

## CHAPTER 9

# Conclusions

### **The monopoly situation**

9.1. We are required by two separate references to report whether a monopoly situation exists in relation to (a) the supply, and (b) the maintenance together with repair, of postal franking machines in the United Kingdom.

9.2. We have shown in Chapter 2 that 51 per cent by volume and 60 per cent by value of newly installed postal franking machines in the United Kingdom were supplied in 1984 by members of one and the same group of inter-connected bodies corporate described together as Pitney Bowes. We have also shown that 37 per cent by volume and 29 per cent by value of newly installed postal franking machines in the United Kingdom were supplied in 1984 by members of one and the same group of inter-connected bodies corporate described together as the CIT Alcatel group. The corporate structure and relationships of these groups of companies are described in Chapters 3 and 4. Thus the individual shares of Pitney Bowes and CIT Alcatel group exceed 25 per cent of the total supply. We therefore conclude that a monopoly situation exists by virtue of section 6(1)(b) of the Fair Trading Act 1973.

9.3. We have shown in Chapter 2 that 56 per cent by volume and 57 per cent by value of services for the maintenance and repair of postal franking machines in the United Kingdom were supplied in 1984 by Pitney Bowes. We have also shown that 37 per cent by volume and 36 per cent by value of such services in the United Kingdom were supplied in 1984 by the CIT Alcatel group. Thus the individual shares exceed 25 per cent of the total services provided. We therefore conclude that a monopoly situation also exists by virtue of section 7(1)(b) of the Act.

9.4. We are required by the terms of the references to consider the further questions under section 49 of the Act set out in Chapter 1. The supply and maintenance of postal franking machines are closely related and it has seemed to us that our findings can best be understood in the context of an explanation of the market and market practices as a whole. In the following paragraphs, therefore, our discussion, conclusions and recommendations are concerned with both supply and maintenance.

### **Postal franking machines and the market**

9.5. The postal franking machine is a device which enables its users to frank their mail with the postage paid, the date of postage and if desired a 'slogan' which usually carries the user's name and address. The machines consist of a meter and a base with a mechanical means of passing letters through a stamping device. The meters have, until recently, been electro-mechanical but now increasingly rely on electronics for some or all of their functions. In the United Kingdom, for security reasons, meters have two

registers: the first records the pre-paid postage credit and is reduced by the value of each impression, and the second records the total value of postage printed and is increased by the value of each impression. The larger and more expensive machines can be linked to other mailroom equipment, for example machines which insert letters or invoices into envelopes, and some electronic meters can be linked to electronic scales so that the postal franking machine will automatically print the correct postage for the item being weighed.

9.6. The postal franking machine offers considerable benefits to the user and the Post Office. The user avoids the need to maintain stocks of adhesive stamps, and has the advantage of a mechanical franking system which can provide a rapid and efficient service at the peak periods in a mailroom. Particularly when the output is in excess of 200 items a day, significant cost savings can be achieved. The Post Office has the benefit of receiving approximately one-third of its mail franked with the date of despatch and usually pre-sorted for size and into first and second class mail. This enables the first stage of the sorting process at the despatching post office to be omitted in respect of the franked letters and, with the reduction in the printing costs of stamps, results in cost savings which the Post Office estimated, after taking account of additional administrative costs, to be worth approximately £7.5 million for 1983-84.

9.7. Since its introduction over 50 years ago, the use of postal franking machines has spread through most of the developed Western countries and in the United Kingdom users of these machines provided some £770 million of revenue in 1984-85, approximately one-third of the postal revenue. In the period up to the mid-1970s the United Kingdom market grew significantly but in the last decade, notwithstanding a boost to sales from the switch of Government departments and other public bodies to postal franking machines, growth in the number of machines in use has been relatively slow. For the future the Post Office and the suppliers expect some further growth in machine population but the market is now considered to be mature, with competition from bulk postage rates affecting sales to the large users and with limited expansion coming mainly from sales to new users. The replacement market has therefore been growing in importance and now accounts for over 50 per cent of the machines supplied. But the market for postal franking machines is small in relation to other types of office equipment. It amounted to some £26 million in the United Kingdom in 1984 compared with £94 million for electronic typewriters and £500 million for copiers. The market for maintenance was worth approximately £10 million in 1984.

9.8. We understand there are some ten manufacturers of postal franking machines in the world, some of which are only domestic suppliers. The international market for postal franking machines is dominated by five companies which have supplied some 95 per cent of the installed world-wide base. Most of the major national markets for postal franking machines appear to be dominated by their domestic manufacturers. The United States of America is easily the largest single market and Pitney Bowes Inc has over 90 per cent of it. The United States Postal Service's rule that postage meters may only be rented may have been a factor in maintaining Pitney Bowes'

dominant position. This large home market sustains research and development for Pitney Bowes' world-wide market in which it has some 60 per cent of the installed machines. Francotyp-Postalia, an associate of Siemens, has 80 per cent of the West German market and exports to the United Kingdom and elsewhere through distributors. CIT Alcatel, part of a large French electrical group, has 60 per cent of the French market and its subsidiaries include Roneo Alcatel in the United Kingdom and Friden-Alcatel which has a small share of the North American market. The other international suppliers are Swiss: Hasler, a telecommunication and electronics group, and Frama, which manufactures a range of office and industrial equipment. Switzerland provides a small home market and Hasler and Frama at present have a relatively small share of the world market.

9.9. The sale of postal franking machines is often closely associated with the sale of other equipment for use in mailing rooms and most of the suppliers mentioned above are also concerned with the design and manufacture of other mailing equipment. Pitney Bowes is a major international supplier of mailing equipment but, unlike most of the other international suppliers, is not part of a group with major interests in electronics.

9.10. The United Kingdom market for postal franking machines, in terms of machines installed, is the fourth largest in the world after the United States of America, West Germany and France. Pitney Bowes PLC and Roneo Alcatel have been the dominant suppliers in this market and they also export a large proportion of their United Kingdom production. Pitney Bowes PLC has limited development facilities in the United Kingdom and is dependent on its United States parent for most of its basic research. Roneo Alcatel, which acquired its business from the Vickers Group in 1981, has its own research and development facilities at its factory in Romford.

9.11. The dominant position in the United Kingdom of Pitney Bowes and Roneo Alcatel has been reduced in the last decade by imports from other European manufacturers. The first of the new entrants, Hasler (Great Britain) Ltd, a United Kingdom subsidiary of its Swiss parent, entered the market in 1969. Growth of sales was very slow initially and after ten years in the market its share of supply of new machines in 1979 was under 2 per cent and it had only 1.5 per cent of the installed base. Since 1979 Hasler has gained a significant proportion of sales to government departments through Her Majesty's Stationery Office (HMSO) (paragraph 9.7). This, together with a new range of machines, has enabled the company to make a greater penetration of the market. The latest information indicates that Hasler's share of the supply of new equipment is about 10 per cent by volume and by the end of September 1985 it had increased its share of the machines in use to nearly 7 per cent.

