

CHAPTER 2

The market

History

2.1. Development work on postal franking machines was carried out independently in the United States of America and in New Zealand in the early years of the century. In 1920 a Pitney Bowes¹ machine became the first postal franking machine to be approved for use in the United States of America. The introduction of postal franking machines into the United Kingdom followed in 1922 when Pitney Bowes obtained approval from the Post Office for its US-developed machine which was to be marketed in the United Kingdom by an agent, UPF Ltd. The following year UPF began supplying a version of the machine developed in New Zealand. In 1924/25 British Neopost Ltd (Neopost) was set up to market a new machine under the name 'Neopost'. Since that time the development of postal franking machines in the United Kingdom has remained largely in the hands of UPF and Neopost and their respective successor companies, Pitney Bowes PLC and Roneo Alcatel Ltd (Roneo Alcatel) which remain the only manufacturers in the United Kingdom. Pitney Bowes PLC is one of the United Kingdom subsidiaries ultimately owned by Pitney Bowes Inc of Connecticut, USA, and Roneo Alcatel of a French company, CIT Alcatel SA (CIT Alcatel)² itself a subsidiary of Compagnie Générale d'Electricité (see Chapters 3 and 4).

The postal franking machine

2.2. Postal franking machines provide an alternative method of payment to postage stamps and bulk postage methods, eg Postage Paid Impressions. The basic functions of the machines are to record advance payments by users to the Post Office, and the use of this credit as they print a franked impression on to an envelope or a label (for packets, parcels and large envelopes). The franked impression must include:

- (a) a mark showing the postage value paid and the number of the die installed in the machine; and
- (b) a postmark indicating the date and the town in which the user posts his mail.

This impression may also include a 'slogan' which carries the user's name and address, advertising material or other approved message.

2.3. The machine must be designed in such a way as to ensure that the user has accounted to the postal authorities for the values thus printed. The machine therefore incorporates:

- (a) a printing mechanism with removable dies: the value die is fitted with break-off screws to ensure that its removal is difficult and can be

¹ Throughout this report we refer to companies in the Pitney Bowes group by name as appropriate. 'Pitney Bowes' is used more generally for the group as a whole.

² After the report had been completed we were told that CIT Alcatel had changed its name to Alcatel SA.

detected, and the cover of the machine is designed so as to prevent access to the value die; and

- (b) two fraud-proof registers, mechanical or electronic: one records the pre-paid postage credit and is reduced by the value of each impression printed; the other goes up by the value of each impression.

Various security-related features (in addition to various procedural safeguards concerning the use of the machine) are included: for example, a means of locking off the machine after certain values have been reached in the two registers.

2.4. The range of machines currently available to customers extends from small simple integrated machines for low volume users in which the meter, incorporating the registers, cannot be separated from the base, to larger machines with a separate meter attached to a mailing base which cycles the letters through the machine and includes parts of the printing mechanism. The larger machines may incorporate additional features such as automatic label dispensers and in some cases are capable of being linked to automatic folders and inserters. Some of the electronic meters now being introduced may also be interfaced directly to electronic mailing scales and accounting systems. Where machines are sold as part of a system combining, for example, a folder/inserter we have regarded only the postal franking machine part of the system as falling within our terms of reference. A summary of machines available as at April 1985 is at Appendix 2.1.

2.5. The use of postal franking machines brings advantages both to the users and the Post Office. As part of the inquiry the Commission asked a sample of 273 users (see paragraph 2.50) about the main advantages of using postal franking machines as against other forms of payment for postage. Convenience was overwhelmingly given as the most significant factor; controlling postage costs, avoiding fraud and reducing post room costs were also of some importance. The Post Office told us it obtained cost benefits primarily from savings in facing¹ and cancelling mail and in the cost of producing and selling stamps; these savings were only partially offset by the cost of resetting meters and of administering the postal franking machine system (see paragraphs 6.5 and 6.6).

The life of postal franking machines

2.6. Estimates of the useful mechanical life of postal franking machines are usually expressed either in the number of cycles of operation or in the number of years of operation. All postage meters (including integrated machines) and any device designed to interact with that part of a postal franking machine which protects Post Office revenue or procedure must be submitted to the Post Office for approval (see paragraph 2.16). Meters are subjected to an operational test, usually of 1 million cycles, and various forms of environmental test in order to comply with the Post Office regulations. The three smaller suppliers (see paragraph 2.10) estimated the minimum useful mechanical life of the machines they market at ten years. Pitney Bowes PLC and Roneo Alcatel generally expressed the minimum useful mechanical

¹ Preparation of mail to ensure stamps are aligned before cancelling.

life of their machines in terms of the number of cycles of operation which (except in the case of small machines suitable for low volume users) was considerably in excess of Post Office requirements. Pitney Bowes PLC told us that 1 million cycles for a low volume user represented more than 100 years' postage.

The market for postal franking machines

2.7. The total United Kingdom market for the supply and maintenance of postal franking machines was worth approximately £35 million in 1984. As shown in Table 2.1, the United Kingdom market is the fourth largest in the world in terms of installed base after the United States of America, West Germany and France.

