

Your response

Whistl welcomes Ofcom's continual involvement in the Postal Market with dual regulatory aims of ensuring a financially sustainable and efficient postal service and benefiting consumers where necessary by promoting competition. Stakeholders want to see a successful, efficient and professionally run Royal Mail, a respected institution that the country can be rightly proud of.

When Ofcom assumed responsibility for the Postal Market it granted Royal Mail far greater Commercial freedom to set prices by removing much of the price control that was then in place. Royal Mail has taken full advantage of this and consequently downstream prices have doubled since Access was first introduced, while volumes have halved. Whilst the additional revenue helped improve Royal Mail's profitability to a level commensurate with a financially secure USO it certainly has not benefited posting customers, particularly the large volume customers on whose volumes the continuation of the USO depends. Royal Mail abused these commercial freedoms with its 2014 contract change notices, behaved anti-competitively and Ofcom has fined Royal Mail £50m, currently the subject of a CAT appeal.

The 2019/20 work plan for post needs to look at the current situation carefully because the future provision of the USO is perhaps not as secure as it was at this stage last year. Central to this are two themes which are, to a degree, linked.

The first is volume decline. Royal Mail reported on 29/1/19 this running at 8% for the year against initial expectations of 4%-6%. Our posting customers tell us that the continued steep increase in Access prices are spurring them on to look for alternatives in the increasingly expensive Business Mail arena and demonstrably that they are moving volume out of mail to alternative media channels in the Advertising space. Whistl would welcome an independent Ofcom study into the impact of price increases on overall mail volumes, the future impact of these volume declines on the USO and if deemed necessary the imposition of some regulatory controls or direction to prevent excessive price increases in the forthcoming years.

The second is efficiency. Royal Mail reported on 1/10/19 that it would miss its own UK Productivity performance targets by somewhere in the region of £130m. The target is made all the more challenging by the agreement to cut the working week and the recent weakening mail volume. All stakeholders recognise that the longevity of Royal Mail depends on its ability to become and remain efficient, and of course this is one of Ofcom's primary duties from the PSA regulation. Delivering on these efficiency improvements is paramount to continued success and the absence of the powerful and effective force of direct delivery competition has meant that additional regulatory measures are now needed. Ofcom has a good understanding of what is possible for Royal Mail to deliver in terms of efficiency through some of its own commissioned research and Royal Mail's future business plan. Whistl would welcome Ofcom setting an efficiency improvement target for Royal Mail and holding them to account for hitting this target, in the same way that Ofcom do for quality of service measures for example. With the announcement that the Capital Markets day has been postponed to May Whistl urge Ofcom to act now in 2019/20 based on its current knowledge and not wait for Royal Mail to both set out and implement its strategy.

Whilst there is work to do on securing the USO provision there is also work to be done under Ofcom's CA 2003 duties of furthering the interests of consumers, where appropriate by promoting competition.

Ofcom's monitoring regime covers a wide range of stakeholders in terms of their usage, attitudes and satisfaction with postal provision. A small number of posters make up a large proportion of the UK Mailbag and Whistl would like to see these key business mailers explicitly surveyed as part of the monitoring regime in order that their views can be properly understood and incorporated in any policy decisions.

Whistl have observed that price increases occur more readily in captive markets than in competitive markets and believe that cost allocation rules are used to justify these increases.

Whistl welcomes Ofcom's investigations into the detail of these cost allocation practices and in particular welcomes the development of an independent dynamic costing model. Ofcom should not just look at the allocation of costs to RM's existing operational model but challenge the suitability of the operational models presented to prevent any malfeasance in cost allocation.

Ofcom removed mandated access for packets (now called parcels or lightweight parcels) when it took over from Postcomm. Since 2012 there has been a huge increase in demand for tracked lightweight parcels. Whilst the parcels space is demonstrably competitive overall and has little regulatory oversight there is little doubt that Royal Mail have significant market power at the lower weight levels and a virtual monopoly below 1kg as a consequence of their foot network structure. Whistl would welcome an Ofcom analysis of the sector and consideration if packets in general, and tracked packets in particular, could be brought back into the mandated space.

Finally Ofcom should formally review the USO product list to ensure products meet the requirements set out for USO products and are correctly treated for VAT.

Whistl is one of a small handful of Postal Operators that contributes to the Ofcom postal team costs. As such we represent "customer demand" and hope that the Ofcom postal team will incorporate many of these ideas into their work plan for the coming year and deliver excellent value for money.