

CHAPTER 7

The evidence of third parties

7.1. At an early stage in the inquiry we sought views on the reference goods and services from the other suppliers of postal franking machines, a number of large distributors of office equipment, chambers of commerce and industry, HMSO and a selection of other large users of postal franking machines. We also sought the views of the Department of Trade and Industry, the Confederation of British Industry, the Trades Union Congress, a number of leasing companies, the Business Equipment Trades Association and the proprietors of a trade magazine 'What to Buy for Business'.

7.2. Notices were inserted in the national press and a wide selection of trade publications dealing with office equipment. A number of users of postal franking machines responded to our advertisements and provided us with their comments on the reference goods or services provided to them.

The three other suppliers

Hasler (Great Britain) Ltd

7.3. Hasler is the largest of the three other suppliers of postal franking machines in the United Kingdom (see Chapter 5). The company entered the market in 1969 but sales of the range of machines it was then marketing (which were replenished by value cards) were limited. Hasler told us that these machines were based on outdated technology and provided low profit margins; therefore it did not devote large resources to selling them.

7.4. In Hasler's view the introduction of its F1200 range of machines and the change of public postal methods from the 'official paid' system combined to provide a substantial boost to its market prospects. The subsequent introduction of the large F1300 series and the small F1101 machine had enhanced its competitive position but it still faced strong competition. Although it now had 10 per cent of the market it would take a long time for it to obtain a sizeable share of the installed base. The market's limited growth prospects made this a difficult task.

7.5. We asked Hasler about its long-term objectives in respect of market share. The company told us that it had no fixed objectives for this, but that given time and resources it considered that it should be aiming at a market share of 30 per cent. In view of the dominance of the big suppliers it could not say if this was realistic.

7.6. Hasler told us that although it did its best to provide national sales coverage there were, it was sure, certain parts of the United Kingdom where its products were more or less unknown. In certain areas, therefore, competition was almost exclusively between Pitney Bowes PLC and Roneo Alcatel.

7.7. We asked Hasler for its views on the role pricing played in the market. The company told us that, for it, pricing was very important and a major

factor in winning business, given that its name was not as widely known as Pitney Bowes and Roneo Alcatel. The company accepted that in its present position it was to a considerable extent following the price leadership of its two major competitors. In setting list prices it looked to the prices set by Pitney Bowes PLC and Roneo Alcatel and so far as their products were comparable, attempted to undercut them. So far this practice had not caused any radical change in price structure on the part of either of the two major groups but the company could not afford to be too aggressive in adjusting its prices to gain market share. The company also told us that deep discounting to large buyers and in particular to HMSO was necessary if it was to retain its share of that market which was a particularly important one for Hasler. If it were to raise its prices to more viable levels its share of that market would decline.

7.8. Hasler told us that the impact of the Post Office regulations on its parent company's manufacturing of machines for the United Kingdom market was of relatively minor importance. The Post Office testing and approval procedures tended to delay product launches but not inordinately so. It had found the Post Office generally co-operative on most aspects of the approval procedure but considered the meter-resetting procedures at post offices to be very time consuming. This brought about a competitive disadvantage compared with Pitney Bowes RMRS meters (see Appendix 2.2).

7.9. We asked Hasler about economies of scale in maintenance operations for postal franking machines. The company told us that the number of machines in use was very important to the viability of service operations. Low density resulted in greatly increased cost. The frequency of inspection required by the Post Office had made development of Hasler's service more expensive but the company considered that its population was approaching a level at which economies of scale would become apparent. It hoped that its maintenance activities would eventually become satisfactorily profitable.

7.10. Hasler told us that in its view the number of inspections required by the Post Office was excessive for the average user. It considered that the Post Office itself should accept more of the burden of controlling the use of postal franking machines and that the number of visits could easily be reduced to one per year for the average user.

