



# TNT Post and Royal Mail: end-to-end competition in postal services

Standard Note: SN/EP/06935

Last updated: 15 July 2014

Author: Lorna Booth, David Hough

Section: Economic Policy and Statistics

TNT Post are in direct competition with Royal Mail in parts of London, Liverpool and Manchester – they now provide a full ‘end-to-end’ service in these areas, delivering business post directly to the addresses of customers. TNT Post’s end-to-end business has expanded rapidly since they started trials for the service in West London in April 2012 and they are said to be aiming to cover 42% of addresses by 2017.

Royal Mail believe that this competition is a threat to the universal service they provide, suggesting that TNT Post ‘cherry pick’ certain routes and noting that – unlike Royal Mail – TNT Post do not have to pay the costs of providing a service six days a week to all addresses across the UK.

This note explores end-to-end competition in postal services, TNT Post’s expansion, Royal Mail’s concerns, possible responses and the position taken by Ofcom, the regulator, so far.

## Contents

<b>1</b>	<b>Introduction</b>	<b>2</b>
<b>2</b>	<b>Competition in postal services</b>	<b>2</b>
<b>3</b>	<b>TNT Post</b>	<b>3</b>
<b>4</b>	<b>The threat to the universal postal service</b>	<b>4</b>
<b>5</b>	<b>Actions that could be taken to protect the universal service</b>	<b>4</b>
<b>6</b>	<b>Ofcom’s position</b>	<b>5</b>

This information is provided to Members of Parliament in support of their parliamentary duties and is not intended to address the specific circumstances of any particular individual. It should not be relied upon as being up to date; the law or policies may have changed since it was last updated; and it should not be relied upon as legal or professional advice or as a substitute for it. A suitably qualified professional should be consulted if specific advice or information is required.

This information is provided subject to [our general terms and conditions](#) which are available online or may be provided on request in hard copy. Authors are available to discuss the content of this briefing with Members and their staff, but not with the general public.

## 1 Introduction

TNT Post are in direct competition with Royal Mail in parts of London, Liverpool and Manchester – they now provide a full ‘end-to-end’ service in these areas, delivering business post directly to the addresses of customers. TNT Post’s end-to-end business has expanded rapidly since they started trials for the service in West London in April 2012 and they are said to be aiming to cover about 42% of UK addresses by 2017.

Royal Mail believe that this competition is a threat to the universal postal service they provide, suggesting that TNT Post ‘cherry pick’ certain routes and noting that – unlike Royal Mail – TNT Post do not have to pay the costs of providing the universal postal service, six days a week to all addresses across the UK.

Ofcom is the regulator for postal services, under the framework for postal services in the UK set out in the Postal Services Act 2011 (‘the Act’). Ofcom has duties both to promote competition and to secure the provision of a financially sustainable universal postal service, and its duty to secure the provision of a financially sustainable universal postal service takes priority where there is a conflict between these. Ofcom have said that they are monitoring the postal market and will start a review of the end-to-end market by the end of 2015 (or earlier if they see a more imminent threat).

Royal Mail was privatised in 2013 – the Government retains a 30% stake in the business. Further information on Royal Mail can be found in the Library Standard Notes:

- [Postal services: Royal Mail plc](#) (SN/EP/06763)
- [Privatisation of Royal Mail](#) (SN/EP/06668)
- [The reform of the Postal Services 1997-2011](#) (SN/EP/06131)

## 2 Competition in postal services

The UK’s postal market has been fully opened up to competition since 1 January 2006.<sup>1</sup> The *Postal Services Act 2011* abolished the criminal offence of conveying certain letters without a licence which had been contained in the *Postal Services Act 2000*. In the new regulatory framework, persons are automatically entitled to provide postal services provided that, if required, they notify Ofcom of this intention and comply with certain regulatory conditions set by Ofcom.

There are two main forms of competition in the postal market: access competition, which is well established, and end-to-end competition, which has been rarer in the UK market. It is TNT Post’s recent venture into the end-to-end market, posting letters through customers’ doors itself, which has caused some concern.<sup>2</sup>

- *Access competition* is where the operator collects mail from the customer, sorts it and then transports it to Royal Mail’s Inward Mail Centres, where it is handed over to Royal Mail, who are paid to deliver it. Royal Mail is obliged by Ofcom to continue to offer access to its Inward Mail Centres. This enables other operators to offer postal services to larger business customers without setting up a delivery network. Currently, access competition represents a significant portion of the market by volume. However the revenue retained

---

<sup>1</sup> There had been limited competition from January 2003. See Postcomm, [Market opening timetable](#) [online, archived 11/01/2010]

<sup>2</sup> See for example Early day motion 151, 2014-15, [End-to-end competition and the universal postal service](#)

by operators other than Royal Mail is only around 10-15% of the revenue generated in this part of the market.

