

RESPONSE TO OFCOM CONSULTATION BY ROYAL MAIL'S STRATEGIC MAILING PARTNERSHIP

Background Royal Mail's Strategic Mailing Partnership was launched by Royal Mail in January 2010. It is a partnership with Mailing Houses who are a key component in the Mail supply chain, as they produce, personalise and deliver into the Mail pipeline most of the UK's Bulk Mail.

150 Mailing Houses are Partners (Members) of the SMP which has an independent Chair, Judith Donovan CBE who is the ex Chair of the DMA and ex Vice Chair of Postwatch.

The Partners of the SMP are responsible for 90% of the Bulk Mail produced in the UK and as such are key players in the Postal sector. This was recognised by Postcomm who treated them as an official consultee and also by DEFRA who still do.

SMP aspire to have a similar strategic relationship with Ofcom and hope that this response will be the first building block in that aspiration.

The narrative here has emerged from a Partner consultation held on November 30th in London which consulted on 9 of the 15 questions in the Consultation, being the ones most relevant to the SMP.

7.1 – do we agree with the approach for assessing end to end competition?

Yes, given the lack of information a "case by case" basis seems reasonable.

- Setting parameters for entry to competitors is critical ie acceptable risk to Royal Mail's business.
- Regular review of parameters given that Royal Mail's financial performance should be improving.
- Wouldn't want competitors coming in and cherry picking the best areas and threatening the USO.
- Would like to see more detail around this as there is very little detail, and unclear where the point of damage to the USO could be.

7.2 – Do we agree with the proposal to impose an obligation on Royal Mail to provide Access to the IMCs :

Yes

Agreed that in the short term the only logistical solution was delivery into IMCs, so agreed with the obligation to allow access into IMCs.

7.3 – Do we agree with the proposals in respect of regulating margin squeeze :

Yes, in that this is the margin over the access price.

- We discussed the requirement for annual forecasting of fully allocated costs with which we agreed.
- We discussed quarterly updates to reflect market and business changes.
- We felt that the measure point was best looked at as an annual average.
- We believe this will need a review point in 18-24 months as proposed.
- Fines of up to 10% of Turnover should keep it fair!
- However, there was a concern that if the FAC is the basis of pricing then it would be cheaper for Royal Mail to pick up from Mailing Houses nearer to the IMCs and this would be reflected in the price submitted to the end client, therefore clients would choose Mailing Houses nearer to IMCs.
- There was also a concern that Royal Mail could cut the Upstream costs by up to 50% as the competition would not be able to compete against these margins, and also that Royal Mail could do “deals” which could disadvantage SMEs

7.4 – Do we agree with the approach for Ts & Cs for Access :

Yes, but not enough information to be clear.

- We discussed the requirement for a different set of T&Cs for Access of Retail but felt should be same for all.
- We were fairly strong on believing there should not be a differentiation, and that current system works well.
- Wanted to highlight the potential risk to SMEs which seems in conflict with the Sales and Marketing policy.

- We would like to see a fairer reversion system as currently it doesn't put any onus on Royal Mail to provide the same level of evidence that everyone else has to; the "burden of proof" should be the same for all parties involved and there should be an appeal system however you access Royal Mail . . . but overall in a "light touch" way.

6.4: 8.1: 8.2 – Do we agree with the proposals for a monitoring regime, the objectives for regulatory financial reporting and that this reporting is appropriate and proportionate:

- Yes to all.
- We believe essential the Regulator is furnished with enough information to keep Royal Mail fair including breakdown by product to ensure accurate cost allocation.
- However, timing would be an issue, as variable pricing could create market turmoil so faster reporting could be critical.

6.2: 6.5 – Do we agree that a price control is not the appropriate option for regulating Bulk Mail:

- Yes and no.
- We believe that price control is an effective way of controlling market but concerned there is no equivalent on packets and parcels.
- We support 2nd class stamps being regulated and think the 45p-55p spend is not unreasonable . . . and completely irrelevant to the bulk market.

Conclusion

We see nothing in the proposals so far that unduly threatens the survival of the Mail medium and we welcome the recognition that the previous framework has been over cumbersome.

However the devil is in the detail and we reserve our final comments until the next stage of proposals are available.