



Business Overview



Since the last edition of the newsletter PLCWW has enjoyed mixed fortune.

The greatest disappointment has been the decision by the Kuwait government not to proceed with the privatization of the Kuwait Post Office. This would have been our biggest project for a number of years and would also have involved a significant number of associates. We have had no feedback on the reason for the project being cancelled and our consortium partners, led by PwC, are as bemused as us.

We have therefore been re-doubling our efforts to gain more business and there are some exciting opportunities in the pipeline which we cover later in this edition.

We have also started to put together our strategy for gaining more business on the continent of Europe by allying with Ingemar Persson, ex secretary general of Post Europ and Tim Brown, ex CEO of Postcomm in an effort to gain business from postal operators and regulators respectively.

We have also been seeking to strengthen the management of the company by appointing John Nicolson and Jim Pang as our first Associate Directors. I am delighted that John and Jim have accepted these positions and they are already making an excellent contribution to the company.

On 1st October Ofcom took over the role of the UK postal regulator from Postcomm. It has already announced a significant proposal to the way it will regulate Royal Mail way and an article in this edition explains what those changes are.

We have already had a number of meetings with Ofcom and have also run a number of courses

for staff members who will be involved in postal regulation with further courses planned for 2012.

We have also been successful in our application to be part of the regulatory framework panel for postal services. The application itself involved a significant amount of work and I am extremely grateful to John Liptrot for his Herculean efforts in putting this together.

Our financial year has just ended with turnover a little down on the previous year but with the company still managing to retain its profit margins. We are looking forward to maintaining or increasing our turnover in the coming year which we should do if all our plans come together.

Finally, many thanks for your contribution to the business over the last year and my best wishes to you and your families for Christmas and the New Year

Steve Hannon

Planning for the Future

In August the PLCWW Board held its annual meeting to review its strategy and determine the direction of the company over the coming years. This year the focus was on two main areas . growing the business through seeking more business in Europe from postal operators and regulators and ensuring we had the right level of resource and support to ensure continuity of the company. In terms of growing business in Europe we had invited Ingemar Persson to join us. He flew in from Stockholm and spent the afternoon and evening with us. He has very good experience of the European postal scene having been a senior director of Sweden Post for 37 years and more recently was Secretary General of PostEurop from 2007 until 2010.



Ingemar Persson

We agreed that he would identify those countries that might require assistance across a range of issues and then approach them. He has since identified the most likely countries and is making

contact with one or two of the most promising ones to assess their interest.

We also considered a proposal sent to us by Tim Brown, ex CEO of Postcomm, who is helping us identify target clients in the European postal regulation market. Again, the intention is to target those that he believes require the most support on issues such as the future of the USO.

The other significant issue we discussed was the continuity of the company going forward and the need to provide additional support for the directors as we strive to grow the business. It was therefore decided to create two additional Associate Director positions to fulfil these roles. We subsequently offered the positions to John Nicolson and Jim Pang who had already performed significant roles for PLCWW in recent assignments and were very familiar with our way of working.

John is a logistics expert with wide-ranging line management experience in logistics, postal operations, distribution, materials management and purchasing. He also has experience of

acquisition and joint venture projects



John Nicolson

John has recently been involved in our work for Postcomm on evaluating changes to the USO and is also assisting in our bids in Nigeria and the Ukraine.

Jim Pang is an ex director and General Manager of Royal Mail's Electronic Services and ex MD of Viacode. He has also spent a period as interim manager at the Government Car and Despatch Agency. Recently he has been supporting our bid with PwC in Kuwait and has also been involved with a bid for a hybrid mail assignment with Frontier Economics in Germany.



Jim Pang

We wish John and Jim every success in their new roles as we plan our future expansion.

The Wealthy Mail

Wealth management is a growing industry. Increasing numbers of people need to be kept informed of the performance of their wealth portfolios, opportunities for investment and the changing taxation rules. Advisers operate independently or as partners in a larger organisation.

We recently supported a wealth management organisation review its business systems and use of mail. Mail played a key role in communicating between the company and its agents and between the agents and clients. The importance of 1st class (in both timing and image) had grown over the years and this had led to business systems being built around mail flows.

