

Intellect submission to Ofcom

Review of postal users' needs

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**This response represents the views
of Intellect members in the meter
manufacturer industry**

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Introduction

Intellect is the UK trade association for the technology industry. Our mission is to use our expertise and knowledge to provide the highest quality of service and intelligence to our 750 plus members across the information and communications technologies (ICT), electronics manufacturing and design, and consumer electronics (CE) sectors. This enables them to make the right business decisions to deliver commercial solutions and achieve growth and profitability. We do this by fostering improved business performance, encouraging thought leadership, and making the shaping of markets and influencing of policy possible.

We are constantly striving to provide work environments where our members can meet their potential and thrive in an atmosphere of excellence through working closely with the government, regulatory bodies, policy makers and businesses.

Intellect Postal Services Group

Intellect's Postal Services Focus Group comprises the key industry stakeholders and has an established programme of engagement with all sections of the market to collate and articulate the concerns and visions of the postal technologies sector.

Our objective is to represent the industry to highlight the importance of technology to the UK postal industry now and in the future. We do not advocate specific company technologies and therefore Ofcom should regard this response as an expression of the specific industry view.

In recent years our group regularly engaged with Postcomm to input the concerns of the technology industry and receive updates from the regulator, and we believe Postcomm found Intellect a useful forum for engaging with key industry stakeholders.

Following Ofcom's assumption of regulatory responsibility for postal services our group has met with Ofcom on multiple occasions and we have responded to several Ofcom consultations in 2012 to input the collated thoughts of the meters industry into Ofcom's decision making process.

Intellect response on behalf of the meters industry

Background

In this response Intellect would like to introduce the meter manufacturers sector and provide collated thoughts in response to the consultation issued by Ofcom concerning the future framework for economic regulation.

This response is solely from a specific section of our varied membership – our meter manufacturers. It comprises the collated concerns of the meter manufacturers' sector specifically within the Intellect focus group, in particular:

- **Pitney Bowes Ltd**
- **Neopost Ltd**

These members are keen to convey their thoughts as an industry, and Intellect provides a neutral forum for our members to collectively provide the thoughts of the sector for the benefit of industry and regulator.

Please note references below to *'Intellect members'* refer solely to the views of our members named above and views of Intellect's wider membership may follow separately if appropriate.

The response includes the following sections:

1. An Executive Summary
2. An overview of why customers choose the meters channel
3. Response to the appropriate consultation questions
4. Ongoing dialogues and next steps

Executive Summary

In this response, feedback is limited to Ofcom's consultation on the key issues that affect Intellect members in the meter manufacturer industry.

In the UK today the meters industry provide access to Royal Mail services to over 200,000 of their customers. Customers using this equipment include major financial institutions, public sector bodies and the vitally important SME sector. Working with and through this industry sector the Royal Mail efficiently collects approximately £900m per annum of its revenue.

The meters industry prides itself in the relationship it has built over many years with its principal business partner in the UK, Royal Mail. Since the advent of postal market de-regulation, it has also taken time to understand the regulatory environment that surrounds the industry and to develop relationships with organisations that play a key role in defining this area.

Like stamps and payment through an account, the meter is an important payment channel for Royal Mail services and this document is a response to the current Ofcom consultation. The industry believes it is vital to respond in order to ensure the needs of this important group of postal customers are represented and protected. However, it must be noted that the meter industry provides a range of other services and products to its customers, over and above those that provide access to Royal Mail services, and that the range of services provided by the industry is evolving fast.