- *End-to-end competition* is where an operator other than Royal Mail undertakes the entire process of collecting, sorting and delivering mail to the intended recipients. Up until fairly recently, there has been very little end-to-end competition in the UK letters market (unlike some other European countries where end-to-end competition is the main form of competition). In 2011/12, other operators – mostly cycle couriers and local delivery services – delivered just 8 million letters out of a total addressed volume of more than 16 billion.<sup>3</sup>

### 3 TNT Post

TNT Post is part of PostNL, which has its headquarters in the Netherlands and is the Dutch universal postal service provider.

TNT Post began trialling end-to-end delivery operations in west London in April 2012, delivering post from businesses and parts of the public sector directly to the addresses of customers. Their service includes scanning on delivery and provision of management information to customers.<sup>4</sup> They have now extended this end-to-end service to more parts of London, as well as Liverpool and Manchester.<sup>5</sup> They are said to be aiming to cover about 42% of UK addresses by 2017.<sup>6</sup>

TNT Post state that they have created over 3,000 jobs, including their own 'posties'.<sup>7</sup> They won Employer of the Year in the Mayor's Fund for London Awards 2014 for their job creation programme focussed on urban towns and cities with high levels of young people not in employment or education.<sup>8</sup>

TNT Post have been criticised for various incidents where post has allegedly been dumped or delivered to the wrong address.<sup>9</sup> In response to allegations on Channel 4 Dispatches programme, TNT Post said:

At TNT Post we work hard to provide our clients with the best service we can and we will not do anything to compromise that service. We are judged by the quality of our service and that quality of 98.5% delivery on the first attempt is winning us clients, in part, because of the security and transparency we provide.<sup>10</sup>

---

<sup>3</sup> Ofcom [Annual monitoring update on the postal market: Financial year 2011-12](#), 20 November 2012

<sup>4</sup> Ofcom [Annual monitoring update on the postal market: Financial year 2011-12](#), 20 November 2012

<sup>5</sup> TNT Post, [Who is delivering my mail and why?](#) 5 June 2014

<sup>6</sup> Royal Mail, [Direct Delivery: A Threat to the Universal Postal Service, Regulatory Submission to Ofcom](#), June 2014

<sup>7</sup> TNT Post, [Who is delivering my mail and why?](#) 5 June 2014

<sup>8</sup> Mayor's Fund for London, [Mayor's Fund for London Awards 2014 – Employment for young Londoners](#), May 2014

<sup>9</sup> See for example Ham & High, [Concerns raised after claims TNT postie dumped letters in Maida Vale bin](#), 3 July 2014; [TNT pledge to investigate after mail bike was abandoned on Bloomsbury street](#), 4 July 2014; Daily Mail, [TNT posties dumping your letters in bushes: Rivals to Royal Mail accused of ditching deliveries to earn more](#), 20/21 April 2014; Evening Standard, [TNT mail row: hundreds of letters including official documents found dumped in north London river](#), 28 April 2014. TNT Post have denied some of the claims made in these articles.

<sup>10</sup> TNT Post, [Response to Dispatches programme](#), 29 April 2013

## 4 The threat to the universal postal service

Royal Mail believe that competition from TNT Post is a threat to the universal postal service they provide. They note that the service require a series of 'cross-subsidies' to support it, using revenues generated from one area to fund the costs of other areas – for example using income from deliveries in densely populated urban areas to subsidise deliveries to less densely populated deeply rural areas.

Royal Mail suggest that TNT Post are 'cherry picking' certain routes and note that – unlike Royal Mail – TNT Post do not have to pay the costs of providing the universal postal service, from all types of customers, six days a week, to all addresses across the UK.

Royal Mail have said that, unless Ofcom acts, it will not be able to achieve the level of earnings that would be necessary to support the universal service sustainably in the future:

Royal Mail's analysis demonstrates that, absent regulatory intervention, TNT Post will likely achieve its plans. On this basis, as to Ofcom's threshold for intervention, it is clear that absent regulatory intervention, our ability to reach a 5-10% EBIT margin in the Reported Business sustainably in the future would be undermined ...

Under its Guidance, and its primary duty, Ofcom should now review the market and take action.

Urgent action is needed: We believe a full review of direct delivery and its impact on the [universal service obligation] is needed, in addition to Ofcom's current review of access pricing policy (announced April 2014).

Royal Mail calls upon Ofcom:

- to undertake a full review of direct delivery as a matter of urgency; and, simultaneously,
- to determine quickly the regulatory changes needed to protect the Universal Service.

Given the evidence and analysis to hand, and because effective interventions may take time to implement, for Ofcom not to take action would be inconsistent with its Guidance and primary duty under the Postal Services Act 2011 (PSA 2011).<sup>11</sup>

## 5 Actions that could be taken to protect the universal service

Ofcom has powers under the Postal Services Act to take certain actions to protect the universal service. Schedule 6 of the Act requires that any regulatory condition that Ofcom considers imposing must be objectively justified, not be unduly discriminatory, be proportionate and be transparent.

