

Final

# **Ofcom Review of the regulation of Royal Mail**

## **BBC Licence Fee Unit Submission**

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## 1.1 Executive Summary

- The effectiveness of the regulatory structure needs to be reviewed, to ensure there is a competitive or proxy pressure on Royal Mail as the incumbent dominant postal operator.
- The demise of Whistl's e2e service, and the lack of any credible alternative e2e operators in the medium term, removes this competitive pressure and downward pressure on Royal Mail prices.
- Royal Mail have demonstrated their ability to implement pricing and non-pricing (such as contract terms) changes to the detriment of other postal operators, whether DSA operators or alternative e2e operators, such as Whistl.
- DSA operators have only one channel through which they can operate a final mile service – Royal Mail Wholesale - so they have limited ability to influence or constrain Royal Mail's pricing and non-pricing behaviour.
- The lack of pressure or constraint on Royal Mail creates a monopolistic business environment which could enable them to increase postal prices rather than achieving profit margins through continued operational efficiencies.
- Under the current regulatory structure and competitive environment, Royal Mail does not face appropriate incentives to deliver efficiency improvements.
- There are no areas of existing controls on Royal Mail activity with a potential for deregulation

## 2.1 Introduction

**2.1.1** The BBC Licence Fee Unit welcomes the opportunity to submit evidence to the Ofcom Review of the regulation of Royal Mail.

**2.1.2** The BBC contracts with a number of companies to administer the television licensing system (together with the BBC Licence Fee Unit Management Team these companies are known publicly as TV Licensing). The BBC Licence Fee Unit sits within the BBC Finance and Business Division, and ultimately reports to the BBC Executive Board. The BBC is governed by the BBC Trust which represents the interests of licence fee payers and approves the overall strategy.

**2.1.3** TV Licensing inform people of the need to buy a TV licence. TV Licensing send licence renewal letters and we process queries, applications and payments. TV Licensing also maintain a database of licensed and unlicensed addresses in the UK and use this data to identify and visit people who are believed to be using a TV receiver without a valid licence.

**2.1.4** The BBC Licence Fee Unit uses the UK postal system: Access and Royal Mail Retail, to communicate with consumers. The BBC Licence Fee Unit mails approximately 55m communications each year. This mail is classified as transactional mail.

**2.1.5** The BBC Licence Fee Unit is obligated to drive efficiencies regarding postal costs to the business on behalf of all licence fee payers. The BBC Licence Fee Unit constantly seek to evidence commitment to reducing costs and to continuously evaluate and deliver value to the British public.

### **3.1 Ofcom's specific questions – BBC Licence Fee Unit response**

***Question 1: Do you agree with our view that there is a need to consider the effectiveness of the existing regulatory structure? Please state your reasons.***

**We agree with Ofcom that there is a strong need to consider the effectiveness of the existing postal regulatory structure, for the following reasons:**

- The development of competition within the UK postal market has been driven by downstream access. It has allowed mailers to access lower wholesale prices in comparison with Royal Mail retail prices but the underlying problem remains that true and effective competition to Royal Mail will only come from alternative e2e network development.
- The development of alternative e2e networks will bring sufficient downward pressure of Royal Mail to improve their efficiency and meet their own efficiency targets. The presence of alternative media such as e-mail and social media may impact volumes but has no impact or mechanic to impact efficiency.
- The existing regulatory structure was based on the assumption that alternative e2e competition would bring downward pressure on Royal Mail's operational costs, so driving operational efficiencies and downward pressure on prices.
- The demise of Whistl in the e2e market and the lack of any credible alternative e2e operators in the medium term removes this competitive pressure. Therefore the effectiveness of the regulatory structure needs to be considered, to ensure there is a competitive or proxy pressure on Royal Mail as the incumbent dominant postal operator.

