



24th July 2009

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**CONDITION 7 NOTIFICATION:
Changes to the Mailsort 3 and Sustainable Mail 3 prices**

Dear Philip,

I am writing to formally notify you, under Condition 7 of Royal Mail's Licence, that from 26th October 2009 Royal Mail will reduce the letter prices of Mailsort 3 and Sustainable Mail 3. The lower prices are designed to benefit customers and to stimulate growth in the advertising market in these difficult economic conditions.

Appendix A contains an updated ratecard for Mailsort and Sustainable Mail prices. Royal Mail will reduce the Mailsort 3 and Sustainable Mail 3 120 OCR, 120 CBC and 700 products by 2.8%; and reduce the Mailsort 3 and Sustainable Mail 3 1400 products (letter format only) by 3.3%. All other prices remain the same.

A copy of this letter is sent to Consumer Focus and will be published on Royal Mail's website within 4 working days

Yours sincerely,

Mark Waples
Head of Regulation and Compliance

Appendix A: Mailsort 3 and Sustainable Mail 3 price changes

Section 1: What has changed?

The letter prices for Mailsort 3 and Sustainable Mail 3 are reducing by about 3% from October 26th 2009. The price changes are shown in bold in sections 2-5. All other prices are unchanged.

The price changes are summarised in Table 1. Sustainable Mail prices at just the Intermediate level are shown for the sake of brevity – the percentage price changes at the Entry level are identical to the Intermediate level.

Table 1 - Mailsort 3 and Sustainable Mail 3 letter price changes from October 26th (all prices in pence)

		Number of Direct items					Residues
		0 - 19999	20000 - 39999	40000 - 79999	80000 - 119999	120000 +	
MS 120 OCR Letter	Apr-09 price	17.76	17.44	17.01	16.80	16.63	N/A
	Oct-09 price	17.26	16.95	16.54	16.33	16.16	N/A
	% price change	-2.8%	-2.8%	-2.8%	-2.8%	-2.8%	N/A
MS 120 CBC Letter	Apr-09 price	17.55	17.23	16.80	16.59	16.41	N/A
	Oct-09 price	17.06	16.74	16.33	16.12	15.95	N/A
	% price change	-2.8%	-2.8%	-2.8%	-2.8%	-2.8%	N/A
MS 700 CBC Letter	Apr-09 price	17.27	16.95	16.52	16.31	16.14	18.83
	Oct-09 price	16.79	16.47	16.06	15.85	15.68	18.30
	% price change	-2.8%	-2.8%	-2.8%	-2.8%	-2.8%	-2.8%
MS 1400 Letter	Apr-09 price	19.20	18.88	18.46	18.25	18.08	19.83
	Oct-09 price	18.56	18.26	17.85	17.65	17.48	19.18
	% price change	-3.3%	-3.3%	-3.3%	-3.3%	-3.3%	-3.3%
Sustainable 120 OCR Letter (Intermediate)	Apr-09 price	16.93	16.62	16.21	16.01	15.85	N/A
	Oct-09 price	16.45	16.16	15.76	15.56	15.40	N/A
	% price change	-2.8%	-2.8%	-2.8%	-2.8%	-2.8%	N/A
Sustainable 120 CBC Letter (Intermediate)	Apr-09 price	16.72	16.42	16.01	15.81	15.64	N/A
	Oct-09 price	16.25	15.96	15.56	15.36	15.20	N/A
	% price change	-2.8%	-2.8%	-2.8%	-2.8%	-2.8%	N/A
Sustainable 700 CBC Letter (Intermediate)	Apr-09 price	16.46	16.15	15.74	15.54	15.38	17.95
	Oct-09 price	16.00	15.70	15.30	15.10	14.95	17.44
	% price change	-2.8%	-2.8%	-2.8%	-2.8%	-2.8%	-2.8%
Sustainable 1400 Letter (Intermediate)	Apr-09 price	18.30	18.00	17.59	17.39	17.23	18.96
	Oct-09 price	17.69	17.40	17.01	16.82	16.66	18.33
	% price change	-3.3%	-3.3%	-3.3%	-3.3%	-3.3%	-3.3%

*all prices exclude term contract discounts

Section 2: Mailsort 120 & Mailsort 700

Full price

	Mailsort 1		Mailsort 2		Mailsort 3	
	full price	per gram increment	full price	per gram increment	full price	per gram increment
Letters 0 - 100g	34.2p	n/a	23.8p	n/a	20.8 p	n/a

Sortation and machineability discount

	Mailsort 1		Mailsort 2		Mailsort 3	
	direct items	residue items	direct items	residue items	direct items	residue items
MS 120 OCR Letter	17%	n/a	17%	n/a	17%	n/a
MS 120 CBC Letter	18%	n/a	18%	n/a	18%	n/a
MS 700 CBC Letter	19.3%	12%	19.3%	12%	19.3%	12%

