

Paper Reference(s)

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**Advance Information**

**Edexcel GCE**

**Business Studies (8076/9076)**

**Advanced Subsidiary**

Advance Notice of Case Study for

Unit 1: Business Structures, Objectives and  
External Influences

Unit 2: Marketing and Production

Unit 3: Financial Management

June 2006

This paper may be opened on  
Monday 20 March 2006

**Instructions to Candidates**

In preparing for the Case Study paper, candidates are advised to undertake general revision as well as detailed investigation of issues related to the Case Study.

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## CONTEXT

### The Royal Mail Group plc 2004

The Royal Mail Group is a public limited company wholly owned by the Government, employing approximately 200 000 staff.



**IMPORTANT: Please note that, other than in lines 61–66, all references are to the Royal Mail, which is only part of the Royal Mail Group plc, as shown above.**

The Royal Mail, part of the Royal Mail Group plc, is a national monopoly with a 360-year old history of providing the UK public with postal services. In the past, the Royal Mail was considered by many to be the best postal service in the world, far superior and cheaper than its continental and American rivals. However, by the late 1990s it was widely regarded as under-funded and faced increasing competition from private firms and the increasing use of e-mail (see **Appendix 1**). Postal collection and delivery has always been heavily labour intensive. The Royal Mail's working practices were seen as outdated, labour relations poor, wages low and working conditions unsatisfactory. After years of being treated as a cash cow by the Government, the Royal Mail is now struggling to keep pace with the technology and pay levels of the private sector.

The Postal Services Act 2000 created a unique structure for the Royal Mail. In March 2001, the Royal Mail became a public limited company with a single shareholder, the UK Government. This created a commercially focused company with a more strategic relationship with the Government. This Act also established a new regulatory regime with an independent regulator, Postcomm, and a reformed consumer body, Postwatch. The Royal Mail has a statutory duty to provide a letter delivery service to each and every one of the 27 million addresses in the UK at a uniform price, irrespective of the distance travelled. The company's performance is judged against 15 'standard service' targets, which focus mainly on delivery standards for first and second class mail. Failure to meet these targets could result in the Royal Mail having to pay both compensation to its business customers and fines to Postcomm.

In 2002, the Royal Mail made a £1.1 billion loss, prompting the new chairman, Allan Leighton, to embark on a 3-year £1.4 billion cost-cutting modernisation programme. This involved cutting the daily deliveries from two to one, modernising sorting offices and overhauling transport, for example, by transferring from rail to air. These cutbacks were expected to result in 30 000 job losses. However, the company rejected a proposal to reduce its scope of operations by abandoning delivery to remote areas. It was feared that this would conflict with its statutory duty and be hugely unpopular, and might reduce economies of scale. The Royal Mail was also reluctant to charge those in rural areas the true cost of delivering their letters.

In the spring of 2004, the Royal Mail faced its worst crisis ever, with a collapse in its standards of service and allegations of corruption and poor management. It also faced an £80 million fine for failing to meet most of its 15 'standard service' targets. The modernisation programme, particularly the change from two daily deliveries to one, caused initial problems in many areas, resulting in many complaints from customers. It caused a large volume of unsorted mail as staff struggled to get used to the new way of working.

In a series of press articles at the time, the Royal Mail was criticised for no longer operating like a public service. Its priority had allegedly changed to maximising profits, rather than improving its service. It was commented that no other private sector firm could behave in this way because customers would simply switch to its rivals, but the 2001 restructuring had allowed the Royal Mail to retain its letter delivery monopoly. In the UK, 84 million items of mail are delivered daily. Seventy per cent of these are sent by 100 large firms and they must be paid compensation if the Royal Mail does not meet its service targets. This cost the company £80 million in compensation in 2004. However, the ordinary person in the street has no comeback and must put up with lost credit cards, late passports, missed hospital appointments and other personal consequences of postal failure.

During this period of change, Postwatch undertook an analysis of lost, stolen and misdirected mail. A survey of more than 2 000 people, carried out by Mori for Postwatch, found that householders were becoming used to the problem of wrongly delivered mail and rarely complained. It revealed that over a six-month period more than half of the UK population had received wrongly delivered mail. The Royal Mail's estimate of 14.5 million items of missing domestic mail was thought to be conservative. Postwatch said that it would undertake further research in London, given the high level of complaints it had received in that area.