9.12. Since 1983 machines manufactured by Frama have been marketed in the United Kingdom by Scriptomatic Ltd and those of Francotyp-Postalia by Envopak Group Sales Ltd, both companies being existing suppliers of office equipment. Scriptomatic, which is a subsidiary of the large United Kingdom electrical group The General Electric Company PLC, has made some progress in both 1984 and 1985 but it is too early yet to say whether these two companies will be able to maintain a position in the market.

9.13. Despite the additional competition, Pitney Bowes PLC and Roneo Alcatel retained 88 per cent by volume of new supply and 94 per cent of the maintenance market in 1984. The combined share of the market of these companies has been reduced by 11 per cent since 1974. Within the combined figures there has been a significant change in the individual market shares. Pitney Bowes PLC has maintained its share (by volume) at about 50 per cent whereas Roneo Alcatel has lost market share from 50 per cent in 1974 to 37 per cent in 1984.

9.14. We have received no evidence to suggest that any other new entrants are likely in the near future in this country. It has been suggested to us that technological advances may bring new types of postal franking devices from electronics groups which are not at present represented in the market. But this appears to be speculation and we have no evidence of a development of this kind. Japan, which has been a major supplier of electronic equipment, is understood to have a negligible home market for postal franking machines and is not involved as a major exporter.

### **Competitive conditions in the United Kingdom market**

#### **The Post Office regulations**

9.15. It is not surprising in view of the amount of its revenue involved that the Post Office, in common with other postal authorities overseas, imposes strict conditions on the design, use and maintenance of postal franking machines. We have found that these regulations have been and remain significant factors in the development and operation of the market.

9.16. The Post Office requires that all new machines must meet its technical requirements and be exhaustively tested. Each supplier must provide the Post Office with a bond to cover the possibility that the Post Office may suffer losses of revenue from fraud or other causes due to the supplier's negligence. Each user must be separately licensed by the Post Office and the suppliers are required to maintain a register of the locations of all the meters they have supplied and to maintain and inspect them regularly at the user's expense. This maintenance service must be provided by the supplier's own maintenance organisation or by an organisation, approved by the Post Office, which is covered by the bond given by the supplier.

9.17. We received a complaint from one new entrant of delays in the test procedures which it considered was caused by the Post Office. The testing requirements are essential to safeguard the Post Office's revenues and they act as some safeguard to the user that the equipment will be reliable. The Post Office expects in future to be able to allocate more resources to testing.

9.18. The effect of the other Post Office regulations on the nature and degree of competition for both supply and maintenance is more significant. The regulations on supply effectively limit distribution to the manufacturers, importers or appointed agents who can be brought within the terms of the bond given to the Post Office. This has reinforced the main suppliers' preference for supplying directly to the users and as a result there are no independent distributors of postal franking machines.

9.19. The Post Office's insistence on regular inspection and maintenance, effectively by the original supplier, means that there is no independent maintenance of integrated postal franking machines or meters and this has restricted the growth of a second-hand market.

9.20. We consider therefore that the general effect of the Post Office testing and regulations, while no real barrier to a determined new entrant, has been to confer some advantage on the established suppliers by restricting the availability of methods of supply and preventing the establishment of any alternative maintenance services.

### **Selling practices and forms of supply**

9.21. Much of the demand for postal franking machines comes from businesses with relatively small amounts of mail needing only one machine, sometimes quite a small one. Further up-market are individual businesses with larger mailing requirements which will need bigger machines and perhaps other linked mailing equipment. The largest customers are the organisations such as banks and insurance companies which need many machines at different locations in a range of sizes; these usually have central buying organisations. The largest single customer is HMSO which is able to supply the public sector generally. But the smaller customers account for much the greater part of the market; the larger organisations with multiple requirements take only about 10 per cent by value.

9.22. As we have explained, all the existing suppliers distribute by direct sales methods employing salesmen working from central or regional sales offices or staff employed by their appointed agents. The salesmen visit many prospective small customers, often by way of unsolicited calls, to obtain new or repeat business. The established companies, Pitney Bowes PLC and Roneo Alcatel, with large sales forces and a substantial installed base at known addresses, which are regularly visited by the companies' maintenance staff, appear to have some advantage over the new entrants who must attempt to build up market share without direct knowledge of existing users. This fact may explain the time taken by Hasler in building up its share of the market.

9.23. Pitney Bowes PLC and Roneo Alcatel, while drawing attention to their part in expanding the market, accept that their existing user base gives them some competitive advantage and that users are more inclined to place replacement orders with their existing suppliers. But they say that this advantage only persists if the user is satisfied with the performance of the equipment and the maintenance service that is provided. Pitney Bowes PLC told us that the range of machines offered by the three smaller suppliers was until recently designed primarily for the medium to large sector of the market and therefore aimed mainly at the replacement market.

9.24. The nature of the product and the selling practices also affect the operation of the market. Although the basic principles of all postal franking machines are similar, the suppliers have introduced a degree of differentiation in their products. For example, Roneo Alcatel has introduced electronics into all its new meters; Pitney Bowes has developed a system (RMRS) to enable

users to pay for postage by telephone (see Appendix 2.2); and the Frama machines and some Francotyp-Postalia machines are re-credited by 'value cards' which are purchased from the Post Office and inserted into the machine, thus avoiding taking it to the Post Office. As a result of these and other differences in the products, prices do not have to be exactly matched although they remain closely comparable in each price range.

9.25. A number of different forms of supply are available. All the suppliers, other than Pitney Bowes PLC, are willing to sell any model in their range of equipment. Pitney Bowes PLC sells small integrated machines and all of its bases but restricts the sale of separate meters to approved buyers and will not sell any meter incorporating the RMRS system. Rental terms are offered by Pitney Bowes PLC on most of its integrated machines and on all its meters. Roneo Alcatel offers a rental option only on its small integrated machines and the smaller suppliers do not offer this form of supply. Leasing, usually lease rental (see paragraph 2.27), is an increasingly important form of supply, and is available from all the suppliers. Almost all Pitney Bowes PLC's leasing is carried out by its associated company, PB Leasing; leasing of RMRS equipment is restricted to that company. The other suppliers all use one or more third party leasing companies.