Volume Related Discount (VRD)

	Volume Band	Number of direct items	Mailsort 1		Mailsort 2		Mailsort 3	
			direct items	residue items	direct items	residue items	direct items	residue items
Letter	Letter	0 - 19999	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
	Letter 20	20000 - 39999	1.5%	0.0%	1.5%	0.0%	1.5%	0.0%
	Letter 40	40000 - 79999	3.5%	0.0%	3.5%	0.0%	3.5%	0.0%
	Letter 80	80000 - 119999	4.5%	0.0%	4.5%	0.0%	4.5%	0.0%
	Letter 120	120000 +	5.3%	0.0%	5.3%	0.0%	5.3%	0.0%

Calculating the price of your mailing

Step 1: Find the full price for the service from table 1

Step 2: Identify the appropriate sortation and machineability discounts from table 2

Step 3: Add to these discounts the applicable volume related discount from table 3

Step 4: Apply the aggregated discounts to the full price to calculate the item price for direct items and, where applicable (with Mailsort 700 CBC letters), for residue items.

Step 5: Multiply the direct and residue prices by the number of items in each category.

Step 6: Add the direct and residue values together to calculate the total transaction price.

Worked example

A Mailsort 3 700 posting of 102,439 letters weighing 72g each. 98,277 of these are directs and 4,162 are residues.

- **Step 1:** The full price for a Mailsort 3 700 Letter = 20.8p from table 1
- **Step 2:** Sortation and machineability discount for direct = 19.3% from table 2
Sortation and machineability discount for residue= 12% from table 2
- **Step 3:** VRD from table 3 = 4.5%, added to the direct discount of 19.3% the total discount for direct items now becomes 23.8%. There is no VRD discount for residues.
Therefore, the total discount for residue items is 12%
- **Step 4:** Price of directs = $20.8\text{p} * (100\% - 23.8\%) = 15.8496\text{p}$
Price of residues = $20.8\text{p} * (100\% - 12\%) = 18.304\text{p}$
- **Step 5:** Total price of directs in mailing = $(15.8496\text{p} * 98,277)/100 = \text{£}15,576.51$
Total price of residues in mailing = $(18.304\text{p} * 4,162)/100 = \text{£}761.81$
- **Step 6:** Total price for mailing = $\text{£}15,576.51 + \text{£}761.81 = \text{£}16,338.32$

Section 3: Mailsort 1400

Full prices and per gram increments

	Mailsort 1		Mailsort 2		Mailsort 3	
	full price	per gram increment	full price	per gram increment	full price	per gram increment
Letter 0 - 100g	34.5p	n/a	24.1p	n/a	20.4p	n/a
Large Letter 0 - 100g	42.6p	n/a	31.1p	n/a	25.8p	n/a
Large Letter 101 - 250g	47.3p	n/a	39.9p	n/a	32.6p	n/a
Large Letter 251 - 750g	47.3p	0.1548p	39.9p	0.1370p	32.6p	0.1144p
Packet 0 - 100g	102.3p	n/a	88.5p	n/a	77.0p	n/a
Packet 101 - 250g	109.0p	n/a	93.5p	n/a	81.3p	n/a
Packet 251 - 1000g	109.0p	0.1256p	93.5p	0.1150p	81.3p	0.1026p
Packet 1001 - 2000g	240.0p	0.1403p	200.0p	0.1150p	180.0p	0.1035p
A3 Packet 0 - 100g	82.0p	n/a	70.8p	n/a	60.5p	n/a
A3 Packet 101 - 250g	87.5p	n/a	74.8p	n/a	63.6p	n/a
A3 Packet 251 - 750g	87.5p	0.1346p	74.8p	0.1200p	63.6p	0.1104p

Sortation Discounts

	Mailsort 1		Mailsort 2		Mailsort 3	
	direct items	residue items	direct items	residue items	direct items	residue items
Letter	9%	6%	9%	6%	9%	6%
Large Letter	11%	6%	11%	6%	11%	6%
Packet	15%	9%	15%	9%	15%	9%
A3 Packet	15%	9%	15%	9%	15%	9%

Volume Related Discounts (VRD)