In a separate newspaper survey, businesses complained that their mail often disappeared, never to be seen again. Others reported receiving bundles of mail meant for other businesses. One complained: "My mail is always going missing. Small businesses like mine simply can't survive with this kind of service, when cheques are disappearing all the time. It's a nightmare." The survey found that addresses in the north of England and Scotland had a higher successful delivery rate than London.

In May 2004, the Royal Mail Group plc announced that it had moved back into profit. An increase of approximately four per cent in the price of a first-class stamp in 2003 raised about £170 million, helping the Royal Mail Group plc move from a £197 million loss in 2003 to a £220 million profit on operations by May 2004 (see **Appendix 2**). A similar increase in the price of a second-class stamp in April 2004 was expected to add a further £70 million to profits. Allan Leighton also wrote to all 200 000 staff in an attempt to keep his modernisation programme on track and to keep his huge workforce behind him. He described the programme as "probably the biggest transition in British industry for 20 years". As well as referring to the recent critical press coverage, the letter commented on poor service levels and the fact that the single delivery system was taking time to settle. By August 2004, the Royal Mail had only been able to offset the £247 million loss incurred on personal letters, greeting cards and small business mail because it earned so much on mail posted by large businesses.

Leighton wanted to make the Royal Mail a viable commercial operation by May 2005, when his contract was due to end. The key was the move to a single delivery system, guaranteed by midday, the introduction of which would allow the Royal Mail to reduce its workforce. It was understood that while the second delivery accounted for only about five per cent of letters, it contributed twenty per cent to total costs. Leighton's letter also admitted that there were other issues to resolve over equipment, transport and employee training.

The poor service-standard performance and allegations of fraud, theft and poor management, made in a television programme at the time, increased tension between the company and the workers. The Communications Workers Union (CWU) wanted the pace of change to be slowed down. It also sought assurances from the Government that allowing competitors to deliver business mail was not the first step to the gradual privatisation of the UK postal market. A CWU source said: "We don't believe the Government has a vision for the Royal

Mail. Increasing commercial freedom has been a disaster. We want the Government to commit itself to the Royal Mail as a public service.” However, the transformation of the Royal Mail was likely to earn Government support since it seemed most of the 30 000 jobs to be cut might be achieved through natural wastage, rather than incurring a sizeable redundancy bill by the company. 85

The problems experienced by the Royal Mail led many to believe that a solution could be to privatise the company and open the whole sector to competition. It was believed that some of the City’s biggest investment banks had approached the Government to seek a mandate to privatise the Royal Mail by 2006. It was believed that a sizeable minority of shares in a privatised Royal Mail would be offered to the company’s 200 000 employees. However, any move towards privatisation was likely to be resisted fiercely by the unions. 90 95

In February 2005, Postcomm announced that the Royal Mail would lose its monopoly on letter post early in 2006, allowing other licensed companies to collect, transport and deliver letters. The Royal Mail’s chief executive, Adam Crozier, said “We’re determined to earn business in the new market so that we can continue to finance the one-price-goes-anywhere universal service, which remains at the heart of what we do. ...Royal Mail must have the freedom and flexibility to set the right prices, based on real costs”. 100

The postal service binds the UK together, not just economically, but socially. Although, the amount of post delivered in the UK continues to rise, the proportion of ‘social mail’ (cards and letters between family members) drops every year, and now makes up just ten per cent of all mail. Nevertheless, for many people nothing can quite match the impact of an envelope dropping on to the mat. 105

**Adapted from the following sources:**

‘Get it sorted’, *Guardian Unlimited*, 30 April 2004

‘Millions of letters wrongly delivered’, *Sunday Times*, 2 May 2004

‘Royal Mail poised for 2005 flotation’, *The Financial Mail on Sunday*, 2 May 2004

‘Can Leighton’s letter save the Royal Mail?’, *The Financial Mail on Sunday*, 2 May 2004