### **Pricing policies and discounts**

9.26. The nature and extent of price competition in the market are affected by the circumstances of the main suppliers. While Pitney Bowes PLC and Roneo Alcatel are both engaged in the manufacture and sale at home and abroad of postal franking machines and the sale of other office machinery, the history and present position of the two companies are significantly different.

9.27. Pitney Bowes Inc is the world market leader and Pitney Bowes PLC in the United Kingdom is the group's main manufacturing centre outside the United States of America. It is evident that the overall policy of the group is decided in the United States. Although the United Kingdom executives have a role in determining policy and a substantial degree of autonomy in day-to-day management, they are subject to significant control from Pitney Bowes Inc. Pitney Bowes PLC appears to have an effective system of financial and budget control over its manufacturing operations and sales organisation and it has enjoyed a comfortable profit record over a long period. It has been attempting, not always successfully, to reduce its dependence on postal franking machines by a policy of diversification but, in 1984, 78 per cent of its revenue still came from the supply and maintenance of postal franking machines in the United Kingdom and exports of machines. It told us that it considered its range of facsimile equipment to be competitive and successful, although we note that its sales are still small. Successive attempts to enter the copier market, with equipment provided from both the United States of America and Japan, have not been successful. More successful diversification has taken place through PB Leasing, which after commencing operation as an 'in-house' leasing company has now extended its activities to other products.

9.28. Prior to 1981 Roneo was part of the Vickers Group and supplied postal franking machines, duplicators and office furniture. In 1981 Vickers sold its postal franking machine and duplicator business to the French CIT

Alcatel group. Shortly after the sale it became evident to the new owners that because of competition from small electrostatic copiers, the duplicator business was declining. A major reorganisation of the work of its Romford factory has therefore been undertaken in the course of which the production of duplicators has been halted and that of postal franking machines reduced to the assembly of bought-in components. During the reorganisation Roneo Alcatel has suffered significant losses and has been sustained in business by subventions from its parent. We understand that the major reorganisation has now been completed and the company believes that, through sales at home and abroad of electronic postal franking machines designed and developed at Romford, it can now expect to return to profitability. Nevertheless for the time being Roneo Alcatel remains, as it has been for a number of years, a price follower rather than a leader in the market for postal franking machines.

9.29. Hasler was set up as a wholly-owned United Kingdom distribution company by its Swiss parent for the supply of postal franking machines and a range of telecommunications equipment and services. As we have explained, growth in sales has been slow until fairly recently but the separate activities of the telecommunications division have been more successful and have been a major factor in the improving financial position of the company which until recently was making losses. In evidence to us Hasler acknowledged that in its present position it was to a considerable extent following the price leadership of its two major competitors. While it sought to compete with discounts to large buyers and selective price cuts, it could not afford to be too aggressive in lowering prices to gain market share and relied more on the appeal of its products than on price cutting. This is true *a fortiori* of the other recent entrants.

9.30. Although all the companies have list prices or terms for the products in their ranges, only Hasler and the two recent entrants provide their potential customers in the small user category with price lists which clearly identify the cost of the various supply and maintenance options. Pitney Bowes PLC and Roneo Alcatel told us that while specific requests for a written quotation for a particular model would be met, they relied mainly on informal quotation of terms by their sales representatives.

9.31. Direct selling to customers who are not shown price lists facilitates the use of selective negotiated discounts, as described in Chapter 2. Pitney Bowes PLC and Roneo Alcatel explained to us that their salesmen and managers had discretion up to certain limits to allow discounts to small users, depending on the degree of pressure from the customer and the salesman's judgment of the value of the sale. (This could be affected by the fact that part of the discount might come from the salesman's commission.) Sample figures for 1983 indicated that on average small users obtained discounts of about 5 per cent from Roneo Alcatel and 7 per cent from Pitney Bowes PLC.

9.32. The large customers whose business is handled by a special group of sales representatives are usually given information about applicable prices and terms and in this sector of the market discounts in the range of 20 to 30 per cent are common. For the largest customers of all, especially HMSO, still

higher discounts are given (see paragraph 2.43) and we had evidence of Pitney Bowes PLC offering more than 50 per cent off its standard list prices for some orders. Pitney Bowes PLC accepted that some discounts to large customers were higher than could be justified by cost savings but explained them by reference to competitive pressures and the bargaining power of large buyers. Roneo Alcatel made the point that, apart from cost savings, large discounts also reflected the relatively small selling effort involved in large orders and their advantages for planning production. We noted, however, that large buyers accounted for only a small proportion of total sales of postal franking machines; moreover no cost savings can be made on delivery to large buyers, as the Post Office regulations require each machine to be separately delivered and installed at the place of use.

### **Prices and profits**

9.33. Pitney Bowes told us that its policy was to expand market share consistently with maintaining profits but it appeared to us cautious as the market leader in the extent to which it was prepared to use competition in prices as a means of acquiring additional market share. This appears to be borne out by our examination of the timing and extent of price increases over the last ten years.

9.34. While, as might be expected with differentiated products, there was no clear pattern of price increases, the only reductions of prices in real terms occurred with the older, smaller integrated models which are either reconditioned machines or have limited value ranges. In the medium to large machine range, prices for Pitney Bowes PLC's bases have increased by amounts varying from 35 to 60 per cent in real terms over the past ten years (see Table 2.9). Pitney Bowes PLC told us that as rental charges for meters had fallen in real terms over this period we should have regard to the total cost to the user of renting a meter and buying a base (including maintenance). It provided us with indices of this cost since January 1974 for three combinations of base and meter (see Table 8.1). While these calculations are sensitive to the choice of base date, the costs of all three packages have increased significantly in real terms over the last ten years. Prices of Roneo Alcatel's medium to large machines have risen less than those of Pitney Bowes PLC over this period. Its older models have been largely replaced by new machines with improved facilities at prices between 11 and 17 per cent higher in real terms (see Table 2.10).

9.35. Pitney Bowes PLC's and Roneo Alcatel's views on these price changes are set out in Chapter 8. Both companies put it to us that competition in the supply of postal franking machines was intense and that if a supplier misjudged the extent of a price increase for its product it could lose market share as Pitney Bowes PLC had done in 1981. They claim that postal franking machines have not offered the opportunities for technological change that have been a major factor in significant real price reductions in the typewriter and copier market.

9.36. In our view, however, no convincing argument has been advanced to show why prices for a mature product in an allegedly competitive market should have run ahead of the general price level over the period. The large



discounts used to attract a small volume of business from big users suggest that the prices charged for the bulk of the market have provided Pitney Bowes PLC as the price leader with comfortable margins. Taking account of all the factors described above, the general picture we have formed of the market is one of not very strenuous price competition in which Roneo Alcatel and the smaller suppliers compete for market shares within a degree of shelter provided by Pitney Bowes' dominant position.