7.11. We asked Hasler for its views on the provisions of maintenance services by independent third party servicing companies. Hasler told us that it would not be in favour of that. It considered that maintenance was a specialised activity, that machines were mechanically very complicated and servicing ought not to be contracted out to third parties. Its standard of servicing was viewed by Hasler as a strong selling point and it would not wish to see that put at risk.

Scriptomatic Ltd

7.12. Scriptomatic has supplied postal franking machines in the United Kingdom since October 1983 (see Chapter 5). Its machines are produced in Switzerland by Frama (see paragraph 7.23). Scriptomatic provided us with

both oral and written evidence. It told us that its decision to enter the United Kingdom market was taken as a result of the profitable experience of an associated company which supplies postal franking machines in the Federal Republic of Germany.

7.13. Scriptomatic told us that the machines it marketed had already been approved by the Post Office when the company took over from the previous distributor. Apart from approval of its automatic date change facility, which had been time consuming, it had little experience of the Post Office testing procedures. Approval of the company as a supplier had taken longer than it had expected. It considered this was due to caution on the part of the Post Office in the light of the failure of the previous distributor.

7.14. In Scriptomatic's view more suppliers and distributors should be encouraged to enter the market as its experience was that many users of postal franking machines had only a limited choice of machines and supplying companies. It also considered that an enhancement of competition with more sources of supply would encourage more rapid technical advances. In its view the application of new technology to postal franking machines had been held back by lack of competition and also by lack of receptiveness to new design ideas on the part of the Post Office.

7.15. The postal franking machines supplied by Scriptomatic are replenished by means of the insertion of a value card which users buy at the Post Office. Scriptomatic told us that it had lost some business because the Post Office had sometimes been unable to make supplies of value cards available at convenient post offices but it thought that the Post Office was satisfied with the security of the system.

7.16. Scriptomatic told us that there was some evidence that its competitors were prepared to discount their prices very heavily in order not to lose sales to the company. There was also some evidence of unfair trading practices on the part of some of the company's competitors.

7.17. Maintenance of Scriptomatic's machines located outside of London and the Home Counties was carried out by distributors. This had not given rise to any problems and the company told us that it saw no reason why independent servicing organisations could not undertake servicing of postal franking machines provided that such companies were suitably large and entered into a bond agreement with the Post Office. Such an arrangement might, in Scriptomatic's view, make servicing cheaper.

Envopak Group Sales Ltd

7.18. Envopak has supplied postal franking machines in the United Kingdom since October 1983. Its machines are produced by Francotyp-Postalia (see Chapter 5 and paragraph 7.24). The company told us that it was approached by Francotyp-Postalia and after some market research decided to enter the market as postal franking machines would be complementary to the company's existing range of mailroom equipment and supplies. Envopak told us that its research indicated that the demand for postal franking machines was likely to grow, particularly at the bottom end of the market.

7.19. The company told us that in its view competition in the supply of postal franking machines was limited. The number of manufacturers in the world was small and most were operating in the United Kingdom market. It thought that overseas manufacturers who were not represented here did not produce machines that came up to the United Kingdom specifications. Envopak told us that with two well-established suppliers which have dominated the market for many years it found it difficult to gain market share and it was experiencing considerable discounting by its competitors.

7.20. In Envopak's view the Post Office's regulations were extremely stringent although it recognised the Post Office's need to protect its revenue. Francotyp-Postalia had to make 137 different modifications to the first machine Envopak had introduced to the United Kingdom market in order to obtain approval and this had been a costly and lengthy exercise.

7.21. Envopak told us (paragraph 5.33) that maintenance of its machines had been contracted out to C Stevens and Son (Weighing Machines) Ltd (Stevens). In the company's experience there were few organisations which would be able to provide nationwide servicing of postal franking machines but Envopak considered that there could be advantages for the consumer if the Post Office was prepared to approve more servicing organisations and allow them to operate independently.

7.22. We asked Envopak for its views on the number of inspection visits required by the Post Office. It considered that four visits a year were excessive and very costly. In its opinion three inspection visits a year would be more than adequate.

