 2012 and following discussions between both organisations An Post submitted an amended price application to ComReg on 19th October 2012. Under Section 30(12) of the Communications Regulation (Postal Services) Act 2011, the tariff amendments proposed by An Post require the prior consent of ComReg. The Regulator for its part must take into account the potential effect of the proposed increases on the availability of a Universal Postal Service within to and from the State at an affordable price for the benefit of all Postal Service users. In addition to this, Section 28 of the 2011 Act sets out a number of tariff requirements which the increases must comply with. They state that tariffs for a Universal Postal Service must be affordable, cost oriented, uniform, transparent and non-discriminatory. As per the consultation ComReg, which has stated that it must, in making its final determination, balance "*An Post's need to ensure that it is financially capable to continue to provide the Universal Postal Service against the entitlement of Postal Service users to have an affordable universal postal service*".

Affordability

In considering the affordability of An Post's proposed price increases, one must consider the proposals in a number of contexts. In the last 21 years the headline tariffs for the domestic letter have increased only 3 times. In April 2002, the price increased by only 3c and in August 2003 it was increased by 7c. This represents an increase of 26% in the headline tariff for that period. In the same period CPI increased by 52.3%. In March 2007, the price increased from 48c to 55c and has remained at that level since.

As outlined in the An Post price application, adjusting the stamp prices for the rates of inflation in this period, we can see that, in real terms, current and proposed headline tariffs are less than the rate that applied in 1990. An Post has noted that "*the proposed new headline tariff of 65c will bring this rate back on a power with 1998 rates with the compound annual growth rate (CAGR) of -1.2% per annum since 1991*". It is clear therefore that postage rates in Ireland have been kept at a very modest level for a very long time and this is reflected in the fact that Frontier Economics found in their report that the "*An Post proposed price increases are unlikely to lead to affordability issues for residential customers*". In addition to this, the cost of mail services in Ireland compare very favourably with our European counterparts.

When prices are adjusted for Purchasing Power Parity (PPP) Ireland has the second cheapest headline tariff of the EU 15. Even if the full price application was granted, the Irish tariff would still be below the average for the EU 15 which is 68c.

It is also worth noting that other postal operators across Europe are dealing with a similarly challenging economic and financial context and have increased their charges by as much as 45% (Denmark), or as in the case of our nearest neighbour, the UK, by 30% in April 2012. It is clear therefore that regulators in other developed economies in the EU have accepted the importance of adequate pricing and appropriate increases to maintain the Universal Service Obligation.

Lastly, it should be noted that in relation to affordability, An Post have observed that affordability issues for residential postal service users will be minimal in light of the fact that for the lowest income group, the proposed price increases would result in a decline of disposal income of only 0.1%.

The question of affordability as it relates to the SMEs and larger business postal service users is more nuanced and it is important to note that business customers account for around 80% of the total mail volumes. Frontier Economics in their report to ComReg has noted that the impact of price increases on SMEs *"is less clear"* and for large customers the impact of the price increase on Discount 6 *"must be given careful consideration"*. The report does not suggest that the increases should not be granted as requested by An Post. One would not expect business users to welcome the idea of an increase in the price of the stamp. However, as outlined above, Irish postal costs have been maintained at a very modest level and compare very favourably with their EU counterparts as highlighted in the Deutsche Post Report last year, *'Letter Prices in Europe'*, whereby they place Ireland as the fourth most affordable country in terms of "working minutes per letter price" out of 29 countries that were surveyed.

Cost Orientation

Section 28 (1) (b) of the 2011 Act requires that prices for universal postal services *"shall be cost oriented, that is to say, that prices will take account of, and reflect the cost of, providing the postal service, or part of the postal service concerned"*.

As outlined above, An Post is engaged in a comprehensive cost reduction and increased efficiency programme across the business and this is reflected in the fact that the predicted cost changes in the USO for 2012 and 2013, as per the An Post application, shows that pay costs will be reduced by 3% and 4.2% respectively while non- paid costs in 2012 will be reduced by 5%. The An Post application also outlines a comparison of the proposed prices with 2012 costs per unit, which further underlines the need for consent to be granted for the full price increase as requested. It is also worth noting that the *"Letter Prices in Europe 2012"* report by Deutsche Post observes that when prices are adjusted for labour costs that Ireland comes 7th out of 29 countries surveyed.

Conclusion

CWU is of the view that the price application made by An Post should be granted in full by ComReg. The consultation suggests that an increase will be granted but that ComReg appears to prefer an increase of between 58c and 60c for stamped letters which falls short of the 65c applied for by An Post.

In circumstances where; volumes are declining and per unit costs are rising; where the company is aggressively pursuing a cost reduction programme; where the financial loss on USO services will run to €65m; where Ireland has the second lowest stamp in

Europe; where the company is viewed internationally as one of the most efficient operators in the EU and in a country where the USO is vital public service the CWU is strongly of the view that the full application should be granted.

This application process has been underway for almost a year and in that time the financial position of the company has deteriorated making the need for this tariff increase all the more urgent. Future price applications should not take this long and it is hoped that when the price cap model is introduced that this process can be streamlined and rolled out in a number of months as opposed to almost a year.

If the full price application is granted Irish postage rates will still remain below the European average and in real terms would only be at 1998 levels. This application, which is anticipated to be the last one before the price cap model is introduced, represents a vital juncture for the development and long term viability of An Post and the Universal Service Obligation itself. This is not a time for short term economics. What might seem like sensible restraint from a regulatory point of view in terms of pricing could lead to a very heavy cost being paid by An Post and the all of the postal users it serves into the future.

3: Consumer Association of Ireland

Challenge 1: Significant declines in mail volumes – proposed price increases could result in further mail volume declines

Challenge 2: Claimed significant financial losses associated with the provision of the universal postal service – these claimed financial losses will not be fully remedied by the proposed price increases

Challenge 3: The deteriorating cash position of An Post – the proposed price increases will not fully remedy this

Challenge 4: Efficient provision of the universal postal service commensurate with the volume decline – the proposed price increases could accelerate volume declines requiring further cost adjustments

These measures must of necessity include cost containment and further growth in other commercial activities.

4: Convenience Stores and Newsagents Association

Submission

to the

Commission for Communications Regulation

CONVENIENCE STORES
& NEWSAGENTS ASSOCIATION

SERVING THE COUNTRY

From the

Convenience Stores

And

Newsagents Association

Ref: Consultation 12/138

The Convenience Stores and Newsagents Association is a representative group incorporated in the Republic of Ireland which has as one of its aims and objectives an obligation to represent the business interests of our members.

The CSNA believes that it is fulfilling this aim and objective by submitting our views to the Commission in the matter of the application by An Post to Com Reg to achieve an increase in charges of certain postal services.

The CSNA is a user of postal services provided by An Post; it is also the representative organisation for 1,500 retailers that rely, in varying degrees, on the usage and provision of certain postal services, primarily postage stamps.

Until very recently (March 1st 2012), retailers were permitted to obtain for resale, postage stamps from An Post. Retailers had unique account numbers and were able to acquire postage stamps in varying denominations at a discount of 5%. This scheme, incepted by An Post a decade previously, enabled retailers to provide stamps at face value to their customers, retaining the 5% discount as their "reward" for service provision.

In November 2011, Post Point, a 100% owned An Post subsidiary communicated to all existing An Post stamp retailers that from March 1st 2012, they (Post Point) would be the sole provider of postage stamps to retailers, and that the discount would be reduced to 4%. The loss of 20% of commission was in itself a cause for concern to our members but much more worrying were the additional, and what we would consider, unfair requirements that accompanied the changeover; Post Point were going to insist that we would have to become Post Point Agents and sell, in addition to the postage stamps (which we had no problem with), a range of products and services that were not exclusive to them, primarily (though not limited to) telephone top-ups and certain tolling solutions. Many of our members were existing customers of Payzone and Pay Point, the main competitors of Post Point.

Many of these members were faced with a stark choice, to continue to sell postage stamps at a profit (albeit lower than previously "enjoyed") they would have to sacrifice the higher rates being offered by Post Points competitors for top-ups/tolling solutions, or be without stamps, unless they wished to purchase them from a Post Office at face value and resell them (again at face value).

CSNA and many of the members considered that this action by An Post (to allow their 100%-owned subsidiary to use postage stamps as a lever to acquire new business) to be an abuse of a dominant position.

We instituted legal proceeding against An Post in the High Court, and although an attempt by the Association to prevent the implementation of the Scheme by way of an injunction was refused by Justice Roderick Murphy in late February 2012, our action against An Post for breaches of Sections 4 and 5 of the Competition Act is still active.

We understand that Payzone have also issued similar proceedings against An Post in the High Court citing anti-competitive practices.

This narrative is by way of background to the opinion of CSNA that the presence of a large number of retailers willing to provide postage stamps to our customers at a modest discount of 5% can alleviate at least some of the undoubted extra queues that are forming throughout the Post Office network since last March.

We note with considerable interest within the document provided by Com Reg in advance of the consultation process that An Post has indicated that it is prepared to provide to purchases made online by customers a 5% discount when orders for stamps are "in a quantity greater than 300, as this allows An Post to avoid the counter serving element of the Revenue collection costs involved" (Point no 121 Com Reg).

CSNA would like to be provided with assurances by Com Reg (and An Post), that all CSNA members wishing to make such purchases online shall be treated equally to any other online purchaser, and that An Post will not attempt to hinder or prevent the purchase of stamps, even though they may be used for resale at face value.

We note the request for views contained within 122 on the issue identified in the possible discrimination in the meter payment discount vis-à-vis the postage stamp discount.

CSNA is of the opinion that the minimum discount on postage stamps should be 5%; if Com Reg is of the opinion that it should be on a par with metered letters, i.e. 8%, we would not argue the point!

The revenue collection costs, and the labour costs to An Post of the provision by themselves of a service that can (and has been) be carried out by non An Post employees is not insubstantial. If the provision of a single postage stamp served in an An Post facility takes 30 seconds of counter-time (allowing for change to be given etc), that translates to a cost to An Post of over 12 cent in labour, assuming a salary of €25,000 p.a. for a Retail Assistant. The provision to an online purchaser of 300 stamps with a value of €180, paid by direct debit will be activated automatically and delivered as part of the normal mail delivery to the account holder. The once-off administrative cost of initiating the account details and the automated picking and ordering process will be a fraction of this cost, it makes perfect business sense for An Post to provide this discount-for-bulk-sales as a way of diverting cost away from the counters, allowing them to focus upon their more profit-orientated businesses.

We do not wish to prevent An Post from continuing to provide a first-class service to the citizens of Ireland; we only wish to ensure that their obligation to provide a universal postage service does not exclude other businesses from continuing to provide services to our shared customers. We do not accept that we should have to sell stamps via Post Point if they insist (as they do) that we surrender our rights to enter into or maintain contracts with their (non-postage stamps) competitors.

We fail to see how an Post could be considered as failing in its duties if it were to provide to retailers bulk orders of discounted postage stamps for resale without any additional (and non-core) commercial products being a contractual requirement.

If there are any matters within this document that require clarification please contact:
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Mr Stephen Brogan
Commission for Communications Regulation
Abbey Court, Block DEF
Irish Life Centre
Lower Abbey Street
Dublin 1

25 January 2013

Reference: Consultation 12/138 An Post's Price Application

Dear Mr Brogan,

Thank you for the opportunity to contribute to ComReg's thinking about An Post's price application.

The consultation considers 17 different domestic universal service products as well as a large number of international products. We suggest that it is not necessary for ComReg to approve separately each individual price and it would be easier if ComReg concentrated on the products that are most used by the general public, namely stamped letters and stamped large envelopes. The prices for other products would follow from these. The simplest method to control prices and the one which best corresponds with ComReg's duties is to determine the maximum affordable prices for stamped items and use these as safeguard caps. This would allow An Post the flexibility to determine the optimum prices and it might decide not to use the full scope allowed by the caps. Such a method would also avoid the complication of many CPI-X methods which are, in any case, inappropriate in the postal market at present.

The postal market is declining due to electronic substitution and it seems to us that pricing strategy is an essential component in securing future services. The universal service obligation makes it difficult for An Post to reduce its costs in response to falling demand and price increases are therefore necessary. Price increases for some products might enable An Post to lower or hold prices for other products.