The key themes of this response are that:

- There is concern as to the outcomes of this work – many similar people in both Ofcom and industry were involved in a similar Postcomm project two years ago and is not clear what, if any, the clear outcomes will be and how responses will be taken forward. Indeed, there is concern it is a 'box-ticking' exercise to meet the terms of the legislation which will not be referred to in future.
- As was the case in previous projects like this, there is concern amongst industry that the survey is disproportionately focussed towards residential customers in both survey samples and the final report. Intellect emphasises that it is small and medium businesses which commercially underpin the USO and make it possible, not residential users, and Ofcom's focus should be ensuring their requirements are met and the service to them is secure.
- There is continued concern amongst our meter manufacturer members that Royal Mail ultimately intends to curtail its first class service by forcing social mail users to down-trade from first class to second class service via price rises – with subsequent re-allocation of costs for the first class service to business users resulting in further down-trading.

An overview of why customers choose the meters channel

Intellect members from the meters sector have highlighted the following factors which make the meters channel attractive and which it is important for Ofcom to be aware of as part of this work:

1. Business customers can gain easy access to the majority of the Royal Mail's products and services through the franking machine.
2. For customers, franking offers an efficient and accurate way to weigh measure and pay for unsorted business mail.
3. There is no minimum threshold as regards the volume of mail sent. Franking machine users can process their mail in batches or single piece by single piece. It is therefore a very flexible system that can be configured individually to any mailroom, mailhouse or office environment.
4. For SMEs the other channel options would be to go to the Post Office which is an ideal retail channel but inconvenient for many small businesses, or to use stamps which is likely to be the method of posting they used before acquiring a franking machine.
5. SMEs can be assured that they will enjoy the same quality of service from the Royal Mail as larger posters even though they do not spend at the levels of those organisations.
6. The price of an entry level franking machines is attractive to SMEs who are looking for convenience.
7. The channel continues to work closely with the Royal Mail to develop new services for customers and to expand the choice available to customers. For example the use of 2D barcodes would give customers the ability to track mail items in the Royal Mail network and have access to service reports. This technology would also allow Royal Mail to innovate and deliver new value add services for customers.
8. The Royal Mail are offering new services in the market place for all customers, the meters channel are keen to offer their customers the full range of services including the range of Tracked services.

It is also worth noting that the vast majority of Royal Mail products in the meters channel are, currently, price controlled. Price control reflects the fact that Royal Mail has traditionally been, and continues to be, seen as a dominant player in this part of the market and therefore attempts to ensure that unfair or anticompetitive practices are not a feature.

Customers themselves are not especially concerned about what products and services are in or out of the price control; they require a high quality service at a reasonable price, priced on a uniform basis which they expect the Royal Mail to deliver.

For their part, Royal Mail receives mail with a securely evidenced postmark and can access customer usage data for business planning purposes. The meters industry has the capability and expertise to develop and support Royal Mail with its major automation and efficiency program currently taking place across its network. The industry is working very closely and pro-actively with Royal Mail to support these activities and believe they will ultimately result in improved quality of service levels, improved resource productivity for Royal Mail and increased customer satisfaction for meter industry customers.

Intellect Response

We have not responded to every question in the document, rather we have responded thematically to issues of common concern to our members.

Methodology of the Research Project

The Universal Service is commercially underpinned by business users of mail and any survey into the suitability of the current service must focus primarily on the needs and experiences of a representative sample of UK businesses. This does not appear to be the case here.

This is confirmed by statistics:

- Residential customers send approximately **1.5** items of mail per week currently, compared to 3.5 items a week in 2006. This is **12%** of total mail volumes.

Moreover, single piece 1st and 2nd class mail has declined by 40% over the past five years, whereas bulk mail (including access) has declined by less than 5% over the same period.

Indeed, mail derived from business, whether it is from Royal Mail Retail products or Access, is the key contributor to the funding of the Universal Service. Volume reduction and/or dissatisfaction with the service here will have a far stronger detrimental effect to the USO finances, and therefore to Royal Mail, than in the residential mail area.

This evidence strongly suggests that heavy focus should be placed on the requirements and satisfaction of business mail users in research with the objectives of this project. However, despite this, Ofcom report that the survey interviewed 4085 residential users and only 1126 businesses.