TABLE 2.1 Installed base of postal franking machines as at the end of 1983

World	1,800,000
Western Europe	700,000
<i>Major national markets with more than 100,000 machines installed</i>	
United States of America	912,000
Federal Republic of Germany	218,000
France	158,000
United Kingdom	135,000
Canada	120,000

Source: Roneo Alcatel from figures published by National Postal Authorities.

The United Kingdom market is believed to be the largest in Europe in terms of the annual placement of machines but it is only about one-half of the combined output of the Harlow and Romford plants of Pitney Bowes PLC and Roneo Alcatel. A significant proportion of the production from these plants is exported and the United Kingdom is, despite a recent increase in imports, a net exporter of postal franking machines.

2.8. There was a rapid expansion in the total number of postal franking machines in use in the United Kingdom in the period after the 1939-1945 war and this rate of growth continued until the early 1970s when it slowed considerably (see Table 2.2).

TABLE 2.2 Total number of postal franking machines in use in the United Kingdom

<i>As at end of March</i>	<i>Number of machines in use</i>	<i>Increase in machines in use</i>	
		<i>By number</i>	<i>By percentages</i>
1939	7,067		
1955	26,481	19,414	275
1965	57,502	31,021	117
1975	99,136	41,634	72
1985	137,205	38,069	38

Source: Post Office statistics and MMC study.

The growth rate of the number of machines in use has been generally less than the growth in the number of new machines supplied each year since 1974 (see Tables 2.3 and 2.4). This indicates the importance of the replacement market and the information we have suggests that in 1983

TABLE 2.3 Total number of postal franking machines in use as at 31 December, 1974 to 1984

<i>Supplier</i>	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984
Pitney Bowes PLC	47,200	51,098	54,155	57,239	61,632	68,040	69,645	71,019	73,141	75,114	76,508
Roneo Alcatel	50,541	50,662	49,907	50,612	50,268	50,431	49,583	51,476	53,091	52,950	50,439†
Hasler	605	746	892	1,050	1,272	1,623	2,434	4,019	5,588	6,365	7,896
Others*	39	40	40	40	42	42	—	—	55	208	688
Total	98,385	102,546	104,994	108,941	113,214	120,136	121,662	126,514	131,875	134,637	135,531
Increase as a % of previous year		4.2%	2.4%	3.8%	3.9%	6.1%	1.3%	4.0%	4.2%	2.1%	0.7%

Source: Post Office statistics.

* Prior to 1980 small numbers of Francotyp-Postalia machines were supplied by Acral Ltd. When Acral Ltd ceased supplying in 1980, responsibility for these machines was taken over by Roneo Alcatel.

† The reduction in 1984 arises from adjustments made when Roneo Alcatel computerised its records.

TABLE 2.4 Number of postal franking machines supplied each year and market shares, 1974 to 1984

	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984
Total number of machines supplied	11,463	15,412	12,888	13,394	15,812	17,832	16,151	17,305	17,196	19,324	20,150
Increase as a % of previous year		34%	(16.4%)	3.9%	18.1%	12.8%	(9.4%)	7.1%	(0.6%)	12.4%	4.3%
Percentage supplied by:											
Pitney Bowes PLC	49.3	53.4	63.6	65.7	56.6	58.8	56.2	45.8	52.3	52.5	51.0
Roneo Alcatel	49.7	45.7	35.2	33.1	42.0	39.4	38.8	44.8	38.4	39.6	37.1
Others	1.0	0.9	1.1	1.2	1.4	1.8	5.1	9.5	9.3	7.9	11.9

Source: MMC study.

Notes

1. Based on the number of integrated machines plus detachable meters.
2. Some figures do not add up to 100 per cent due to rounding.

approximately 40 to 50 per cent of machines supplied by Pitney Bowes PLC and Roneo Alcatel were supplied as replacements for equipment from the same company. Information relating only to a relatively short period suggests that, when replacing machines, only a minority of users (20 to 30 per cent) of Pitney Bowes PLC and Roneo Alcatel machines have switched to a new supplier. Despite this, the replacement market is important to the other suppliers (see paragraph 2.10) and the overall replacement market is probably in excess of 50 per cent of total supply.

Structure of the market

2.9. Prior to 1969 Pitney Bowes PLC and Roneo Alcatel were effectively the only suppliers and had approximately equal shares of the market for postal franking machines in the United Kingdom. The market is now shared among five suppliers. Table 2.5 shows that in 1984 Pitney Bowes PLC and Roneo Alcatel accounted for 88 per cent by volume and 90 per cent by value of the supply of postal franking machines and about 93 per cent by volume and value of maintenance. Pitney Bowes PLC alone accounted for about 60 per cent of the value of the machines supplied and maintained, but a somewhat lesser proportion in volume terms.

TABLE 2.5 Share of supply and maintenance of postal franking machines, 1984

	<i>Supply</i>		<i>Maintenance</i>		<i>per cent</i>
	<i>Volume</i>	<i>Value</i>	<i>Volume</i>	<i>Value</i>	
Pitney Bowes PLC	51	60	56	57	
Roneo Alcatel	37	29	37	36	
Others	12	10	6	7	

Source: MMC study.