ComReg is "particularly concerned that price increases ... could exacerbate the problem of declining mail volumes". This is a genuine concern, one that is surely central to An Post's own consideration of its pricing strategy. However, the real economic problem is not one of declining mail volumes but one of declining mail revenues and it is possible that price increases will hold revenue levels despite falling mail volumes.

The need to be able to increase prices in response to falling volumes has recently been identified in a report by Copenhagen Economics on behalf of the European Commission:

> *"For example, in times of rapid volume decline, it is imperative that the regulatory design recognises the need for business process re-engineering rather than assuming continuation of existing business models. This can be achieved if the price -cap model contains a volume adjuster which allows for higher prices to compensate for higher unit costs due to reduced economies of scale. If the USP is not allowed to perform such adjustments this might imply a risk that the provision of universal services becomes financially unsustainable.*

An example of good practice in this respect is France, where the price cap regulation allows the USP to continuously change prices with respect to volume developments."[1]

The central issue in this consultation must be the affordability of mail services for the general public, who use An Post's stamped products. Compared with other EU countries, An Post's prices are relatively low, particularly for heavier items and despite Ireland's low population density. This suggests that higher prices would continue to be affordable.

We suspect that there are many factors influencing the substitution of mail by electronic media and that price is very often relatively unimportant, particularly as the marginal cost of electronic media is close to zero in many cases. We doubt whether changes in mail prices of the scale requested by An Post would have a significant effect on mail usage.

ComReg has rightly identified an issue with discriminatory treatment of some products which differ in price without an objective basis. This behaviour is potentially anti-competitive and we therefore encourage ComReg to bring clarity to the situation and to insist on the consistent application of an avoided cost methodology.

Yours sincerely,

Kevin Galligan
Regional Director

[1] Copenhagen Economics, Pricing Behaviour of Postal Operators, 2012

6: Mr. Christopher Heavey

Mr Stephen Brogan
Commission for Communications Regulation
Abbey Court, Block DEF
Lower Abbey Street
Dublin 1

30 January 2013

Reference: Consultation 12/138

Dear Stephen

I have read your consultation paper and its associated documents with great interest and I would like to offer you the following observations on the three questions that you ask.

Q. 1 Do you agree with the identification of the key challenges facing An Post and the relationship of these to the proposed price increases sought by An Post? Please support your answer with reasons and any supporting material.

In its justification for the proposed price increases An Post argue that *"Mails volumes are in decline both in Ireland and worldwide arising from the challenging economic environment and emerging technologies. An Post is responding to this decline with a combination of delivering significant cost savings and vigorous development of new revenue streams – but must also factor in appropriate price increases."*

The reality is that the world is changing due to digitalisation and globalisation. New companies are emerging to meet evolving consumer needs, progressive companies adapt their business models, but some simply rearrange the deckchairs and eventually go under. The recent closure of the HMV record shops is a good example of the latter.

It is not obvious from the material presented that An Post has a realistic plan to adapt its business model to the new situation. For example, it claims that *"Mails volumes are in decline…. Worldwide".* This is not strictly true. The composition of mail is changing. Traditional letters are in decline, but other mail streams are growing. The UPU reports that *"Taking a longer-term perspective, however, the trend in all regions is towards substantial increases in overall revenues. A decline in revenues thus constitutes an exception, which may be due to difficult macroeconomic conditions in various regions…"* and concludes that *"Capitalizing on the growth opportunities, while adjusting to risks and negative trends, will be key for the survival of designated operators and for the functioning of the postal sector."* [1]

But An Post is not developing new services to meet evolving needs. For example a private company has recently established a network of *"parcel motels*" to facilitate the delivery of goods ordered over

[1] See "Postal Statistics 2011 A summary" Economic and Regulatory Affairs Directorate, UPU, Berne, September 2012

the internet. In Germany and Belgium it is the national postal operator who made the investment necessary to meet such customer needs.

Although An Post claims that volumes have declined by 23% it still employs 8,859 operational staff, only 29 less than in 2007.

Approval for any price increases must therefore be conditional on An Post developing a workable business plan to secure its future.

Q. 2 Do you agree with ComReg's comments / concerns in relation to the mail volume forecasts made by An Post in its application? Please support your answer with reasons and any supporting material.

Yes. I would share your concerns. An Post seem to be looking at the issues as a mathematical exercise rather than a business forecast made by looking at how it will meet customer needs. It is interesting to note that between 2004 and 2011 Deutsche Post AG increased its revenue from its Mail Division by 9.6% without any increase in its basic postage rate. By contrast over the same period An Post revenue only increased by 1.2% despite a 14% price increase for letters from 48c to 55c in 2007, and numerous increases to other products.

Q. 3 Do you agree with ComReg's preliminary views on its consents for the universal postal services? If you disagree, please indicate what particular consents you disagree with. Please support your answer with reasons and any supporting material.

No. It appears that ComReg is ignoring its legal obligations. The intention of section 30 of the Communications Regulation (Postal Services) Act 2011 is quite clear. The price of any postal service within the scope of universal postal service must not increase by more than the rate of increase in the CPI, less an adjustment to provide incentives for efficient provision of the services concerned. Yet ComReg indicates that it is prepared to agree to price increases greater than the increase in CPI. Also ComReg indicates that it will approve prices for non-universal services within the scope of the universal postal service without any investigation despite the fact that these services are to be subject to the price cap, and also the CJEU decision in *Ahmed Saeed* prohibits ComReg from approving price increases that would be in conflict with Competition Law.

I trust that ComReg will restrict its approval, as a maximum, to the rate of increase in CPI as mandated by the Oireachtas.

Yours sincerely

Christopher Heavey

7: Nightline

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BY EMAIL AND POST

31 January 2013

Ref: An Post's Price Application: Consultation on ComReg's consent to change the charges of certain postal services within the scope of universal postal services relating to postal packets weighing less than 50g. (ComReg document 12/138)

Please note for the purposes of this submission, redacted information is provided in underlined font.

Dear Stephen

Nightline, as an authorised postal service provider under the Communications Regulation (Postal Services) Act, 2011, is pleased to respond to this consultation.

Our primary concern is to agree our negotiated Downstream Access (DSA) arrangement with An Post, [redacted] Nonetheless, and to facilitate your understanding of our views we are happy to answer the questions posed.

Question 1: Do you agree with the identification of the key challenges facing An Post and the relationship of these to the proposed price increases sought by An Post?

Answer 1: The postal market is subject to all of the constraints that you have identified.

You state, for example, at point 10

'increased prices, at best, can only form part of an overall solution to An Post's financial challenges'.

You further quantify that as one third at point 42, stating

'various other measures by An Post will also be necessary'.

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What is not clear as to how much revenue, if any, An Post has sought to gain from a commercially offered DSA product, and how it has sought to encourage this.

Question 2: Do you agree with ComReg"s comments / concerns in relation to the mail volume forecasts made by An Post in its application?

Answer 2: We would argue that these do not build in DSA volumes.

ComReg query the lack of packet growth - we would agree with this concern having seen the huge take-up in our business in this area. We would be happy to present our views on this to ComReg in the wider content of growing this area in pursuit of your aim to promote the development of the postal sector under the Communications Regulation Acts 2002-2012.

Question 3: Do you agree with ComReg"s preliminary views on its consents for the universal postal services? If you disagree, please indicate what particular consents you disagree with. Please support your answer with reasons and any supporting material

Answer 3: We have no view on the proposals regarding single piece tariffs.

However, with regard to Bulk Mail, you at point 65 with regard to non-universal services state that such services are

'best addressed through competition'.

At Nightline, we are attempting to make this a reality. [redacted]

[redacted]. We are unhappy to see that the Universal Bulk Mail Services proposed are no more than a 're-packaging' of essentially the current Discounts 6 and 9. We find it inconceivable that - as you point out at points 174 and 183 - no market research was carried out, for these 'new' services.

At point 186, you ask for views on the 'deferred delivery' bulk mail service. [redacted]

I would be happy to discuss further.

Yours sincerely

Kevin Murray
Managing Director

8: Pitney Bowes

World Metered Mail Pricing Review:
The Case For Metered Mail Discounts

Fourth Edition

Tim Walsh

1st November 2012

Contents

Introduction

This document sets out the economic and commercial case for metered mail discounts and presents current payment channel pricing data from around the world focused on the nature and scope of discounts and other incentives offered to metered mailers;

The data compares the standard letter format, basic-weight step (typically 20g) price for metered mail with the price of the equivalent stamped mail and the nearest accessible Printed Postage Impression tariff, including any volume qualification threshold above which the PPI rate kicks-in;

The report covers posts in Europe, Asia Pacific and the Americas and includes the following type of metered mail related incentives:

- Discounts enjoyed by metered mail compared to the retail stamp price and the tariff for printed postage impression (PPI or permit);
- Rebates on postage downloaded to metered via remote meter resetting systems;
- Volume-based metered-mailed discounts; and;
- Distinct and discounted products available to metered mailers, that are not available in other payment channels;

The report is based on published tariff data from national posts and white papers published in trade press over recent years

A Channel Perspective on Postal Strategy

A Channel Perspective on Postal Strategy

Tim Walsh
Pitney Bowes Inc

In this analysis of customer payment channels for postal services, the author reviews the challenges and dilemmas facing postal operators in view of the USO and other constraints. However, he argues that there are some real opportunities for posts to decide how to serve their customers and, once they understand their profitability in specific channels, to develop a structured and strategic approach to channel management, which would include an appropriate mix of payment channels to serve different customer segments.

Prior to the introduction of the Penny Black on 6th May 1840, postage was paid by recipients. This cash-on-delivery arrangement provided a strong incentive to deliver the item to the correct address, but it also created substantial transaction costs. Sir Rowland Hill's critique of the Post Office[1] in his day was that tariffs were based, not on costs, but the Treasury's desire to maximise revenues and that much of the high and often illogical tariffs were eaten up by the cumbersome bureaucracy involved in collecting the revenue.

A Payment Channel Revolution

Hill's critique of the British Post Office all those years ago was essentially a critique of the post's payment channel strategy. Today, the insights that underpinned Hill's payment channel revolution 170 years ago remain highly relevant and have taken on a new importance as posts seek to reduce costs, boost customer loyalty and provide more differentiated products and prices to distinct segments of the market, based not only on the needs of the customers but also their value to the post.

At the time, Hill's pre-paid, adhesive stamp won out over William Mulready's pre-paid envelope, on grounds of both customer acceptance and cost. And of course, Hill's own Penny Black lasted just ten months, replaced by the Penny Red, because the Post Office was worried that its stamp cancellations (in red) were not showing up on the black stamps. Red stamps with black cancellation ink better protected Post Office revenues. Customer acceptance, channel costs and revenue protection remain the tests for designing an effective mix of today's postal payment channels.

The *Universal* in USO

National posts face a unique challenge: to serve all businesses and individuals wherever they are located, no matter how much they spend at a low value, uniform price - "everyone, everything, everywhere, everyday"[2]. Posts cannot choose which customers,

[1] *Post Office Reform – Its Importance and Practicability*, 1837, Rowland Hill.
[2] Or in the missions of Israel Post "Anywhere for Everyone"; Belgium Post: "Everydoor Everyday"; Thailand Post; Service to Everyone, deliver to everywhere".

which sectors or which geographies to serve. As a result, posts face a number of related go-to-market choices, specifically how to:

- maximise market coverage while minimising costs, balancing the cost of customer contact with segment appropriate levels of access and service;

- evidence, account and bill such a large, diverse and dispersed customer base in a secure and cost-effective way;
- optimise inter-connections with mailers based on relative importance of the transactional and the relational (control v. cost v. effectiveness), and mutual needs in respect of the physical, data and payment flows between the post and the customer;

The good news is that while posts must serve all customers, it can choose *how* to serve them both in terms of payment channels: pre-paid (stamps, meters and internet postage); and deferred (Printed Postage Impression); and in terms of sales channels: direct (e.g. own sales force), remote (telesales) and third-party (such as high street retailers).