1126 businesses are unlikely to be representative of the UK business landscape – to be sure this is difficult but an approach that has samples from across the large and small business landscape weighted proportionate to the volume of mail they actually send would yield more useful results.

Moreover, these were primarily telephone interviews with very limited face-to-face contact.

Implications of the results

The research suggests that **'businesses are generally using post more than residential users.'** This is both true and much understated. Businesses account for significantly higher volumes of mail – indeed they underpin the USO – and thus this sector should be of primary focus both in this survey and in analysing the outputs.

This has a detrimental effect both on the accuracy of the results in the final survey and therefore the impression they convey to Ofcom and to Royal Mail.

The research results report that **'the vast majority of businesses surveyed use stamps, at 87%.'**

This comes as a major surprise to the meters industry given the benefits of having a meter outlined above and suggests the sample surveyed was unduly limited to small business uses.

Moreover, our members question whether businesses reporting that they do *keep* stamps in a drawer for individual/specific occasions have been counted as them using stamps as the primary means for sending their business mail when in fact they use a meter/PPI the majority of the time. This greatly skews the results and does not give an accurate perception of the business mail sector – asking what is their 'primary' means of sending mail would have avoided the problem of overlap of stamps and meters.

Of the businesses surveyed, it appears only 104 were meter users and 24 were PPI users - with only 13 spending above £450 a month on post. This suggests the business sample is not representative of large businesses in the UK and also questions the way the questions were asked.

The research also suggests that there are stamp users who use bulk mail - this makes little sense as there are no bulk mail products accessible through stamps and calls into the definition used for 'bulk mail' and the means in which the question was asked.

It should also be noted that businesses using meters/PPI send greater volumes of mail (hence the reason they choose these products) – it is therefore misleading to suggest that 'most' businesses use stamps based on the number of businesses alone as that is not reflected in actual mail volumes.

While the sample of businesses in the survey may be representative of the SME community (although this cannot be confirmed as it is unclear how 'SME' is defined and the sample remains small) it is certainly not a representative sample of the users of post. The answers of larger companies who send the largest volumes of mail and who use meters/PPI must carry more weight in analysis such as this – currently this appears lost in the residential focus and disproportionate business sample.

It is also noted in the small print of the report the number of businesses who respond to specific questions – in multiple cases these are very low, resulting in unrepresentative findings which cannot be used to make conclusions about the market. Indeed, only 52 businesses responded to questions on Saturday delivery.

Use of First class

The research reports that 66% of business mail is sent using First class – however, this is misleading in that the figure is the mean average of the number of companies surveyed and is at odds with Royal Mail's own figures on this which suggest a split of 40% First class to 60% Second Class (although the 40% First class accounts for approximately 60% of total revenue). Our members suggest that businesses in fact do not necessarily prefer to send First class mail – they just send much higher volumes of mail that it can appear that way when compared to others.

The larger point here may be the fact that industry has insufficient insight into the real costs of the First class service as it is kept strictly confidential by Royal Mail – this is an old issue which inhibits the ability of industry to provide informed opinions on the First class service. Intellect members would make the following recommendations to Ofcom as the industry regulator charged with ensuring the regulatory safeguards are successful:

- A clear statement of what Royal Mail financial information is available is needed for the industry;
- Clear, granular financial information is essential to the profitability of the USO. Data should be widely published and broken down into stamps and business mail. For example, industry needs to know what the stamp channel is making and losing in the USO against business mail. Business mail is an enormous contributor to the USO and withholding information regarding the viability of stamps versus business mail could have highly detrimental consequences.

Royal Mail may understandably be reluctant to share such data; however it should be emphasised that this is for the core benefit of the USO, and is thus fundamental to Ofcom's primary objective. In the past, Royal Mail has provided information on the financial viability of the USO, and a clear statement that this is crucial to USO profitability should be in Ofcom's proposals.