Notes:

1. Value figures include machines newly rented during the year rated at the average price of machines sold during year.
2. Volume figures are based on number of integrated machines and meters supplied.
3. Some figures do not add up to 100 per cent due to rounding.

2.10. The remainder of the market was accounted for by three other suppliers, all of which marketed imported machines. These suppliers were:

- (a) Hasler (Great Britain) Ltd (Hasler);
- (b) Scriptomatic Ltd (Scriptomatic); and
- (c) Envopak Group Sales Ltd (Envopak).

Hasler entered the market in 1969 when it took over the marketing of machines produced by its Swiss parent company, Hasler AG of Berne, which had been marketed previously by an independent distributor. Scriptomatic and Envopak entered the market in 1983. Scriptomatic's machines are produced by Frama AG (Frama) of Switzerland. Frama's machines had previously been distributed for a limited period in the United Kingdom by Mailing and Mechanisation Ltd, until that company went into liquidation in 1983. Envopak sells machines produced by Francotyp-Postalia GmbH (Francotyp-Postalia) of the Federal Republic of Germany. It started with two models of a large machine and expanded the range in 1985 to include smaller machines. The combined market share by volume achieved by these three companies amounted to nearly 12 per cent in 1984.

2.11. As can be seen from Table 2.4, since 1974 the combined share of the United Kingdom market held by Pitney Bowes PLC and Roneo Alcatel, measured by the number of machines supplied, has fallen by some 11 per cent (99 per cent in 1974, 88 per cent in 1984). Pitney Bowes PLC's market share has increased slightly over the period but that of Roneo Alcatel has fallen substantially. The reduction in the combined market share of the two companies primarily reflects the increase in the market share obtained by Hasler which was the only other supplier in the market in 1974. Large purchases were made by Her Majesty's Stationery Office (HMSO) beginning in 1981. Sales by Scriptomatic and Envopak, which began supplying machines in 1983, still account for only about 2.5 per cent of machines sold. The reduction of Pitney Bowes PLC's and Roneo Alcatel's combined share of the installed base and hence the share of the machines they maintain has been more gradual – from 99 per cent in 1974 to 94 per cent in 1984. Value figures for 1980 to 1984 are set out in Table 2.6.

TABLE 2.6 Value of postal franking machines supplied per annum, 1980 to 1984

	1980	1981	1982	1983	£ million 1984
Total value of machines supplied	15 607	17 229	17 497	23 352	25 786
Percentage of market supplied by:					<i>per cent</i>
Pitney Bowes PLC	68.0	61.1	61.7	63.6	60.3
Roneo Alcatel	27.6	31.1	29.4	29.6	29.4
Others	4.3	7.8	8.9	6.8	10.3

Source: MMC study.

Notes:

1. Figures for 1980 and 1981 include the value of Pitney Bowes PLC's sales in the Republic of Ireland.
2. Some figures may not add up to 100 per cent due to rounding.

2.12. The structure of the United Kingdom market in part reflects the structure of the international market for postal franking machines which is characterised by a small number of producers and significant concentrations of market share. Though we understand there are as many as ten manufacturers in the world, the five major suppliers who are active internationally and are now all represented in the United Kingdom have supplied over 95 per cent of the installed base world-wide. Most major national markets appear to be dominated by their domestic manufacturers. Pitney Bowes has supplied about 63 per cent of the global installed base and has over 90 per cent of the United States market where bases can be purchased but meters can only be rented or leased. Maintenance of meters in the United States of America is limited to the supplier (but we were told there is some third party maintenance of bases). Francotyp-Postalia has supplied 80 per cent of the German installed base and CIT Alcatel 60 per cent of the French. 80 per cent of the smaller Italian market (38,500 machines installed as at the end of 1983) is supplied by two local manufacturers.

Market segmentation

2.13. The size of machine, expressed in terms of throughput capacity, has been identified as an important factor separating the market into different segments. The classification suggested to us by the Post Office was 'small'

TABLE 2.7 Number of postal franking machines supplied in each year and market shares of the main suppliers, 1974 to 1984 – small and medium/large machines

	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984
Number of small machines supplied	6,975	9,643	7,013	7,651	8,530	9,874	8,544	8,452	8,896	9,583	10,613
Percentage supplied by:											
Pitney Bowes PLC	41.8	43.0	54.1	63.1	50.4	55.0	54.1	46.0	59.0	52.4	46.3
Roneo Alcatel	57.4	56.1	45.0	35.4	47.7	43.6	45.4	53.8	40.8	47.6	49.3
Others	0.8	0.9	0.9	1.4	1.8	1.3	0.5	0.2	0.2	0.0	4.4
Number of medium/large machines supplied	3,640	5,426	5,630	5,610	7,083	7,695	7,345	8,778	8,279	9,713	9,531
Percentage supplied by:											
Pitney Bowes PLC	60.3	69.9	74.1	68.4	62.8	62.2	57.0	45.1	45.0	52.5	56.2
Roneo Alcatel	38.1	29.0	24.5	30.7	36.3	35.4	32.4	36.5	35.9	31.8	23.5
Others	1.6	1.1	1.5	0.9	0.9	2.4	10.6	18.4	19.1	15.7	20.3

Source: MMC study.