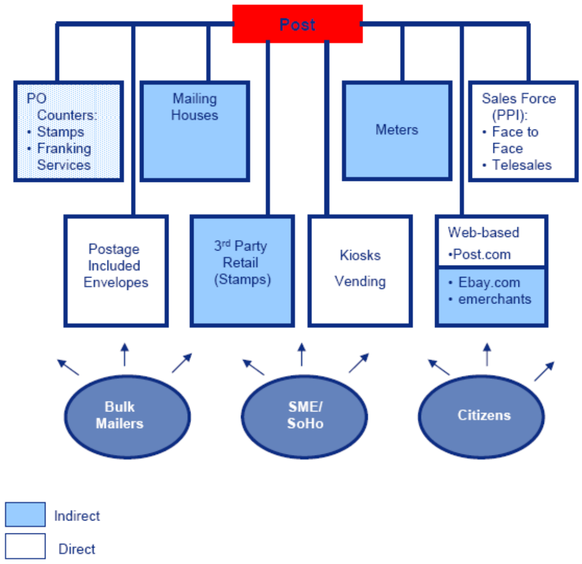
The bad news is that for many posts channel strategy has developed in an ad hoc way. Revenue mix by channel often reflects an historic go-to-market plan where patterns of service are based on outdated policies, technologies and processes. There is evidence that channels are sometimes not managed in a joined up way, with the result that different parts of a postal organisation engage in costly channel competition, where revenue shifts between channels, irrespective of profitability impacts, because internal sales incentives are poorly aligned. Certainly, many posts appear to be flying blind with respect to channel economics such that channel strategy is neither actively designed nor managed based on the wider commercial and financial objectives of the post.

Rather, the focus has tended to be on efficiencies *within* channels (e.g. reducing selling and distribution costs of stamps) rather than on efficiency *between* channels (aligning customers to the most efficient channel). Cost accounting systems tend to focus on direct costs rather than all relevant channel costs (billing, credit management and revenue collection, return costs associated with channels) with the result that posts typically do not actively migrate customers from the least to the most cost-efficient channel.

Customers and Channel Strategy

A primary way customers experience postal services is through the sales and payment channels of the post, Figure 1. An SME perspective of a postal service is shaped perhaps as much by their queuing at 5.00pm in a busy postal retail unit as by the quality of the service received in the downstream part of the postal operation. A mailer who incurs heavy costs reconciling manifests with invoices, too, will have a particular view of how easy it is to do business with the operator.

Figure 1 Postal Sales and Payment Channels



Channels represent, therefore, a "gateway" between a post's services and the end-user. On the supply-side, channels support the routinisation of transactions and can significantly reduce the costs and number of events between a post and a customer in the sale of a product or service. Channels represent an important asset for the company in terms of its marketing and positioning strategy, serving to differentiate a post from its competitors. Channel differentiation is especially important in mature industries or for otherwise commodity products.

On the demand side, channels facilitate search and access to suitable products for sub-sets of customers in a cost-effective and focused way. A well designed channel strategy can reduce complexity for end-users; boost customer satisfaction and loyalty; and facilitate postal modernisation, particularly in front of the customer.

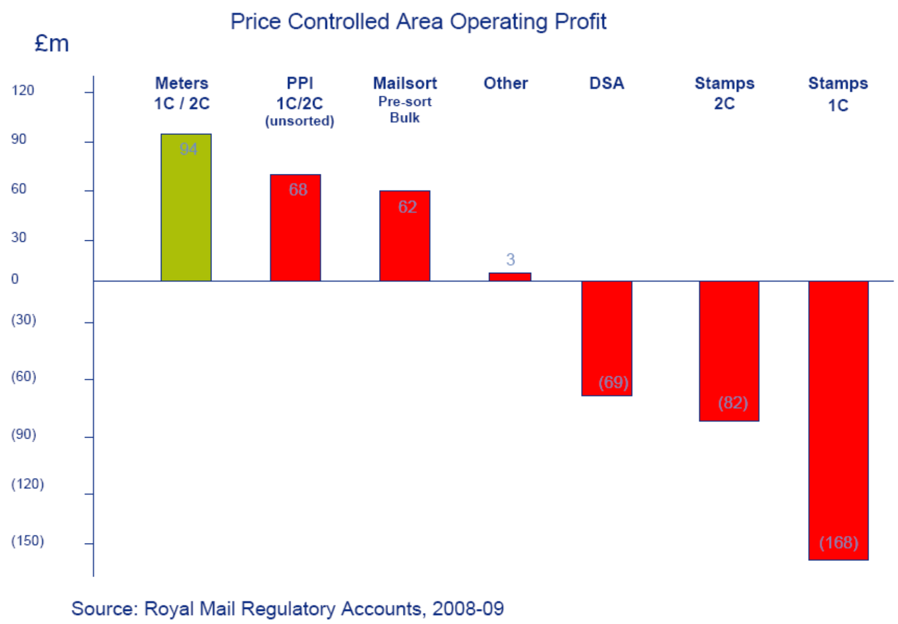
To achieve such postal and mailer benefits channels need to be managed in an integrated fashion based on an appreciation of the intrinsic strengths of each channel vis-à-vis particular customer segments. The challenge is to design a suite of channels which meets the needs of diverse users (for access, coverage, convenience etc) while managing channels for profitability. Effective channel stewardship involves measures to promote efficiency within and between channels; policies and terms which drive the right customer behaviours; and prices which reward such choices based on the costs-avoided for the post. In sum, a strong channel system is one that is not easy to replicate and which can become a source of competitive advantage.

The Economics of Channels

Understanding customer profitability in specific channels is especially critical because unit costs of providing services are shaped by customer behaviour, transactional and operational support costs, as much as they are product related. Pipeline costs on business mail are broadly similar but the management processes around various traffic streams (revenue protection, credit referencing of accounts, cash flow impacts) can be relatively expensive when compared with the cost of the physical activity itself.

For example, stamp channel costs[3] are such that it can be difficult to generate profits on stamped mail without high tariffs that are not appropriate for SMEs with a range of physical, hybrid and electronic alternatives. Royal Mail's profitability data shows that the UK universal service provider lost £250m on its stamped products in 2008-09 (Figure 2).

Figure 2 Royal Mail Channel and Product Group Profitability, £m



A particular driver of payment channel cost is those associated with revenue protection. The UPU report that stamp forgeries:

> "…designed for postage fraud are rife on developed country markets. New reprographic technologies and the availability of papers and inks have facilitated the spread of counterfeiting."[4]

[3] To collect each $1 billion in revenue from stamps, the USPS incurs costs which are more than 180 times greater than the costs incurred to collect the same revenue from meters. John Haldai (2000), *Proposal to Institute a Discount for First-Class Single Piece Metered Mail*, Evidence before the Postal Rate Commission, Washington D.C. 20268-0001.

[4] UPU Congress Doc 23 Add 5 17 March 2008.

Sweden Post experienced a major stamp forgery operation involving seizure of 700,000 forged stamps, resulting not only in loss of revenue but also additional costs in stamp cancellation and stamp production (protective print and gold feature across the stamps' denomination) to fight forgery in 2007. Royal Mail, too, redesigned stamps in 2009 by adding two tamper-detecting oblong strips either side of the Queen's head to prevent reuse. The stamps also have a micro iridescent overprint, "Royal Mail", printed on them, reminiscent of the security features on banknotes (Figure 3).

Figure 3 Revenue Protection and The Stamp Channel

In bulk mail, too, revenue leakage can be a significant cost to posts with an estimated five per cent of total revenue failing to be collected because of acceptance and verification failures.[5] Typically low levels of integration between mailers and posts on payment, data and physical flows make bulk mail revenue protection costly and prone to failure. Many posts simply lack consistently deployed control processes and, as such, are exposed to substantial revenue losses, most of which go undetected. Further, the adequacy of verification of bulk mails' conformance to preparation standards (on which presort discounts are based) are sometimes poor with the result that revenues are lower and processing costs higher for the post than need to be the case.[6]

The three broad categories of revenue protection failure across the three main types of payment channels are set out in Figure 4. Fraud, bad debt and revenue collection failure intrinsic to the three channels are such that a risk-based alignment of customers to the correct channel is a key strategy for posts in reducing costs and in collecting all the revenue owing to a post.

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[5] Walsh, T. (2008). *India Post: Regulatory, Commercial and Revenue Protection Challenges*, Rugby, mimeo Novemeber. See also US General Accounting Office Reports June 2006 *Stronger Mail Acceptance Controls Could Help Prevent Revenue Losses*; and November 1999 *Changes Made To Improve Acceptance Controls For Business Mail* on bulk mail revenue protection. And Office of Inspector General, USPS Audit Report –Business Mail Entry Unit Sampling and Verification Procedures Report No. MS-AR-08-005.

[6] Bulk mail revenue collection failure is rarely reported publicly though there have been recent scandals in Japan (2004); and China (2005 where China Post identified 1.65m pieces of fake postage vouchers, Annual Report, 2005).

Figure 4 Optimising Channel Mix To Enhance Revenue Protection

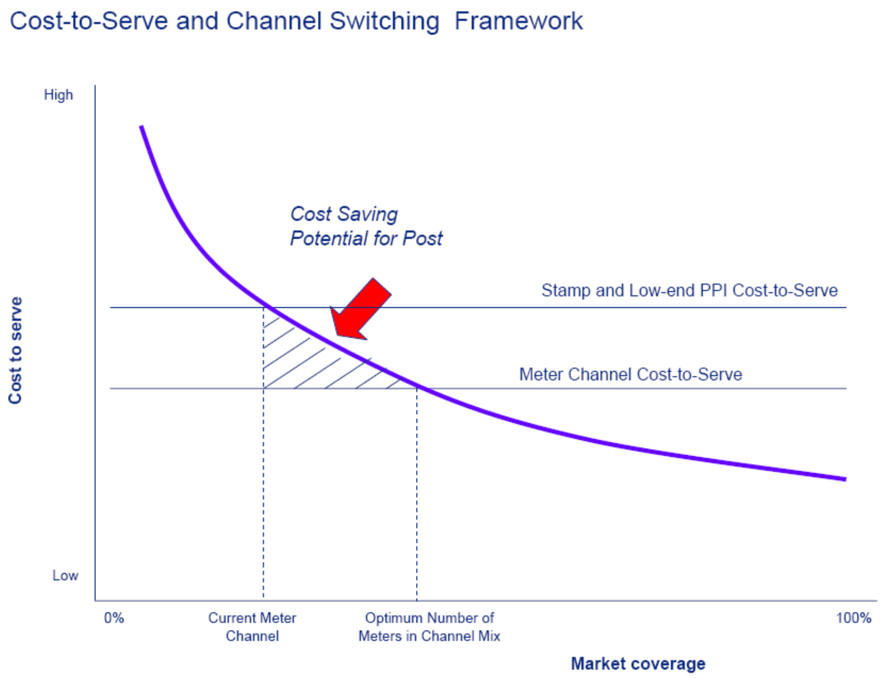
	Stamps and Postage-included envelopes	Bulk Mail Acceptance and Payment	Digital Pre-Pay Meters
Fraud (Customer, Employee and third-party)	▪ Stamp washing ▪ Forged stamps ▪ Fake paid envelopes	▪ manifest discrepancies ▪ employee fail to undertake verification processes	▪ FIPPS encryption ▪ remote security
Bad Debt	▪ pre-paid	▪ "can't pays";"don't pays", won't pays" where paid in arrrears	▪ pre-paid
Revenue Collection Failure	▪ Failure of stamp cancellation	▪ mails' verification ▪ O-T-R failures	▪ automated payments management
Total Uncollected Revenue* as % total channel revenue	**1-2%**	**5+%** (More in some posts e.g. government mail)	**~%**

* Author estimates. Underpayment is a feature across all channels and is reflective of the degree of pricing complexity in the eyes of mailers.

The Changing Face of Channels

There are signs, however, that a structured approach to channel management is gaining ground within posts. There is an increasing focus on channel costs and an understanding that profitability per unit of mail differs between channels. There is recognition that channel costs include both direct costs (e.g. stamp production and secure distribution; counter clerk sales costs) and channel-driven costs (revenue protection, credit checking and account set-up). As a result, some posts have reviewed the terms and conditions associated with specific channels including minimum postage spend to qualify for the post-pay PPI channel. Others are reviewing the mix of pre-pay and post-pay channels and the profitability of customer segments which would justify the availability of credit terms. Several are levying charges where mailers fail to meet payment terms, and for services provided by the post in particular channels (e.g. the service element in Post Office counter franking). And a growing number are reviewing policies and prices to actively migrate customers from the high cost stamp channel to the more efficient meter channel, Figure 5.

