



PRESS RELEASE

IMMEDIATE RELEASE: 9 November 2010

THE FUTURE OF THE POST OFFICE – A NEW COMPETITIVE EDGE OR MORE OF THE SAME?

SECURING THE POST OFFICE NETWORK IN THE DIGITAL AGE BIS Policy Statement

Ken Parsons, Chief Executive of the rural Shops Alliance, responded to the publication of this document with mixed views. "The RSA warmly welcomes the publication of this document. It represents a first real attempt to address the key question "What is the post office network for in the 21st century?" and even if some of the conclusions need to be questioned, nevertheless at least the right questions are being asked.

The strategy to make the Post Office the "front office" for central government seems a good one, although we wait to see whether government departments will follow through when it comes to picking up the potential costs to their budgets. This would potentially benefit larger offices, and we remain very nervous about the future of small rural post offices. The plans to convert many of them to the Post office Local concept will lead to them having to provide post office services for longer hours for a much reduced income – not a way to guarantee the future of these offices.

We very much welcome the news that RBS will be allowing its customers to access their accounts through Post Office branches – this is brilliant news. Conversely, the dropping of the Post Bank concept, although disappointing, comes as no surprise, given the potential cost to the government.

The Rural Shops Alliance believes very strongly in the importance of ensuring that the Post Office branch network has a future. Thousands of village shops combine a retail offer with a sub post office. These small businesses are a key part of the communities they serve. We have warmly welcomed past ministerial announcements that the post office network will be maintained, that there will be £1.34billion available to help secure its future and that there will not be any further programme of closures.

This document goes some way to answering fundamental questions about the role of post office branches but there is no real innovation here – where are the exciting new products that would provide Post Office customers with something that the banks or other financial service providers can't do – the competitive edge that the Post Office really needs?"

DETAILED COMMENT AND BACKGROUND INFORMATION

The Government has just published Business Plans for individual departments, a new initiative designed to make them more open and accountable to the electorate. The Plan for the Department for Business, Innovation and Skills includes as one of its nine priorities the “Safeguarding the Future of Royal Mail and the Post Office”, which includes the “Development of a new commercial strategy in partnership with Post Office Ltd., improving the long term financial sustainability of the network and improving the customer experience”. So this paper should have a long-term importance.

The key problem faced by POL is that it has no significant products of its own. It depends for virtually all its income on other organisations paying for its services, examples being government departments, Royal Mail, the National Lottery, banks, insurance companies or telephone networks. In a competitive market, with Payzone and Paypoint pricing their competing services aggressively, and with call centres and websites providing cheap ways of doing business, then funding the costs of a branch network is hard. The vast majority of post office branches are run by small businesses such as village shops, which need to cover the cost of staff, premises, and electricity etc. from the payments they receive from POL. Unless these costs are covered, then post office branches will ultimately be closed by their operator.

TWO EASY DECISIONS

We very much welcome the fact that RBS group, including NatWest Bank, will in future allow their customers to access their accounts through the Post Office branch network. This is long overdue, and we hope that HSBC and the Santander Group will follow suit in due course. This provides a very welcome boost to the Post Office network – a great outcome!

Although disappointed, the killing off of the Post Bank concept should come as no surprise in the current financial climate. No government could realistically fund the setting up of a new bank, weighed down with an expensive-to-administer social responsibility to run low value accounts, in competition with other banks in which the government is a major shareholder. It just was not going to happen – so let’s move on.

KEY ISSUES

This government paper needed to address a number of key issues:

1. Provide a vision for the future of the PO
2. Provide a balance between the conflicting needs of POL management to make the organisation viable and the needs of sub postmasters for income

3. Go beyond the rhetoric that the POL network provides wider coverage than the banks, when increasingly the real competition are the Payzone and Paypoint network of retailers – over 3 times the number than POL branches – and indicate how POL will compete against them.
4. How to increase revenue streams.
5. How POL will be protected from potential loss of revenues when Royal Mail becomes an efficient commercially aggressive private operator.

THE VISION

This has 4 strands:

- PO becomes a “front office” for both central and local government.
- Expansion of personal financial services provision
- Greater involvement of local authorities
- Opportunity for mutual ownership

RSA view

The idea that the PO becomes a local access point for those transactions that need a physical local presence e.g. confirming personal identities, and for people unable to engage with government via the Internet is a good one. However, we can see this type of transaction being far better suited to large town offices rather than the small local post office.

Involvement of local authorities will be limited if it demands money at a time when local authorities are strapped for cash. Why encourage people to pay their bills at a post office if it is much cheaper to persuade them to do it electronically?