Notes

1. Based on the number of integrated machines plus detachable meters.
2. Meters not classified by model in the information supplied to us have been excluded from the size categories.
3. Some figures may not add up to 100 per cent due to rounding.

TABLE 2.8 Total number of small postal franking machines in use as at 31 December, 1974 to 1984

<i>Supplier</i>	<i>1974</i>	<i>1975</i>	<i>1976</i>	<i>1977</i>	<i>1978</i>	<i>1979</i>	<i>1980</i>	<i>1981</i>	<i>1982</i>	<i>1983</i>	<i>1984</i>
Pitney Bowes PLC	24,515	25,523	25,543	26,718	27,985	31,035	30,797	30,915	32,683	34,387	35,785
Roneo Alcatel	42,991	41,848	40,193	39,701	37,885	36,755	34,744	34,895	34,640	33,885	31,652†
Hasler	102	186	250	360	517	657	708	729	710	606	940
Total	67,608	67,557	65,986	66,779	66,387	68,447	66,249	66,539	68,033	68,878	68,377

Number of medium/large postal franking machines in use as at 31 December, 1974 to 1984

Pitney Bowes PLC	22,685	25,575	28,612	30,521	33,647	37,005	38,848	40,104	40,458	40,727	40,723
Roneo Alcatel	7,550	8,814	9,714	10,911	12,383	13,676	14,839	16,581	18,451	19,065	18,787†
Hasler	503	560	642	690	755	966	1,726	3,290	4,878	5,759	6,956
Others*	39	40	40	40	42	42	—	—	55	208	688
Total	30,777	34,989	39,008	42,162	46,827	51,689	55,413	59,975	63,842	65,759	67,154

Source: MMC study.

* Prior to 1980 small numbers of Francotyp-Postalia machines were supplied by Acral Ltd. When Acral Ltd ceased supplying in 1980, responsibility for these machines was taken over by Roneo Alcatel.

† The reduction in 1984 arises from adjustments made when Roneo Alcatel computerised its records.

and 'medium/large' machines (see Appendix 2.1). Market share statistics for 1974 to 1984 using these classifications are shown in Table 2.7 and population statistics in Table 2.8. These tables serve to demonstrate the importance to Roneo Alcatel of the small machine sector and the relative success in recent years of other suppliers, principally Hasler, in gaining market share in the medium to large machine sector. In 1984, despite the introduction by Hasler of a new small machine in June of that year, Pitney Bowes PLC and Roneo Alcatel still accounted for over 95 per cent of sales and over 98 per cent of servicing in the small machine sector. The combined share of machines supplied by Pitney Bowes PLC and Roneo Alcatel in the medium/large sector declined from 98 per cent in 1974 to 80 per cent in 1984.

The role of the Post Office

2.14. The Post Office's revenue from franked mail represents about a third of its revenue from all mailing services. In order to protect its revenue the Post Office imposes stringent requirements on the manufacturer, the machine itself and the user. (See Chapter 6 for the evidence of the Post Office.) Companies seeking approval to market a postal franking machine must demonstrate a sound financial position and be willing to provide any reasonable guarantees that the Post Office may require about their ability to manufacture, market and maintain machines.

2.15. Each supplier is required to enter into a bond under which the Post Office is indemnified by the supplier and its guarantor against any loss of revenue arising from fraudulent or improper use of the supplying company's machines where this has been facilitated by negligence on the part of the supplying company. The supplier's liability is subject to financial limitations based on the minimum postage for a first class letter. The limits are currently £34,000 in any one case and £170,000 in any twelve-month period. If fraudulent or improper use has been also facilitated by any negligence on the part of the Post Office this is taken into account in assessing liability.

2.16. All new machines are required to comply with Post Office specifications. Manufacturers or importers have to submit an example of each machine to the Post Office for testing before initial introduction and after any modification. The tests are intended to ensure that machines meet detailed requirements of security and reliability and can take a year or more to complete. While the present approved methods of pre-payment are preferred, the Post Office is receptive to new concepts in machine design provided that:

- (a) the pre-payment principle is maintained;
- (b) Post Office revenue is fully safeguarded and its accounting is simple and accurate; and
- (c) Post Office costs and use of manpower are not increased.

2.17. Machines may be supplied only to customers who have been granted permission by the Post Office to use them and after a representative of the supplier has had the meter set and sealed at a nominated Post Office. The supplier is required to retain ownership of and record details of all franking and date printing dies and recover them from the user if authority to use the machine is revoked by the Post Office.

2.18. Users are required to pre-pay for postage, usually by presenting the meter or integrated machine for resetting when payment is made at a nominated Post Office or, for certain machines, by purchase of a 'value card' which may be inserted in the meter at the user's own premises. Pitney Bowes PLC provides a remote meter resetting service (RMRS) for certain of its meters which enables the user to reset the meter by telephoning the company and utilising monies from a trust account held by a bank trustee company (see Appendix 2.2).

