

A Proposal to Amend Agency Contracts – a
Consultation

Royal Mail Wholesale

4th January 2011

A Proposal to Amend Agency Contracts- a Consultation

Purpose

1. The purpose of this document is to provide Royal Mail Wholesale (RMW) Agency Operator customers with the opportunity to comment on our proposal to introduce a minimum entry criterion for an Agency Customer.

Background

2. The launch of the Agency Operator Agreement in March 2007 saw the introduction of a facility for posting customers of Access Operators to be invoiced directly for their postage by RMW, by signing an Agency Customer Agreement contained within the Agency Operator Agreement to become an Agency Customer of RMW. This facility was designed as a practical solution to assist those posting customers who are VAT-exempt or zero-rated VAT registered companies or charities to use Access mail services and receive VAT-free postage costs.

Current Situation

3. To date, we have more than 300 Agency Customers set up with Agency Operators. This number is growing by 10-20 every month. Clearly, the increased competition in the UK mail market and the desire amongst Access Operators to win new customers is a positive benefit to the medium of mail. However, we have identified that an increase in the number of unused or very low spend accounts is adding an unexpected cost to Access services, both to RMW and to Agency Operators. To illustrate the point, of the current number of Agency Customers, 36% have made no postings and a further 24% have spent less than £5000 in a year.

4. Both RMW and Agency Operators have costs involved in setting up a new Agency Customer: for RMW, in setting up and maintaining a credit account; for the Agency Operator, sales resource in identifying new sales opportunities, setting up a credit account and managing the sales uploads and reporting requirements of each Agency Customer's daily postings to RMW. Costs such as these are normally absorbed once a new posting customer achieves a reasonable level of volume. However, the Agency Operator Agreements do not stipulate any minimum volumes for Agency Customers, as such circumstances outlined above were not envisaged when we agreed the arrangements jointly with our customers.

CONSULTATION QUESTION 1: Do you agree that it is reasonable to cover customer acquisition and maintenance costs through stipulating minimum posting volumes within terms and conditions? If not, please provide an alternative means of absorbing such costs?

Proposed Charging Mechanism

5. Since it is a condition of the Agency Customer Agreement to abide to the terms of their agent's Access Agreement, our proposal is to introduce a new condition to the Agency Operator Agreement that covers a minimum spend per Agency Customer. We propose that the entry criterion be based on a minimum postage spend of £5000 per annum, with measurement being commensurate with the start date of each specific Agency Customer Agreement. If an Agency Customer does not meet this minimum spend level, we propose to seek to cover the administrative costs of account set up and maintenance from the Agency Operator. The administrative charge will be £560 (+VAT) per Agency Customer.

6. We propose that the administrative fee will also apply to any Agency Customer account that was opened and subsequently closed within the 12 months if, during the time that it was operational, it did not meet the minimum spend level. Similarly, it will also apply to any existing Agency Customer account that does not meet the minimum spend level in each 12 month period since initially becoming operational. Agency Customer accounts which are closed and subsequently re-opened will be measured from the first activation date.

The spend level and charges may be amended by RMW once a year, at the same time as tariff changes at a level not to exceed RPI.

Similarly, we would expect Agency Operators to 'back-to-back' these requirements with Agency Customers.

CONSULTATION QUESTION 2: Do you agree that it is reasonable to cover the costs of setting up a new customer account, as described above, where costs cannot be covered automatically through postage spend? If not, please describe your alternative proposal.

Measurement

7. To keep administration costs to a minimum, we propose that these charges be raised on an annual review basis, once a year every April, and will include any Agency Customer account that has been opened 12 months within the period 1st April – 31st March and not met the minimum spend level. As an example, an Agency Customer account signed in February 2011, and did not meet the minimum spend between 1st April 2011 and 31st March 2012, will have a charge raised against it for the administrative fee to be invoiced to the Agency Operator following a review in April 2012.

8. We propose to begin to review Agency Customer revenue spend from April 2011, and then once a year, every April. This means, for example, that an Agency Customer who signs an Agency Customer Agreement in April 2011 and doesn't

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spend £5000 by 31st March 2012 will have a fee of £560 (+VAT) raised against it in the April 2012 review; if that same Agency Customer continues to have an account the following year and again does not meet the minimum spend requirement of £5000 between 1st April 2012 – 31st March 2013, they will have the administrative fee of £560 (+VAT) raised against it in the April 2013 review. For clarity, Royal Mail will raise only one invoice each April for an Agency Operator pertaining to the total number of their agency customers who have not met the minimum annual spend criteria within the previous financial year.

9. We appreciate that you will need to administer some changes to your internal processes as well as to the terms that you have with Agency Customers, so we will not seek to apply any such fees to any Agency Customer account that you have opened and now wish to terminate providing that the termination takes place by 1st April 2011. This means that unless you request a closure of an Agency Customer account by 1st April 2011, this proposal will apply to all current and new Agency Customer accounts.

CONSULTATION QUESTION 3: Do you agree with the timings outlined above? If not, what alternative implementation do you propose?

10. It is hoped that there will be no need to apply these charges as we believe that this situation can be anticipated and managed by the Agency Operator via its own terms and conditions, prior to account set up. The proposed changes to the contractual terms between Royal Mail and the Agency Operator, however, would ensure that the Agency Operator Agreements remain cost effective.

CONSULTATION QUESTION 4: Do you have any other observations on the proposals in this consultation document? If so, do those observations lead you to a different conclusion to ours? If so, please explain.

Timetable

Customers are invited to comment on any aspect of this consultation document by the 31st January 2011. We will review your feedback and confirm our final proposal, subject to the feedback received, by 7th February 2011. Please send your response to Paul Bates, Managing Director, Royal Mail Wholesale, 148 Old Street, London EC1V 9HQ (paul.bs.bates@royalmail.com).