***Question 2: To what extent do you consider Royal Mail's pricing and non-pricing behaviour is constrained by other postal operators and additional factors such as e-substitution?***

**In our view there is a diminishing constraint on Royal Mail's pricing and non-pricing behaviour caused by other postal operators and / or e-substitution.**

- Royal Mail have demonstrated on many occasions their ability to implement pricing and non-pricing (such as contract terms) changes to the detriment of other postal operators, whether DSA operators or alternative e2e operators, such as Whistl. For example:
  - The proposed removal of clause 13.8 within the Royal Mail Wholesale contracts, which would remove the assurance that a contract change would be suspended by Royal Mail if there was regulatory investigation.
  - The proposal to remove the restriction on the number of price changes and permitted variance changes to clause 13.2.3 within the Royal Mail Wholesale contracts, which would give Royal Mail the freedom to make unlimited price changes during the year.

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- The effective removal of Whistl and any medium term entry into the alternative e2e market has removed any competitive and downward pressure on Royal Mail prices.
- DSA operators have only one channel through which they can operate a final mile service – Royal Mail Wholesale - so they have limited ability to influence or constrain Royal Mail's pricing and non-pricing behaviour.
- E-substitution has been the principal cause of overall mail volume decline. However the degree of e-substitution has slowed down. The maturity of this transformation varies widely within different types of mail.
- The PwC Strategy & Economics report on the outlook for UK mail volumes<sup>1</sup> expected the rate of e-substitution in letters to slow gradually over the 10 years from 2013. In the initial years of e-substitution consumers with a high propensity to switch move rapidly online, as do many lower-value communications, but as time goes on the remaining base becomes more skewed towards 'paper-loyal' consumers and those being sent higher value communications.

***Question 3: To what extent do the competitive constraints faced by Royal Mail vary by different types of mail, e.g. for letter services, between advertising mail, transactional mail (mail sent following a consumer's interaction with a company), and publishing mail (such as newsletters and magazines); and for parcel services, between single-piece and bulk parcels?***

**As a transactional mailer we restrict our response to the competitive constraints faced by Royal Mail within transactional mail. In our view the competitive pressures have diminished for Royal Mail within transactional mail.**

- The competitive pressures have diminished as the conversion from mail to e-mail has reached a level of maturity
- Recent research commissioned by the "Keep Me Posted" Campaign, conducted by KMP<sup>2</sup>, showed that people are more likely to take action when transactional mail is received through the post rather than e-mail. This will undoubtedly be of interest to client mailers.
- Royal Mail has faced competitive pressure as transactional mail has migrated from Royal Mail retail to the wholesale channel, driven by DSA operators. This migration would appear to be complete with the majority of transactional mailers using a DSA operator

***Question 4: Do you consider that Royal Mail faces appropriate incentives to deliver efficiency improvements?***

**In our view Royal Mail does not face appropriate incentives to deliver efficiency improvements.**

- Under the current regulatory structure and competitive environment, Royal Mail does not face appropriate incentives to deliver efficiency improvements. In the

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<sup>1</sup> Outlook for UK Mail Volumes to 2023 PwC Strategy & Commerce

<sup>2</sup> KMP Economics Study

absence of any effective e2e competition, Royal Mail may seek to achieve financial targets through price increases and non-price behaviour.

***Question 5: Do you consider that there are any areas of existing controls on Royal Mail activity where there is the potential for deregulation?***

**In our view there no areas of existing controls on Royal Mail activity with a potential for deregulation.**

- Any change to existing USP (Universal Service Provider) conditions could jeopardise the sustainability of the US (Universal Service Obligation).
- Any changes to price controls could jeopardise the sustainability of the USO and adversely impact consumers.
- Any changes to access controls could result in services not being offered on a fair, reasonable and not unduly discriminatory terms

***Question 6: Do you have any further comments or views (supported by evidence where available) on the issues identified in this discussion paper?***

**The review of the regulation of Royal Mail must ensure the resulting regulation has the following impact:**

- A reduction in retail and wholesale prices due to downward pressure on pricing and operational costs;
- Efficiency gains by Royal Mail due to competitive pressure or regulatory pressure;
- Improved Royal Mail profitability due to efficiency gains;
- A sustainable USO.

All of the above are required to ensure continued use, trust and confidence in the mail system.