9.37. The overall profit record of the major companies (Table 9.1) tends to support this picture of a comfortable position for the dominant supplier with the other companies making losses or only limited profits in conditions of somewhat restrained price competition.

TABLE 9.1 The overall profits of the main suppliers

	1979	1980	1981	1982	1983	1984
<i>Pitney Bowes PLC</i>						
Revenue £'000	26,259	30,454	32,263	37,046	42,937	46,727
Operating profit £'000	3,091	3,698	3,742	2,580	3,644	2,443
Capital employed £'000	8,575	9,190	9,942	10,415	10,982	13,000
Operating profit as a percentage of revenue	12	12	12	7	8	5
Return on capital employed % (historical cost basis)	36	40	38	25	33	19
<i>Roneo Alcatel Ltd</i>						
Revenue £'000	29,702	28,874	29,870	28,930	29,974	34,045
Operating profit/(loss) £'000	(959)	(3,313)	(2,107)	(943)	(1,768)	36
Capital employed £'000	19,182	19,492	21,060	24,623	25,869	23,567
Operating profit/(loss) as a percentage of revenue	(3)	(12)	(7)	(3)	(6)	0
Return on capital employed % (historical cost basis)	(5)	(17)	(10)	(4)	(7)	0
<i>Hasler (GB) Ltd</i>						
Revenue £'000	1,868	2,598	3,147	3,719	4,199	5,826
Operating profit/(loss) £'000	(206)	(87)	71	65	(127)	473
Capital employed £'000	1,378	1,192	1,117	1,159	1,513	1,858
Operating profit/(loss) as a percentage of revenue	(11)	(3)	2	2	(5)	8
Return on capital employed % (historical cost basis)	(15)	(7)	6	6	(8)	25

Source: MMC from published accounts.

*Notes:*

1. The results are for all the activities of the companies including non-reference activities.
2. We have explained in Chapter 3 that Pitney Bowes PLC suggested that certain adjustments should be made to the information in Table 9.1 which is derived from the management accounts. While we have set out the adjusted results in Table 3.12, we have explained our view that adjustments to the conventions and information contained in audited accounts should be avoided.
3. The results of Pitney Bowes PLC do not include the results of PB Leasing Ltd which are shown in Table 9.4.

9.38. When we attempted to obtain separate information on the profitability of reference goods and services, Pitney Bowes PLC strongly represented to us that its records and accounting systems provided no means of assessing this information meaningfully. It explained that in its accounting systems the costs of individual products, or product groups, are identified only at the level of standard manufacture (or purchase) cost and that only certain direct labour costs are allocated to product groups. The contribution made by individual products, or product groups, is identified before the charging of non-manufacturing costs (other than a relatively small proportion of direct labour costs). In view of the significant amount of cost that is involved in direct selling, these accounting systems result in a high level of unallocated cost which in 1984 was approximately 40 per cent of Pitney Bowes PLC's total costs.

9.39. In the absence of information on the costs and profits of individual products, Pitney Bowes PLC's policy therefore appeared to be one in which it was prepared to supply products provided that they made some significant contribution to unallocated costs. So long as the business as a whole remained profitable, the management did not regard it as essential to have information on the profitability of individual products or ranges of products.

9.40. But Pitney Bowes PLC's representatives acknowledged that the level of contribution from different products varied widely. Table 9.2 shows the relative contributions of reference and non-reference goods as a whole. We have seen more detailed figures, which the company reasonably regards as confidential, of the contributions made by individual products in the home and export markets. While we accept that there will be no exact correspondence of contributions to final profitability, it seems clear to us that in general the larger contributions (which were described to us as being to 'unallocated costs *and profits*') indicate higher profit levels and that these have been earned mainly by home sales of the established postal franking machine products.

9.41. We asked Pitney Bowes PLC to produce an allocation of the costs of its reference and non-reference business on the basis which we have described in Chapter 3 and Appendix 3.2. Pitney Bowes PLC co-operated with the exercise but told us that it considered it to be meaningless and the results 'only arithmetic'. While we accept that in the circumstances of Pitney Bowes PLC's business and accounting systems any allocation of unallocated costs *pro rata* with turnover or in other ways will inevitably be approximate and arbitrary, we are, however, advised that allocations of cost on these lines are quite often made in accountancy practice when it is regarded as important to identify the costs and profits of part of a business. A summary of the results from the exercise is set out in Table 9.3. We do not put undue weight on these figures but it is hard to resist the inference that they confirm the view in the previous paragraph, viz that on the basis of the varying levels of the contributions made to unallocated costs and profits, the reference goods, ie postal franking machines supplied in the United Kingdom market, have been making higher profits than other goods.

TABLE 9.2 Pitney Bowes PLC: turnover and contribution of reference and non-reference business

	1979		1980		1981		1982		1983		1984	
	£'000	% of total turnover	£'000	% of total turnover	£'000	% of total turnover	£'000	% of total turnover	£'000	% of total turnover	£'000	% of total turnover
<i>Turnover</i>												
Reference business	14,564	55	17,290	57	19,306	60	19,832	54	23,278	54	24,556	53
Non-reference business	11,695	45	13,164	43	12,957	40	17,214	46	19,659	46	22,171	47
<b>Total business</b>	<b>26,259</b>	<b>100</b>	<b>30,454</b>	<b>100</b>	<b>32,263</b>	<b>100</b>	<b>37,046</b>	<b>100</b>	<b>42,937</b>	<b>100</b>	<b>46,727</b>	<b>100</b>
<i>Contributions to indirect costs and profits</i>												
	£'000	% of applicable turnover	£'000	% of applicable turnover	£'000	% of applicable turnover	£'000	% of applicable turnover	£'000	% of applicable turnover	£'000	% of applicable turnover
Reference business	10,192	70	12,142	70	13,434	70	13,668	69	15,626	67	16,522	67
Non-reference business	3,580	31	3,487	27	4,098	32	3,596	21	3,867	20	3,575	16
<b>Total business</b>	<b>13,772</b>	<b>52</b>	<b>15,629</b>	<b>51</b>	<b>17,532</b>	<b>54</b>	<b>17,264</b>	<b>47</b>	<b>19,493</b>	<b>45</b>	<b>20,097</b>	<b>43</b>

Source: MMC from Pitney Bowes information.