Figure 5 Understanding Channel Costs-to-Serve Can Underpin Pricing Strategy



In a growing number of posts, too, there are signs of a shift in the management of the meter channel from a passive approach, restricted to the mechanics of meter approval, to a partnership approach where channel projects are designed to deliver the post's wider commercial objectives, including the efficient management of SMEs. Historically, posts typically saw little benefit from closer relationships with, and more insight about, *captive* SMEs, not least because the posts knew instinctively the high costs associated with more active management of a large number of highly dispersed, smaller mailers.

Today, there is a growing understanding that SME traffic (and the unsorted volumes from larger mailers) is highly profitable[7] and that the emergence of new technologies can foster cost-effective, data-driven insights for the post among this sub-set of customers. Faced, too, with growing competition for these profitable streams a growing number of posts want greater visibility into their SME customer base to shape product development and pricing. It is in this context that the meter channel is increasingly seen not just as a payment platform but also a sales channel, which can support the ability of posts to make informed marketing decisions in relation to a critical segment of mailers.

In particular, there are signs of a new maturity among posts in understanding that channel partners can bring significant value to customers and that the post's role is fundamentally about setting the terms and conditions to allow partners to achieve the posts' goals for the mailer; for coverage, for market share and for the scope to differentially respond to new competitive offerings, *compliantly*. The trick is to leverage channel partners - postal retail, third-party retail, meter technology companies, stamp producers; mailing houses - in a new go-to-market approach based on the active stewardship of channel mix for profitable and loyal customers.

[7] For example, SMEs and unsorted commercial mail from the back offices and branches of banks, insurance companies etc is typically paid at full tariff and through efficient pre-paid payment technologies such as meters.

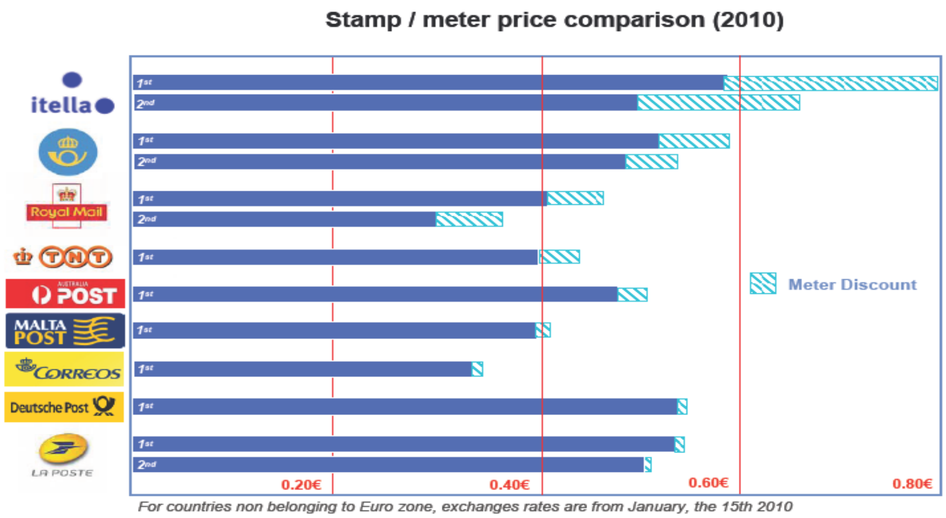
The mindset shift involved is in viewing partners such as mailing houses and meter technology companies, not as potential intermediaries, but as channels to the customer base. An example of the shift underway is Royal Mail's 2010 partnership to foster dialogue with the mailing houses, who handle around 90 per cent of all bulk mailings. The aim is to more closely collaborate in developing products and to tackle issues affecting the industry.

In sum, there is a growing imperative and practice among posts to integrate previously undermanaged and stand-alone channels within an overall commercial framework to meet the different needs of customers in separate market segments, with distinct value propositions and segment specific prices.

Channel Pricing and Innovation

Channel innovation is best exemplified by a new revolution in payment channel pricing. Figure 6 shows how stamp prices have been de-averaged for meter channel users, reflecting the cost efficiency of the meter channel (compared to stamps) and the different demand conditions in the unsorted business mail segment. While many of the posts who have introduced discounts for metered mail operate in liberalised postal markets (Royal Mail, Sweden Post, New Zealand); others are not yet experiencing competition in their domestic markets (e.g. Australia, Finland).

Figure 6 Stamp/Meter Tariff Re-balancing, April 2010



Tariff structures which reflect the per unit avoided costs of payment channels incentivise mailers to access, evidence and pay for postage services in the most efficient manner. Such prices send the correct signals to the wider industry, thereby stimulating innovation, R&D and dynamic efficiency. Where relative price signals are distorted then the incentives to technology providers and mailers will be unbalanced leading to less dynamism in the sector than might otherwise be the case. Facilitating innovation and dynamic efficiency is a key objective of NRAs and pricing regimes need to ensure that there are no distortions to the incentives technology companies receive to invest in new solutions for mailers and for posts.

Conclusion

The richness of the channel experience for mailers is an important source of differentiation for posts. There is some evidence that over the last few years some posts are re-learning the lessons of Rowland Hill's payment channel innovation.

It's clear why regulators would wish to drive channel alignment through cost-reflective pricing: to reduce universal service providers' costs; to bring benefits of market opening to small, and not only to large businesses; and to send the right price signals to the wider industry to drive innovation and technological development.

For posts too, cost-reflective channel pricing is the right way forward to reduce cost-to-serve and to incentivise customers to access, evidence and pay for postal services in the most efficient manner. A channel-centric perspective is therefore critical for sales and marketing, including improving efficiency within channels; reconfiguring prices and policies to optimise customers between channels; and more effectively engaging with third-party sales and payment channel partners.

Posts have an obligation to serve all customers wherever they are based. Inevitably, different customer groups in different sectors or geographies, and with different levels of expenditure, have different costs-to-serve. An appropriate mix of payment channels can meet the dual objective of reaching all customers at the minimum of cost. It is clear that payment channel strategy is as important an issue today (for mailers, regulators and for the posts) as it was in the days of the payment channel revolutionary, Sir Rowland Hill.

Questions for thought

1. *What are some of the reasons why postal businesses seem not to have developed a structured and integrated approach to channel strategy? What are some of the important opportunities available to them if they do?*

2. *The author discusses revenue leakage and revenue protection as a driver for more control of payment channels – why does it not seem to have been a priority in the past and what are some of the ways this could be achieved?*

3. *Increasing competition invites postal operators to look for opportunities to innovate and differentiate their product and service offering to the market, how can the focus on customer channels help to facilitate these kinds of developments?*

The New Strategy in Competitive Postal Markets

THE NEW STRATEGY IN COMPETITIVE POSTAL MARKETS

Focusing on the Basics

Tim Walsh
Vice President Corporate and Regulatory Affairs
Pitney Bowes International

One of the privileges of my job is the opportunity it affords to work with posts across the world. From Europe to Africa, and from Asia to Latin America, the world's universal service providers face many of the same strategic, commercial and regulatory challenges.

In particular, executives in all EU posts by 2013, and those of Mexico, Argentina, New Zealand, India and Singapore now, must navigate fast changing and competitive letter mail markets. Elsewhere, virtually all posts are seeking to become more efficient, often driven by pressure from government as shareholder.

Clearly, there are many institutional and technological differences but, to a remarkable degree, posts confront many of the same fundamental commercial questions.

The DNA of Posts

In truth, the DNA of posts is similar. Appetite for risk is low and the underlying economics of the business are such that forging and implementing strategy in turbulent times is fraught with difficulty. Paradoxically, it seems that the burning platform of market opening can as often foster inertia as it can propel the business toward action.

Part of the problem may be the tendency to over complicate the challenges facing posts. Slow decision making is also a feature of the critical operational inter-connections within the business. Change upstream can have negative downstream effects (and vice versa) such that decisions in posts are not taken, but rather emerge.

More importantly in my experience is that sometimes the strategic conversation within the organisation is seen as quite separate from the dialogue that needs to take place on sales and marketing practices.

New Strategy

This dichotomy is false. In a letters business facing competition sales and marketing conundrums are at the core of the new strategy. Responsibility cannot be delegated down the organisation. It involves a re-ordering of stakeholder entitlements and customer expectations. New strategy embraces the posts' customer and sales strategies and the important four of the five Ps of marketing: Price, Product, Place and Policies.

Promotion (the fifth and most glamorous P) and brand are not unimportant but can distract executives from some of the more difficult, nitty gritty questions that need addressing and which have perhaps a more immediate impact on a company's performance in situations where customers have a choice.

Cost Drivers and Entry Threats

Even if a postal incumbent does not know where its costs and profits lie we can be sure that a new entrant will sniff out profitable customers, streams and geographies. New entrant networks will be optimised to serve specific market segments, and to target selectively, and progressively, distinct customer and volume segments

While bulk mail is initially attractive to new entrants to cover the fixed costs of network development, it is the SME, unsorted and standard tariff letters traffic which provide the basis for profitable growth. Posts' new strategy must cover sorted and unsorted volumes as well as large and SME mailers.

In the face of liberalisation universal service providers therefore need a grip on their network costs in both their consolidation operations (collect, sort, transport) and in their delivery business. In products, too, cost drivers need to be better understood with prices aligned to the main cost drivers: speed, payment method, format and weight.

Customer Profitability and Segmentation

Understanding customer profitability is especially critical because the unit costs of providing a service are usually as much determined by customer behavior, and transactional and operational support costs, as they are product related. Because of these costs, the largest customers of a post are amongst the most profitable or the most unprofitable – rarely do they fall in the mid-range.

In this context, segmentation and customer profitability modelling is essential to identify those accounts that cost more to serve than the contribution they provide. By contrast, during the 1990s, although posts aspired to become more customer focused, this sometimes reflected a tendency to think that anything asked for by a customer had to be provided regardless of the costs involved. In retrospect, it is clear that some posts lost control of the costs associated with customer behavior during this period, with damaging financial consequences.

Customer Focus and Sales

By contrast, new entrants are focused not only on the needs of the mailer but also their value and potential to the carrier. New entrants are customer

focused in the sense that their products are designed to meet unmet needs and their prices and payment terms are flexible. Moreover, new entrants also tend to pursue a strict application of terms of conformance to product specification by the mailer in the interests of network optimisation and customer profitability.

Well designed customer segmentation also allows a post's sales organisation to understand how to serve customers better and more efficiently in each of the distinct segments. It is not about de-prioritising accounts outside the top tier but better serving all accounts, within each segment, with the right products and prices, and through the right channels. It is also about providing the framework to develop a sales and service model differentiated on the basis of cost to serve.

Marketing and Four of The Ps

A key focus for management in posts facing competition must be product development. It is not unusual to find posts providing a priority and a non-priority letter mail service but beyond that service differentiator very little product differentiation of their offer. Without greater product differentiation incumbents will find it difficult to cover the full range of mailer needs, and this will constrain their ability to reduce prices aligned to the re-allocated costs on new, pared down, workshared and value added products.

Product development is precisely one of those areas requiring detailed analysis of customer needs, volume thresholds, costs and access or mail preparation conditions that is the new strategy of postal businesses facing liberalisation. New strategy is dull but critical.

Equally, market opening demands advanced pricing expertise--price being the key variable to reduce switching risk - and to better match price structures to the needs of specific customer segments.

The determination of cost based discount structures will be an essential competence for postal marketing teams in the future, not only to reduce vulnerability to switching but also to incentivise mailers to cooperatively reduce costs, and to reward them for behaviors optimal to overall postal efficiency and innovation.

Whilst postal managers know instinctively that tariff re-balancing is necessary I regularly hear that discounted price structures will be delayed on the basis of "why give away revenue now?" Yet, the experience from markets that have liberalised is that it is better to act sooner rather than later. Delaying tariff re-balancing until after new entrants are established will be contested by rivals and scrutinised by regulators for anti-competitive intent. More importantly, if the goal is to align prices to costs to stimulate productive efficiency it is better to do it sooner rather than later.

