

OFCOM consultation

Royal Mail Access Pricing Review

Response:

Regional Mail Services Ltd

Author:

John Hughes

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'About this document'

This introduction appears to make the basic assumption that a lack of end-to-end competition would be bad for the postal user....in legal terms I think it's 'called leading the witness'. It is my belief that the destruction of the county's ability to effectively deliver its mail is much worse, and should be the main focus of attention for this review. All actions should be considered as the initial move in a chain of actions. Unlike the failures in the scenario planning for the Iraq invasion, the largest part of the focus should be attending to what is the worst possible case that could happen ...rather than a preferred outcome. This is not to encourage risk aversion, rather a strict and educated attention to risk management. However, the current commercial ambitions of one competitor should not be allowed to divert Ofcom's attention from the possible likelihood that a race to the bottom in price will drag with it the service quality and eventually the viability of all combatives to provide the National Strategic Requirement of delivering the mail.

Executive Summary

Para 1.4

The concern here is that this summary sets out the ground for the rest of this document. It implies that an end-to-end (E2E) competitive situation would benefit consumers. The consumers, who have no access to use DSA and are merely the recipients of the mail, are not the main beneficiaries of E2E. The benefits of lower price and lower service levels (the cost for lower prices) are received by the bulk mailers.

Para 1.5

The consultation is headed as a Royal Mail Access Pricing Review and at this stage a statement is made that 'This consultation relates to postal services involving the delivery of letters from large organisation (bulk mailers) to individual addresses'. This illustrates the problems that we smaller operators have had with both RMW and Ofcom (and Postcomm before it), in that an assumption has always been made about the type and size of business models that will take advantage of the right to access RM's facilities by a wholesale arrangement.

With an innovative approach to the use of DSA, there is no reason why my local vet cannot take advantage of this facility... and not only continue to use the post, but in the case of many of our customers, to increase their usage.

Ofcom has allowed the 'normal' business model to blinker their thinking on the use of post and this is shown clearly by their continual use of the phrase D+2 Access. As a company, we have used innovation, skill and persistence to evolve the use of DSA to produce a genuine D+1 to rival RM's 1st class on a regional basis. This achievement, much valued by our clients (20% of our daily PostalSort traffic), is ignored, presumably due to its apparent insignificance as a percentage of overall UK volumes.

Ofcom's Duty to the rural communities

I believe that Ofcom is required to ensure that the socially and financially disadvantaged, the disabled and the isolated rural communities are not affected in an unfair and negative way by the USO provider.

In the past the focus has been on the cost of using the service and hence the affordability. Provided the occasional (read as 'very occasional') stamp was within reach of these groups the duty had been served.

I would like to redirect Ofcom's attention to the real impact on one of these groups of price manipulation within the zonal framework. The rural communities have a much greater dependency on the postal service than the urban and suburban counterparts. The urban and suburban are extremely well supplied with high-speed broadband and internet services. The rural communities much less so and hence they have a much greater dependency on the direct marketing services of potential suppliers who ply their trade by post.

The skewing of zonal charges to reduce urban postage rates by vastly increasing rural delivery charges to enable a more competitive price in areas of E2E competition is already having a serious affect on the comparative mail volumes received by rural communities. Direct Marketing campaigns are now excluding Zone C addresses to increase their mail volumes in Zone A for the same cost. This may not be a long term affect, as a focus on their Return on Investment may well show marketers that those rural consumers, in their relative isolation, prove to be a much more valuable and loyal customer base. However, they may never have the chance to find out if the excessive charges for zonal are applied.

Point for Ofcom:

The price of the stamp is not the indicator of a healthy postal service in rural and disadvantaged communities. The real indicator is the volume of mail ... specifically DM...in comparison to that received in urban and suburban areas. Excessive tilting of the zonal price 'table' to achieve a competitive advantage in urban delivery areas must be reviewed with this in mind. Innovation in the Postal Sector requires regulation that enables and encourages experimentation and not just control of the status quo.

Zonal or National ...or Regional

Regional Mail Services (RMS) was part of the team (with RMW) who first devised zonal pricing. At that time we were creating a way that a non-national carrier could get involved in DSA and bring the advantages of wholesale delivery to regional SMEs (hence the company name). The

distribution requirements for a National Letter contract still limits the non-national player to the use of a zonal contract.

The zonal contracts have changed dramatically since their first inception and their limited usage demonstrates the barriers to their use and value. It would be fair to say that the main use of zonal contracts is not currently to allow entry to access for regional players ...but to provide a channel for large 'providers' (not necessarily carriers) to commit arbitrage between National and Zonal contracts. Thus 'playing the system' to take an unfair advantage over their regional opposition.