TABLE 9.3 Pitney Bowes PLC: summary of illustrative allocation exercise

	1979		1980		1981		1982		1983		1984	
	£'000	% of total applicable turnover	£'000	% of total applicable turnover	£'000	% of total applicable turnover	£'000	% of total applicable turnover	£'000	% of total applicable turnover	£'000	% of total applicable turnover
<i>Allocation of operating profits after indirect costs*</i>												
Reference business	2,661	18	3,230	19	3,368	17	3,310	17	4,333	19	4,298	18
Non-reference business	430	4	468	4	374	3	(730)	(4)	(689)	(4)	(1,855)	(8)
<b>Total business</b>	<b>3,091</b>	<b>12</b>	<b>3,698</b>	<b>12</b>	<b>3,742</b>	<b>12</b>	<b>2,580</b>	<b>7</b>	<b>3,644</b>	<b>9</b>	<b>2,443</b>	<b>5</b>
<i>Return on capital employed*</i>	%		%		%		%		%		%	
Reference business (supply)†	61		78		69		68		91		62	
Non-reference business	8		7		6		(10)		(8)		(21)	
<b>Total business</b>	<b>36</b>		<b>40</b>		<b>38</b>		<b>25</b>		<b>33</b>		<b>19</b>	

Source: MMC from Pitney Bowes data.

\*Historical cost basis.

†Contracted maintenance is paid for in advance by PB customers and produces cash flows in excess of working capital. Hence the figure for capital employed on maintenance is negative and is not included in this table.

9.42. Pitney Bowes PLC put it to us that a better view of the profitability of the reference goods and services could be derived from a 'discontinuance exercise', calculating what the profitability of reference goods and services would be if all other activities ceased. This exercise assumed that substantial costs of the discontinued activities would in practice continue and would need to be absorbed into the cost structure of the reference goods and services (together with the diseconomies of smaller scale output); in these circumstances the exercise not unnaturally indicated lower profits than that suggested by any rational allocation of the costs and profits as a whole. The exercise seemed to us to be even more subjective and arbitrary than allocation; in particular it did not take satisfactorily into account the fact that in a real situation discontinuance would lead rapidly to other changes in the business. It is true that whenever there is commercial advantage in combining two sets of activities, the discontinuance of either set would at first lead to increased costs and lower profits for the other. But this fact provides no useful guidance to the question of how to allocate a known total of profits between, in this case, the reference and non-reference activities.

9.43. Thus while we do not seek on the basis of the evidence available to us to suggest that any precise figures can be given for profit on turnover or on capital of the reference goods and services, the evidence all leads us to believe that Pitney Bowes PLC makes substantial profits from the supply and maintenance of reference goods with returns that are high by comparison with the general level of profits in this country, particularly for a mature industry with low risk.

### Conclusions

9.44. To sum up, our view is that various factors which we have set out above operate to restrain the effectiveness of competition in the market for reference goods. The dominant position of Pitney Bowes PLC has enabled that company to assume a degree of price leadership which neither Roneo Alcatel in recent years nor the newer entrants have been in a position to challenge. This does not mean there is no competition in price: the evidence suggests that there is a good deal of selective discounting of prices especially to the bigger and more valued customers. But the price level of postal franking machines has stayed well ahead of that for other office equipment and indeed of the general price index and in our judgment is higher than it need be or would be in conditions of more effective competition. The practice of the dominant suppliers of selling direct to users without providing most of them with price lists means that customers generally are not readily able to compare offers. This helps to restrain price competition and to focus it on selective discounts for the more insistent bargainers.

9.45. The practices with regard to prices described above impair competition and in terms of section 48 of the Fair Trading Act constitute actions (or omissions) on the part of persons in whose favour the monopoly situation exists which in our judgment are attributable to that situation.

9.46. Other factors which in our view restrict competition arise from the Post Office regulations and practice. At present they effectively prevent

distribution through dealers as an alternative to direct selling. They also prevent the development of independent maintenance services which would introduce competition into the maintenance market and help to bring about the sale of second-hand equipment.

9.47. The factors set out in paragraphs 9.44 to 9.46, taken together, constitute facts found in pursuance of our investigations which in our judgment by reason of their adverse effects on competition operate or may be expected to operate against the public interest.

9.48. We have considered whether it would be appropriate to deal with this situation by recommending an immediate price reduction or some form of price or margin control in the interests of consumers. In determining where the balance of advantage to the public interest lies, we need to take full account of the longer-term effects on competition that might be expected to follow from measures aimed at regulating the prices of the dominant firm or firms. In this case we see a considerable risk that such measures would harm the smaller competitors and newer entrants, who have already added to the range of options available to users of postal franking machines, and who may in future make for more effective price competition. In this connection we have also taken account of the fact that buyers of postal franking machines are in general business people who, given adequate pricing and other information, should be able to choose effectively among available options. We have decided therefore not to recommend any form of price or margin control. There are, however, factors restricting competition in the market for postal franking machines which can fairly easily be reduced or removed and we see advantage to the public interest in proposals to that end.

## **Recommendations for improvement in competition**

### **Supply by distributors**

9.49. At present the Post Office authorises the manufacturers and the importers (or their agents) to supply machines only direct to users. Machines are not available to wholesale or retail distributors of office equipment. Both Pitney Bowes PLC and Roneo Alcatel expressed to us their strong preference for direct supply to customers and their belief that the margins required by dealers would be such as to make supply through them unduly expensive. They are entitled to their views and we do not suggest that they or the other suppliers should be compelled to supply through dealers or distributors.

9.50. We believe, however, that competition would be enhanced if potential users were able to see and compare machines in dealers' showrooms, as they can with copiers and typewriters. The total market might indeed be enlarged if new users were attracted in this way. If one existing supplier or a new entrant found it possible to expand sales in this way, competition might well lead others to follow. The existing mark-ups on postal franking machines from ex-factory costs to the prices paid by users are large and it seems to us by no means impossible that some dealers might operate on lower margins. At least these possibilities should be open to the test of the market.

## **Maintenance**

9.51. Similarly no independent suppliers of maintenance services are at present authorised. Pitney Bowes PLC considered there would be little demand for such services and drew attention to the risks of fraud that could arise. Roneo Alcatel suggested that even in large centres the number of machines to be serviced would not enable both existing suppliers and independent organisations to operate economically; if independents took a share of high-density areas, the suppliers would be left to service other areas at greater cost. Here again, however, we see advantage in letting market forces operate, particularly as the availability of independent maintenance services would help the development of supply through dealers and could be essential for promoting a second-hand market. It is not impossible that maintenance of postal franking machines could be combined with the maintenance of other types of equipment.