Changes in the postal market place had led the company to consider undertaking a review of its postal reliance and consider how future changes in the post would affect its business. The increase in postage costs (especially 1st class) and the need to update its franking machines spurred a review of the role of post. PLCWW undertook that review



and advised the company on changes it should make to its reliance on physical mail.

8 key recommendations set a framework that would speed up the flow of communications, reduce the reliance on physical mail flows and save costs of up to £100,000 p.a. by allowing parts of the business to access more competitive mail services.

A key observation of the report was how the role and use of mail had grown unplanned and how the organisation had become overly reliant on specific mail flows which tended to limit its ability to utilise new technology. Its procurement of mail services was unsophisticated but a strengthened procurement unit was willing to maximise the benefits that were on offer. A phased approach to changing the way the organisation communicated linked to a structured buying operation showed how considerable savings could be achieved without disruption to day to day operations.

The report was accepted and the changes have begun. The recommendations require changes in other parts of the business and these have to be prioritised but the role of franking has been revamped and a number of key mail flows have been identified for reorganisation. The benefits will take about 3 years to flow through but are substantial and have become the driving force for change. Increasingly medium sized businesses find that while they have embraced the internet and email they still have physical mail as a notable part of their operation left unmanaged. It's the continuous increase in postage costs that's bringing this issue to front of mind and PLCWW's Mailcheck Complete is the ideal solution to solving the problem. This is not the end of mail as we know it, it still has an important role to play, but its use needs to be managed in the same way other resources are managed. Our understanding of the mail market means we can present the options for consideration.

Geoff Lambert

Associate News



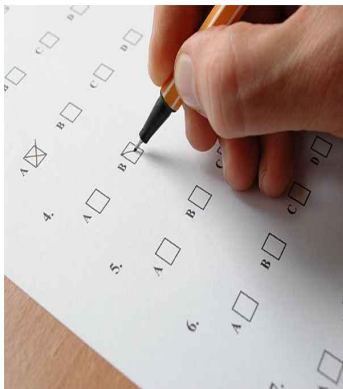
Firstly, my apologies to **Howard Levinson**, one of our new Associates who I omitted to include in the June edition. Howard is a HR expert who previously worked for Royal Mail. He recently helped us by doing a review of our company policies. Howard was the first of many ex-Royal Mail managers to join us since the last edition.

Paul Tolhurst, ex Field Operations Director joined us in September and has been helping out on the Ofcom training course. He was joined earlier this month by **Meirwen Crook**, who is a statistician. Also joining us recently was **Ian Phillips** who has previously worked for DHL and Emap, the magazine publishing company. We have also recruited two ex-Postcomm managers. **George Hooper** was the Principal Strategy and Market Development. He had previously worked in Post Office Counters. **Stephen Gibson** was Director Economic

Policy and Chief Economist for Postcomm. Stephen is also ex of Royal Mail.

News also of one of our associates, **Kate Swatridge**, who has launched a new company called Decisionlab, with two of her colleagues . Liz Archibald and David Buxton. They are offering business modelling expertise and between them have already worked for an impressive list of clients. To see what they have to offer visit their website at www.decisionlab.co.uk

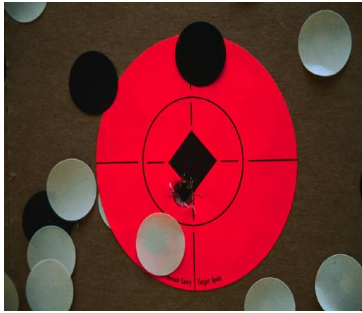
Associates' Review



In January we will be undertaking our annual AssociatesqReview. This is basically a questionnaire that we ask all Associates to complete to determine whether there have been any changes in circumstances since the last review a year ago. It also gives everyone an opportunity to update

CVs and helps us with planning resources for the year to come. This year we will also be asking you for any ideas that PLCWW could adopt for its 10th anniversary in 2013. Although it is nearly two years away we need to start planning in 2012.