Posts can also reduce sales, service and transaction costs by a more integrated management of channels. Channels represent a gateway between a post's products and the end user and can be a source of competitive advantage. Channel experience strongly shapes end users' overall perceptions of the post's brand and customer satisfaction with its products.

A channel centric perspective is therefore also part of a post's new strategy for sales and marketing, including: improving efficiency within channels; reconfiguring prices and policies to optimise customers between channels; and more effectively engaging with third party sales and payment channel partners.

Put another way, an effective channel strategy allows the re-routing of customers to reduce costs to serve, to increase revenue per customer, to penetrate underserved segments, and to boost customer loyalty.

Conclusion

Incumbent posts facing market opening or simply seeking to grow profitability must resolve a set of closely related cost, pricing, product, customer and channel issues. They need to become organisations with the capabilities to develop and deliver an integrated commercial strategy involving the transformation of key sales and marketing processes.

This requires meaningful change in sales and marketing practices based on product and channel cost analysis, and informed by a focus on customer profitability.

There needs to be a shift in resources from big strategy (values, mission, vision) to new strategy: from a focus on brand to the prioritisation of cross-functional projects involving the customer interface; products and prices; the sales process; and the costs to serve within and between sales and payment channels.

New strategy is, if you will, a process through which a post can begin to embed new entrant characteristics into its network, products and prices, compliantly. It is about how the incumbent develops platforms for differentiation upon which it can execute change in anticipation of entry into particular segments. It is about price and product differentiation; a more appropriate allocation of costs to a market required product set; and the right mix of incentive and reward to align customers to sales and payment channels.

How then to unlock a new strategy in traditional postal businesses? In my experience the nemesis of change in posts is the master plan. A canvas is painted with individual brush strokes. The successful posts are the ones who make the changes to products, prices and channels as soundly based as is practicable, who learn from experience, and who continue to change based on that learning. New strategy understands that a series of small steps can be more enduring than the giant leap implied by the burning platform metaphor.

Postmaster Article in German

Teure Briefmarke – preiswerter Freistempler

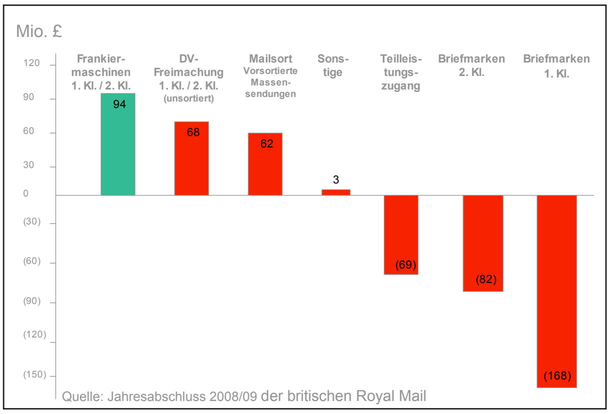
Postunternehmen müssen Anreize für wirtschaftlichere Freimachungs- und Entgelttechniken schaffen.

Nationale Postunternehmen haben eine schwierige Aufgabe: Sie müssen sämtlichen Unternehmen und Privatpersonen unabhängig davon, wo diese sich befinden und wie viel sie ausgeben, zu einem günstigen, einheitlichen Preis zur Verfügung stehen – nach dem Motto „alle, alles, überall, immer". Dazu stehen Postunternehmen eine Reihe von Marketingstrategien zur Auswahl, insbesondere bei Aspekten wie

- der Maximierung der Marktabdeckung bei gleichzeitiger Kostenminimierung und einem ausgewogenen Verhältnis zwischen den mit dem Kundenkontakt verbundenen Kosten und einem angemessenen segmentspezifischen Zugangs- und Serviceangebot;
- der sicheren, kosteneffektiven Nachweisführung, Verbuchung und Rechnungsstellung bei einem großen, vielfältigen und weit verteilten Kundenstamm;
- der Optimierung der Verbindungen zu den Postkunden je nach der relativen Wichtigkeit der jeweiligen Transaktion bzw. Beziehung sowie den gegenseitigen Anforderungen in Bezug auf die physischen Daten- und Zahlungsströme zwischen dem Postunternehmen und dem Kunden.

Die gute Nachricht dabei ist, dass sich ein Postunternehmen aussuchen kann, wie es mit seinen Kunden Geschäfte tätigt, und zwar sowohl in Bezug auf die Zahlungsabwicklung – im Voraus (prepaid: Briefmarken, Freistempel und Internetfrankierung) oder nachträglich (postpaid: DV-Freimachung) – als auch in Bezug auf die Vertriebskanäle.

Die schlechte Nachricht ist, dass sich die Vertriebskanalstrategie bei vielen Postunternehmen mehr oder weniger zufällig entwickelt hat. Betrachtet man die Erträge nach Vertriebskanälen,



Pitney Bowes (2)

Abbildung 1: Rentabilität der Royal Mail nach Vertriebskanälen und Produktgruppen, in Millionen Pfund

erkennt man darin oft veraltete Marketingpläne, bei denen die Servicemuster auf überholten Methoden, Technologien und Prozessen beruhen. Der Kanalmix wird teilweise nicht sinnvoll organisiert, so dass die Erträge unabhängig von den Auswirkungen auf die Rentabilität zwischen den einzelnen Kanälen hin- und hergeschoben werden, da die internen Vertriebsanreize schlecht abgestimmt sind. Hinsichtlich der Wirtschaftlichkeit ihrer Vertriebskanäle scheinen sich viele Postunternehmen offenbar im Blindflug zu befinden: Ihre Vertriebskanalstrategie wird weder aktiv geplant, noch auf der Grundlage der allgemeineren geschäftlichen Ziele des Unternehmens gesteuert.

Rote Zahlen mit Briefmarken

Von entscheidender Bedeutung ist es, die Kundenrentabilität bei den einzelnen Vertriebskanälen zu kennen, da die Stückkosten der Leistungserbringung ebenso sehr vom Kundenverhalten und den Ablauf- und Organisationskosten abhängen wie von der Art des Produkts. Die Grundkosten bei Geschäftspost bleiben weitestgehend gleich, doch die Managementprozesse im Zusammenhang mit den verschiedenen Verkehrsströmen (Ertragsabsicherung, Kreditauskünfte zu Konten, Auswirkungen auf den Kapitalfluss) können im Vergleich zu den Kosten der eigentlichen physischen Aktivität relativ teuer werden.

So sind die mit dem Briefmarkenkanal verbundenen Kosten beispielsweise so hoch, dass es schwierig sein kann, mit Briefmarkenpost Gewinne zu erwirtschaften, ohne hohe Preise dafür zu erheben, was gegenüber kleinen und mittelständischen Unternehmen, denen eine Reihe physischer, Hybrid- und elektronischer Alternativen zur Verfügung stehen, jedoch nicht sinnvoll ist. Wie aus den Rentabilitätsdaten der britischen Royal Mail hervorgeht, hat der Universaldienstleister in den Jahren 2008/2009 bei seinen Briefmarkenprodukten 250 Millionen Pfund Verlust gemacht. Vor diesem Hintergrund richten Postunternehmen in der EU ihren Blick inzwischen verstärkt auf die Vertriebskanäle und entwickeln ein zunehmendes Bewusstsein dafür, dass die Rentabilität je Versandeinheit von Kanal zu Kanal unterschiedlich ist. Viele Postunternehmen haben ihre Geschäftsbedingungen für einzelne Kanäle überarbeitet, unter anderem das Mindestporto, ab dem die DV-Freimachung mit nachträglicher Entgeltzahlung genutzt werden kann. Andere gestalten die Ertragszusammensetzung aus Prepaid- und Postpaid-Kanälen neu. Einige erheben Strafen (bei Nichteinhaltung der Zahlungsbedingungen durch Kunden) und erhöhen die Gebühren für Leistungen, die die Post bei bestimmten Kanälen erbringt (z.B. das Serviceelement bei der Frankierung am Postschalter). Und immer mehr Postunternehmen ändern ihre Strategien und Preise, um Kunden aktiv dazu zu bewegen, vom kostenintensiven Briefmarkenkanal auf den kosteneffizienteren Freistempelkanal umzusteigen.

Preisgestaltung beim Briefmarken- und Freistempelkanal

Wie aus Abbildung 2 hervorgeht, haben Postunternehmen, die auf liberalisierten Märkten tätig sind, ihren Preis für die mit Freistemplern frankierte Postsendungen gegenüber ihrem Briefmarkenpreis gesenkt. Etablierten Postunternehmen wird die Rentabilität unsortierter Postsendungsströme bei verbessertem Zugang durch effiziente Zahlungstechniken (im Vergleich zu Briefmarkennutzern) und das Fehlen von Rabatten in der Vergangenheit zunehmend bewusst. Die Erfahrungen aus Großbritannien und anderen Ländern haben gezeigt, dass diese Postkunden für neue Marktteilnehmer attraktiv sind, da es gerade diese Segmente sind, die die Rentabilität neuer Anbieternetze stärken, während Massensendungen im Wesentlichen lediglich dazu beitragen, die Festkosten des Netzausbaus zu decken.

Deutschland: Frankiermaschine ohne Anreiz

Der liberalisierte deutsche Markt scheint dabei eine Ausnahme darzustellen. Postkunden, die Frankiermaschinen verwenden, zahlen abgesehen von einem Rabatt von einem Prozent, der gewährt wird, wenn die Frankiermaschine mit mindestens 200 Euro aufgeladen wird, denselben Preis wie Briefmarkennutzer. Darüber hinaus sendet der unlängst von der Bundesnetzagentur genehmigte Hybridpostpreis von 46 Cent möglicherweise das falsche Signal an die Postkunden und bringt mit sich, dass sich das Briefgeschäft vom physischen Netz der Deutschen Post auf den Hybridbereich verlagert. Während sich der Hybridpreis an den Kosten zu orientieren scheint – und als solcher von der Bundesnetzagentur überwacht wird – ist dies bei Freistempelpost offenbar nicht der Fall.
Allgemeiner formuliert gibt es Anzeichen für eine neue Denkweise bei Postunternehmen auf liberalisierten Märkten insofern, als ihnen bewusst ist, dass Vertriebskanalpartner für die Kunden einen erheblichen Mehrwert bedeuten können und die Rolle der Post im Grunde darin besteht, die Bedingungen festzulegen, zu denen Partner die Ziele der Post in Bezug auf den Kunden, die Marktabdeckung, die Kosteneffizienz und den Handlungsspielraum für differenzierte Reaktionen auf die unterschiedlichsten Bedürfnisse verschiedener Segmente vorschriftsgemäß umzusetzen. Die Lösung besteht darin, im Rahmen eines neuen Marketingansatzes auf der Grundlage eines aktiv gestalteten Kanalmixes die Möglichkeit der Zusammenarbeit mit Vertriebskanalpartnern – Einzelhändlern, Frankiermaschinenherstellern, Briefdienstleistern – zu nutzen, um so rentable und loyale Kunden zu gewinnen.