2.19. The regulations provide that meters must be kept in good working order and users must have them regularly inspected and maintained by the supplier (or by his agent) so that any necessary repairs can be effected. The frequency of inspection and maintenance visits required by the Post Office varies. In the case of newly or recently introduced meters two inspections are required in every period of six months. For well-established machines the frequency of inspections is often reduced to three per year and may exceptionally be reduced to two.

Distribution arrangements

2.20. All the present suppliers market postal franking machines in the United Kingdom by direct sale to the users. Each manufacturer or importer therefore maintains its own sales force although only Pitney Bowes PLC's and Envopak's in-house organisations provide complete coverage of the United Kingdom. Roneo Alcatel and Hasler distribute through agents in Northern Ireland. Scriptomatic's direct sales force operates only in London and the Home Counties and it has arrangements with two agents, one based in Manchester covering the North of England and Scotland and the other in Bristol covering the West Country. Details of the suppliers' sales and marketing organisations are set out in Chapters 3, 4 and 5. A map indicating the sales and service depots of the companies is at Appendix 2.3.

2.21. It appears that the effect of the present Post Office regulations (including the requirement that machines are installed by the supplier) combined with the clear preference of the present suppliers for direct sales methods is to prevent the involvement of wholesale or retail distributors in the supply chain.

2.22. Pitney Bowes PLC and Roneo Alcatel market (see Chapters 3 and 4) ranges of other office equipment through their sales organisations although Roneo Alcatel markets some products through dealers. Some of this equipment, eg mailing scales, together with other equipment such as collators and inserters, is intended for use in the mailroom and may be sold, particularly by Pitney Bowes PLC, as part of an integrated system for mail preparation and despatch.

2.23. Pitney Bowes PLC and Roneo Alcatel remunerate their sales staff partly by commission. Remuneration of Pitney Bowes PLC's sales staff is made up of approximately 50 to 60 per cent salary and 40 to 50 per cent commission. At the time the references were made Roneo Alcatel's salary and commission structure consisted of approximately 7 per cent salary and 93 per cent commission. During the course of our inquiry the company

changed the structure by increasing the basic salary and reducing the commission rates. This is expected to result in remuneration approximately 40 per cent by salary and 60 per cent by commission. Both Pitney Bowes PLC and Roneo Alcatel pay small sums to service engineers in respect of sales resulting from leads reported by them. Hasler and the other suppliers also remunerate their sales staff partly by salary and partly by commission. Remuneration of Hasler's sales staff is approximately 50 per cent salary and 50 per cent commission.

Second-hand market

2.24. Unlike some other electro-mechanical items of office equipment there are very limited supplies of second-hand postal franking machines. No independent company is at present licensed by the Post Office to supply second-hand meters though at least one company supplies refurbished bases on a small scale. No licence from the Post Office is required for the latter. These bases are acquired second-hand from various sources including from overseas. Machines are frequently returned to the main supplying companies in part-exchange or when a lease or rental contract expires before their useful mechanical life has ended. Pitney Bowes PLC and Roneo Alcatel cannibalise some machines for use as spare parts. Pitney Bowes PLC recycles most of its meters and Roneo Alcatel refurbishes its 2205 machines. Machines not cannibalised for spares, recycled or refurbished are destroyed.

The terms of supply

2.25. The options available to potential users are purchase, rental and leasing. All suppliers except Pitney Bowes PLC make their complete ranges of postal franking machines available for purchase. Pitney Bowes PLC will sell all its bases and integrated machines but it will sell only the 5300 series meters (excluding RMRS) and the R series meters and then only to highly secure customers (eg banks, Government departments) for their own use.

2.26. Rental arrangements are financed by the supplying companies who retain ownership of the machines. Rentals, which include the cost of maintenance, are subject to annual revision of terms. An advance payment of a year's rental is usually required but the notice required to terminate a rental agreement varies from supplier to supplier. All types of meter supplied by Pitney Bowes PLC can be rented from the company as can its integrated machines and it has, on a small scale, supplied bases on rental. Hasler, Scriptomatic and Envopak do not offer rental options on any of their machines but Roneo Alcatel will rent its smaller 2205R and EFM7 machines.

2.27. Leasing facilities are offered by specialist leasing companies and there are three types of scheme as follows:

- (a) lease rental for a fixed period (usually five years) at the end of which the equipment is recovered from users. Equipment leased is sold by the supplying company to the leasing company. The leasing company retains ownership and therefore claims the initial tax allowances;

- (b) lease rental with the option of a secondary period at a much reduced cost. This has the same ownership condition and tax treatment as scheme (a); and
- (c) lease purchase in which ownership is vested in the user who claims the initial tax allowances.

The leasing rate is set at the commencement of the leasing agreement and remains fixed throughout its term. The terms for leasing do not normally include maintenance.