Sales Successes and Future Hopes



Following the disappointment of the decision of the **Kuwait** authorities not to proceed with the assignment in that country, we have been ramping up our sales and marketing activity in other parts of the world.

We have been approached by a company in **Nigeria** to assist them with a review of the Nigerian Post Office on behalf of the Nigerian Government, starting with the parcel operation. We are currently awaiting their response to our proposal which, if it goes ahead, will start in early 2012.

We have also been asked if we could help train a courier company in **Ukraine** to help improve the operation and identify best practice for them to follow.

We are still waiting to see if the bid for a major contract with Tata Consultancy Services for the **Indian Post Office** has been successful, which we mentioned in the last edition. Wheels can turn very slowly when bidding for international contracts.

During the last few months of **Postcomm's** existence we also managed three or four projects involving international mail, a review of the USO and a final part of the efficiency review of Royal Mail in conjunction with Frontier Economics

We are also bidding for some work with Frontier Economics on a study for the **EU** on the USO in a selection of European countries.

Ahead of the transfer of UK postal regulation from Postcomm to **Ofcom**, we have running a series of training courses for the latter on how mail operations work in the UK. They have now asked us to run a further series of courses in 2012 focusing also on quality of service, cost and competition.

Mailcheck continues to go from strength to strength with assignments completed for Southampton and De Montford Universities and others planned for the health sector and a major consultancy firm since the last newsletter. Discussions are also taking place with a major computer company who are interested in undertaking mailroom evaluations on its sites throughout the UK.

We have also undertaken a major exercise reviewing the postal spend of a **Wealth Management** company (see article from Geoff Lambert earlier in this edition).

We are also about to re-start a major exercise for a central European bank by reviewing their mail and print spend in subsidiary banks in 17 countries in **Central and Eastern Europe**

Finally, we have been asked to undertake an operational review of **Guernsey** Post ahead of its next tariff review.

All Change for Regulation

POSTCOMM

The Postal Services Commission, independent regulator for postal services



Ofcom

Postal Regulation in the UK has not worked. Who says so?

No other than Ofcom, who took over the mantle of UK postal regulator from Postcomm on 1st October 2011. Ofcom bases this view on the fact that Postcomm used price control as its regulatory model and this resulted in removing Royal Mail's flexibility to adjust to changes in demand at a time when it was struggling to improve efficiency in a declining market. Ofcom also believes price control has not served consumers well, with Royal Mail applying for price increases above the level of inflation, e.g. its application in November 2010 for additional flexibility to increase its prices to stem losses. Given the risk to the Universal Service Obligation (USO), Postcomm had no choice but to grant Royal Mail's request which resulted in price rises averaging 12% in 2011/12. Ofcom believes if the price control policy continues it would see further special requests from Royal Mail to increase prices beyond inflation.

It is therefore setting a much different course for regulation in the future.

So how does Ofcom plan to regulate in future? Its primary duty

is to secure the provision of a universal postal service, i.e. to protect the USO. In doing so it believes that Royal Mail must be financially sustainable and be able to enjoy a commercial rate of return on its activities. At the same time, it expects Royal Mail to become efficient within a reasonable timescale and to sustain a good level of efficiency into the future. It recognises that this will be tough in a declining market and it is the uncertainty over future mail volume that has led Ofcom to the view that it should not set a traditional price control up front. It believes that to do so could cause a regulatory error which might damage Royal Mail's finances and, with it, the USO. It is therefore proposing to grant Royal Mail more commercial freedom for a period of seven years by allowing it to determine price levels against a background of electronic

substitution and access competition. At the same time it expects Royal Mail to address its inefficiency which it believes it will better be able to do with a period of regulatory stability.

However, Ofcom also realises that **a number of safeguards must be put in place** to ensure consumers and competitors receive a reasonable level of protection. It is therefore planning to introduce safeguards in the following three areas:-

- effective monitoring of performance, including scope for re-regulation if the incentives to deliver greater efficiency are demonstrably failing;
- ensuring that a basic universal service is available to all and affordable by all;
- the discipline of competition and innovation.

