

Your response

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<p>Question 2.1: Do you agree with our proposed objectives for this review? Please state your reasons and provide evidence to support your view.</p>	<p>Confidential? – N</p> <p>The NFSP agrees that the objectives set out in this review are necessary, however we believe they need strengthening to ensure they meaningfully address affordability, access and long-term sustainability of the universal service.</p> <p>Royal Mail’s pricing for universal service letters has increased well above inflation over consecutive years, which has placed the cost of basic postal services out of reach of many households and small businesses. This is evidenced by survey results in which postmasters almost unanimously reported a decline in the number of books of stamps bought as stamp prices increase.</p> <p>The purpose of the USO is to ensure that essential postal services remain accessible to all.</p> <p>Current pricing patterns mean that the universal service is becoming unaffordable for the average consumer, particularly those on low incomes. Ofcom’s recent Monitoring Report confirms the significant increase in both First and Second class stamp prices.</p> <p>We believe the sharp price increase in postage has directed consumer behaviour, rather than</p>

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	<p>a natural decline. RM has the monopoly, there is no alternative for consumers.</p> <p>Affordability cannot be fully protected via optional discount offers alone. A discount scheme requiring consumers to be aware of and then register for a preferential price will possibly exclude many people it is designed to help. A universal affordability cap remains the most reliable way to protect access.</p> <p>Historically the USO was sustained by a high-volume, low-margin model. Royal Mail's very obvious shift away from letters towards the more profitable parcels, alongside rising prices, deter use, and undermined this model. When volumes fall because of high prices rather than natural substitution or an alternative provider, the cost per letter increases, leaving the USO harder to maintain.</p> <p>If price increases are the sole volume driver, it will be impossible for the USO to be stable. Therefore, a regulatory framework that has the flexibility for price shocks would better support long-term USO sustainability.</p> <p>The NFSP believes the review should include within its objectives the relationship between stamp pricing, letter volumes and letter sustainability. We also believe that Ofcom should investigate how significant price increases are allowed against declining service levels and reliability, as it could be said that RM is being rewarded for weak performance in a monopoly market, which leads to a weak universal service.</p> <p>Ofcom's Monitoring Report highlighted how Royal Mail has consistently failed to meet USO performance targets. Consumers are being expected to pay more for less.</p>

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	<p>The priority for Ofcom should be does the USO work for consumers, not how to help RM draw a larger profit from its non-USO work.</p> <p>The NFSP also believes Ofcom should stop the practise of online-only discounts, which are significantly cheaper than in person prices. This not only gives preferential pricing to those who are able to go online, but postmas- ters also report that it creates pressure on branch revenues and unfair competition against post office branches. Affordability changes should not further erode postmaster revenue.</p>
<p>Question 2.2: Do you agree with our planned approach to this review? Please state your reasons and provide evidence to support your view.</p>	<p>Confidential? – N</p> <p>We support the need and reasons for this re- view but have concerns about some assump- tions within the proposed approach.</p> <p>The planned approach seems to heavily rely on the premise that further price increases are necessary to protect the USO. However, substantial price increases have not improved RM sustainability. Instead, they have reduced volumes at an alarming rate, as evidenced in Ofcom’s Monitoring Report. Lower volumes result in an increase to the cost per item.</p> <p>A thorough review should examine whether the affordability is more strongly associated with stabilising volumes, over higher pricing.</p> <p>Has there been a full and comprehensive re- view of RM’s finances and recent technologi- cal efficiencies? The review should not pro- ceed until this has been completed.</p> <p>Have operational improvements saved any money? Have RM achieved any efficiencies?</p>

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	<p>The USO is a social obligation and should not be put at risk due to market logic being prioritised.</p>
<p>Question 3.1: Do you agree that our approach to assessing the affordability of universal postal services should be similar to the approach we have taken previously? Please state your reasons and provide evidence to support your view.</p> <p>What was the previous approach</p>	<p>Confidential? – N</p> <p>N/A</p>
<p>Question 3.2: Do you agree with our initial observations from our preliminary analysis of the latest ONS data and market research? Please state your reasons and provide evidence to support your view.</p>	<p>Confidential? – Y / N</p> <p>We overall agree with Ofcom’s initial observations, as the data indicates that recent price increases for letters have affected consumer behaviour, and have made standard postal services less affordable for many households and small businesses. This has resulted in consumers seeking alternatives, such as digital correspondence.</p> <p>The universal service exists to guarantee postal access for all. Steep price increases undermine this aim by discouraging usage and accelerating decline. This then raises the unit cost per item and threatens the long-term sustainability of the service.</p> <p>The NFSP believes that any regulatory review should consider measures that ensure universal service prices remain accessible, to then stabilise usage and protect the sustainability of the postal network.</p> <p>Alongside households, small businesses, charities and rural SMEs are also detrimentally impacted by rising stamp prices. Many use affordable universal service products for invoicing and communication. Postmasters report</p>