## **The second-hand market**

9.52. A second-hand market can offer potential new users of equipment, or users who want to acquire additional equipment, a relatively cheap form of supply and therefore provide competition to the new equipment manufacturers. Postal franking machine meters and bases are designed for long life and provided spare parts are readily available they can be easily reconditioned. An active second-hand market would enhance competition. At present, however, there is only a very limited second-hand market and we found only one dealer in second-hand bases. In part this is because the suppliers do not make available traded-in equipment for re-use, apart from some limited reconditioning on their own account: moreover leasing contracts commonly provide for leased equipment to revert to the leasing companies which then return it to the original suppliers. In part the problem is again that Post Office authorisation is needed for independent second-hand dealers to supply meters to users.

## **The role of the Post Office**

9.53. We make some recommendations below with regard to the practices of Pitney Bowes PLC and Roneo Alcatel; but our general aim of allowing more scope for market forces will require the help and co-operation of the Post Office. We were glad to hear from its evidence to us that the Post Office was prepared to consider changes in its arrangements where these could be made without undue risk to revenue or undue administrative cost. Given the advantage to the Post Office in cost savings from enlarging the market for postal franking machines, we think it should be possible to meet these conditions while enabling a limited number of reputable distributors to supply machines and opening the way to suitable independent maintenance organisations and second-hand dealers.

9.54. Accordingly we recommend that the Post Office should be invited to give urgent consideration to amending its arrangements (including regulations where necessary) to allow for:

- (a) the distribution of postal franking machines by independent dealers approved by the Post Office;

(b) the maintenance of integrated machines and meters by independent maintenance engineers approved by the Post Office; and

(c) the refurbishment and supply of second-hand integrated machines and meters by independent dealers or maintenance engineers approved by the Post Office.

9.55. There are one or two other ways in which the Post Office practice and administration could help to promote competition and enlarge the market for postal franking machines by reducing costs to users. A significant part of the existing cost of maintenance arises from the Post Office requirement that meters of new design be inspected four times a year and even established types three times. This requirement is significantly greater than in other major markets and the evidence before us suggested that it has little advantage in terms of detection of fraud.

9.56. Accordingly we suggest that the Post Office reduce the requirement, without delay, to two regular visits a year and within the next two years consider introducing a further reduction to annual inspection for all established machines with a low fault rate.

9.57. We have received complaints (see paragraph 7.49) that a number of salesmen have attempted to secure orders for new machines by falsely representing that Post Office regulations require the replacement of old equipment. We believe that all users would find it helpful if the Post Office issued appropriate guidance on its regulations and brought to their notice changes such as the reduction in inspection and maintenance visits we recommend.

#### **Recommendations with respect to dominant suppliers**

9.58. Our recommendations designed to open the market to approved independent dealers and maintenance organisations will require some consequential action on the part of dominant suppliers. Thus at present all meters are supplied subject to the condition that maintenance will be provided by the supplier or his agent. This condition arises from existing Post Office requirements. We recommend that if those requirements are changed as we suggest, Pitney Bowes PLC and Roneo Alcatel should require only that maintenance of purchased or leased meters (except during a period of guarantee) should be carried out by persons approved by the Post Office.

9.59. Similarly, if a second-hand market is to be encouraged, it will need access to supplies of equipment from leasing companies and we recommend that the return of postal franking machines to the original suppliers should not be a condition of arrangements between Pitney Bowes PLC, Roneo Alcatel and leasing companies.

9.60. Persons approved by the Post Office to maintain or refurbish and supply machines and meters will also need a supply of spare parts on reasonable terms. It is difficult to lay down in advance what may or may not be reasonable in such matters. Persistent or unreasonable refusal to supply could, however, be considered by the Director General of Fair Trading under the provisions of the Competition Act 1980.



## The provision of price lists

9.61. We have noted in paragraph 9.30 that Pitney Bowes PLC and Roneo Alcatel do not provide the majority of customers with price lists. The companies, Pitney Bowes PLC in particular, give a number of reasons for this, including the difficulty of producing lists which cover their total range of products and their wish to retain flexibility of discounting. We can understand their preference for putting their salesmen in contact with customers without issuing price lists. But we do not accept the companies' objections. Hasler has been able to print, on two sides of a single sheet of paper, a comprehensive price list for its range of postal franking machines identifying the supply options and maintenance costs. The absence of price lists reduces the opportunity for small buyers to compare the terms on which equipment is on offer from different suppliers. In our judgment the effect of this is to impair competition and is adverse to the public interest.

9.62. We recommend that Pitney Bowes PLC and Roneo Alcatel should be required to provide price lists for postal franking machines. The lists should identify purchase prices, the terms of other methods of supply and maintenance charges. It would be for the companies to determine whether it would be appropriate to include in their price lists the discounts that may be available at any particular time.

## The leasing tie between Pitney Bowes PLC and PB Leasing Ltd

9.63. In recent years the importance of leasing as a method of supply has been growing and in 1984 it accounted for some 50 per cent of Pitney Bowes PLC's new business. All the suppliers now offer a leasing option. As we have explained, Roneo Alcatel, Hasler and the smaller suppliers offer leases through third party leasing companies. Pitney Bowes has a group company, PB Leasing, which handles practically all the leasing contracts for postal franking machines supplied by Pitney Bowes PLC. The results of PB Leasing are shown in Table 9.4.

TABLE 9.4 The results of PB Leasing Ltd

	1979	1980	1981	1982	1983	1984
<i>PB Leasing Ltd</i>						
Operating profit £'000	674	2,039	3,099	3,674	4,228	4,704
Capital employed £'000	6,514	11,606	15,185	18,196	22,147	28,688
Return on capital employed % (historical cost basis)	10	18	20	20	19	16

Source: MMC study from PB Leasing's audited accounts.

Note: The results are for all the activities of the company.

9.64. We have compared the terms of leasing offered by PB Leasing with those of other leasing companies. It appears that PB Leasing's standard rate is higher than that of others but that, as it offers discounts from its standard terms to help the group get sales, its average rate is not much higher. Although since July 1984 Pitney Bowes PLC will allow customers to use other leasing companies for all its equipment available for purchase, its salesmen are not permitted to vouchsafe any option and in effect the customer needs to take the initiative and insist on it. In practice therefore some customers are likely to be paying PB Leasing a higher rate than could be obtained elsewhere but, in the absence of price and sales information, may well not be aware that any option is available or able to compare terms.

9.65. Hence for practical purposes a *de facto* tie between PB Leasing and Pitney Bowes PLC still exists. In our view it can properly be regarded as an uncompetitive practice intended to exploit and maintain the monopoly situation, as it enables the group to retain the leasing business within the group on terms which, having regard to the element of discriminatory discounting, may be disadvantageous to individual customers. We think this effect is also adverse to the public interest. We do not think Pitney Bowes PLC should be required to offer leasing from a third party company as an alternative to its own: but we recommend that it should be required to include in its price lists (see paragraph 9.62) the current standard terms offered by PB Leasing and a clear statement that customers are free to obtain leases from other companies.

