

Our business model

Our business model leverages our resources and relationships (e.g. our networks, people and brand) to deliver high-quality, value for money services for customers wanting to send and receive letters and parcels. In our core network, we benefit when we deliver letters and parcels together – making the most of the Universal Service network and providing services at the lowest possible cost. Parcelforce Worldwide provides more parcel fulfilment options – particularly for business customers. Our European business, GLS, provides geographical diversification of our earnings and exposure to markets where revenues are growing above GDP. GLS' experience and focus on parcel delivery means it is a core component of Royal Mail's vision of being recognised as the best delivery company in the UK and across Europe. Through this, we generate cash flow to pay dividends to our shareholders, and reinvest in our business to generate sustainable growth over time.

Resources and relationships

We focus on delivering our customers' expectations in the most efficient way possible, maximising the funds available to reinvest in the business and to pay progressive dividends to shareholders.



Our networks

As the Universal Service Provider, Royal Mail has the capability to visit every address in the UK, delivering letters and parcels. Through our long-term relationship with the Post Office, we have the largest retail network for parcels and letters. We are using our footprint to increase collection and delivery options for our customers. For example, we are making returns easier with Local Collect, the largest UK click and collect network. Parcelforce Worldwide, our express delivery business, provides additional fulfilment options and is a leading provider of express parcel services. GLS, one of the largest European ground-based delivery networks, offers reliable, high-quality parcel services across Europe, complemented by logistics and express services.



Our people

We are proud to be a responsible employer, with a total workforce of around 156,000. One in 175 working people in the UK is employed by Royal Mail¹. This number increases when we look at disadvantaged regions where jobs are scarce. We are also committed to ensuring that our workforce reflects the communities we serve. We were pleased to have been named in The Times Top 50 Employers for Women 2015 for our commitment to gender equality in the workplace. We have been named as the global sustainability leader of the Transportation and Transportation Infrastructure Industry in the Dow Jones Sustainability Indices for the second year running.



Our customers and our brand

We have a very broad customer base. In the UK, our role as the Universal Service provider means we are able to deliver to more than 29 million businesses and consumers. GLS, our European business, has more than 220,000 customers across 41 European countries and nation states.

Our brand helps define our culture; it shapes the experiences our customers have with us and it is a unique reflection of who we are. We are the UK's most trusted delivery company². The trust that our stakeholders place in our people to deliver the Universal Service is down to the continuous dedication of our postmen and women across the UK. At the 2015 World Branding Awards, we were named as a national brand of the year³.



Investment in our business

In 2015-16, we invested a net £656 million, of which £253 million was in areas to support growth. We also spent £18 million on targeted investments mainly to enhance our IT capability.

¹ Cebr research, conducted for Royal Mail in May 2016

² Delivery Matters, 2015

³ Royal Mail winner in Logistics-Postal Services category:
<https://awards.brandingforum.org/brands/royal-mail/>

Inputs

Continually improving our efficiency and productivity allows us to be more competitive. This helps us to **meet changing customer needs**, which means we can grow our existing customer relationships and win new business. This in turn allows us to **maintain financial flexibility** to fund investment in our growth and maintain our fair terms and conditions to ensure we continue to employ **engaged and motivated people**.

Continually improving efficiency

- Continuing to deliver efficiency improvements and meet our productivity targets.
- Rolling out parcel sorting machines to gather better management information and identify efficiency opportunities.
- Getting paid fairly for what we do through using new technologies, like Mailmark® and 2D barcodes.
- Nationwide review of national and regional routes to help us reduce mileage.
- Targeted cost reduction through streamlined delivery process and network optimisation in GLS.

Meeting changing customer needs

- Offering later acceptance times and opening up our network for longer, including weekends.
- Demonstrating the value of letters through our MarketReach business and campaigns.
- Investment in innovative B2C delivery solutions in GLS.

Maintaining financial flexibility

- Since 2012-13, we have invested approximately £1.3 billion designed to grow and make the business more effective.
- Over the same time period, net debt has reduced by around £700 million, providing the headroom to invest further as opportunities arise.
- Over 70 scoped and resourced projects across UKPIL are targeted to avoid around £500 million of annualised costs by 2017-18.

Engaged, motivated people

- Increasing employee engagement and alignment through initiatives like our Together for Growth programme. Over 6,000 managers and union representatives have taken part.
- Continuing to provide market-leading rewards and fair terms and conditions to our people.
- In total, each eligible full-time employee has received a maximum of 832 Free Shares in our Company.

Outputs

- Continuing to deliver a high-quality, financially-sustainable Universal Service, and therefore maintaining our trusted brand.
- Delivering a consistently high-quality, flexible service to grow existing relationships, win new business and make sure we are fairly paid for our services.
- Driving the generation of cash to support progressive dividends for our shareholders.
- Continuing to invest in our business and our people, through effective management of our financial resources, including a strategic focus on costs.

Investing in our business and our people