

Frontier Economics analysis of Neopost bidding patterns

1. Neopost commissioned Frontier Economics to undertake a survey of Neopost sales staff and to provide an analysis of data on bids for franking machine contracts. Sales staff were asked to provide details of the three most recent cases in which they made a best and final offer regardless of whether the bid was successful or not (excluding large contracts where accounts are put out to tender). 165 responses were received. The cases had arisen in the first quarter of 2002.

2. Sales staff were asked how many competitors were involved in bidding for the contract. Their knowledge would be dependent on having received this information from the customer during the price negotiations, although a customer would have an incentive to exaggerate this (this may mean that in reality Neopost and AMS were in head to head competition in even fewer cases than the results suggest). In [redacted] per cent of cases, Neopost was the only bidder, in [redacted] per cent there was one other bidder, in [redacted] per cent two others, in [redacted] per cent three others, and in [redacted] per cent four others.

3. Where there was one other bidder, in [redacted] per cent of cases it was Pitney Bowes, in [redacted] per cent Frama, in [redacted] per cent Francotyp, and in [redacted] per cent the other bidder was unknown. [redacted] cases were identified where AMS was the only other bidder. Overall, cases where there were multiple other bidders including AMS amounted to just [redacted] per cent of the total number of bids analysed.

4. Sales staff were also asked to provide the percentage discount offered off list price in their final bid. This averaged [redacted] per cent (weighted by contract value) where there was no other bidder, and [redacted] per cent where there were other competitors, with an overall weighted average of [redacted] per cent. When Neopost faced one other bidder, it offered an average discount of [redacted] per cent; when there were two rival bidders, this offered discount increased to [redacted] per cent (although this difference was not statistically significant). The number of contracts covering rivals other than Pitney Bowes was too small to allow a full comparison of how discount rates depended on the identity of competitors, but there were no indications that the average discount offered varied significantly depending on the identity of the second bidder. [
Details omitted. See note on page iv.

5. A number of criticisms can be levelled against the analysis. First, it does not cover contracts where Neopost was excluded at an early stage, such that sales staff were not able to make a final offer. Frontier Economics noted that there would be many transactions where Neopost was not included or was excluded at an early stage, and it argued the merger would not affect any such transactions. Second, the survey includes contracts where AMS does not have a directly comparable machine competing in the market, for example AMS has no equivalent to the Neopost IJ25, [redacted], which is likely to be in close competition with the Pitney Bowes Personal Post. Hence competition between AMS and Neopost may be more effective, for those classes of machine where they have comparable offerings, than is suggested by the survey (although as sales through Neopost's telesales unit were excluded, the number of IJ25s involved are few). Although the number of observations was low, and the study covered a period of only a few weeks, the study does provide some useful insight into the nature and extent of current head to head competition.