

Organisation (if applicable):

CFH

I confirm that I have read the declaration:

Yes

Additional comments:

Question 5.1: Do you have any comments on the approach set out above to assess the financial impact of end-to-end competition on the universal service and/or do you consider that any other approach would be appropriate?:

Theoretically the general approach presented by OFCOM to the financial analysis makes sense. However there are several points that raise concerns over both the viability of the suggested approach and the assumptions on which it is based.

In regards to the methodology, the process proposed by OFCOM appears to be very comprehensive, however as OFCOM has identified in the guidance the analysis of the potential impact will be subject to uncertainty as a result of the sheer number of variables upon which the assessment will be based.

It does not appear likely that even the most stringent sensitivity testing would give OFCOM an accurate forecast of the likely impact on the universal service of end to end competition. Given this level of uncertainty it seems illogical of OFCOM to propose a regulatory regime that would pre-emptively take action against a competitor of Royal Mail based on potentially inaccurate information.

We would therefore advocate a system that applied regulatory conditions on competition after the competition has developed. The true effects of this competition could then be measured against OFCOM's forecast and conditions applied as required. This would allow OFCOM to prepare for what it expects the required regulatory conditions would be and adjust accordingly after a period of observation before applying any conditions.

This would help to mitigate the risk of pre-maturely stifling competition that could benefit not only the consumer, but Royal Mail and the postal services industry as a whole.

Further to this some of Royal Mail's proposed changes, especially to access services, raises questions against some of the assumptions made in OFCOM's draft guidance.

For example, Royal Mail is currently putting forward contractual proposals that offer reduced "National Pricing" for commitment. This in effect creates a position where, under National Pricing, urban mail is priced higher than the lowest urban Zonal prices available from Royal Mail while rural mail achieves a much lower rate than the rural Zonal option. By committing to such contracts Royal Mail is effectively subsidising discounted rural mail with higher priced urban mail. This will make it less able to compete in urban areas with new competitors.

Will OFCOM take full account of Royal Mail deliberately making itself less competitive in this way? They may argue that committed volumes are more important, and that they are contractually bound to those prices for a fixed period, and cannot therefore compete, hence requiring regulatory intervention.

Will OFCOM make it clear to Royal Mail before such contracts are committed that such deliberate acts will not be factored in when carrying out the financial analysis of the available responses from Royal Mail to competition?

Question 6.1: Do you agree with our approach to assessing the need for intervention in relation to end-to-end competition? Do you consider that any other approach would be appropriate?:

The approach into assessing the need for intervention needs to go further than proposed.

There are three key assumption made here that raise concerns:

1. Mail volumes must continue to decline
2. That this is somehow out of Royal Mail's control
3. A 25% decline since 2006 is in some way disastrous

With regard to the first point: CFH has introduced a Hybrid Mail product, Docmail. This makes it much easier and more cost effective for users of Docmail to send post directly from their PC's. We almost invariably find that as a result of having access to Docmail users send more post than they otherwise would. If Royal Mail were innovative enough to introduce such products in a usable form then they could also help to increase the use of post.

If post is as convenient as email (as with Docmail) then people will use it more, not less, as it is much more effective than email.

To an extent Royal Mails is a victim of its own previous successes, in that it no longer see's innovation in regards to its products and customer interfacing as the best way to improve its financial performance. All of the recent changes and "innovations" made by Royal Mail have been to its equipment or to its processes as opposed to its customer services or its consumer products.

The current rhetoric as espoused by Royal Mail and OFCOM has far too much emphasis on efficiency of processes and not enough on innovation and customer service. Whilst efficiency is important and could definitely be improved upon stabilising and growing mail volumes, whether USO or DSA, should be a key concern for Royal Mail. This is a goal best achieved through excellent customer service and products that meet the current demand, not through raising prices in a time of economic austerity or hitting arbitrary delivery targets.

In regards to the second point; in several places in section 6 OFCOM mentions that Royal Mail's actions might have some effect on the decline of mail volumes.

We believe that this has been grossly understated in the Draft Guidance.

Whilst factors such as economic decline and e-substitution are influencers on the decline of mail volumes these are not operating in isolation from the impact of Royal Mails own strategies and issues. Too much emphasis is put on the impact of these external factors on Royal Mail and not the impact of Royal Mails decisions given these factors.