There are a number of ways in which the Universal Service could be protected. These include:

- **a compensation fund to support the provision of the universal service**

The Act contains a framework under which a compensation fund could be established to support the provision of the universal service. This process involves a number of steps:

---

<sup>11</sup> Royal Mail, *Direct Delivery: A Threat to the Universal Postal Service, Regulatory Submission to Ofcom*, 20 June 2014

- Ofcom must first carry out a formal review of the extent (if any) of the financial burden for Royal Mail of complying with its universal service obligations, and determine whether it is fair for Royal Mail to carry that burden. This can only happen with the direction of the Secretary of State for the first five years after the provisions in the Act came into force (so before October 2016).
- If it concludes that the financial burden on Royal Mail is unfair, Ofcom must recommend a course of action to deal with the burden. It can recommend a review of the minimum requirements of the universal service; the establishment of a contributions fund; or the making of a procurement determination (it can also recommend no action be taken). The Secretary of State makes a decision on the action.
- If there is to be a fund, Ofcom can then make rules for it, which can call for contributions to be made by (a) postal operators providing services within the scope of the universal service; and/or (b) users of services within the scope of the universal service. The regulations made by Ofcom with these rules must secure the operation of the compensation scheme: (a) in an objective, proportionate and transparent way; (b) in a way that does not give rise to any undue discrimination between particular postal operators or users; and (c) in a way that avoids, or (if that is impractical) minimises, any distortion of competition.

- **obligations on postal operators (general universal service conditions)**

Ofcom has the power to impose general universal service conditions on operators providing a service within the scope of the universal service, in order to secure the universal service – these conditions would apply to operators in general acting in a certain area, rather than specific individual operators. Ofcom must first identify a threat to the provision of a universal service, and then identify obligations which it considers are necessary to impose to address that threat.

Ofcom have given examples of the types of conditions that might be applied: for example requiring postal operators (that meet certain criteria) to deliver to a certain specification, such as providing deliveries on a minimum number of days per week or a specified geographic area.<sup>12,13</sup>

## 6 Ofcom's position

Ofcom have noted that end-to-end competition offers benefits as well as risks to the universal service:

4.15 There are a number of potential benefits from other postal operators competing with Royal Mail in the delivery of mail. Most importantly entry can strengthen the incentives on Royal Mail to improve efficiency and reduce its costs.

4.16 In addition, if end-to-end competition results in lower prices for certain types of users, it may reduce the rate at which volumes decline for the whole industry. Competition may also benefit customers through increased innovation and value added services.

---

<sup>12</sup> Although not to deliver letters six days a week or to all of the UK, because of restrictions in the Act

<sup>13</sup> Postal Services Act 2011; Ofcom, *Final guidance on Ofcom's approach to assessing end-to-end competition*, March 2013

4.17 However, end-to-end competition also poses a number of potential risks for the universal service. The immediate impact of end-to-end entry by lower-priced competitors is likely to be that Royal Mail will lose market share, and therefore revenues, as other operators will be delivering mail which was previously delivered by Royal Mail. On a like for like basis, the impact on Royal Mail's revenues of end-to-end competition is significantly greater than that of access competition, as Royal Mail retains 85% to 90% of the total revenue for access mail but is not involved in any part of the value chain for items processed and delivered directly to the receiving customer by another operator. Royal Mail's universal service obligations – such as the requirement to deliver to every home in the UK, six days a week – also limit the company's ability to reduce costs overall in line with reduced mail volumes (whether due to the structural decline in the market or loss of market share as a result of end-to-end competition).

4.18 Depending on the scale and scope of entry, this loss of revenue could result in Royal Mail being unable to cover the costs of providing the universal service and therefore unable to earn a rate of return consistent with our view of financial sustainability, even if it is operating efficiently.<sup>14</sup>

In March 2013, it published *Final guidance on Ofcom's approach to assessing end-to-end competition*, setting out how it would assess the need for regulatory intervention in relation to end-to-end competition in the postal sector:

In summary, if we anticipate that Royal Mail's returns will fall below 5% to 10% EBIT margin on a sustained basis we would expect to intervene unless we conclude that this is due to Royal Mail failing to take appropriate steps to respond to the challenge posed by competition, such as failing to improve efficiency levels.<sup>15</sup>

Ofcom have also said that it will start a review of end-to-end competition before the end of 2015 and will bring the review forward if it see evidence that suggests that it needs to do so, as part of its ongoing market monitoring programme.<sup>16</sup> Ofcom have access to business plans from Royal Mail and TNT Post.

In its *Annual monitoring update on the postal market: financial year 2012-13* (November 2013), Ofcom said that it did not see enough of a threat to the universal service for further regulatory interventions to be justified:

End-to-end competition has increased significantly in 2012-13 (200%) but this was from a very low base and only represents around 0.2% of total market volumes. Given this we do not consider that end-to-end competition represents a threat to the future provision of the universal service and do not intend to impose any additional regulatory conditions on end-to-end operators at this point in time.

---

<sup>14</sup> Ofcom, *End-to-end competition in the postal sector: draft guidance on Ofcom's approach*, October 2012

<sup>15</sup> Ofcom, *Final guidance on Ofcom's approach to assessing end-to-end competition*, March 2013

<sup>16</sup> Ofcom, *End-to-end competition in the postal sector: Ofcom's assessment of the responses to the draft guidance on end-to-end competition*, March 2013