				Mailsort 1		Mailsort 2		Mailsort 3	
	Volume Band	Number of direct items	direct items	residue items	direct items	residue items	direct items	residue items	
Letter	Letter	0 - 19999	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	
	Letter 20	20000 - 39999	1.0%	0.0%	1.0%	0.0%	1.5%	0.0%	
	Letter 40	40000 - 79999	2.5%	0.0%	2.5%	0.0%	3.5%	0.0%	
	Letter 80	80000 - 119999	4.0%	0.0%	4.0%	0.0%	4.5%	0.0%	
	Letter 120	120000 +	4.5%	0.0%	4.5%	0.0%	5.3%	0.0%	
Large Letter	Large Letter	0 - 9999	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	
	Large Letter 10	10000 - 19999	1.0%	0.0%	1.0%	0.0%	1.5%	0.0%	
	Large Letter 20	20000 - 39999	2.5%	0.0%	2.5%	0.0%	3.5%	0.0%	
	Large Letter 40	40000 - 59999	4.0%	0.0%	4.0%	0.0%	4.5%	0.0%	
	Large Letter	60000 +	4.5%	0.0%	4.5%	0.0%	5.3%	0.0%	
Packet & A3 Packet	Packet	0 - 4999	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	
	Packet 5	5000 - 7999	1.0%	0.0%	1.0%	0.0%	1.5%	0.0%	
	Packet 8	8000 - 11999	2.5%	0.0%	2.5%	0.0%	3.5%	0.0%	
	Packet 12	12000 - 19999	4.0%	0.0%	4.0%	0.0%	4.5%	0.0%	
	Packet 20	20000 +	4.5%	0.0%	4.5%	0.0%	5.3%	0.0%	

Calculating the price of your mailing

- **Step 1:** Find the full price for the items you are mailing. If the item weighs more than 250g, take the full price from table 1 for the correct format of the service you are using. Above 250g, take the full price from table 1 and add the appropriate gram increment. Round the result to the 1/10th of a penny.
- **Step 2:** Identify the appropriate sortation and machineability discounts from table 2
- **Step 3:** Add to the sortation discount the applicable volume related discount from table 3
- **Step 4:** Apply the aggregated discounts to the full price to calculate the item price for direct and residue items.
- **Step 5:** Multiply the direct and residue prices by the number of items in each category.
- **Step 6:** Add the direct and residue values together to calculate the total transaction price.

Worked example

A Mailsort 2 1400 posting of 102,439 Large letters weighing 302g each.
98,277 of these are directs and 4162 are residues.

- **Step 1:** The full price = $39.9p + ((302 - 250) * 0.1370) = 47.02$ rounded = 47.0p
- **Step 2:** direct discount = 11%, residue discount = 6% from table 2
- **Step 3:** VRD from table 3 = 4.5%, added to the direct discount of 11% the total discount for direct items now becomes 15.5%
- **Step 4:** Price of directs = $47.0p * (100\% - 15.5\%) = 39.715p$
Price of residues = $47.0p * (100\% - 6\%) = 44.18p$
- **Step 5:** Price of directs in mailing = $(39.715p * 98,277)/100 = £39,030.71$
Price of residues in mailing = $(44.18p * 4162)/100 = £1,838.77$
- **Step 6:** Total for this mailing = $£39,030.71 + £1,838.77 = £40,869.48$

Section 4: Sustainable Mail

Sustainable Mail Entry Level pricing structure

	Mailsort 120 & 700		Mailsort 1400	
	direct	residue	direct	residue
Letter 0 - 100g	2.00%	2.00%	2.00%	1.90%
Large Letter 0 - 100g	n/a	n/a	1.60%	1.45%
Large Letter 101 - 250g	n/a	n/a	1.20%	1.05%
Large Letter 251 - 750g	n/a	n/a	1.20%	1.05%

Sustainable Mail Intermediate Level pricing structure

	Mailsort 120 & 700		Mailsort 1400	
	direct	residue	direct	residue
Letter 0 - 100g	4.70%	4.70%	4.70%	4.40%
Large Letter 0 - 100g	n/a	n/a	3.75%	3.45%
Large Letter 101 - 250g	n/a	n/a	2.80%	2.55%
Large Letter 251 - 750g	n/a	n/a	2.80%	2.55%

Calculating the price of Sustainable mail

- **Step 1:** Calculate the Mailsort 120, 700 or 1400 price for the service you are using (Sustainable Mail is not available on the packet format or non-Mailsort services).
- **Step 2:** If you meet the Entry Level specification for Sustainable Mail, then reduce the Mailsort price by the amount shown in Table 1.
- **Step 3:** If instead you meet the Intermediate specification for Sustainable Mail, then reduce the Mailsort price by the amount shown in Table 2.

Section 5: Term Contracts

Product and Class of service*	Contract duration	
MS120-1, MS120-2, MS120-3, MS700-1, MS700-2, MS700-3, MS1400 -1, MS1400-2, MS1400-3	1 Year	2 Year
Discount (per year)	1.40%	2.00%

*minimum annual volume of 1 million mail items applies per product and class of service contracted