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Dear Gavin

PPA RESPONSE TO OFCOM'S CONSULTATION ON SECURING THE UNIVERSAL POSTAL SERVICE

On behalf of the magazine publishing industry, the PPA welcomes the opportunity to respond to Ofcom's 'Securing the Universal Postal Service' consultation and its proposals for the future framework for economic regulation. (Please see Appendix 1 for further information about the PPA).

Risks of greater commercial freedom for Royal Mail

The PPA fully supports the principle that the Universal Service must be protected and we recognise that Royal Mail is operating in a difficult commercial climate and must modernise in order to meet the future needs of the postal market. However, having reviewed Ofcom's proposals we have serious concerns about the adoption of such a light touch regulatory regime. We do not agree with Ofcom's view that a Price Control is an inappropriate option at present for regulating Royal Mail's prices. We believe the problem is that previously it was not implemented effectively.

Historically, Royal Mail has relied on revenue generating pricing strategies rather than addressing the fundamental issues concerning its modernisation and related efficiency; it has been allowed to impose above inflation increases rather than seeking to generate revenue through its own efficiencies.

In view of the adverse financial position which Royal Mail continues to find itself in, the PPA and its members are extremely concerned about the potential outcomes of this new light touch regulatory approach and the consequential impact which further price increases would have on customers and a postal market already under pressure. (Please see Appendix 2)

What is more, we remain concerned that the true impact on Royal Mail of the significant price increases which publishers experienced in 2011 has not yet become evident. We believe that Royal Mail has wrongly perceived magazine traffic to be price inelastic. While publishers will have met their commitments to fulfil subscriptions over the past year, they are now very actively reassessing circulation levels, direct mail activity and their subscription pricing strategies for 2012 and beyond.

If Royal Mail has underestimated the impact of the 2011 price increases, then it might be encouraged to levy similar increases for 2012. We believe that further significant price rises will only provide a temporary fix to a shortfall in cash flow while creating a very real risk of accelerating the decline in postal traffic. Further increases in prices will inevitably lead to cancelled subscriptions, resulting in a loss of magazine traffic and associated direct mail activity, and by extension a loss of revenue to Royal Mail.

Faced with continuing loss of volume (and revenue), Royal Mail would be likely to seek yet further price increases, leading to even greater reductions in volumes and creating an ever increasing spiral of decline which will threaten very seriously the long-term sustainability of the Universal Service.

Regulatory timeframe

The PPA has serious concerns about the seven year timeframe proposed by Ofcom. In Ofcom's own words (*PPA Postal Strategy Group meeting 02.12.11*), it has decided to take a more "radical" approach to de-regulation. In view of this, we believe that the seven year timeframe poses too much of a risk.

We believe that there should be a formal, consultative review midway through the period to assess Royal Mail's progress on the following: its modernisation programme; its quality of service levels; the potentially delayed impact of price rises; and any evidence of continued excessive pricing.

Safeguard (i) – Effective monitoring of Royal Mail's performance

We agree with Ofcom's proposals to put in place a monitoring regime. However, we note that Ofcom has not indicated the year-on-year efficiency gains that it would expect Royal Mail to deliver. We trust that this will be forthcoming.

We believe that Ofcom is best placed to determine which specific aspects of Royal Mail's business should be monitored, in order to ensure that Royal Mail achieves the required targets and efficiency gains. We would welcome a published statement from Ofcom detailing the information which it intends to collect and monitor.

We would also suggest that there may be benefit in benchmarking Royal Mail's performance against its European counterparts.

Safeguard (ii) – Price caps

While the PPA agrees with Ofcom's proposals for an index-linked safeguard cap on Second Class stamps, we believe that a price cap should also be applied to First Class stamps. The concern is that Royal Mail might raise First Class prices to such an extent that customers are forced to downgrade to Second Class, leading Royal Mail to make the case for the removal of First Class from the USO for financial reasons.

Regulatory intervention

The PPA is concerned that Ofcom's proposals do not make provision for the regulator to intervene in the case of serious disputes between Royal Mail and its customers. We believe that a procedure should be put in place for the resolution of such disputes, for example in instances where Royal Mail seeks to impose potentially unfair and unreasonable terms and conditions on its customers.

I hope the above comments are helpful. If you require further clarification on any of the points, then please do not hesitate to get in touch.

With kind regards

A handwritten signature in black ink that reads "Nicola Rowe". The signature is written in a cursive, flowing style.

NICOLA ROWE
PPA Director of Circulation & Member Services

APPENDIX 1

The PPA: Who we are

The Professional Publishers Association (the PPA) is the UK industry body for magazine publishers.

We currently represent more than 200 companies, ranging from traditional women's weekly consumer magazines to business-to-business data and information providers, and from large multi-territory conglomerates to smaller local creative publishing companies.

The importance of post to our members

- The publishing model requires stability and price certainty in the postal market – without this, efficient planning and investment for future growth will be severely compromised.
- An increasingly competitive media environment means that quality and reliability of the postal service is critical, but with postal distribution accounting for up to 50 per cent of a magazine's total production costs, the price is equally critical.
- In the long run, sustainable competition is desired by publishers delivering choice, stability, product innovation, and competitive prices; however publishers have yet to benefit from genuine delivery competition to Royal Mail.
- There is no like-for-like national competition for magazine delivery, and delivery competition in the UK postal market as a whole remains very limited. In addition, e-substitution is not sufficiently developed to be attractive at this point in time. Publishers tend to use digital versions to complement rather than substitute for their physical publications.
- Ofcom has a critical role to play in continuing to monitor and protect the interests of customers, including magazine publishers, balancing the right kind of sustainable competition with proportionate regulation.
- We believe that a critical role of the regulatory framework going forward will be to provide long-term incentives from Royal Mail to drive efficiencies through the business.