

## Your response

Question	Your response
<p data-bbox="188 349 624 421">Do you have any comments on our proposals?</p>	<p data-bbox="754 349 1353 499">DX support the development of conditions in the UK for fair, vibrant and sustainable competition to Royal Mail within a stable and undistorted market.</p> <p data-bbox="754 521 1366 1137">DX believes it is therefore vital for the healthy postal market and to ensure the continuing, sustainable provision of the universal postal service that there is effective regulation of RM to mitigate its market power and apply constraints in the absence of market competition. DX welcomes the opportunity to comment on Ofcom proposed plan of work for 2020/21, which we have considered in the context of Ofcoms 2019 annual monitoring report and Ofcoms continuing work to understand the needs of mail users and consider the future regulatory framework for post. DX agree with Ofcoms view on efficiency gains are crucial to the sustainability of the universal service.</p> <p data-bbox="754 1160 1342 1547">Ofcoms stated in recent meetings that Royal Mail have sufficient incentive arising from shareholders pressure to improve their efficiency and that regulatory monitoring, rather than intervention, is the appropriate solution. <b>DX requests that Ofcoms set efficiency improvement targets and hold Royal Mail to account for not hitting these targets in the same manner Ofcom do for quality of service.</b></p> <p data-bbox="754 1570 1366 1839">DX is concerned that the price elasticity used to justify price increases in business mail don't reflect posting customers actions or attitudes. DX would welcome an independent Ofcom study to look at the impact of pricing on the volumes in this market place. These volumes are crucial to supporting the USO service.</p> <p data-bbox="754 1906 1038 1944"><b>User Needs research.</b></p> <p data-bbox="754 1966 1265 2002">DX are aware that Ofcom are currently</p>

undertaking qualitative and quantitative research into needs of the postal market service users and appreciates that this research should consider consumers and SMES user's needs . **SMEs are the life blood of the economy and at present work in an environment where due to the size and model of their business they are forced into using one supplier for the postal needs and mainly access this service through franking machines which is a clear monopoly of the RM and machine suppliers.** DX provide a service to the legal profession that actively supports SMEs with collecting smaller volumes from our exchanges, the recent demises of the Post Office in large and small towns has further restrict SMEs choices. DX are delighted as part of Ofcoms research your colleagues have agreed to visit one of DX exchange sites which supports approx 200 small SMEs with an exchange mail service and a downstream access service. Hopefully the findings will open this up to further competition to allow SMEs a choice in a competitive market rather than a monopoly.

#### **Annual Monitoring Report (AMR)**

Ofcom's latest AMR (covering 2018/19) found that:

- *There was a downward trend across RM's efficiency metrics, with a slight increase in real costs and negative overall efficiency. RM failed to achieve its target productivity improvement of 2-3%.*
- *The profitability of the part of RM that provides the universal service declined, with EBIT of 1.6%*

Ofcom says that "We continue to believe that efficiency gains are crucial in ensuring the sustainability of the universal service", but "though the financial position and financial health metrics of the Royal Mail Group do not indicate any short-term financial health issues.... The longer term sustainability depends on a range of factors, including the

extent to which the revenue growth and Royal Mail's transformation programme, set out in its five-year strategy, can be delivered," adding "We note that the strategy is subject to some risks... In its half-year results announcement, Royal Mail noted that transformation is running behind... Therefore, we believe that uncertainty remains about the longer-term sustainability of the universal service."

It hence seems clear to the DX that Ofcom has concerns about the sustainability of RM's provision of the Universal Service.

The DX also saw as some key findings of the AMR:

- Mail volumes declined by 8% in 2018/19 and have now declined by 20% since 2014/15. Over that same period, RM's prices for bulk business mail services have increased in real terms by around 7% for both Retail and Access.
- RM's costs increased marginally in real terms and have reduced by less than 5% since 2014/15 – despite the 20% fall in volumes.
- RM made no productivity improvement in 2018/19 and the improvement was only 0.6% in the year before, despite RM's own target of 2%-3%.
- RM's EBIT has consistently fallen from 5.6% (2014/15) and showed a sharp drop from 4.4% (2017/18) to only 1.6% in 2018/19.
- Ofcom believes that if RM's provision of the Universal Service is to be sustainable, its EBIT should be above 5% (or have a trend exceeding 5%); if the forecast EBIT stays below 5% or has a trend taking it below 5%, that would indicate that Universal Service provision faced financial sustainability issues.

We believe it is therefore clear that RM is not improving its efficiency as it needs to and could do, while it instead uses high price

increases to support its profits, and RM's profitability trend raises real concern for the sustainability of Universal Service.

Lastly, the DX would argue that Ofcom's draft workplan does not include any work in the postal market to address its statutory duty to further the interests of consumers, where appropriate by promoting competition.

When Ofcom became the postal regulator in 2011, its first regulatory review included a reduction in the scope of the condition on RM to provide access to its network. Since then, there has been no expansion in the range of competition to RM and, it could be argued, actually a reduction in competition in the mail market with the disappearance of final delivery competition and fewer upstream competitors to RM.

The DX has said previously that Ofcom should properly consider whether to widen the requirement for RM to agree access to its network. In the past, Ofcom's position seems to have been to wait for those seeking new services with which to compete against RM to show the commercial case for and customer benefits of a specified change to the access mandate.

The DX believes that will not happen, as it is not good business practice to commit the considerable resources needed to make such a case, when there is no indication that Ofcom would undertake the work to consider the regulatory change needed.

As Ofcom prepares for its next regulatory review (concluding in 2022) the DX believes that, ten years on from the reduction in the access mandate, Ofcom should consider where the mandate could be extended and engage proactively with the postal industry.