Vince Cable is obviously keen on a mutual ownership model for the Post Office. Fine if it works as well as John Lewis, a disaster if it is like the Retail Co-op Societies where they have generally failed to keep up with 21st century retail.

POL MANAGEMENT VERSUS SUB POSTMASTERS

Part of this sustainability must be to ensure that it is worthwhile for local people – be they a sub postmaster running a commercial business or a community organisation – to operate a post office branch. These branches are a vital part of local life up and down the country. Any solutions must recognise the need to cover the costs of staff, retail space and other business costs. At the moment significant parts of the network do not reach this threshold – the operator is effectively subsidising each Post Office customer they serve. Financial sustainability must apply to all parts of the network, not just the large urban offices.

Most PO Local trials were in quite large stores, often those that had not previously had a PO counter. Not surprisingly, customers liked this – they were getting services where none had existed before. However, there is a downside for hundreds of smaller sub post offices that will be converted to the concept – hence the extension of Post Office Local concept to 2000 smaller branches is not good news. The remuneration to the operator is much reduced under this model compared with running a full sub post office. Customers are not able to access a number of services – all transactions have to be paperless, so for example cheque payments are not allowed. Effectively this means that in many case the shop business will be expected to subsidise the operation of the post office counter. We assume that the current network of Outreach post office services will be subsumed into this format.

The danger is that we may be heading for a three-tier post office network:

- The top 4000 branches, equipped to handle a full range of transactions
- A middle band of sub post offices
- 2000 Post Office Local branches delivering limited remuneration to their operators and a restricted range of services to customers

There is clearly a logic to this proposal but it is not good news for hundreds of operators of smaller post offices, most of them in rural communities. Unless these are properly funded, then they will ultimately close – whatever any government policy says.

COMPETITION AND CUSTOMER SERVICE

There is virtually no comment in the document on this angle. Paypoint and Payzone have low cost business models competing hard for the same sort of transactions that POL needs. Paypoint, for example, has the BBC licence payment contract. The paper insists on relating POL to banks, rather than to these brash upstarts in the bill payment market. A glaring omission.

There is a potential paradox at the heart of the Department's objectives to improve customer service. Improving the customer experience must include reduction in queuing times. However, queues are actually integral to the economic operation of the network. Post office operators are typically only paid a few pence for each transaction conducted, and because staff cost perhaps 15p per minute, then it follows that a key part of operating a successful post office is to ensure that staff are facing a customer 100% of the time – hence the need for customers to queue.

RSA View

Plans to expand POL online services (details not provided) will obviously impact on branch business, although allowing the company to compete more effectively at a national level.

The RSA obviously welcomes this significant investment in the network and the continued subsidy for the network on social grounds. Investment in the

larger offices is well overdue. So overall, it is very good news for the Post Office network.

MORE REVENUE STREAMS

The promise of more government work is very welcome and the idea to make PO branches local outlets for those unable to engage with government electronically is sensible. Again, we would not be surprised if government departments did not behave like the DVLA does currently, offering the facility to renew car tax at a post office but doing everything it can to persuade their customers to do so on line, because it is cheaper that way. We would want to see a firm government instruction to departments to follow through on this policy and we would certainly want as many services as possible accessible in even the smallest post offices.

The new products promised from the link-up with the Bank of Ireland sound pretty limited – a new children’s savings account is a sop to those wanting a Post Bank, not an income generator. Similarly links with Credit Unions are socially good but unlikely to generate much additional income.

ROYAL MAIL PRIVATISATION

We would expect any commercial owner of Royal Mail to want to change the relationship with POL. The more safeguards provided to POL, the lower the potential value there is in the Royal Mail business. A tricky decision lies in there, but there is no information in this paper. Given the high proportion of POL income derived from postal products, this is a big omission. Much is made of the common interest in keeping the link going – we shall see.

Notes for editors:

The Rural Shops Alliance (RSA) was formed in April 2001 and now represents over 7,200 independent retail members, employing some 40,700 staff. The RSA – a trade association with a difference – exists to be the campaigning voice of the independent rural retailer and the source for practical support particularly in terms of retail best practice. Many ‘blue chip’ and ‘retail service’ suppliers sponsor and partner the work of the RSA and help the organisation with category management and best retail.

More Information:

Ken Parsons	Tel 01761 462371 or Mobile 07980 673675
Gary Hepburn	Tel 01305 752050
RSA Duty Press Officer	Tel 07092 048546