#### **Alleged malpractices by salesmen**

9.66. During the course of the references our attention has been drawn by a number of witnesses to apparent malpractices of salesmen from Pitney Bowes PLC and Roneo Alcatel. The allegations concerned incorrect statements of the terms of supply and attempts to secure orders by suggesting that equipment was worn out or that Post Office regulations required its replacement. We considered these allegations and the possibility that they might be related to levels of commission paid to salesmen of the companies. Both companies accepted that malpractices might occur but said they were rare. Pitney Bowes PLC told us that it considered its balance of commission and salary was generally in line with that of business equipment salesmen and that its code of conduct and company procedures were adequate to deal with any rare incident that might occur. Roneo Alcatel, which had a particularly high ratio of commission to salary, has increased the element of salary during the course of the references and issued a statement to all its sales staff drawing attention to the malpractices that had been reported to the Commission and stating that any such malpractices found to have been the responsibility of Roneo Alcatel salesmen would lead to disciplinary action.

9.67. We have recommended above that the Post Office give publicity to the scope of its regulations. It is equally important that the managements of Pitney Bowes PLC and Roneo Alcatel maintain the necessary vigilance to prevent malpractices and accept full responsibility for ensuring that if they occur in the future the necessary action will be taken to discipline any of their staff who use or permit such tactics.

#### **The provision of technical information to the suppliers of electronic mailing scales**

9.68. To determine the appropriate postage rates for packets, or for overseas mail, many users of postal franking machines need to weigh their mail. There is therefore a demand for mailing scales which has been met by the postal franking machine suppliers and by a number of independent manufacturers and suppliers. It has not been practical to link mechanical meters and mechanical scales but the introduction of electronics into both scales and postage meters has enabled the two to be linked, so that the postal franking machine will automatically register the correct postage for the weight indicated by the scale. Not all the electronic meters at present on the market

can be linked to scales but Pitney Bowes markets in the United Kingdom, in very small numbers, an electronic meter and an electronic scale, manufactured in the United States, that can be linked by a special interface incorporated in the meter. During the course of the references we received complaints from two suppliers of electronic scales that Pitney Bowes had been unwilling to provide them with the necessary technical information to enable them to link their electronic scales with the Pitney Bowes meter. Pitney Bowes Inc later offered the two companies licences with the provision of the technical information needed. The companies told us that in their view the level of charges proposed for the licences and the additional technical information were excessive in relation to the level of business which was available from the sales of Pitney Bowes' electronic meters.

9.69. Roneo Alcatel's present range of meters in the United Kingdom does not have an interfacing capability, but the company's parent, CIT Alcatel, supplies an electronic meter in France which can be interfaced with an electronic scale also obtained from the company. CIT Alcatel does not make technical information available or grant licences to scale suppliers to allow them to market scales which can be linked to the meter. Roneo Alcatel told us that, if it introduced meters with an interfacing capability in the United Kingdom, it would not offer licences or disclose its proprietary interface technology to independent suppliers of electronic scales. It considered that an electronic scale intended for use with an electronic meter with interfacing capability was part of a single system and should be supplied by the electronic meter supplier. The supply of electronic scales from other sources could, Roneo Alcatel suggested, give rise to security problems and disputes over faults.

9.70. The number of electronic meters supplied by Pitney Bowes PLC with interfacing capability is at present so small that there may be little scope for licensing to independent suppliers of scales on terms that would be worthwhile to both parties. Negotiations up to now have been inconclusive and in these circumstances we reach no judgment on what has occurred so far.

9.71. But it is reasonable to assume that in the next few years Pitney Bowes PLC and Roneo Alcatel may both introduce electronic meters with interfacing capability for a much greater proportion of their range. If a large market for scales were pre-empted by those with a dominant position in the market for postal franking machines, some detriment to competition could arise. Pitney Bowes Inc has assured us that it will offer licences and technical information on what it will regard as commercial terms. Clearly we cannot judge in advance what terms would be reasonable in a variety of circumstances or what weight to give to technical considerations of the kind mentioned by Roneo Alcatel. We note only that if complaints were to arise that there was no access, or that the terms of access to the information needed for interfacing were unreasonable, it would be open to the Director General of Fair Trading to investigate the matter under the appropriate competition legislation.

## **Patent cross-licensing agreements between Pitney Bowes Inc and the CIT Alcatel group**

9.72. After being apprised that Pitney Bowes Inc regarded some features of CIT Alcatel's electronic meters as infringing Pitney Bowes patents, CIT Alcatel negotiated agreements with Pitney Bowes Inc. The first in 1984 covered the use of Pitney Bowes patents in North America, the second in 1985 dealt with patents in other markets. The terms of these agreements are set out in paragraphs 3.16 to 3.18.

9.73. In its evidence to us the CIT Alcatel group made it clear that it accepted these agreements, after taking advice, as a necessary safeguard or insurance against risks that infringement actions would prevent or interrupt the manufacture and sale of its electronic meters both in North America and Europe. While possible defences and counter-claims in respect of such infringement actions may exist, particularly where the patent holder has a dominant market position, litigation on these matters is expensive and the outcome uncertain. We are not required to make any judgment about the relative costs and benefits of the settlement negotiated between the two parties. We must, however, consider the effect of the 1985 agreement on the public interest.

9.74. Both agreements provide the CIT Alcatel group with non-exclusive rights to practise various Pitney Bowes patents in return for consideration in part monetary and in part involving the cross-licensing of CIT Alcatel patents to Pitney Bowes. In the case of the 1985 agreement and its application to United Kingdom patents, with which alone we are concerned, the cross-licensing provisions have some unusual features. Under these provisions Pitney Bowes can select up to eight patents developed by the CIT Alcatel group at any time during the period to 2020 and require non-exclusive licences on such patents upon payment of a lump sum to CIT Alcatel. A further provision relates to any relevant patent taken out by third parties and requires that CIT Alcatel shall not seek any exclusive right to practise such patents but must leave open the possibility for Pitney Bowes also to acquire non-exclusive rights.

9.75. It is arguable that the first of these provisions (the so-called 'pick option') is anti-competitive on the ground that between two such powerful competitors technical rivalry might be expected to be a main form of competition and that the exclusive use of such technology, which the patent system would normally ensure, might be an important means by which the smaller competitor could erode Pitney Bowes' dominant position. Pitney Bowes is largely safeguarded against loss of competitive strength in this way because, within the limits of the pick option, it can insist on obtaining licences for any technological breakthrough on the part of the CIT Alcatel group. The additional provision referred to above reinforces this safeguard by effectively preventing CIT Alcatel from seeking exclusive rights to exploit any other technical advance in the field. Other arguments might be advanced, such as that the cross-licensing of patents between the two largest suppliers in the United Kingdom could work to the disadvantage of the smaller suppliers and that the general effect of the agreements might be to discourage innovation.

