

Views on future approaches to stamp and access pricing

By: PostalGroup

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Background:

The PostalGroup owned company Regional Mail Services was the 4th company to receive a licence from Postcomm in 2004 and is still under the same ownership and management. It was also the first company to operate access on a regional basis. To achieve this we worked closely with Royal Mail Wholesale and Postcomm in the creation of zonal pricing.

In 2008 we opened PostalSort Ltd, which operates a pre-paid envelope system of upstream mail collection, consolidation, sortation to mailmark and submission to RMW for the final mile delivery.

Our principle competition comes from the franking machine market, hence the relationship between stamp, franking and access prices is key to our revenues and profitability.

Our success and longevity has been based on our tight pricing, reliability and the quality of all parts of our service offering. Hence the concern we now have over the dreadful level of service quality being produced by Royal Mail and the ridiculous increases in the access price rates.

Regulating a Monopoly:

It is our belief that Ofcom had been used to regulating competitive markets in digital media and then used previously effective strategies from these areas to attempt to control the postal monopoly. The net result has been Royal Mail had mostly got its own way by threatening the loss of the Universal Service and the impact that this would have on the country and especially its small businesses. RM suffered from their inability to control their unionised workforce who used the same basic threat to push through pay demands without actually producing the productivity and service improvements that were their part of the agreements. The net result was above inflation increases were not paid for by productivity but by above inflation increases in the costs to the paying public and businesses that Ofcom was unable to control.

The survival of the mail industry was mostly down to the competitive actions within access and the level of productivity that was introduced by the private operators in the upstream element of the process.

The question remains ...how can Ofcom regain control of the price of post and at the same time force RM to provide acceptable levels service.

Solutions:

The solution is not difficult and will make Ofcom's job of controlling the industry more effective and considerably easier.

A combination of stick and carrot have always been the best solution to most problems and there is an opportunity for a combination of total price control coupled to independantly monitored service levels. Ofcom would set high levels of delivery quality and link the achieved levels to the allowed increase in prices...to within an upper limit set by the current level of inflation...poor service = minimal price increases.

Hence Ofcom establishes the service level for desired productivity (nothing new there) with the cost being set by national rates of inflation. Ofcom cannot be pressured to set an unrealistic level. All the numbers are established independantly so nothing here smacks of RM marking its own proverbial homework as has been the case in the recent past. The shared costs between letters and parcels becomes irrelevant as the serice levels achieved for letter delivery will not be affected by the urgent need to deliver parcels.

Ofcom should also study the proposed changes to delivery schedules (currently under negotiation) and try to find any incentive for improvement that doesn't have the delivery of parcels as the major concern.