



THE BRITISH  
CHAMBERS OF  
COMMERCE

### A Pricing in Proportion (PiP) Survey

On 21<sup>st</sup> August 2006, Royal Mail changed the way in which mail was priced. They adopted a pricing system, PiP, based on the size and weight of mail. PiP is meant to take into account the physical size of mail to determine postage prices; Royal Mail argued larger envelopes cost more to sort, handle and deliver and this should be reflected in the price of postage.

At the time of implementation, Royal Mail estimated 80 per cent of mail would not change in price – in reality what has actually happened?

The British Chambers of Commerce surveyed members with a snapshot survey between 18<sup>th</sup> April and 23<sup>rd</sup> May 2007 to canvas their opinion on the implementation of PiP. In total, 233 service and manufacturing businesses responded. The responses covered firms of all sizes but predominantly (81 per cent) those employing less than 50 employees.

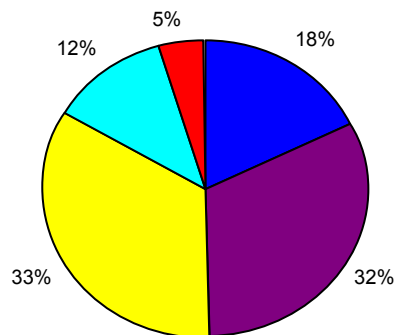
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#### Awareness

Awareness of PiP amongst those surveyed was very high – over 97 per cent of respondents were aware that a new pricing structure was being implemented by Royal Mail. Communication was deemed satisfactory or above by the vast majority of businesses, however nearly 1 in 5 respondents felt communication was either poor or very poor.

How would you rate Royal Mail's communication prior to the launch of PiP

■ Very Good ■ Good ■ Satisfactory ■ Poor ■ Very Poor



## Cost

Pricing in Proportion was said to be revenue-neutral for Royal Mail; however for our members the scheme has not proved to be cost-neutral. Approximately 60 per cent of responses said that PiP had increased their costs; fewer than 10 per cent witnessed a decline and the remainder faced no change or were unsure of the cost impact.

### Case Study –

#### Phoenix Printink

*“Following the introduction of PiP, we have had to include a carriage cost on our orders – this is the first time since we started this business 16 years ago. We are unable to cover the increasing postal costs and competitively this is hurting us as we have witnessed a dip in our turnover.*

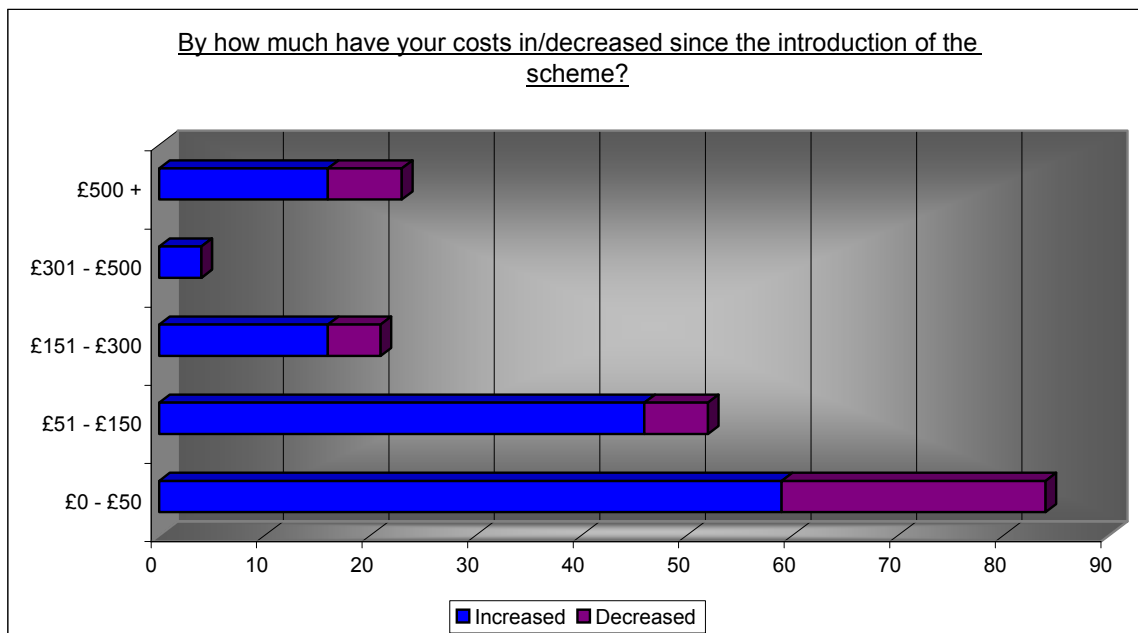
*A 131 gram packet, which was previously priced at 49 pence went up to £1.09 but is now £1.14 due to further rises in Royal Mail prices. This is a 132 per cent increase and the cumulative impact of this is a real burden on our business.*

*Furthermore, every time postal prices change we need to purchase a new chip from Pitney Bowes for our franking machine!*

*We have spoken with Royal Mail on a number of occasions and they say someone will contact us – but it never happens. It may have been a revenue-neutral exercise for them but for a small business the costs are anything but neutral and much higher than before. It is not easy for smaller businesses to seek other mailing providers and inevitably we end up paying more.”*

**Alan Johnson, MD of Phoenix Printink, Hull**

The graph below highlights that the majority of cost changes have led to an increase in costs for business. Of those facing an increase, 1 in 10 respondents have had an increase of over £500.



It is important to note that comments from our members suggest that part of the cost decrease has been as a result of business reducing their postage use and/or increasing other means of communication i.e. email. In other words these cost savings are not necessarily attributed to the PiP pricing structure.

## Impact

In light of the changes brought by the PiP regime, over 60 per cent of survey respondents changed or adapted the size of their mail. Less than 15 per cent invested in new postal solution or software to aid these changes. Of those investing in new equipment, just under half spent more than £50 with 1 in 10 spending more than £500.

Critically, approximately 84% of respondents felt that PiP had not simplified the way in which their mail is priced.

Has PiP  
simplified the  
way you price  
mail?



Feedback from members suggests there is still inconsistency with pricing:

*"...3 letters of the same size and weight were correctly weighed and franked, but 2 came back stating insufficient postage was paid"*

**Hull & Humber Chamber**

This creates an incredibly frustrating situation for business, especially for Small and Medium Enterprises (SME). Businesses are having to devote greater time, effort and money towards their posting needs and this impacts the running of their day-to-day activities. Furthermore, nearly a third of survey respondents feel that Royal Mail's service has actually worsened since the implementation of the new scheme. Less than 1 per cent of those surveyed felt any improvement was made to the service they received from Royal Mail. This is clearly a worrying statistic.

Business needs a reliable and affordable postal system to be in place. BCC members state that late arriving mail, mail that goes missing together with higher charges makes it a difficult situation for an SME who relies on their post for vital cashflow and business opportunities. With the announcement of further post office closures, Royal Mail must act now to ensure service levels do not deteriorate further and must ensure customer satisfaction is retained in any future policy changes.

### **For further information please contact:**

Narinder Gill ([n.gill@britishchambers.org.uk](mailto:n.gill@britishchambers.org.uk))  
British Chambers of Commerce,  
65 Petty France, London, SW1H 9EU  
020 7654 5800