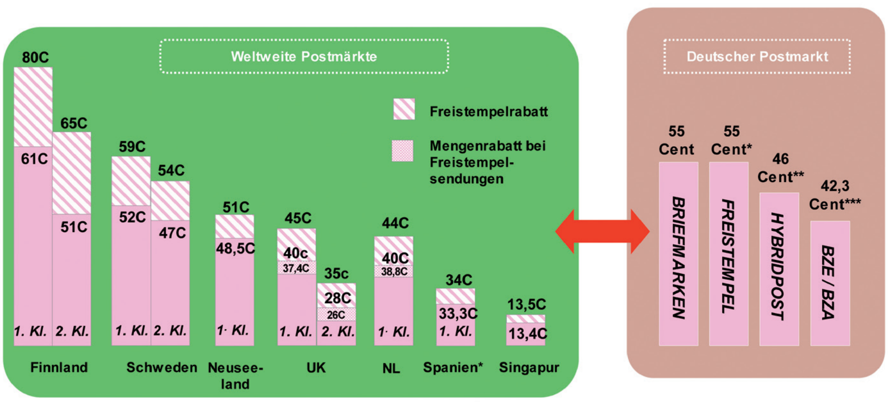
Neue Strategie – neue Vertriebskanäle – neue Preise

Eine kanalspezifische Betrachtungsweise ist für Vertrieb und Marketing von entscheidender Bedeutung; dazu gehören unter anderem die Verbesserung der Effizienz innerhalb der einzelnen Vertriebskanäle, die Neugestaltung von Preisen und Strategien zur Optimierung der Kundenverteilung auf die einzelnen Kanäle und die effektivere Zusammenarbeit mit Vertriebskanalpartnern. Vielfältige Kanalmöglichkeiten für Postkunden stellen eine wichtige Profilierungschance für Postunternehmen auf liberalisierten Märkten dar.
Am besten wird die Neugestaltung der Vertriebskanäle durch Postunternehmen in der EU durch das zunehmende Bewusstsein dafür veranschaulicht, dass Kanäle – und nicht nur Format, Gewicht und Gebiet – entscheidende Kostentreiber sind. Postunternehmen auf liberalisierten Märkten senken ihre Preise für Nutzer von Frankiermaschinen, was die Kosteneffizienz des Frankiermaschinenkanals (im Vergleich zu Briefmarken) und die unterschiedlichen Nachfragebedingungen im Segment für unsortierte Geschäftspost verdeutlicht. Diese kostenbasierte Preisgestaltung schafft für Postkunden einen Anreiz, Postdienstleistungen so effizient wie möglich zu nutzen, nachzuweisen und zu bezahlen, und sendet die richtigen Signale an die breitere Wirtschaft, so dass Innovationen, Forschung und Entwicklung sowie dynamische Effizienz gefördert werden.

Deutschland: neue Wege gesucht

In Deutschland scheint ein Paradebeispiel für einen Fall vorzuliegen, in dem eine Überarbeitung der Preise für mit Freistempel frankierte Postsendungen gegenüber denen für Briefmarken notwendig ist. Die Vorteile der Marktöffnung sind für kleine und mittelständische Unternehmen als Kunden sowie bei unsortierten Postsendungen noch nicht zu spüren – doch es liegt im Interesse der Postkunden, der breiteren Wirtschaft wie auch der Deutschen Post, relative Preise zu schaffen und so auf der Grundlage der für das Postunternehmen vermiedenen Kosten Effizienz und effizienteres Kundenverhalten zu fördern.

Tim Walsh



Bei Ländern, die nicht dem Euroraum angehören, wurden die Währungsangaben auf der Grundlage des Wechselkurses vom 3. März 2010 in Euro umgerechnet

* In Spanien sind direkte Post, Stadtpost und Teilleistungszugang für den Wettbewerb freigegeben.

*1 % Rabatt pro Aufladung der Frankiermaschine mit mind. 200 €

** Hybridpreis für das physische Serviceelement

*** Bei Teilleistungszugang (BZE-BZA) bis zu 23 % Rabatt

Abbildung 2: Preise für Briefmarken- und Freistempelsendungen auf liberalisierten Märkten: weltweit und Deutschland

An English Channel

Postscript

An English channel

In a regular new column, industry expert Tim Walsh comments that the innovation of the stamp more than 160 years ago has led directly to the advanced payment channels of today

● **Tim Walsh, director of strategy and regulatory affairs, Europe, Africa and Middle East, Pitney Bowes**

Tim Walsh, postal expert and industry commentator

Prior to the introduction of the Penny Black in the UK on 6 May 1840, postage was paid by the recipient of a letter item. This cash-on-delivery arrangement provided a strong incentive to deliver the item to the correct address, but it also created substantial transaction costs. Sir Rowland Hill's critique of the post office in his day was that tariffs were based, not on costs, but on the Treasury's desire to capture the largest possible revenues. Even so, much of the high and often illogical tariffs were eaten up by the cumbersome bureaucracy involved in collecting the revenue.

Hill's critique of the British post office all those years ago was essentially a critique of payment channel strategies. Today, the insights that underpinned the payment channel revolution 165 years ago remain highly relevant and have taken on a new importance by those posts seeking to cut costs and drive up efficiency. Yet, postal channel choices are rarely debated and are understood very little within the industry.

In the 19th Century, Hill's pre-paid, self-adhesive stamp won out over William Mulready's pre-paid envelope, on grounds of both customer acceptance and cost. Ultimately, Hill's own Penny Black lasted just 10 months, being replaced by the Penny Red, because the post office was worried that its, also red, stamp cancellations were not showing up on the black stamps. Red stamps with black cancellation ink better protected post office revenues. Customer acceptance, channel costs and revenue protection remain the tests for effective payment channels to this day.

Such were the benefits of Hill's technological innovation that pre-paid postage stamps became a universal payment channel for posts across the world. Compared to the cash-on-delivery arrangement, stamps represented a huge reduction in transaction costs. Stamps also stimulated the growth of communication by mail and spawned the birth of the modern mailing system we know today. This change in the payment channel for mailing services led to massive innovation in the industry, and the dynamism changed the face of postal services not only in the UK, but also across the world.

It is critical for a post to get its payment channel strategy right if it is to rise to the unique challenges it faces: To serve all businesses and individuals wherever they are located, no matter how much they spend at a low value, uniform price: "Everyone, everything, everywhere, everyday." Posts cannot choose which customers, which sectors or which geographies they serve. As a result, posts face a number of related 'go-to-market' choices, specifically how to:

- Maximise market coverage while minimising costs, and balance customer

- contact with appropriate levels of access and service;
- Evidence, account and bill such a large, diverse and dispersed customer base in a secure and cost-effective way;
- Collect revenue from the very largest to the very smallest customer securely and inexpensively, by comparison with total spend.

The good news is that while posts cannot choose which customers to serve, it can choose how to serve them in terms of payment channels: Through pre-paid channels (stamps, meters and PC-postage); delayed payment channels (Printed Postage Impression or PPI); and in terms of sales channels – through direct or indirect third party distributors, such as high street retailers' sales channels. The bad news is for many posts the channel strategy has been developed in an 'ad hoc' way even though some channels are more efficient than others. Cost of sales, marketing, collection, processing and revenue collection vary significantly between channels. Even downstream costs, costs of delivery and returns, vary depending on whether an item is stamped, metered or PPI.

For example, the UK postal services' regulator, Postcomm, recently identified first class metered mail as Royal Mail's most profitable traffic stream. To collect each US$1 billion in revenue from stamps, the USPS incurs costs that are more than 180 times greater than the costs incurred to collect the same revenue from meters. As the Irish Postal regulator, Comreg, recently observed, "a material difference in cost between the various payment methods … should be taken into account in setting tariffs …"

It seems clear why regulators would wish to drive channel alignment through cost-reflective pricing: To reduce universal service providers' costs; to bring benefits of regulatory oversight to small, and not just large businesses, and to send the right price signals to the wider industry driving innovation and technological development. For posts too, cost-reflective channel pricing is the right way to cut 'cost-to-serve' and to initiate incentives to customers to access, evidence and pay for services in the most efficient manner.

However, most are flying blind with respect to channel economics. At best, the focus is on direct costs instead of all relevant channel costs, including billing and revenue collection costs. What's more, the focus of posts is on efficiencies within channels (e.g. reducing sales and distribution costs of stamps) rather than between channels, and posts typically do not actively migrate customers from the least to the most cost-efficient channel.

There are exceptions including the innovative channel strategies of Australia Post who have sought to migrate half of its 20,000 PPI users, and many stamp users to the pre-paid meter channel. The aim is to triple the revenue flowing through the meter channel from nine to 30 per cent. Royal Mail has also launched a programme to switch low volume PPI users to the meter channel as part of its continuing programme of driving up efficiency across its business.

Posts have an obligation to serve all customers wherever they are based. Inevitably, different customer groups in different sectors or geographies, and with different levels of expenditure, have different costs-to-serve. An appropriate mix of payment channels can meet the dual objective of reaching all customers at the minimum of cost. Certainly, payment channel strategy is as important an issue for mailers, regulators and for the posts, as it was in the days of the payment channel revolutionary, Sir Rowland Hill.

Index to Advertisers

The Economics of Postal Payment Channels

18. The economics of postal payment channels and EU postal VAT

Tim Walsh[†]

1 INTRODUCTION

For over thirty years the application of the European Union's value-added tax (VAT) rules to the postal sector has been problematic. Since its formalization in 1977 the nature and scope of the postal VAT exemption has been a source of textual dispute, litigation and market uncertainty. Attempts to apply ill-defined and pre-existing VAT rules to the evolving market have been driven largely by judicial action, but the necessary degree of legal certainty and harmonization required to underpin a fully functioning EU-wide postal services market has not yet been achieved.

The case for removing an incumbent's VAT exemption is typically based on efficiency and competition grounds. National postal operators would henceforth face incentives to outsource services currently provided in-house and entrants would have equal treatment in respect of VAT particularly in relation to the estimated 50 percent of volumes emanating from VAT-exempt customers such as in the financial services, charity and government sectors. The evidence on the impact of VAT on postal services is, however, mixed. The IBFD (2004) concluded that competition would be least distorted 'the narrower the scope of the exemption'. Dietl et al. (Chapter 19, this volume, p. 00), found that abolishing the incumbent's VAT exemption 'levels the playing field . . . it slightly decreases overall welfare'.

This chapter reviews one aspect of the efficiency consequences of postal VAT for operators and their customers in the context of the European Court of Justice (ECJ) determination in the April 2009 case between TNT UK and the UK government. The focus is on the risks to efficiency in respect of how mailers (consumers, small and medium-sized enterprises (SMEs) and bulk) pay for services through different payment channels. Postal payment channels such as stamps, meters and printed postage impressions (PPI) are associated with different costs for operators and a diverse range of benefits for mailers based on the volume and frequency of the streams that they produce. Payment channels represent a significant cost driver for postal operators with cost differences between channels arising from a mix of sales, marketing and transaction costs associated with invoicing, revenue collection and cash flow.

The economics of postal payment channels is especially relevant in the context of Article 12 of the Postal Services Directive which requires cost-oriented tariffs that 'give

† Vice-President for Corporate and Regulatory Affairs, Pitney Bowes Inc.

incentives for an efficient universal provision'.[1] The impact of VAT on different segments of customers is critical because unit costs of providing services are shaped as much by customer behavior and channel-specific transactional and operational support costs, as much as they are product related. Yet when viewed against such operational realities there is a risk that application by member states of the principles established by the ECJ in 2009 could create a new set of distortions, inimical to efficiency, and running counter to overall sector goals implicit in the postal services directive.

The chapter is structured as follows. Section 2 examines the nature and purpose of postal payment channels and reviews their economic aspects in light of postal operators' increasing emphasis on the active management of channels. Section 3 assesses the extent to which historic European postal VAT legislation and more recent proposals for change, including the ECJ's decision in the April 2009 UK case, are consistent with payment channel realities faced by mailers and operators. The risks to the efficient management of mailers by postal operators are identified, particularly in view of the early implementation of the Court's decision in some member states. Section 4 concludes the chapter.

2 THE ECONOMICS OF POSTAL PAYMENT CHANNELS

European mailers pay an estimated €35 billion for domestic and cross-border letter mail services through three principal payment channels: PPI, meters and stamps. The PPI is mainly a payment-in-arrears channel and accounts for an estimated 64 percent of total revenue, with meters (largely payment in advance) and stamps (payment in advance) are responsible for some 23 and 13 percent, respectively, of total letter mail expenditure. Figure 18.1 illustrates some of the main forms of postage payment for single-piece or unsorted and for sorted or bulk traffic streams.