Overseas manufacturers

7.23. Frama supplies postal franking machines in the United Kingdom through Scriptomatic (see Chapter 5). The company told us that its group manufactured franking machines, mail handling equipment, such as folding machines, letter openers and electronic postal scales, as well as postage label vending machines and Post Office counter systems. The only problem it encountered in entering the United Kingdom market was the length of time it took to obtain Post Office approval; however, the company told us that some delay in this was understandable. It did not consider that the costs of entering the United Kingdom market were out of line with those it had experienced in other countries.

7.24. Francotyp-Postalia which is an associate of Siemens now supplies postal franking machines in the United Kingdom through Envopak (see paragraph 5.29). Francotyp-Postalia was formed in 1983 by the merger of two companies, Francotyp GmbH and Postalia GmbH. The company told us that it had originally entered the United Kingdom market in the 1960s, supplying Postalia machines through Roneo and Francotyp machines through a distributor, Acral Ltd, but it was unable to achieve a satisfactory volume of sales.

7.25. The company told us that it did not encounter any particular

problems with the Post Office regulations on testing and licensing. It considered, however, that the requirements of the United Kingdom postal administration were high in respect of security and reliability but it found that understandable. The company said that its starting costs were shared with its United Kingdom distributor, Envopak.

Suppliers of electronic mailing scales

C Stevens and Son (Weighing Machines) Limited

7.26. Stevens provided us with written and oral evidence. The company is a major manufacturer and supplier of a wide range of weighing, testing and measuring equipment including electronic mailing scales capable of interfacing with electronic postal franking machines. As explained in paragraph 5.33 Stevens also provides maintenance services for postal franking machines supplied by Envopak.

7.27. The company told us that on occasions it had lost orders for its electronic mailing scales because it was unable to interface the scales with Pitney Bowes' electronic postal franking machines. During the course of our inquiry Stevens entered into negotiations with Pitney Bowes Inc regarding a licensing agreement and the provision of technical information which would allow it to interface its electronic mailing scales with Pitney Bowes' electronic postal franking machines. The company told us that at the level of royalties and other charges suggested by Pitney Bowes Inc it would be unable to recover the costs of a licence from its current or expected future level of sales of electronic mailing scales. Unless Pitney Bowes Inc was prepared to reduce the royalties and charges considerably, Stevens would regard Pitney Bowes Inc's negotiating position as restrictive. The company said that in its view the withholding of technical information and a licence ought to be regarded as unfair competition.

7.28. Stevens told us that it would not see any particular problems arising from a technical point of view if it were to maintain postal franking machines supplied by other companies than Envopak. The company already serviced weighing equipment that had been supplied by its competitors. Stevens considered that in servicing postal franking machines it was important to be able to offer a national service and it did not think that there would be many other companies in a position to do so. The company did not consider that the Post Office's technical and security requirements were such that potential new entrants to the servicing market would be unable to meet them or would be discouraged from entering the market if allowed to do so.

Mailtronic Limited

7.29. Mailtronic Limited (Mailtronic) told us that it was a small company specialising in the supply and maintenance of electronic mailing scales which it had first put on sale in 1979. In addition the company supplied a wide range of other mailroom equipment. Mailtronic's electronic mailing scales have been successfully interfaced to Hasler's F1300 range of machines and such scales can be purchased either from Hasler or Mailtronic. Mailtronic considered that interfacing was advantageous to large users whose mail varied in weight.

7.30. The company told us that since 1980 it had been trying to obtain technical information from Pitney Bowes Inc which would allow it to interface its scales to Pitney Bowes' 6500 meter. Pitney Bowes Inc had entered into negotiations only in June 1985 when it notified Mailtronic of the terms on which it would be prepared to grant a patent licence and provide technical information. Mailtronic told us that it had considerable reservations about the terms proposed by Pitney Bowes Inc. It considered them expensive and did not think that it would be able to recover the costs even if they were spread over a period of years. In addition Mailtronic was not convinced that interfacing its scales with Pitney Bowes' electronic meter would infringe Pitney Bowes Inc's patent rights and doubted that a patent licence was necessary.