PostalSort

Other non-Zonal contracts (para 5.61):

'Our understanding is that the current Zonal plan (ZPP3) essentially meets the needs of operators that do not wish to be on a national plan as far as we are aware, access operators have not sought sub-national plans with an average charge to date, even though we note there may be advantages in having a specified average charge and associated terms around a mailing profile requirements.'

PostalSort, part of the PostalGroup, is NOT a postal delivery company. PostalSort is a business mail collection and sortation operation that provides a 'franking-meter-free' service.

Three major issues with using the current ZPP3 plan:

1. Our customers (approx 1000 daily collection in NI) would be unable to determine the zone that their client's address is located in and hence would be unable to apply a zonal indicator. We currently do not sort the mail by machine as the manual processing provides several customer-valued advantages. We would therefore require a zonal process that doesn't require indicators.
2. The customers have a unique posting profile (e.g. NFU – v - City centre insurance broker) that have very different zonal costs. If we made no margin on the rural profile we would have to tailor our sales toward urban usage. This would disadvantage the rural community which make up 48% of the NI delivery points...nearly half of our NI population. Being unable to service nearly half of the community due to the zonal tilt and zonal profile would be extremely detrimental to our ability to provide our service and hence compete with either RM retail or Whistl on a National letter contract..
3. We are also a mailing house (Mail Matters) and the customer will normally require a quotation before placing work. If the data is not available at this early stage (the norm) then we cannot provide anything other than a worst case price option. This would leave us at a complete disadvantage verses RM retail and other Nation Contract operators. Hence the absolute requirement for a specified, average charge rate.

Point for Ofcom:

To continue to function in our Regional environment, RMS would require a Regional, Zonal, averaged price contract that would be notified as zonal (for RP purposes) but had no requirement for the addition of zonal indicators.

We would therefore request that your final proposal does NOT include the prohibition of a sub-national style of contract. We would also request that the pitching of the 'averaged price' be based on the volume of mail being delivered to each zone ...and not necessarily the percentage of delivery points per zone as a proportion of the overall national cost.

Insufficient zonal granularity

The original profiling of the zones in the UK provided for five distinct zones. These zones did not include a London zone. Over the years the threat of E2E and several other issues have reduced the non-London UK to a simplistic version that contains only three profiles.

The result has been a large area of '*suburbia-bordering-rural*' UK [SBR](which is highly represented in the regions) has a price that no longer reflects the Royal Mail's costs. These areas are mostly designated as delivered by van but are actually delivered on foot with the van parked up as a secure temporary and mobile storage unit.

Unfortunately these areas are classified in the same zone as the highlands and islands of Scotland and hence are subsidising those difficult and expensive USO deliveries. The change to the formatting of the zones has had a limiting effect on the innovative potential for bringing DSA to the SME, especially those in SBR. Within Northern Ireland, 48% are considered zone C, including my own home, and yet a well thrown snowball could take out at least 4 of my neighbours.

The problem lies in the averaged fixed cost (based on the % representation of zones in the region), as this will misrepresent the true regional cost and provide a local rate that will be well in excess of the national rate that our competitors will be paying for an identical, local service.

Point for Ofcom:

We would propose that the zonal system be extended back to a minimum of 5 zones plus London.

This added granularity will remove the inaccuracy for regional prices caused by the excessive inclusion of 'Deep Rural' costs in what is virtually suburbia.

New zones.....City Centre, residential urban, suburban, light rural, deep rural would make a good starting point.

The current light usage of zonal would make this an easy change.

The Ofcom proposal to link the structure of access charges more closely to the structure of costs (para 7.18) would be served by our proposal for added granularity.

Fairer Allocating of collection costs

PostalSort, as mentioned, is a business mail collection and consolidation operation that completes with Royal Mail retail to provide the front end of the Universal Service for our business and organisational customers.

It was therefore noted that the costs that are considered in setting the DSA rates, which are claimed as delivery costs, appear to include much of the RM Delivery Offices' costs for collections. (Separation of these costs will become harder to delineate once 'collect and deliver' becomes a widespread reality.)

These costs are therefore partially borne by us.

We appear, therefore, to be funding our own competition?

Point for Ofcom:

When allocating costs to devise the DSA rate, the cost for collection of USO (still 30% of traffic) mail should not be included with delivery costs but allocated separately to the USO operation.