Payment channels represent a 'gateway' between an operator's services and the end-user. On the supply side, channels support improved routine handling of transactions and can significantly reduce the costs and number of events between a postal operator and a customer in the sale of a product or service. On the demand side, channels facilitate

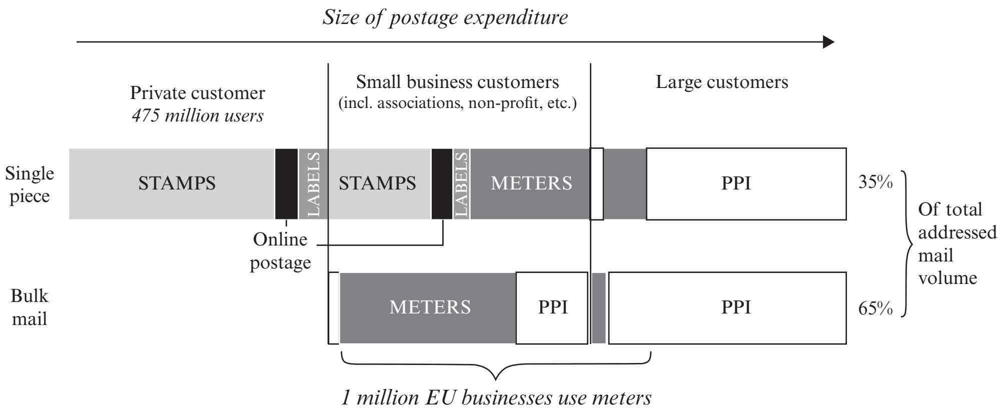


Figure 18.1 Main forms of postage payment channels

search and access to suitable products for subsets of customers in a cost-effective and focused way. A well-designed channel strategy can reduce complexity for end-users, boost customer satisfaction, drive down the overall costs-to-serve and facilitate postal modernization, particularly in front of the customer (Coughlan et al., 2006).

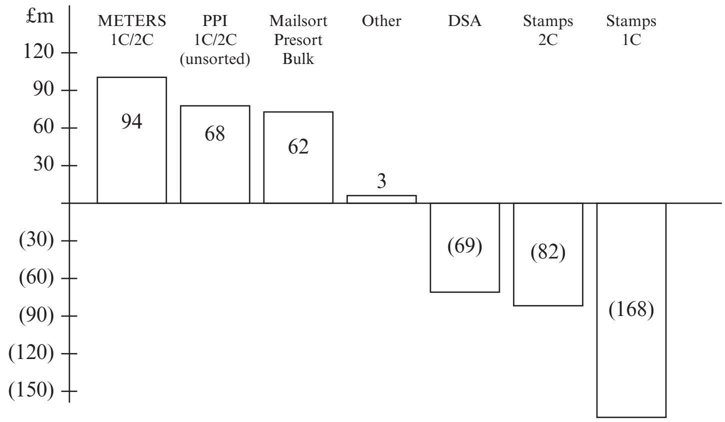
To achieve such benefits, channels need to be managed in an integrated fashion based on an appreciation of the intrinsic strengths of each channel *vis-à-vis* particular customer segments. The challenge is to design a suite of channels that meets the needs of diverse users (for access, coverage, convenience and so on) while managing channels for profitability and revenue protection. Effective channel stewardship involves measures to promote efficiency within and between channels; policies that incentivize the right customer behavior in terms of access and payment; and prices that reward such choices based on the costs avoided for the postal operator.

Indeed, in an effort to reduce costs and better align with customer needs, many posts in Europe and elsewhere have brought innovation and change to their payment channel strategies over recent years. Many are switching stamp users from staffed, retail access points to automated kiosks. Royal Mail have closed its over-the-counter, Pre-paid in Cash payment channel, one that dated back to William Dockwra's pre-paid London penny post network of 1680. Belgian Post have removed the non-priority mail product from the stamp channel, and increased significantly the price of individual stamps. Others, too, are developing more user-friendly payment and evidencing web-based options, and Deutsche Post have launched a mobile payment option. In particular, postal operators are introducing cost-reflective channel pricing (as between stamped and metered mail) in an attempt to reduce costs-to-serve by incentivizing customers to access, evidence and pay for postal services in the most efficient manner. Such a channel-centric perspective is informing posts' entire sales and marketing strategies and has become a critical lever to optimize customer management and stimulate efficiency within and between channels, not least in the typically loss-making or low-margin stamp channel.

The inverse relationship between consumer stamp users' political voice on the one hand and their market importance on the other is compounded by the financial reality that the stamp channel is a significantly more costly and less profitable channel to market for postal operators than either the PPI or the meter channel. The literature is clear: that while incumbents' operational costs are broadly similar for PPI and metered traffic, the various upstream processes around such volumes (revenue protection, credit referencing of accounts, cash flow impacts, transaction costs) can be relatively expensive when compared with the cost of the physical activity itself (Frontier Economics, 2003).

Certainly, national regulatory authorities have recognized that cost variations between postal payment channels can be significant and have instructed postal operators to identify such costs and price accordingly in the interests of both productive and dynamic efficiency (ComReg, 2006; ARCEP, 2007; Postcomm, 2010).

Haldi and Schmidt (2000) called payment channel-specific costs largely 'avoidable' and representing 'resistance' in efficient postal networks, and suggested that eliminating such costs would result in more satisfied customers and more-efficient postal operations. They concluded that 'stamps are the most expensive method that a postal administration has for collecting revenues' and that in the United States total stamp costs represented almost 9 per cent of total revenues (ibid.: 398–9).[2] Moreover, in his evidence to the Postal Rate Commission, Haldi calculates that 'to collect each $1 billion in revenue from stamps, the



Source: Royal Mail Regulatory Accounts, 2008–09.

Figure 18.2 Royal Mail payment channel and area operating profitability (£m)

Postal Service incurs costs which are more than 180 times greater than the costs incurred to collect the same revenue from meters' (Haldi, 2000:12).

The literature is supported by data from Royal Mail's regulated accounts whereby the average unit profit on each item of stamped mail is a negative 8.9 pence compared to an average unit profit for metered and PPI mail of 3.6 and 4.2 pence, respectively. Higher transaction costs associated with the printing, sale and secure distribution of stamps ensure that the UK's universal service provider (USP) lost a total of £250 million on its stamped products in 2008–09 whereas First and Second Class metered mail generated a profit of £94 million and unsorted PPI £68 million (Figure 18.2). The profitability of the meter and PPI channels is all the more striking in that Royal Mail, as with many posts, incentivize mailers to access and pay for postal services through these more-efficient and profitable channels with cost-based discounts from the First and Second Class stamp price, which in 2008 stood at 34/36p and 24/27p, respectively. In this context, the impact of VAT-inclusive prices on different customer segments, particularly where products are close substitutes between channels – say First Class metered mail compared to First Class stamped mail – is critical in ensuring that the right price signals are sent to mailers and the wider industry as a driver of both efficiency and innovation.

3 VAT LEGISLATION, THE ECJ DECISION AND POSTAL PAYMENT CHANNELS

The historic development of EU postal VAT rules has, however, been largely forged without reference to the economic and operational realities around payment for postal services. That failure can be seen on the face of the 1977 Sixth VAT Directive. While Article 13 (A)(1)(a) of the directive exempted 'public postal services . . . and the supply of goods incidental thereto', Article 13 (B)(e) required member states to exempt from VAT 'the supply at face value of postage stamps valid for use for postal services within the territory of the country'(European Council, 1977). Neither 'public postal services' nor 'postage stamps' were further defined within the directive such that the European Commission had, as early as 1983, identified general 'difficulties' in applying the exemptions to the said activities (European Commission, 2003).

In contrast, the European Commission's (2003) proposal for a Council Directive to reform postal VAT did respect payment channel realities, both in respect of substantive definitions and tactical implementation, particularly around the impact on users of stamped mail. Among other changes, the Commission proposed the abolition of the VAT exemption for public postal services and the deletion of exemption for 'postage stamps'. It further recommended that VAT applied to postal services in two categories. The first category was defined as 'basic postal services' below 2 kg, including items of correspondence, direct mail, books, catalogue, newspapers and small packages, apply the standard VAT rate with member states being permitted to apply the reduced rate 'to minimize the impact . . . on prices paid by final consumers', particularly stamped mail users and VAT-exempt bulk mail customers. The second category was defined as 'standard' postal services, including unaddressed mail, express and services above 2 kg, applied VAT at the standard rate within EU.

The proposal represented a harmonized approach and respected the competitive distortion and fiscal neutrality principle. It was further mindful of impact on users: the Commission estimated that the removal of the VAT exemption in the way proposed would lead to an increase of only 2.5 percent in postal prices for residential and small business customers (European Parliament, 2004a). In addition, following the opinion of the European Parliament, an amended Commission proposal allowed a transition period to allow public and private companies to 'adapt their systems', including payment and evidencing technologies (European Parliament, 2004b).

The Commission's amended proposal was never formally tabled at the Council but instead the Commission launched test case infringement proceedings against three member states: the United Kingdom (representing member states exempting all postal services provided by former postal monopolies); Germany (representing member states exempting universal services provided by USPs) and Sweden (representing member states with no exemption on postal services, or limited to the reserved area). The European Commission noted that postal-VAT exemption as applied in UK (all Royal Mail postal services) and Germany (USP's Universal Service Obligation USO) hinders competition while the Swedish application of VAT to all postal services represented a breach of harmonization principle. The European Commission formally requested that each of the three governments change its domestic legislation on the VAT exemption as it was not compatible with the 1977 VAT Directive (European Commission, 2006). The infringement proceedings were suspended pending the outcome of a case brought by the UK branch of TNT against the UK government regarding the scope of the VAT exemption on postal activities in the UK.

On April 23, 2009 the ECJ delivered its final judgment on the interpretation of the term 'public postal services' in Article 13A (1) (a) of the Sixth Directive. The Court considered that the exemptions provided for in that article were intended to encourage certain activities in the public interest. It stated that Directive 97/67/CE constituted 'a useful point of reference for the purposes of interpreting the term "public postal services" within the meaning of that provision' [3] and ruled that the exemption covers operators, whether they are public or private, who undertake to provide, in a member state, all or part of the universal postal service, as defined in Article 3 of Directive 97/67.

The Court further determined that the exemption can only 'apply to the supply by public postal services acting as such – that is, in their capacity as an operator who undertakes to provide all or part of the universal postal service'.[4] As the exemption is not to apply to specific services dissociable from the service of public interest, services for which the terms have been 'individually negotiated' cannot be exempted, since, 'by their very nature, those services meet the special needs of the users concerned'.[5]

While the ECJ's decision is binding on member states, the application of the principles at member state level will be critical in determining the impact on operators and users, particularly in the context of postal payment channels. Since the ECJ 2009 decision, three member states have already revised their postal VAT rules and each have interpreted the Court's conclusion very differently and in ways that have little or no regard to payment channel realities. Austria's March 2010 VAT legislation mandates that 'consumer to consumer mail deposited in pillar boxes or accepted over the counter' can remain exempt. Germany's July 2010 postal VAT legislation retains exemption for mail services from universal providers suited to 'private households', but regards metered mail as non-exempt on grounds that it is a business-only product. The UK's new postal VAT rules, effective January 2011, exempt services which Royal Mail are 'obligated to provide under or pursuant to the terms of its licenses' – including a regulatory requirement as regards price control (HMRC, 2010: page 5, para. 2.3). None of these formulations is payment channel neutral.

In contrast, the postal services directive uses the payment channel neutral term 'single piece mail' which it defined as 'the service most frequently used by consumers, including SMEs'. It adds that services provided at the single-piece tariff are services 'for which the tariff is set in the general terms and conditions of universal service provider(s) for individual postal items' (European Commission, 2008 Recital 28 and Article 2, 20). The risk is that in changes member states are making to the VAT exemption, following the ECJ April 2009 decision, substitutable postal products across channels will be taxed differently. Mailers choices for accessing and paying for postal services could well be distorted.

Thus, the first risk concerns the interpretation of the Court's term 'individually negotiated'. The application of VAT for services, in the ECJ's words, 'for which the terms have been individually negotiated' needs careful interpretation at national level in the context of a growing number of cost-based payment channel price incentives that posts have been introducing (Figure 18.3). As postal operators have become more aware of the cost differences between payment channels so they have restructured prices to incentivize mailers to access their networks in the most cost-effective manner. Such price differentiation is an efficient response to managing the various needs users have for access and payment options, while controlling costs-to-serve in a market that is soon to be liberalized. Indeed, as postal operators understand more precisely the cost of serving different segments of customers in each of the various channels – often at the behest of the national regulatory authority – specific pricing can be expected to deepen and widen.