Leasing companies

Custom Leasing Limited

7.31. Custom Leasing Limited (Custom Leasing), a subsidiary of Morgan Grenfell and Co Ltd, told us that it provided leasing facilities to a number of distributors of equipment but did not at present have any business with suppliers of postal franking machines. Custom Leasing told us that it had offered to provide leasing facilities to Pitney Bowes PLC at rates which were lower than those charged by PB Leasing, particularly for more expensive machines.

7.32. The company told us that Pitney Bowes PLC had refused its offer and prohibited its salesmen from offering Custom Leasing's services alongside those of PB Leasing. In Custom Leasing's view such a refusal constituted an anti-competitive practice.

Lloyds Bowmaker Finance Group

7.33. Lloyds Bowmaker Finance Group (Lloyds Bowmaker) told us that it supplied leasing facilities to various suppliers of postal franking machines but primarily to Roneo Alcatel. The company told us that leasing rates agreed with the suppliers for postal franking machines were slightly higher than for other types of office equipment. In Lloyds Bowmaker's view these higher rates mainly reflected the relatively low value of the equipment but other factors included the method of payment, slightly worse bad debt experience with postal franking machines and relatively lower resale values of equipment recovered from users. Low second-hand prices reflected the weakness of the second-hand market and the requirement that, if a base were to be re-used, the meter and die had to be obtained from the original supplier. The company regarded the leasing business in general as highly competitive.

Anglo Leasing Ltd

7.34. Anglo Leasing Ltd (Anglo Leasing) told us that it provided leasing facilities for several suppliers of postal franking machines, but principally for Roneo Alcatel. The company told us that the buy-back arrangements it had with Roneo Alcatel were comparable with those it had for other types of office equipment. In its view original suppliers of office equipment made arrangements of this nature in order to prevent equipment being supplied

via a second-hand market which, Anglo Leasing considered, would not be in the interest of suppliers.

Distributors of office equipment

7.35. In the course of our inquiry we held discussions with three major distributors of office equipment. These companies all distributed a wide range of office equipment and offered maintenance services on the machines they sold. Although all had showrooms or retail shops, sales were made primarily through sales representatives.

7.36. The companies all told us that they had not sought to distribute postal franking machines though one company said that it had been asked frequently to supply them. Two said that they did not supply postal franking machines because of the present restrictions on supply. Two of the companies said they would consider distributing postal franking machines if the opportunity arose. The third company said it would distribute them if it proved profitable to do so but only if the present suppliers ceased their direct selling operations. This company considered that the present suppliers would have a continuing advantage in the form of their large customer bases and would be able to undercut independent distributors and cause difficulties in the supply of spare parts. Two companies said that if they entered the field they would be inclined to handle the products of one or two suppliers whereas the third distributor said it would prefer to offer the products of only one main supplier.

7.37. None of the distributors considered that the bonding requirements of the Post Office were unreasonable or likely to deter them from marketing postal franking machines. However, it was generally considered that some relaxation of the regulations, particularly in respect of the number of maintenance visits required, would help to make the market more attractive.

Large buyers

Her Majesty's Stationery Office

7.38. HMSO told us that it acted as a purchasing service for Government departments and various non-exchequer bodies such as local authorities, health authorities, nationalised industries and other public sector organisations. Prior to 1981 it had purchased few postal franking machines but the change in public sector postal methods caused by the dropping of the 'official paid' system gave rise to purchases valued at £1.4 million in 1981. Since then turnover had dropped and in the financial year 1984-85 the total value of purchases was approximately £318,000.

7.39. HMSO told us that its policy was to provide customers with multiple sources of supply. All five suppliers were included in its catalogue. Multi-sourcing in HMSO's view helped it to obtain the most favourable prices. Although customers determined whether to purchase and, if so, what model, HMSO provided guidance designed to assist in the selection of the most appropriate machine. Users were advised to look at all the alternatives available.

