

## Quick Guide to the Pricing Plans (April 2013)

The table below provides answers relating to the price plans included in the Letters Access Contract and the Wholesale Parcels Contract:

- National Price Plan One (SSC)
- National Price Plan Two (Zones)
- Zonal Pricing Plan

<b>National Price Plan One (SSC)</b>																										
How does Royal Mail determine its national spread?	<ul style="list-style-type: none"> <li>• We use the combined volumes of bulk Retail products and Wholesale products mapped to the Standard Selection Codes (SSCs).</li> <li>• The data by SSC as measured for Retail is taken from the Mail Characteristics Survey, and for Wholesale, it is taken from customer uploaded data.</li> <li>• The reference period is April 2011 – March 2012. This will be the baseline until further notice.</li> <li>• We call this the National Spread Benchmark.</li> </ul>																									
<b>Profile Commitment to National Spread by SSC</b>																										
How will you assess my conformance to the Royal Mail National Spread Benchmark?	<ul style="list-style-type: none"> <li>• We will use your volume uploaded by SSC. We convert the volume by SSC to express it as a percentage of your overall volumes.</li> <li>• We then compare your percentage volume by SSC to the Royal Mail percentage volume for each SSC to create a ratio.</li> <li>• We have introduced an SSC threshold of the ratio to assess the pass rate, called the Ratio Threshold</li> <li>• An SSC passes if the ratio is greater than the Ratio Threshold, which is set at 0.7</li> </ul> <p>An illustrative example: at the threshold of 0.7,</p> <table border="1" data-bbox="790 1344 1476 1534"> <thead> <tr> <th>SSC</th> <th>1</th> <th>2</th> <th>3</th> <th>Totals</th> </tr> </thead> <tbody> <tr> <td>Customer X (vol)</td> <td>130</td> <td>210</td> <td>160</td> <td>500</td> </tr> <tr> <td>Customer X (%)</td> <td>26%</td> <td>42%</td> <td>32%</td> <td>100%</td> </tr> <tr> <td>RM profile (%)</td> <td>40%</td> <td>38%</td> <td>22%</td> <td>100%</td> </tr> <tr> <td>Ratio</td> <td>0.65</td> <td>1.10</td> <td>1.45</td> <td></td> </tr> </tbody> </table> <p>With a ratio of only 0.65 for SSC 1, customer X fails to meet the Ratio Threshold for that SSC.</p>	SSC	1	2	3	Totals	Customer X (vol)	130	210	160	500	Customer X (%)	26%	42%	32%	100%	RM profile (%)	40%	38%	22%	100%	Ratio	0.65	1.10	1.45	
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Is there a permitted variance?	<ul style="list-style-type: none"> <li>• Yes.</li> <li>• We divide the SSCs into two national profile areas: England &amp; Wales (excluding Jersey, Guernsey and Isle of Man), and Scotland &amp; Northern Ireland.</li> <li>• We apply an SSC permitted variance per national profile area: this is 6 SSCs for the England &amp; Wales profile and 3 SSCs for the Scotland &amp; Northern Ireland profile.</li> <li>• This means that up to 6 SSCs for the England &amp; Wales profile, and up to 3 SSCs for Scotland &amp; Northern Ireland, do not have to meet the threshold.</li> </ul>																									
What happens if a SSC is outside the permitted variance? What is the surcharge?	<ul style="list-style-type: none"> <li>• For any more failed SSCs than permitted, customers will be surcharged at the customer's average National price for the</li> </ul>																									

## Royal Mail Wholesale

	<p>number of additional items needed to meet the SSC threshold. (These are known as “attributable volumes”).</p> <p><u>An illustrative example:</u> (this shows how the additional failed SSCs are selected for surcharging)</p> <ul style="list-style-type: none"> <li>• In the England &amp; Wales profile, a customer is allowed to fail at up to 6 SSCs;</li> <li>• They actually fail at 9 SSCs;</li> <li>• For each of the 9 SSCs, we calculate the ‘gap’ between the actual and minimum volumes needed to meet the threshold;</li> <li>• From this list of 9 ‘gaps’, we take the volumes of the lowest 3 ‘gaps’ and add them together.</li> <li>• This volume is then multiplied by the customer’s average national price.</li> </ul>
What happens if I exceed the ratio threshold for any SSC?	<ul style="list-style-type: none"> <li>• There is no surcharge.</li> </ul>
Over what period are we assessed?	<ul style="list-style-type: none"> <li>• We will review customer profiles quarterly</li> <li>• The assessment for surcharges will be carried out annually</li> </ul>
Will the Royal Mail National Spread Benchmark be reviewed annually?	<ul style="list-style-type: none"> <li>• No. We will use 2011/12 as the baseline until further notice.</li> </ul>
Is there a reasonable endeavours clause	<ul style="list-style-type: none"> <li>• Yes.</li> </ul>
<b>Profile commitment to Urban Density</b>	
What is the Urban density measure?	<ul style="list-style-type: none"> <li>• It is unique to this National Price Plan One. It is a measure to check that our costs do not exceed the national average because of too little urban mail.</li> <li>• Urban mail is a classification of postcode sectors that have a high density in terms of delivery points and/or businesses outside London.</li> <li>• Our urban profile is measured as the combined urban mail volumes of bulk Retail products and Wholesale products mapped to the Standard Selection Codes (SSCs).</li> <li>• The baseline is data for 2011/12 until further notice.</li> <li>• We refer to this as the Urban Density Benchmark.</li> </ul>
How will my urban profile be measured? What data is used for my profile?	<ul style="list-style-type: none"> <li>• Your urban profile is measured by sampling your mail at our mail centres, as part of our Mail Characteristics Survey.</li> <li>• We refer to this as your Urban SSC Percentage.</li> </ul>
Is there a permitted variance?	<ul style="list-style-type: none"> <li>• Yes. This is an absolute permitted variance of 0.3%.</li> <li>• We refer to this as the Urban Permitted Variance.</li> </ul>
How will you assess my conformance to the Urban Density Benchmark?	<ul style="list-style-type: none"> <li>• We will calculate and compare your Urban SSC Percentage to the Urban Density Benchmark and apply the Urban Permitted Variance</li> <li>• An SSC passes if the Urban SSC Percentage is within the permitted variance range. For example if SSC 102 has a Urban Density Benchmark of 1.0%, as the Urban Permitted Variance is 0.3%, the acceptable range is 0.7% to 1.3%. If the customer Urban SSC Percentage falls within this range, it passes.</li> </ul>
How does surcharging for not achieving the Urban Density Benchmark work?	<ul style="list-style-type: none"> <li>• If your Urban SSC Percentage is outside the Urban Permitted Variance range, the percentage difference is multiplied by the overall urban volume by SSC to identify the number of items to be surcharged.</li> <li>• Volumes over the Urban Permitted Variance off-set volumes that are under, but will not be rebated if they are in excess. If customers have a high urban density they should investigate moving to the Zonal Price Plan.</li> </ul>