‘Last post for Britain’s dying mail service’, *The Guardian*, 19 May 2004

‘Trouble at Mail’, *The Observer*, 23 May 2004

‘Penny on stamp puts Royal Mail in black’, *Daily Telegraph*, 28 May 2004

‘Royal Mail in bid to charge more for long-distance post’, *Sunday Times*, 15 August 2004

‘Royal Mail loses its monopoly on letters after 350 years’, *The Guardian*, 18 February 2005

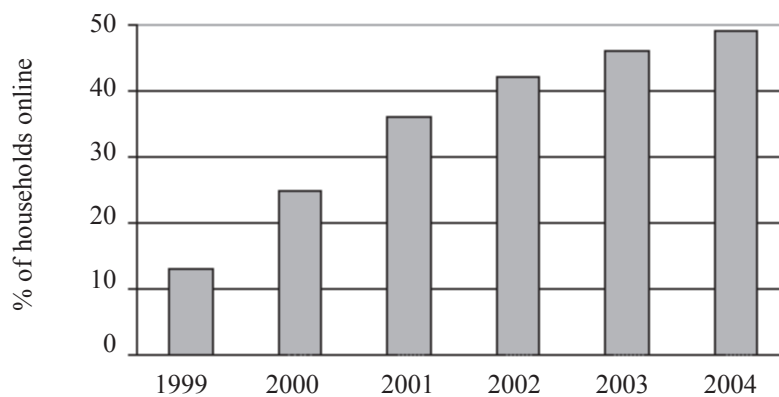
[www.postoffice.co.uk](http://www.postoffice.co.uk)

[www.royalmailgroup.com](http://www.royalmailgroup.com)

[www.news.proquestlearning.co.uk](http://www.news.proquestlearning.co.uk)

## APPENDIX 1

### Internet Access 12.1 million households online



UK households with home access to the Internet, January to March

In the first quarter of 2004, 49 per cent of households in the UK (12.1 million) could access the Internet from home, compared with just 13 per cent (3.2 million) in the same quarter of 1999.

The most common use of the Internet among this group was e-mail (85 per cent). Half (50 per cent) of all adults who had used the Internet used it to buy or order tickets, goods and services.

#### Sources:

'Individuals accessing the Internet', National Statistics Omnibus Survey

'Access to the Internet from home', Family Expenditure Survey (April 1998 to March 2001)

Expenditure and Food Survey (April 2001 onwards)

**IMPORTANT: Appendices 2 and 3 refer to the Post Office Ltd, part of the Royal Mail Group plc.**

## APPENDIX 2

### Post Office Ltd: summary of its general and financial position (2004)

Post Office Ltd is part of the Royal Mail Group plc. In 2004, some 550 post offices were managed directly by Post Office Ltd, the remainder being managed on an agency basis either by sub postmasters/mistresses or franchise partners. About 170 products and services were sold through branches.

	Turnover (£m)		Profit/(loss) from operations (£m)		Net cash inflow/(outflow) (£m)	
	2004	2003	2004	2003	2004	2003
Royal Mail Group plc total	8 633	8 299	220	(197)	(222)	(486)
of which Post Office Ltd	977	899	(102)	(198)		

**Source:** adapted from the Royal Mail Group plc annual accounts (2003/2004)

## APPENDIX 3

### Estimated costs of becoming a Post Office Ltd franchisee

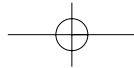
Items	Estimated costs (£s)
Equipment and security costs	59 550
Shopfitting	15 000
Franchise fees (based on £98 000 remuneration)	24 500
<b>Total capital items</b>	<b>99 050</b>
Advertising, promotions and professional fees	6 000
Retail opening stock and pre-opening staff costs	14 050
Telephone/water/gas/electricity connection and deposit	1 500
<b>Total other items</b>	<b>21 550</b>
<b>Establishment costs</b>	<b>120 600</b>

Note: Revenue earned is based on sales, and remuneration increases as sales increase.

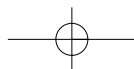
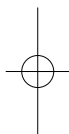
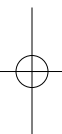
**Source:** adapted from 'About the Post Office' website, August 2004

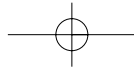
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