7.40. HMSO's purchasing policy was to buy all postal franking machines outright. There were no taxation advantages available in respect of leasing by exchequer bodies.

7.41. Maintenance of postal franking machines purchased through HMSO was effected through a central contract with each supplier. Prices for this service were re-negotiated annually. It estimated that its total annual expenditure on maintenance of postal franking machines was approximately £400,000. HMSO told us that its general policy for office machines was to arrange for maintenance work to be carried out by suppliers. It would usually consider third party maintenance only when the supplier did not offer a service or where third parties could offer a demonstrably better and cheaper service. Use of suppliers' maintenance services in HMSO's view had several advantages: suppliers usually had expertise and access to spare parts and there was no danger, as there might be with third party servicing, that responsibility for breakdowns might be obscured.

7.42. HMSO also told us that it surveyed all equipment covered by maintenance contracts to ascertain whether adequate service was being provided. It had ascertained by this means that two companies had not carried out the number of visits required by the Post Office in some cases and it was able to claim refunds from them.

Public sector

British Railways Board

7.43. The British Railways Board (BRB) told us that it purchased postal franking machines from two suppliers. It did not lease them as the numbers it required did not justify it and renting was financially unattractive. BRB thought there was sufficient choice and did not feel that multi-sourcing strengthened its negotiating position on price. But it found the machines expensive and the rate of technical progress slow compared with some other types of office equipment. BRB told us that it had a single maintenance agreement with each supplier of postal franking machines and that it would consider using third party maintenance companies, as it did with some other office equipment, if this facility was available.

Greater London Council

7.44. The Greater London Council (GLC) told us that it purchased postal franking machines for its central departments including the Inner London Education Authority and also on request for some London boroughs and magistrates' courts. Users who purchased postal franking machines through the GLC decided themselves which model they preferred but the GLC offered advice on the machines and facilities available.

7.45. GLC practice was to purchase outright as the slow pace of technological change gave rise to little risk that machines would become obsolete quickly. It generally aimed to have four or five sources of supply available as this helped it to negotiate more favourable prices. Maintenance was carried out under single maintenance contracts with each supplier covering the

machines located in GLC departments and some purchased for other bodies. For some other types of office equipment independent servicing was used, and the GLC would welcome the possibility of third party maintenance for postal franking machines.

Private sector

7.46. The three clearing banks and two building societies who gave evidence all told us that they preferred to purchase postal franking machines outright but some meters supplied by Pitney Bowes PLC had to be rented. They told us that the availability of alternative suppliers enabled them to negotiate competitive prices. The clearing banks and one building society told us that they usually used the maintenance services offered by suppliers of office equipment and that they would be unlikely to use third party maintenance companies if the Post Office regulations were amended to permit this. The other building society took a different view. It would consider using third party maintenance companies as it had found the service offered by the suppliers to be expensive.

Small users of postal franking machines

7.47. As we have explained in paragraphs 2.50 and 2.51, we carried out a survey of users in the course of our inquiry. We also received evidence from 50 small users of postal franking machines after the references were announced. In all but one case the views expressed by these users reflected dissatisfaction with various aspects of the supply and maintenance of postal franking machines. The matters of principal concern to most people were the prices charged by Pitney Bowes PLC or Roneo Alcatel and the selling methods adopted by them, but we also received some complaints about the quality and efficiency of maintenance services.

7.48. The cost of the supply and maintenance of postal franking machines was considered to be excessive by 32 users. Reasons for the high cost mentioned to us by some users were the monopoly situation brought about by the small number of suppliers approved by the Post Office and the tied maintenance required by the Post Office regulations. One user said that the Post Office's maintenance requirements were, in its view, regarded by the suppliers as 'a licence to print money'.