E - substitution is definitely a very strong factor on USO volumes and one that is unlikely to be influenced heavily by actions taken by Royal Mail especially given the prevalence of SMS messaging and social media sites as the usual form of consumer to consumer communication.

Demand from businesses however has not declined as fast and in some areas has even marginally increased, especially in areas such as DSA, despite the increase in e-substitution and despite the economic climate.

Despite this Royal Mails attitude towards the majority of its business customers is one of disregard bordering on contempt.

The current stance adopted by Royal Mail regarding reversions has created such consternation amongst Royal Mails customer that many have moved away from mail altogether and those who can't move away or view mail as essential to their business have been so incensed that they have formed working groups to take a common stance against Royal Mail and even submitted or threatened the submission of regulatory disputes.

The strikes between 2007, 2009 and to some degree 2012 combined with the comments by

the CWU regarding access mail convinced many users to move away from mail as its continued use created too much risk.

This has been coupled with the extensive price rises of the last 2-3 years which, as identified in the Draft Guidance, have driven many business customers away from either high revenue products such as 1st class or from using postal services altogether.

RM customer service to business customers has been appalling, mostly resulting from the fact that Royal Mail is the only UK wide service provider and customers cannot go elsewhere.

All of this has had a much greater impact as a result of the existing move towards e-substitution and the difficult economic times to the extent that it has been a key driver to those customers who have chosen to move away from post.

Finally the approach of looking at decline since 2006 is misleading as 2006 was a peak in recent mail volumes.

Mail volumes are currently much higher than those in the 90's (and prices much, much higher). During the 90's Royal Mail was still required to deliver to every door 6 days per week, so basic infrastructure was no different. It should therefore not be beyond the wit of Royal Mail to flex its staff numbers to suit changing volumes. OFCOM should consider pre-internet volumes of 1995 or earlier as the base line to compare. If volumes fall below that level, then there might be a case for supporting Royal Mail, but at current volumes we simply have a company who allowed its costs to bloat in the good times, and has not then restructured those costs in a period of decline. No business has a continuing promise of growth.

Every business needs to structure for growth and decline, and take steps to offset the decline. Royal Mail's structure does not meet the requirements of today's world and its strategy assumes that mail volumes will continue to decline at the current rate.

It seems inherently incorrect that competition should be stifled to force the market to suit the assumptions of the moribund and outdated business model of the incumbent.

Question 6.2: Do you have any comments on the factors that we would need to take into account when considering the types of intervention that may be suitable?:

One of the key factors to take account of when considering type of intervention is whether the competitor is offering a service not available through Royal Mail.

If Royal Mail are losing market share because newer and more innovative offerings are available, the competitor offering those services should not be penalised in order to support Royal Mail's ability to provide the universal service.

If Royal Mail adopt a perverse attitude by setting a pricing structure that is uncompetitive, in order to secure volume commitments for example, this must also not result in penalties and costs on competitors.

Question 7.1: Do you have any comments on the interventions we have discussed in the draft guidance? Are there any others that may be appropriate? Are there particular circumstances where you consider one potential intervention would be more appropriate than another?:

Any intervention must take full account of volumes carried by the competitor in comparison to those carried by Royal Mail. Doorstep delivery efficiency is highly dependent on the

density of mail to be delivered in a given area. If a competitor has only one third the volume of Royal Mail such that it delivers one envelope to a door where Royal Mail delivers three, then its revenue for that delivery is only one third of Royal Mail's. To then require that competitor to deliver over a similar area to Royal Mail will impose an unfair level of cost on the competitor to the extent of simply preventing any competition from occurring. Where a competitor's volumes are on a similar scale to Royal Mail, then widening geographical areas, and requiring an increased number of delivery days is reasonable. Where Royal Mail already has a significant advantage in mail density, then any such requirement is far too anti-competitive in that it would deny any competition evolving.

As stated in 6.2, intervention targeted at an operator offering a service not provided by Royal Mail is counter productive. In circumstances where this appears to be necessary, then a compensation fund affecting all mail operators would appear to be more sensible to prevent the more innovative operators from being penalised, and the market losing a service that it clearly desires.