Answers to Consultation Questions:

Question 3:

I do not believe that the existing zones are fit for purpose. They are too much of a blunt instrument and often do not fairly reflect the real costs. I believe that there should be a minimum of 5 zones plus London. I think that Ofcom should be very aware of the way Royal Mail tilts the profile charges to advantage themselves in the E2E combat zone, whilst disadvantaging the rural communities, where they have no E2E direct competition

Question 4:

I agree that the zonal charges should reflect a combination of density of delivery points and the volume of mail they receive. However, I feel this leaves too much room for manipulation and believe that Royal Mail must have 'IMC + Delivery Office' costs that would give a far more accurate set of numbers.

Question 5:

I approve of your proposal to require all products to be offered across all zones. I agree that 'pay-as-you-go' zonal must have no profile or localised volume commitments ...but I would caution against allowing any operator to have both National and Zonal ...or to have arrangements with a supplier who could handle arbitrage traffic for them. However, it may

well be that a suitable mailing profile could be split for arbitrage between Zonal and RM retail business mail. It would be interesting to request RM's opinion of such an action ...Arbitrage?

Question 6:

I fully agree with linking National to Zonal charges. I also agree that the access charge should be volume and delivery point density related ... however, this must be part of a review of zones (increase the number) as the current definition of the three zones is far too broad. This results in an unfair cost biased in the areas where rural predominate ... but which are truly sub-rural or 'suburbia plus' in delivery cost to RM. This gives a huge margin advantage to RMW and disadvantages competition.

Question 7:

It is important that the National operator should somehow be required to pay the same price for the same service as a regional player. After all, they are receiving the same product / service.

Perhaps a simple system could be devised that produced a price per IMC ? A calculation could be made for how much each IMC and its regional DOs cost to run (only their delivery network, not collections) ...then divided this by the value of the traffic that passes through the region.

Each mailer would be charged for how many items they were presenting in front of each particular walk sequencing machines. Each 'IMC-region' would have a different ratebut the calculations would be easy and come from 70 sort .

A national version could be created based on % traffic compared to the national average, just as it does now. Charges would be easy ...any excess in cheaper IMC-zones would be credited (not sure RM would understand this principle) and more expensive IMC-zones debited...this would help prevent arbitrage !

You end up with a zonal structure ...but zoned geographically (not macro-geographically). In a way, this is reflected by a Northern Ireland, regional, zonal contract with an averaged specific price. The IMC at Mallusk has a set price for each item translate this across the country and you have a National system based on true regional costs.

Question 8:

It would be completely inappropriate to prohibit sub-national pricing plans ...zonal or not, as it would prevent innovation by limiting business models to those that currently exist.

The whole point of encouraging the smaller operator is to maintain a hot-bed of innovation.

Rather than prohibit these contracts, Ofcom should be face-to-face consulting (other than the local office, you've never been to see me in the 10 years I've been an operator) with those of us who are sufficiently fleet of foot to devise new solutions and 'give-them-a go'.

We helped create Zonal, we hope to be the first sub-national and we are the first to create and very successfully operate a franking-free option for SMEs and macro organisations to access the RM's USO postal services.

Question 9:

I agree that the Zonal FAC by format is the most appropriate measure.

Question 10:

With the tilt of zonal charges already affecting the volume of mail being sent to Zone C, it would be unfair to use historical information. These anti-competitive charges, caused by price manipulation, would not be addressed for several years after they are first seen to be having a negative influence. Definitely NO to the use historical information.

Question 11:

Yes

Question 12:

This should be reviewed once Mail Mark has provided an accurate volume trail. The more accurate the information the betterbut this, once again, should be based on a finer definition of more zones.

Question 13:

I agree, although the data from Mail Mark may influence this decision ...as would the new levels of information from RMW's invoicing suit.

Question 14:

I agree.

Question: 15

I agree.

Question 16:

Although I fully agree that monitoring of compliance is vital, I am also aware that over control could stifle RM and unfairly prevent them from open competition with an E2E rival.

Question: 17

Not my field of expertise

Question: 20

The only value to the consumer of increased E2E, as per para 7.27, is a reduction in charges.

The current evidence would show that a low cost E2E provides considerably poorer service, and no 1st class. It would also appear that the performance of an alternative E2E is dependent on being able to use the USO provider as a buffer for periods of '*higher than internal capacity*' volumes.

The same paragraph states that the duplication of infrastructure **will** lead to an increase in the total industry costs for delivery of a given volume of mail (increased cost per item).

The only place to find the reduction in charges against an increasing cost-per-item is in the reduction of all party's profit margins.

It appears that this opinion is totally dependent on a 'longer term' view by Ofcom that lower prices will produce higher volumes.

The worldwide, and much publicised, experience would indicate a gradual (not so gradual in some countries) reduction in mail volumes.

Hence, without contradicting evidence, Ofcom's whole argument for the safe introduction of extensive E2E is basically flawed.