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	<ul style="list-style-type: none"> <li>If the quarterly data falls below the 0.3% Urban Permitted Variance, the excess volumes are surcharged at the Rural zonal variance percentage for Letters applied to the customer's average national price [i.e. the difference between the national price and the rural price].</li> </ul> <p><u>Calculation:</u>            Step 1: We compare the Urban Density Benchmark with the customer's Urban SSC Percentage.            Step 2: We identify those SSCs where the customer's Urban SSC Percentage is outside the Urban Permitted Variance and multiply the percentage difference by the customer's total urban volumes for both overs and unders.            Step 3: We calculate the difference between overs and unders. If the difference is positive (i.e. there are more overs) we do not surcharge. If the difference is negative we surcharge an amount equal to the Rural zonal variance percentage for Letters applied to the customer's average national price</p>
Will there be surcharges prior to EIB?	<ul style="list-style-type: none"> <li>Yes.</li> </ul>
What happens if I exceed the Urban Permitted Variance?	<ul style="list-style-type: none"> <li>There is no surcharge, neither is there a rebate.</li> </ul>
What is the review period?	<ul style="list-style-type: none"> <li>We will review customer profiles quarterly</li> <li>The assessment for surcharges will be carried out annually</li> </ul>
Is there a reasonable endeavours clause	<ul style="list-style-type: none"> <li>Yes.</li> </ul>

<b>National Price Plan Two (Zones)</b>	
How is customer profile percentage measured	<ul style="list-style-type: none"> <li>Customer profile is measured against the price zones</li> <li>It is measured by sampling at our mail centres, as part of our Mail Characteristics Survey.</li> </ul>
How is the baseline set?	<ul style="list-style-type: none"> <li>The baseline is updated each year and is based on the previous year's data</li> <li>The baseline includes wholesale and retail bulk volumes.</li> <li>We refer to this as the Royal Mail Zonal Posting Profile</li> </ul>
Is there a permitted variance?	<ul style="list-style-type: none"> <li>There is a permitted variance of 7.5%</li> <li>This is applied on all the zones that are more expensive than the national price. The less expensive zones are then rebased.</li> </ul>
How does surcharging for not achieving the zonal profile work?	<ul style="list-style-type: none"> <li>As per the description in the contract and calculated on the calculator available on the web site.</li> </ul>
What is the review period?	<ul style="list-style-type: none"> <li>We will review customer profiles quarterly</li> <li>The assessment for surcharges will be carried out annually</li> </ul>
Is there a reasonable endeavours clause?	<ul style="list-style-type: none"> <li>No</li> </ul>

<b>Zonal Price Plan</b>	
How many price zones are there?	<ul style="list-style-type: none"> <li>Initially the current 4 zones will apply.</li> </ul>
Will I need to apply a Zonal indicator to my items?	<ul style="list-style-type: none"> <li>Yes.</li> </ul>
Do I need to meet any geographic profile?	<ul style="list-style-type: none"> <li>No, but you will need to declare items by zone on the posting docket.</li> </ul>

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<b>Moving between price plans</b>	
Is there a point at which Royal Mail could terminate my National price plan for my failures to meet the commitment to profile?	<ul style="list-style-type: none"> <li>• Yes. If the number of items incurring surcharges equals 15% or more of the customer's annual volumes on the relevant price plan, Royal Mail.</li> </ul>
If I transfer to a new National contract from April 2013, will I have to change any of my systems?	<ul style="list-style-type: none"> <li>• No. The only change may be to account numbers; everything else will stay the same.</li> </ul>
Will a transfer from a National price plan to a Zonal price plan involve a change to my systems and uploads?	<ul style="list-style-type: none"> <li>• Yes, as the product codes for Zonal are different. You will also change to a different account number.</li> <li>• Your indicia number will remain the same.</li> </ul>
Can I have a National price plan and a Zonal price plan running consecutively?	<ul style="list-style-type: none"> <li>• Yes, subject to a minimum 6 million items per annum for the Letters and Large Letters contract and a minimum £1.2m spend per annum for the Parcels contract (the Parcels entry criterion will be waived for a customer who meets the entry criterion for the Letters and Large Letters contract).</li> <li>• Separate uploads will be required because of pricing codes, hence separate account numbers will be required for each plan on each contract.</li> </ul>