2.28. All the suppliers will allow their complete range of postal franking equipment to be leased. The type of leasing arrangement offered is usually that of 'lease rental' rather than 'lease purchase' and the leasing company therefore retains title to the machine. Leasing is now the most important form of supply and in 1984 sales to leasing companies by the three major suppliers accounted for about 48 per cent of the value of their total supplies to the market. Over 98 per cent of the value of Pitney Bowes PLC's sales to leasing companies consisted of sales to its associated leasing company, PB Leasing Ltd (PB Leasing). Pitney Bowes PLC will allow the leasing of RMRS and 6500 series electronic meters only via PB Leasing.

2.29. Rental appears to be the least important form of supply accounting for 14 per cent of the value of supplies in 1984 on the basis of attributed capital values, ie the average revenue the companies would have received had the products been sold rather than rented.

Conditions of maintenance

2.30. The Post Office requires that the meter part of postal franking machines be maintained and inspected regularly by the supplier (or by an agent appointed by the supplier), though the frequency of visits varies from machine to machine. The Post Office's regulations do not require maintenance to be done under contract but most suppliers ensure that the requirements are met by requiring maintenance contracts. Provisions requiring contract maintenance by the supplier are also included in leasing agreements. Only Hasler permits users to have meters serviced on a call-out basis. Rented machines are serviced under the terms of the rental agreements by the original supplier or his agent. Some companies will supply on request spare parts to users who wish to carry out their own maintenance on purchased bases and Pitney Bowes PLC will also provide manuals and training for this purpose. There is no third party maintenance of postal franking machines.

2.31. Pitney Bowes PLC, at the time the references were made, included a condition in its maintenance contracts that where a machine was used by more than one shift, an additional maintenance fee was payable. During the course of the inquiry the company told us that this provision was not enforced and would be omitted from new prints of contracts. The company reserved the right to levy additional charges in particular cases if extra maintenance was required.

Prices and price trends

2.32. Pitney Bowes PLC and Roneo Alcatel provide their sales staff with list prices for all their products which include standard purchase, rental, leasing and maintenance terms. Neither company normally makes a price list available to prospective customers with sales brochures. Both companies told us that if they received specific requests for prices of particular models the information was provided and that prospective customers were given informal information on prices by salesmen and formal tenders if requested. Pitney Bowes PLC does provide price lists to certain major customers including HMSO.

2.33. Hasler produces and issues on a regular basis a fairly comprehensive price list of its postal franking machines which includes information on the purchase price and maintenance terms and, where applicable, on a separate list the leasing rates. The smaller suppliers also provide price lists. Some pricing information is available in a trade magazine 'What to Buy for Business'.

2.34. We have been told that until late in 1983 or early 1984 (the reference was made in late December 1983) there existed informal and separate understandings among Pitney Bowes PLC, Roneo Alcatel, Hasler and Scriptomatic¹ relating to the exchange of information about the stated list prices of their respective products. The understanding was, we were told, that after a change in list prices had taken effect and revised list prices had been circulated to the respective sales forces, the company making the change would send a copy of the new price list to the other suppliers. We were told that the exchange was limited to standard list prices, and did not extend to information about customers' discounts. Pitney Bowes PLC and Roneo Alcatel told us that they had been advised in 1984 that the informal understanding that existed might have constituted a registrable agreement under the Restrictive Trade Practices Act 1976 and we understand that these understandings no longer operate.

2.35. The list prices of postal franking machines cover a wide range of products and at April 1985 ranged from £419 for a basic reconditioned integrated machine to £5,480 (plus an additional annual charge for rental of the meter) for a large machine with many additional features. Because of product differentiation, direct comparison of the list prices of the various suppliers is difficult and can best be made in relation to the type of user and throughput for which the machine is intended. List prices are included in the description of machines given at Appendix 2.1.

2.36. Price trends of the two main suppliers, Pitney Bowes PLC and Roneo Alcatel, are set out in Tables 2.9 and 2.10. (Trends are based on the average prices from October 1974 to September 1975, the first twelve-month period for which information is available, so as to reduce the sensitivity to the particular base date chosen.) These suggest that reductions in prices in real terms have been largely confined to the sale prices of the older smaller models

¹ We were told that there was no separate understanding between Roneo Alcatel and Scriptomatic.

(Pitney Bowes PLC's 6320 and Roneo Alcatel's 2205R). The former has only a limited value range and the latter is only available reconditioned. New models have been introduced at higher prices than those they replaced but tend to have wider value ranges and additional features. Roneo Alcatel's new machines all have partly electronic meters. The companies' views on price trends are included in Chapter 8.

2.37. In the medium/large machine sector Pitney Bowes PLC's price rises for bases have been in the range of 35 to 60 per cent in real terms over the last ten years though they have been partly offset by reductions in the cost of meter rental. The price of Roneo Alcatel's two main established models has increased in line with inflation over the last ten years as a whole but has fallen in real terms since 1979. These models have now been largely replaced by newer machines at a price 10 to 15 per cent higher but with improved facilities. The price of the Roneo Alcatel 605 model has fallen in real terms over the period but sales of this machine have been limited. The general level of costs in mechanical engineering has moved broadly in line with the RPI.