So how will these safeguards work?

Firstly, by monitoring Royal Mail's quality of service performance and its pricing and profitability, Ofcom could intervene should service deteriorate or

excessive profits be achieved. Secondly, by regarding the 2nd class service as the basic universal service, particularly for vulnerable customers, it proposes to set a standard price limit within the range of 45p . 55p over the next 7 years (the precise figure will be dependent on the level of inflation during that period). Thirdly, it will not regulate access prices or price headroom (the minimum difference between the access and the retail price that is the basis of the business model of many of Royal Mail's competitors). Ofcom's proposals are currently out for consultation to the industry, with a response required by early January 2012. This is clearly a much different approach to regulation than Postcomm, although in fairness, Postcomm was also moving towards a lighter touch during the last year. At one level there is logic in allowing Royal Mail to set its own prices if one sees electronic media as its main competitive threat. Effectively, Ofcom are saying that it is difficult to estimate accurately how the market will change over the next seven years and is saying to Royal Mail . you make the

judgement and if you put prices up too much you may suffer even greater losses of market share than are currently predicted.

The setting of a price control for 2nd class mail does give a level of protection for those least able to afford to post. However, there are a number of companies who rely on 1st class mail to operate their businesses, e.g. internet retailers such as Photobox, whilst a number also offer the service as an enhanced delivery option, e.g. Amazon. As internet retailing is one of the few growth areas in the mail market Royal Mail will need to be careful in how it sets prices in this area.

In addition, many consumers may use 1st class mail when they need an item to be delivered the following day. For consumers and businesses alike the other advantage of 1st class mail is that it provides (virtually) a defined delivery day and as such is often used for sending birthday cards and other communications which need to be delivered on a specific day. Posting 2nd class means delivery within three days but the letter could be delivered in 2 or 3 days depending on the distance it travels.

Perhaps an option Ofcom might have considered as part of this change might have been to ask Royal Mail to enhance its 2nd class service to a two day delivery system to give customers the option of a cheaper defined delivery day service (albeit two days instead of next day).

A further aspect of 1st class is that it has no real competition at an affordable level as most access mail is delivered two days after posting. As far as Royal Mail's competitors are concerned, the removal of the access pricing and headroom regulation places a greater risk on their business models. Any significant move to end-to-end competition also looks unlikely unless Royal Mail increase their prices significantly and with a cap on 2nd class prices this makes it even more unlikely, particularly in a declining mail market . Finally, Ofcom's hope is that Royal Mail's future pricing strategy will not only be determined by revenue generation but also by improving efficiency. Whether this will be the case remains to be seen and, if not, what real incentives are there in the proposal (other than the threat of future intervention). As mail volumes have

fallen Royal Mail's unit costs have increased and this trend will need to be reversed if prices are to be contained. In conclusion, Ofcom have set out a very clear strategy for the future with the survival and sustainability of the USO at its centre. Will the strategy of giving

Royal Mail more commercial freedom achieve this objective or will it see a downward spiral of above inflation price rises that accelerate the fall in mail volumes with customers paying higher prices and competition diminishing due to lower margins? If this

approach fails then we could be seeing a real risk of Royal Mail's six day collection and delivery service (which is at the heart of the USO) coming under real threat as it already has in a number of other countries.

Customer Feedback

PLCWW's Quality Assurance policy was reviewed earlier this year. We felt that it lacked a formal customer feedback measure so we introduced a customer feedback form as a standard process. Clients are now sent the proforma when an assignment is completed asking them to give marks between 1 and 5 (5 being the

highest) of how we have performed. We also ask if they will provide a testimonial for our website. Since introducing the new system, all assignments have received a mark of at least 4. However, one set of assignments has consistently scored 5, accompanied by excellent feedback comments. These were the Mailcheck evaluations led by Pat

Horrigan which we featured in the last edition. Pat clearly has a good rapport with his clients and his manner and approach has certainly resulted in excellent customer satisfaction. Our congratulations and thanks to Pat for setting the standard which we will need to aspire to if we are to achieve repeat business and further growth.

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