9.76. It was put to us on the other hand by Pitney Bowes that as its own licences to CIT Alcatel are non-exclusive and the 'pick option' calls for only non-exclusive licensing of CIT Alcatel patents in return, the agreements must on balance enhance rather than impede competition. Thus they ensure that (up to the limit of the 'pick option') both Pitney Bowes and CIT Alcatel, as well as any other licensees, will be competing in the production and marketing of machines using new techniques instead of keeping them exclusive to one producer. The arrangements are not symmetrical, as Pitney Bowes is not required to license its new inventions, but it was explained that CIT Alcatel was offered a modest 'pick option' for Pitney Bowes patents but rejected this on grounds of cost.

9.77. The additional clause affecting third party inventions was explained as no more than a natural safeguard against any avoidance action on the part of CIT Alcatel who might otherwise be able to assign its own technology to third parties and obtain exclusive use of it from them. Pitney Bowes also stressed to us the technical strength of the other international groups in the field, with GEC and Siemens associated with two of their smaller competitors, as strong evidence that it would be impracticable for either CIT Alcatel or themselves to weaken their efforts at innovation.

9.78. These arguments are finely balanced. While we on the whole regret the possible effect of the 1985 agreement as hobbling the CIT Alcatel group's competitive strength, we have to consider what result would be likely to follow from any recommendation on our part to restrict its implementation in the United Kingdom. Under Schedule 8 of the Fair Trading Act 1973 the Secretary of State has a power to declare it unlawful to carry out a provision in an agreement which we regard as operating against the public interest. How an order under the Schedule would affect the remainder of the agreement would depend in part on action taken in other jurisdictions and the outcome would be uncertain; in some circumstances the effect might be to render the CIT Alcatel group less rather than more effective competitors both in the United Kingdom and in export markets served from the United Kingdom. In view of this risk and the close balance of other arguments, we have decided to make no recommendation in respect of the 1985 agreement.

### **Summary of conclusions and recommendations**

9.79. Monopoly situations exist by virtue of section 6(1)(b) of the Fair Trading Act 1973 in respect of the supply of postal franking machines in the United Kingdom, and by virtue of section 7(1)(b) of the Act in respect of the supply of services for the maintenance and repair of postal franking machines in the United Kingdom (paragraphs 9.2 and 9.3).

9.80. The monopoly situations exist in favour of Pitney Bowes Inc together with Pitney Bowes Holdings Ltd, Pitney Bowes PLC and PB Leasing Ltd, being members of one and the same group of inter-connected bodies corporate;

and in favour of CIT Alcatel SA and Roneo Alcatel Ltd, being members of one and the same group of inter-connected bodies corporate<sup>1</sup>.

9.81. Various factors restraining the effectiveness of competition in the market for reference goods arise from the pricing policies and practices of Pitney Bowes PLC and Roneo Alcatel and constitute actions (or omissions) on the part of persons in whose favour the monopoly situation exists and which, in our view, are attributable to the monopoly situation (paragraphs 9.44 and 9.45). Other factors which restrict competition arise from the Post Office regulations and practice (paragraph 9.46).

9.82. The factors set out in paragraphs 9.44 to 9.46, taken together, constitute facts found in pursuance of our investigations which, in our judgment, by reason of their adverse effects on competition operate or may be expected to operate against the public interest (paragraph 9.47).

9.83. We do not recommend measures to reduce prices or margins but we see advantage to the public interest in proposals to reduce or remove factors restricting competition in the market for postal franking machines (paragraph 9.48).

9.84. In order to allow more scope for market forces in the distribution and maintenance of postal franking machines the Post Office should be invited to give urgent consideration to amending its arrangements (including regulations where necessary) to allow for:

- (a) the distribution of postal franking machines by independent dealers approved by the Post Office;
- (b) the maintenance of integrated machines and meters by independent maintenance engineers approved by the Post Office; and
- (c) the refurbishment and supply of second-hand machines and meters by independent dealers or maintenance engineers approved by the Post Office (paragraph 9.54).

9.85. The Post Office should:

- (a) reduce without delay the requirement for regular maintenance and inspection visits to two visits a year and within the next two years consider introducing a further reduction to annual inspection for all established machines with a low fault rate (paragraph 9.56); and
- (b) issue appropriate guidance to users on its regulations and bring to their notice changes such as the reduction in maintenance and inspection visits we recommend (paragraph 9.57).

9.86. If the Post Office amends its requirements as we suggest in paragraph 9.54, Pitney Bowes PLC and Roneo Alcatel should require only that maintenance of purchased or leased meters (except during periods of guarantee) should be carried out by persons approved by the Post Office (paragraph

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<sup>1</sup> Pitney Bowes Inc and CIT Alcatel SA are included as companies whose actions or omissions, in particular as owners of patents registered in the United Kingdom, may impair competition in the supply of reference goods and services in the United Kingdom.

9.58), and the return of postal franking machines to the original supplier should not be a condition of arrangements between Pitney Bowes PLC, Roneo Alcatel and the leasing companies (paragraph 9.59).

9.87. The Director General of Fair Trading should give consideration under the provisions of the Competition Act 1980 to any persistent and unreasonable refusal to supply spare parts (paragraph 9.60).

9.88. The practice of Pitney Bowes PLC and Roneo Alcatel of not making price lists available to most of their customers impairs competition and has an adverse effect on the public interest (paragraph 9.61). Pitney Bowes PLC and Roneo Alcatel should be required to provide price lists for postal franking machines identifying the purchase prices, the terms of other methods of supply and maintenance charges (paragraph 9.62).

9.89. The *de facto* tie between Pitney Bowes PLC and PB Leasing is an uncompetitive practice intended to exploit and maintain the monopoly situation and has an adverse effect on the public interest. Pitney Bowes PLC should be required to include in its price lists (see paragraph 9.62) the current standard terms offered by PB Leasing and a clear statement that customers are free to obtain leases from other companies (paragraph 9.65).

9.90. Pitney Bowes PLC and Roneo Alcatel should maintain the necessary vigilance to prevent malpractices on the part of their salesmen and accept full responsibility for ensuring that if such malpractices occur in the future they will take necessary action to discipline any of their staff who use or permit such tactics (paragraph 9.67).

ALAN NEALE (*Chairman*)

P H DEAN

D G GOYDER

H H HUNT

B C OWENS

R G SMETHURST

N E D BURTON (*Secretary*)

23 January 1986