Regardless, the results are a positive statement for the use of the First class service in UK businesses using meters/PPI and shows the value of the First class service – even if, as the research also shows, in many cases this is due to the perception created by use of First class as opposed to a firm need for mail to be delivered to that timescale. It is also worth noting that the proportion of businesses sending mail that deem that it needs to be sent First class is marked higher than of the receivers of the mail.

Threat of increased switching from First to Second class

With regards to the three options suggested for the future of the next-day service, our members note the challenges involved with instituting a '1½' day service and emphasise that, while there is a need to provide Royal Mail with commercial flexibility, there is continuing concern amongst our meter manufacturer members that Royal Mail ultimately intends to curtail its first class service – something which would have serious and lasting detrimental effects on small business users and, therefore, the USO.

This concern is based on the fact that with their new commercial freedom, the following chain of events may occur:

- Only price capping second class stamps will free Royal Mail to increase the price of first class stamps which may well force social users to down-trade to second class.
- However, the First class infrastructure remains in place and to ensure that costs are covered by the users of First class mail Royal Mail reallocates costs from social to business users.
- To cover the re-allocated cost Royal Mail then increases the price of First class business single piece mail prompting small and medium business customers to switch to second class potentially resulting in the death of the first class service itself as it becomes too expensive to maintain.

Meter customers using First class services underpin the USO, which means this is a situation Ofcom must take seriously going forwards. Moreover, there is a history of switching in this market. Indeed, stamp class switching has occurred before in the business mail sector, which means there is a real possibility it could occur again if encouraged by the regulatory situation.

The key question industry is keen for Ofcom to be aware of is where do they see the first class service heading and have they considered the business consequences

Over the past 5 years metered mail first class volumes have fallen from over 50% of metered mail volumes (Royal Mail Regulated Accounts 2004/2005) to a current figure of circa 40%. Price increases have clearly encouraged customers to down trade. We are concerned that there is significant potential for switching based on past experience, raising the potential for Royal Mail to lose significant revenue and for the cost dynamics of the USO to suffer.

The key point here is that this is different to what Ofcom reports regards vulnerable customers favouring second class – this may be true for domestic customers however this is not the case for small and medium businesses which are also vulnerable parties and which underpin the USO in the first class revenues generated.

Collection and Deliveries

In our view it is not clear from the methodology of the survey that business users were asked the questions correctly in relation to collections and deliveries, particularly Saturday deliveries.

Businesses were generally ambivalent regarding Saturday deliveries to their businesses, but very little mention is made of deliveries to their customer's addresses, particularly if the

business operates in the B to C arena. Would this answer change if the questions were posed in relation to a campaign the business was running and feedback/call to action was required? Our members suggest that businesses that have a strong presence in the B to C arena, e.g. Financial; utilities, would give a different answer.

To further our contention we would draw Ofcom's attention to the following areas of the consultation document

- Page 93 11.11 'business users did not value Saturday deliveries at all...' Our members would judge that this was in relation to deliveries to their own businesses, as they could well be closed or the mail would not be dealt with until Monday.
- Page 95 11.17 only mentions this point briefly, '...still favoured retaining six day delivery as a result of customer expectations for Saturday delivery...'

Ongoing Dialogue and Next Steps

Intellect and its Postal Services Group would like to thank Ofcom for the willingness to engage with them to understand some of the complex issues regarding the postal regulatory framework at an important juncture.

Interpreting these results in the correct manner is vital to maintaining and improving the Universal Service and we hope Ofcom will work with industry to refine the results as appropriate and then work with industry to take them forward to tangible outcomes.

We trust that our submission is helpful to Ofcom in its thinking and decision making and hope that Ofcom will take onboard the importance of the meters channel and the concerns it has regarding the potential impact of some of the proposals on the USO.

As Ofcom's thinking develops we are very happy to continue this dialogue in view of our member's deep understanding of the sector.

We would also be very happy to discuss this response in more detail.

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