While the term 'individually negotiated' is difficult to identify in a sector where most postal products, whether single-piece (stamped, metered or online postage), batched (whether stamped or metered) or bulk (metered or printed postage impression consignments) mail are typically available at published, standardized terms and conditions, it is

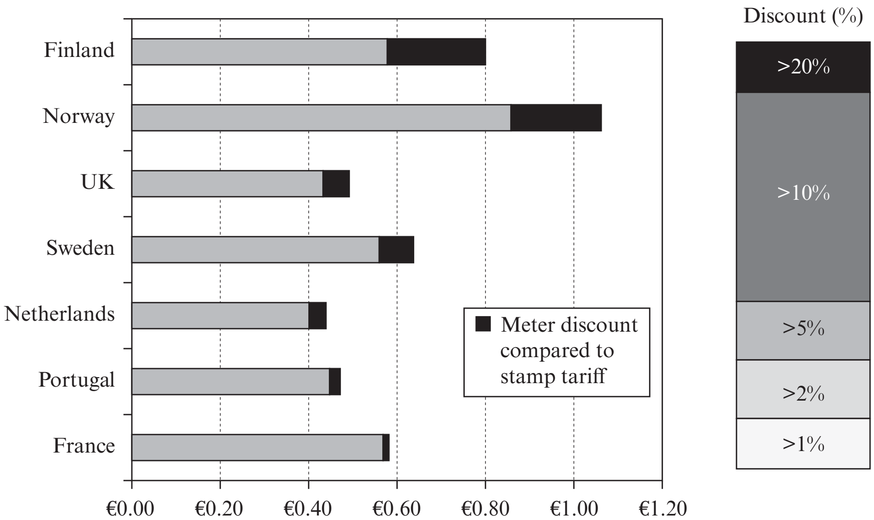


Figure 18.3 First Class metered mail discounts compared to First Class stamp tariffs in selected European countries, July 2010

clear that such payment channel discounts are not individually negotiated by metered mail users, not least in terms defined elsewhere in European law:

> [A] term shall always be regarded as not individually negotiated where it has been drafted in advance and the consumer has therefore not been able to influence the substance of the term, particularly in the context of a pre-formulated standard contract. (European Commission, 1993)

On this definition, and in alignment with the Postal Services Directive where Article 12 requires that prices 'give incentives for an efficient universal service provision' through cost orientation, the existence of cost-based discounted price (say discounted stamps bought in bulk or discounted, published meter tariffs) would not of itself constitute an 'individually negotiated' term, and so should retain the VAT exemption.

Second, it would seem clear from the ECJ decision that USO public tariff services, whether stamped or metered, and published USO-defined bulk mail products would remain VAT exempt. What is perhaps, less clear, is whether services which at national level may not be formally defined as universal services but which embody all the characteristics of universal services (minimum five-days-a-week collection and delivery, nationwide access, subject to quality of service standards and perhaps price control rules) would indeed constitute 'universal services' for the purpose of postal VAT. In redrawing the scope of the USO at national level, some member states have considered limiting its definition to just stamped mail with the result that equivalent and substitutable letter mail products might be treated differently for VAT purposes, and so distorting VAT-inclusive prices and the choices mailers make in terms of how they access and pay for such postal products. Payment channel distortions will be created to the extent that VAT exemption is limited to postal products based on the regulatory or definitional *form* rather than on the *substance* of what constitutes universal service in national postal markets.

Third, in interpreting the principle of fiscal neutrality in relation to postal VAT it is clear that the competitively neutral fiscal treatment of economic activities extends not just to mail operators – incumbents and new entrants – but to all economic actors in the mail industry. The ECJ repeatedly characterizes fiscal neutrality as being inherent in (and underlying) the common system of VAT[6] and that the principle does not require the transactions to be identical, for example across different payment channels. Rather, it is precluded from treating similar supplies of services, such as evidencing solutions, which are in competition with each other, differently for VAT purposes. Distortion is established once it is found that supplies of services are in competition and are treated unequally for the purposes of VAT. It is irrelevant, in that connection, whether the distortion is substantial (ECJ, 2005: paras 46–7).

From an economic perspective, stamped and meter mail are substitutable payment mechanisms for SMEs, fall within the same relevant market and their neutral fiscal treatment must be underpinned in applying the ECJ principles within member states. From the perspective of the Postal Services Directive, any VAT-induced distortion of relative prices would send the wrong signals to technology providers, and so constrain innovation with respect to the high-cost postage stamp channel and provide poor incentives to mailers to produce, prepare, access and pay for mail services in the way that avoided cost for the posts.

4 CONCLUSION

European Union postal policy seeks to underpin the financial viability of the universal services while boosting efficiency and innovation for the benefit of large and small mailers alike. The modernization of postal VAT rules has the potential to support Europe's wider objectives for the sector if their application is consistent with both the goals of the postal services directive and the broader principle of fiscal neutrality underpinning the European integration.

However, when a payment channel perspective is taken it is clear that the development of postal VAT jurisprudence over the years has aided neither legal nor market certainty, still less harmonization. While the April 2009 ECJ case made clear that the VAT exemption is limited to universal services, it is less clear that technological and fiscal neutrality will be protected if VAT inclusive prices across payment channels are distorted due to differences in the treatment of equivalent postal products which, in *substance*, have all the attributes of universal services but where the regulatory *form* is such that they are defined as non-universal services. Equally, the application of the ECJ's term 'individually negotiated tariffs' in member states needs careful treatment to ensure that cost-oriented channel pricing is not compromised and so distortive of mailers' behavior and incentives to avoid costs for the posts in upstream processes.

The operational, economic and legal case for non-distortive VAT inclusive tariffs is clear. Distorted relative prices between the same or closely substitutable products across different payment channels risks changing mailers' behavior and technological choices in how they access and pay for postal services, thus causing additional transactions and operational costs for posts and creating a new set of legal and economic distortions inimical to the efficiency and effectiveness of the wider postal services sector. Far from enhancing harmonization and reducing market uncertainty, the application of the ECJ decision at member state level risk spawning a new set of unintended distortions with deleterious consequences for efficiency of postal operators and their burgeoning focus on payment channel strategies.

NOTES

1. European Commission (1997).
2. See also Pintsov et al. (1998).
3. Para. 35, ECJ C-357/07.
4. Para. 45, ECJ C-357/07.
5. Para. 47, ECJ C-357/07.
6. For example, in its *Gregg* judgment in European Court of Justice (1997) the ECJ held that the 'principle of fiscal neutrality precludes economic operators carrying on the same activities from being treated differently as far as the levying of VAT is concerned'.

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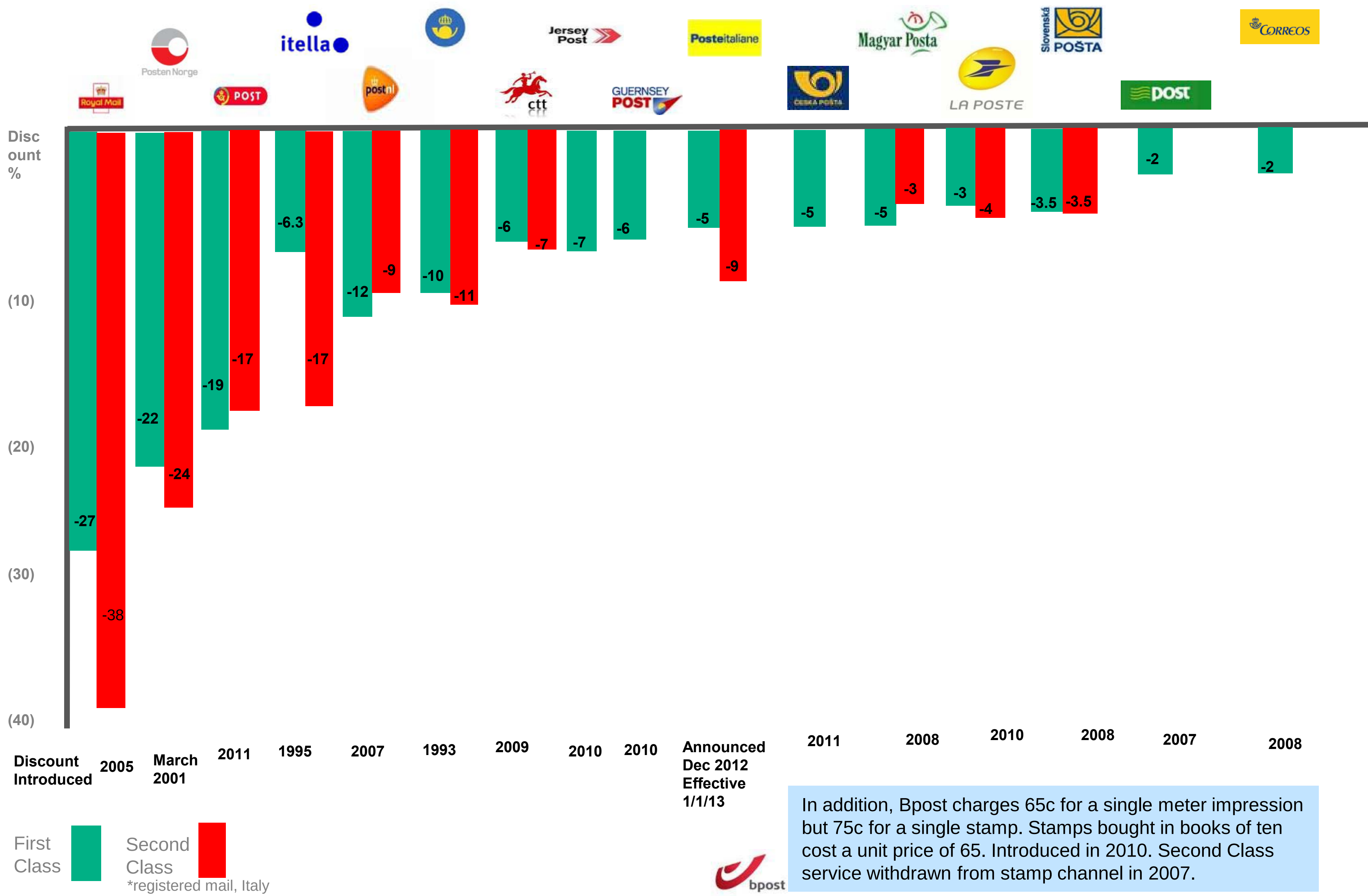
Meter Discount Compared to Stamp Tariff, First & Second Class (Jan 2013)



In addition, Bpost charges 65c for a single meter impression but 75c for a single stamp. Stamps bought in books of ten cost a unit price of 65. Introduced in 2010. Second Class service withdrawn from stamp channel in 2007.

9: TICO Mail Works

24 January 2013

Mr. Stephen Brogan
Commission for Communications Regulation
Abbey Court, Block DEF
Lower Abbey Street
Freepost
Dublin 1

Com Reg Consultation 12/138 – An Post Price Application

Dear Stephen

On behalf of TICo Mail Works, I refer to Com Reg Consultation 12/138.

As a preliminary observation, we would note the difference of opinion between An Post and Com Reg as evidenced in the recent exchange of letters between the Chief Executive and the Chairman.

TICo Mail Works, and no doubt many others dependant on the postal business, are confident that ComReg and An Post jointly have the interests of our national postal services and the universal service at the heart of their respective deliberations . While our view would be that any increase in prices will have a detrimental affect on volumes, we would expect that An Post and Com Reg have between them the resources and expertise to make the correct market judgements on prices in the context of protecting and developing those services. Accordingly, we do not propose to make any detailed commentary on the proposed price increases. We would, however, make one observation in relation to the bulk mail product, 'deferred delivery,' currently charged at 41c.

The rate for this product, deferred delivery, which is currently 41c per mail item for items weighing less than 50g and in POP envelopes, is not only proposed to increase to 45c per mail item but is also to be made available to posters who have 200 or more franked items and which mail is delivered by that poster to any delivery office in the country, of which there are about 200. This means that the price per item will be the same for sending a 40ft container of mail to, say Foxrock sorting office, or for an individual showing up at Foxrock sorting office and posting just 200 Christmas cards. Our advice is to split this bulk mail product into two products as follows:

Product 1 A discounted rate of 45c is applicable to mailings of 200 or more franked items delivered to one delivery office (of which there are about 200) for delivery **only** in that delivery office's area.

Product 2 A discounted rate of 45c is applicable to mailings of 2,000 or more items, franked or with ceadunas, and delivered to one of the designated acceptance offices (or which there are about 20) for delivery in the State.

Kind Regards,

Yours sincerely

Michael O'Dwyer

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