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	<p>that small business usage has fallen sharply in line with each price increase, with some switching to courier services.</p> <p>These wider economic impacts should be taken into account when assessing the consequences of affordability pressures on the USO.</p>
<p>Question 4.1: Do you have any comments on whether a targeted discount scheme could be used to address affordability concerns in post?</p>	<p>Confidential? – N</p> <p>We recognise the intent behind a targeted discount scheme, however we are also aware of the risks, and that the affordability problem may not be alleviated.</p> <p>The substantial increases in stamp prices in recent years have already pushed many consumers to use alternative communication. A targeted scheme does not reverse the core problem, that universal service pricing has exceeded what the average consumer can afford.</p> <p>Targeted schemes risk excluding many who need support</p> <p>Targeted discounts rely on eligibility criteria, digital access, or awareness of the consumer. Those most affected by affordability, such as the digitally excluded, elderly, disabled, rural and low-income households, often are the least likely to be aware of, understand or apply for discounts requiring opting in. This suggests that a significant proportion of vulnerable consumers would therefore be missed.</p> <p>The obvious solution to this, should there be a targeted discount offer in the future, is to ensure this is available via post offices, a view firmly held by our membership, and strengthened by Ofcom’s Monitoring Report stating that post offices are a critical channel for those who do not, or cannot go online.</p>

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	<p>However, commission paid to the postmaster should be equal to full postage price, or as part of a restructured subsidy payment made to each offer to acknowledge the social value – as requested in our recent Green Paper submission..</p> <p>The USO is designed to provide equal access to essential postal services. If affordability becomes dependent on being aware of and understanding a targeted scheme, this goes against universality and creates a two-tier system. With one price for those who understand the process, and one price the majority for those who cannot.</p> <p>A small, targeted discount will not prevent the decline in letter volumes that threatens the economic viability of the USO. Therefore, while a targeted discount scheme could provide some relief for a targeted group, it does not solve the affordability problem produced by huge and repeated price increases. A universal approach in our view, is the most effective way to maintain usage, protect consumers, and support long-term USO sustainability.</p>
<p>Question 4.2: Do you have any specific comments or evidence relating to the key elements and principles of a potential scheme set out in this section?</p>	<p>Confidential? – N</p> <p>If full-price users end up subsidising a group of discounted users, it could accidentally reinforce the affordability pressures which drive a decline in volumes.</p> <p>The universal service was designed to provide equal access at an even price, which means that its principles must guarantee that the scheme does not undermine this purpose by creating two-tier pricing systems.</p>
<p>Question 5.1: Do you have any comments on our initial views set out in paragraphs 5.2-5.16 in Section 5 on whether</p>	<p>Confidential? – N</p> <p>We acknowledge the issues raised in section 5, but we have substantial concerns about</p>

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<p>there is a case for Ofcom to move away from its existing approach to price regulation of Royal Mail's letter services based on considerations other than affordability?</p>	<p>moving away from an affordability-based method without a clear and longer-term assessment of the implications and risks as the USO exists for all customers, and should not be conditional.</p> <p>Over 90% of postmasters surveyed stated that removing the price cap for 2nd class stamps would have a detrimental impact on customers.</p> <p>If Ofcom decides that changes to the current framework are to go ahead, we feel alternative options should be investigated first. Such as: the introduction of an affordability framework, designed to cover several years, with the aim of smoothing price changes to avoid sharp increases and frequent cost increases; offering an in-branch discount; a full assessment of whether efficiencies within Royal Mail could regulate costs without requiring further price rises to the consumer.</p> <p>Administrative costs for the nationwide new scheme would be high and the scheme complex. Additional costs would then be passed on to consumers, raising stamp prices yet again.</p> <p>As set out in the NFSP's Green Paper requests, ensuring USO stability requires universal service products remaining affordable, accessible in-branch, and subsidised with fair remuneration to postmasters.</p>
<p>Question 5.2: Do you have any comments on Ofcom's plans to examine aspects of the margin squeeze rule for access prices?</p>	<p>Confidential? – N</p> <p>The NFSP welcomes Ofcom's intention to review how the margin squeeze is operating. At present, the application is opaque, and it is difficult to understand generally, more so regarding whether it is safeguarding competition.</p>

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	<p>Is Royal Mail pricing some bulk retail products below cost. If so, this means Royal Mail is able to offer some services at loss-making prices to retain volume. Competitors cannot viably match these prices, making it impossible for them to compete fairly.</p> <p>If Royal Mail is offsetting these losses by raising prices where competition is weaker or non-existent in a monopoly market, this could lead to higher costs for users of other services, including the USO. This raises questions about whether the current framework incentivises Royal Mail to push volume into non-USO products while relying on the USO basket to recover revenue.</p> <p>Where there is a monopoly, particularly for certain tracked products that fall outside the USO, there is a pressure on price. If tracked services are bearing additional cost burden as a result of Royal Mail's pricing tactics in more competitive areas, this would disadvantage consumers and small businesses who have no real alternative.</p> <p>Stakeholders regularly raise the concern that USO letter products are becoming far too expensive. If this is part of Royal Mail's pricing strategy, it highlights the need for Ofcom to understand the connections between bulk mail pricing, access charges, and the USO price cap.</p> <p>We support Ofcom's plan to examine these issues in more depth. The current arrangement leaves open the possibility that Royal Mail can use its market power in less competitive areas to compensate for aggressive pricing in other areas. This could undermine competition and harm consumers and small organisations that depend on affordable, reliable mail services.</p>

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