2.38. The trend in prices of postal franking machines contrasts with many other items of office machinery where prices have fallen in real terms or improved facilities have been introduced without any increase in real prices. Examples are typewriters and copiers, the market for which involves larger volume production, a larger number of manufacturers and independent distributors.

2.39. Contract maintenance charges levied by the two main suppliers for small machines have risen less than the RPI. For medium/large machines, however, the trend is less clear. On the basis used in Tables 2.9 and 2.10, Pitney Bowes PLC's charges have decreased by about 10 per cent for one medium to large machine and have increased by from 8 to 17 per cent in real terms for other models whereas Roneo Alcatel's charges have increased substantially from a low point. Call-out maintenance charges for bases levied by both companies have also risen substantially in real terms. Maintenance charges are included in Appendix 2.1.

Discounts

2.40. By selling machines directly to users without providing the customers (except for some large accounts) with their price lists, Pitney Bowes PLC and Roneo Alcatel are able to use selective negotiated discounts as an important part of their sales technique. Fairly standard levels of quantity discount for multiple orders (eg 2.5 per cent to 5 per cent for five machines or more) and of trade-in allowances are usually obtainable; but these, like the list prices themselves, are a starting point. For each type of buyer and size of order the salesmen have a considerable degree of discretion (subject at the margin to the approval of more senior sales staff) to offer additional incentives when these are thought necessary to get business. Among the smaller users in particular this commonly means that the insistent bargainer does better than the acquiescent.

2.41. Pitney Bowes PLC sometimes uses free mailing scales as an incentive

TABLE 2.9 Changes in Pitney Bowes PLC's list prices compared with the RPI, 1974-75 to 1985

		1974-75	1.4.76	1.4.77	1.4.78	1.4.79	1.4.80	1.4.81	1.4.82	<i>RPI = 100 throughout</i>		
										1.4.83	1.4.84	1.4.85
Sale prices:												
Integrated machines	6333A/6320	100	103	107	111	110	108	116	71	73	69	68
	6342A/6330								116*	118	119	117
Mailing bases	5510/5525	100	110	133	147	150	150	161	157	156	155	160
	5470	100	107	123	136	135	134	144	138	139	136	135
	5610	100	104	112	124	124	123	132	132	140	139	144
	5675	100	98	96	126	129	128	137	137	139	131	135
Meter rental:												
(annual rates)	5333A	100	92	93	97	97	98	105	104	86	82	—
	5342A/5330	100	92	93	97	97	98	105	104	88	83	93
Maintenance charges:												
Integrated machines	6333A/6320	100	91	78	93	93	85	83	81	85	85	84
	6342A/6330											
Mailing bases	5510/5525	100	102	87	104	93	86	88	86	90	91	90
	5470	100	102	87	104	104	99	106	103	108	109	108
	5610	100	102	87	107	107	105	113	112	118	119	117
	5675	100	102	87	107	107	101	108	106	111	112	111
Call-out charges: 1 hour call		100	90	84	115	118	116	132	158	152	145	135

Source: MMC study.

* New model introduced, with some additional features.

TABLE 2.10 Change in Roneo Alcatel's list prices compared with the RPI, 1974-75 to 1985

	1974-75	1.4.76	1.4.77	1.4.78	1.4.79	1.4.80	1.4.81	1.4.82	<i>RPI = 100 throughout</i>		
									1.4.83	1.4.84	1.4.85
Sale prices:											
Integrated machines											
205/2205	100	97	104*	109	109	107	109	100	96	91	85
2205R								72†	69	74	69
EFM7									122‡	125	117
Bases and detachable meters											
405	100	98	108	118	121	117	109	108	111	106	99
7505										113‡	111
505B/S	100	103	108	117	117*	113	110	109	112	106	99
7505S										109‡	115
605	100	102	93	103	109	97	87	86	83	79	73
Maintenance charges§											
205/2205	100	90	86	92	96	97	87	88	93	95	89
405 base	100	97	93	99	103	110	118	121	128	129	127
505B base	100	149	142	165	171	179	199	204	215	218	214
405/505 meter	100	96	92	98	102	115	123	126	133	135	132
605 base	100	167	160	171	179	195	227	232	247	251	246
605 meter	100	90	86	92	96	128	137	140	148	150	147
Minimum call-out charge	100	83	71	197	321	264	236	215	238	226	178

Source: MMC study.

* New model introduced, at similar price to previous model, but with some additional features.

† Reconditioned model introduced, but features similar to those of the previous model.

‡ New model introduced, replacing previous model but incorporating additional facilities.

§ Allowance has been made for the increase in maintenance charges resulting from the introduction of a more comprehensive maintenance contract in 1980.

to buy franking machines and both companies from time to time offer substantial discounts to reduce or clear stocks of older machines. From data provided by the companies it appears that for standard accounts the average booked value of sales falls below the list prices by about 5 per cent for Roneo Alcatel and rather more, around 7 per cent, for Pitney Bowes PLC.