7.49. Thirty users complained to us about the sales methods and techniques used by Pitney Bowes PLC's and Roneo Alcatel's direct selling forces when trying to obtain orders for postal franking machines. A small number of these complaints related to alleged malpractices experienced by first-time buyers in which most commonly the supplying company's conditions of supply had been misrepresented or not properly explained. Some users told us that salesmen claimed that machines needed to be replaced as they were worn out, dangerous or not sufficiently robust for the use to which they were being put. In some cases replacement for these reasons was falsely represented as a requirement of the Post Office. Other users told us that companies claimed that spare parts for old machines were no longer available or that machines in need of repair would cost more to repair than the cost of a new machine.

7.50. Some users complained to us about the efficiency and quality of maintenance services and in particular that the companies failed to carry out maintenance work for which they had already been paid.

Government departments

7.51. The Information Technology Division of the Department of Trade and Industry, which is the sponsoring department for manufacturers of postal franking machines, told us that they were concerned that both Pitney Bowes PLC and Roneo Alcatel should retain their present scale of manufacturing activities in the United Kingdom.

Trades Union Congress

7.52. The Trades Union Congress (TUC) told us that its member unions were concerned about the possible employment consequences of the fact that both major suppliers were subsidiaries of overseas companies, particularly in relation to the location of research and development work. The TUC told us that its member unions believed that, as a result of overseas ownership, important design and development work on technologically advanced products would be likely to be lost to the United Kingdom, to the detriment not only of highly skilled employment here but also of the United Kingdom component industry.

7.53. The transfer of manufacturing overseas could also not be ruled out in the TUC's view. This would increase what the TUC saw as already excessive levels of imports of technically advanced equipment. The TUC member unions concerned also felt that further liberalisation of the market for postal franking machines would further increase imports.

Confederation of British Industry

7.54. The Confederation of British Industry told us that it did not wish to give us any evidence on the inquiry.

Chambers of commerce

7.55. Three chambers of commerce provided us with evidence during the course of our inquiry. Two told us that their members had experienced no problems with postal franking machines and were content with the present system. The third considered that the requirements the Post Office imposed on users of postal franking machines were excessive.

Business Equipment Trade Association

7.56. The Business Equipment Trade Association told us that all five suppliers of postal franking machines had been active members of the association. In its view the suppliers provided users with the widest possible choice of machines and had played an active role in expanding the market for mailing equipment. The association also told us that over the past 16 years it had not received any complaints about the supply, quality or performance of postal franking machines.

What to Buy Ltd

7.57. What to Buy Ltd (What to Buy) told us that it published what it believed to be the only magazine providing independent advice to purchasers of business equipment. Its publication 'What to Buy for Business' regularly published surveys and information, including price information on postal franking machines.

7.58. What to Buy considered that postal franking machines represented poor value for money compared with other types of office equipment and that salesmen tried to sell users bigger machines than they needed. Prices of most types of office equipment had dropped in real terms by approximately 50 per cent over the last few years and it considered that one reason for this was that methods of manufacturing had largely switched from electro-mechanical to electronic. To the extent that postal franking machines had necessarily retained electro-mechanical parts, What to Buy would not have expected to see a 50 per cent decrease in price, but the introduction of electronics into some machines had in part made them more expensive rather than cheaper.

7.59. In What to Buy's view the price trend for postal franking machines was partly a result of direct supply which it considered to be expensive. It told us that the use of this method had declined in the office equipment business generally and in the photocopier industry had more or less ceased to exist. It saw no reason why postal franking machines could not be distributed through dealers and was convinced that this would lead to lower marketing costs, greater competition on price and the development of a second-hand market. Dealers might be willing to sell second-hand machines whereas, in What to Buy's experience, the manufacturers had attempted to prevent the development of a second-hand market.

7.60. What to Buy told us that it regularly received complaints from users of postal franking machines, particularly about the sales methods and techniques used by the two main suppliers. It estimated that these numbered about 60 per annum and were greater in number than the complaints it received about sales practices in any other area of business equipment with the possible exception of copiers.