2.42. Much larger levels of discount, in the 20 to 30 per cent range, are commonly given to major account customers such as the banks and insurance companies in the private sector and more still to public sector customers for many of whom HMSO acts as centralised purchaser. The actual discount figures vary widely according to types of machine and the bargaining strength of purchasers. Roneo Alcatel, whose sales mix includes more of the smaller types, also has a smaller average rate of discount.

2.43. The larger discounts go to the major customers for the larger and more expensive machines and the largest of all to HMSO. Hasler has told us that it has offered up to 40 per cent off list prices to HMSO and our information is that Pitney Bowes PLC has matched and even exceeded these offers for special accounts in the public sector with discounts of over 50 per cent, even though its special accounts (in both public and private sectors) took no more than 6 per cent of its booked business in 1983.

Leasing rates

2.44. As indicated in paragraph 2.27, various types of leasing arrangement are offered. PB Leasing, which provides almost all the leasing for Pitney Bowes PLC, does not offer lease purchase but does offer the option of secondary periods at peppercorn rents. Some leasing companies providing leasing facilities to Roneo Alcatel and Hasler will offer lease purchase as well as lease rental. Some examples of leasing rates as at May 1984 are set out in Table 2.11.

TABLE 2.11 Lease rental rates as at May 1984 expressed in £ per £1,000 of capital value per quarter

<i>Supplier</i>	<i>Transfer price</i> £	<i>Implied lease rate</i> £ per £'000	
Pitney Bowes PLC			} Standard rates
6342A	751	87.9	
5470	1,695	87.9	
5675	2,231	85.2	
Roneo Alcatel	200 - 999	82.3	
	1,000 - 2,999	76.7	
Hasler	200 - 999	78.5	
	1,000 - 2,999	72.0	

Source: MMC study.

Note: Rates are for payment by direct debit for commercial customers.

2.45. The rates available from the leasing companies which provide leasing facilities to Roneo Alcatel and Hasler are fixed but PB Leasing told us that its leasing terms were flexible and subject to negotiation. We were told that the standard rates in Table 2.11 were applicable only to a small

proportion of its customers. The average rates for a sample of 180 leases for postal franking machines entered into by PB Leasing in May 1984 are in Table 2.12.

TABLE 2.12 Average rates for 180 PB Leasing leases, May 1984

<i>Range of capital values £</i>	<i>No of leases in range</i>	<i>Average capital value £</i>	<i>Rate per qtr per £1,000 capital value £</i>	<i>Quarterly rental as % of capital value</i>
Under 1,000	50	704	82	8.21
1,000-1,499	19	1,209	80	8.03
1,500-1,999	50	1,696	77	7.70
2,000-2,999	25	2,510	76	7.59
3,000+	36	5,187	75	7.55

Source: PB Leasing.

The supply of ancillary items

2.46. The main ancillary items used in conjunction with postal franking machines are ink, slogan plates, adhesive labels, special envelopes for late posting and value cards for machines which are reset by that means. Ink which must be of a type approved by the Post Office has to be red and non-fading. Slogan plates are regulated as to content and have to be approved by the Post Office before manufacture. Adhesive labels, special envelopes and value cards all have to be approved by the Post Office.

2.47. Pitney Bowes PLC and Roneo Alcatel include in their conditions of supply a requirement that if the franking ink to be used is not purchased from the company it must be approved by it in writing. Envopak also imposes restrictions on the supply of ink whereas Hasler does not. Scriptomatic's machines use a cartridge inking system. No company imposed restrictions on the use of adhesive labels from third party suppliers though Pitney Bowes PLC indicated that repairs of damage caused by the use of ink or labels supplied by third parties would not be covered by its maintenance contracts.

The supply of spare parts

2.48. The supply of spare parts for postal franking machines is very limited. The three smaller suppliers do not make any spare parts available whereas Pitney Bowes PLC and Roneo Alcatel will supply spare parts for bases to customers who wish to service their own bases. In line with Post Office regulations neither Pitney Bowes PLC nor Roneo Alcatel will supply spare parts for meters or integrated machines.

User attitudes

2.49. We received a number of complaints from small users which are summarised in paragraphs 7.47 to 7.50. We also talked to eight large customers including HMSO whose views are summarised in paragraphs 7.38 to 7.46.

2.50. As noted in paragraph 2.5 we also carried out a sample survey of users which indicated that, in general, users were satisfied with postal franking machines as a form of payment for postage, and with their present machines. A high level of respondents also expressed satisfaction with maintenance services. Most large customers contacted said they were not unhappy with the market for postal franking machines as it operates at present; several commented that in part this reflected the fact that they were able to obtain significant discounts on list prices. Some large buyers said they would welcome a wider range of suppliers and the opportunity to be able to use third party maintenance services.

2.51. Some large users had developed quantitative guidelines to judge the type of machine needed for a given volume of mail. Generally, these guidelines indicated a small machine for mail volumes of up to 200 items per day; and a medium/large machine for higher volumes. About half of the users of medium/large machines in our survey, however, had a daily throughput of less than 180 items per day. Another indication from the survey was that about 20 per cent of respondents were receiving less than the number of maintenance visits required by Post Office regulations.