

Intellect submission to Ofcom

End-to-end competition in the postal sector

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**This response represents the views
of Intellect members in the meter
manufacturer industry**

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Introduction

Intellect is the UK trade association for the technology industry. Our mission is to use our expertise and knowledge to provide the highest quality of service and intelligence to our 750 plus members across the information and communications technologies (ICT), electronics manufacturing and design, and consumer electronics (CE) sectors. This enables them to make the right business decisions to deliver commercial solutions and achieve growth and profitability. We do this by fostering improved business performance, encouraging thought leadership, and making the shaping of markets and influencing of policy possible.

We are constantly striving to provide work environments where our members can meet their potential and thrive in an atmosphere of excellence through working closely with the government, regulatory bodies, policy makers and businesses.

Intellect Postal Services Group

Intellect's Postal Services Focus Group comprises the key industry stakeholders and has an established programme of engagement with all sections of the market to collate and articulate the concerns and visions of the postal technologies sector.

Our objective is to represent the industry to highlight the importance of technology to the UK postal industry now and in the future. We do not advocate specific company technologies and therefore Ofcom should regard this response as an expression of the specific industry view.

In recent years our group regularly engaged with Postcomm to input the concerns of the technology industry and receive updates from the regulator, and we believe Postcomm found Intellect a useful forum for engaging with key industry stakeholders.

Following Ofcom's assumption of regulatory responsibility for postal services our group has met with Ofcom on multiple occasions and we have responded to several Ofcom consultations in 2012 to input the collated thoughts of the meters industry into Ofcom's decision making process.

Background

In this response Intellect would like to introduce the meter manufacturers sector and provide collated thoughts in response to the consultation issued by Ofcom concerning the future framework for economic regulation.

This response is solely from a specific section of our varied membership – our meter manufacturers. It comprises the collated concerns of the meter manufacturers' sector specifically within the Intellect focus group, in particular:

- **Pitney Bowes Ltd**
- **Neopost Ltd**

These members are keen to convey their thoughts as an industry, and Intellect provides a neutral forum for our members to collectively provide the thoughts of the sector for the benefit of industry and regulator.

Please note references below to '*Intellect members*' refer solely to the views of our members named above and views of Intellect's wider membership may follow separately if appropriate.

The response includes the following sections:

1. An overview of why customers choose the meters channel
2. Intellect comments to Ofcom
3. Conclusion and next steps

An overview of why customers choose the meters channel

Intellect members from the meters sector have highlighted the following factors which make the meters channel attractive and which it is important for Ofcom to be aware of as part of this work:

1. Business customers can gain easy access to the majority of the Royal Mail's products and services through the franking machine.
2. For customers, franking offers an efficient and accurate way to weigh measure and pay for unsorted business mail.
3. There is no minimum threshold as regards the volume of mail sent. Franking machine users can process their mail in batches or single piece by single piece. It is therefore a very flexible system that can be configured individually to any mailroom, mailhouse or office environment.
4. For SMEs the other channel options would be to go to the Post Office which is an ideal retail channel but inconvenient for many small businesses, or to use stamps which is likely to be the method of posting they used before acquiring a franking machine.
5. SMEs can be assured that they will enjoy the same quality of service from the Royal Mail as larger posters even though they do not spend at the levels of those organisations.
6. The price of an entry level franking machines is attractive to SMEs who are looking for convenience.
7. The channel continues to work closely with the Royal Mail to develop new services for customers and to expand the choice available to customers. For example the use of 2D barcodes would give customers the ability to track mail items in the Royal Mail network and have access to service reports. This technology would also allow Royal Mail to innovate and deliver new value add services for customers.
8. The Royal Mail are offering new services in the market place for all customers, the meters channel are keen to offer their customers the full range of services including the range of Tracked services.

It is also worth noting that the vast majority of Royal Mail products in the meters channel are, currently, price controlled. Price control reflects the fact that Royal Mail has traditionally been, and continues to be, seen as a dominant player in this part of the market and therefore attempts to ensure that unfair or anticompetitive practices are not a feature.

Customers themselves are not especially concerned about what products and services are in or out of the price control; they require a high quality service at a reasonable price, priced on a uniform basis which they expect the Royal Mail to deliver.

For their part, Royal Mail receives mail with a securely evidenced postmark and can access customer usage data for business planning purposes. The meters industry has the capability and expertise to develop and support Royal Mail with its major automation and efficiency program currently taking place across its network. The industry is working very closely and pro-

actively with Royal Mail to support these activities and believe they will ultimately result in improved quality of service levels, improved resource productivity for Royal Mail and increased customer satisfaction for meter industry customers.

Intellect comments

Introduction

Intellect members would like to input to Ofcom their developing concerns with regards to end-to-end competition, and we will continue to monitor how this develops as there is potential significant impact on the USO.

Royal Mail offers the Universal Service and this is handled by various means, including access. If the access market moves towards end-to-end competition then there will be less funding for the universal service, which therefore constitutes a threat to the USO.

Indeed, our members note that there is a risk of businesses no longer subsidising the Universal Service, as they do at present making it economically viable, if these revenue streams cease to go to Royal Mail, customers cease to use the meter channel if the situation is not carefully monitored by Ofcom.

Main response

Whilst agreeing to the principle that a cheaper and alternative service is by no means necessarily a bad thing (only Royal Mail would likely disagree) it must be monitored in the context of impact upon the USO – the protection of which is Ofcom's ultimate objective, and as we understand their legal obligation.

Intellect emphasises that it is small and medium businesses which commercially underpin the USO and make it viable, as opposed to residential users, and Ofcom's focus should be ensuring their requirements are met and the Royal Mail service to them is secure.

End-to-end competition can present either a risk to the viability of the USO if managed poorly or, conversely, an opportunity if competition is managed by Ofcom in a fair and reasonable fashion.

There is concern that Ofcom must be 'ahead of the curve' in managing these developments to ensure the USO is not negatively affected. Indeed, in the case of the TNT Post end-to-end trial in West London our members note that TNT is unlikely to become the provider of the Universal Service, (as currently provided by Royal Mail) nor are they likely to deliver a five-days-a-week service.

Moreover, customers may use access via DSA providers as a potential 'first class-like' service without the use of a meter – thus removing a key underpinning tool of the USO.

It is a concern that, because of the low market share that TNT generates in their end-to-end plan, Ofcom do not as yet see them as a threat to the wider USO – this runs the risk of being a short-sighted approach given the potential for a trial to be expanded and our members encourage Ofcom to view the wider implications and consider the timings and means of potential intervention in advance.

It is important that the difference is clear between the Royal Mail service and the new TNT service to enable Ofcom to ensure the USO service is protected and to allow understanding for businesses of the different services.

Our members also foresee a threat should an end-to-end provider partner with other downstream access operators (for example) to deliver their access mail - Royal Mail would lose significantly more mail with clear implications for the viability of the USO. In essence, the loss of Royal Mail revenue to end-to-end competitors from other downstream access operators has the potential to threaten the provision of the universal service. Our members ask Ofcom to consider

how they would monitor this, and whether it would be at this point that Ofcom would need to take appropriate action.

Our members point out that while *'postal operators may provide postal services without the need for any licence or prior authorisation by the regulator'*, Ofcom do have powers under the Act to impose a defined list of regulatory conditions on postal operators in given circumstances.

Moreover, it is important to note that end-to-end operators, can effectively 'cherry pick' the specific geography, volumes and minimum number of delivery days for its service as it is without obligations. They will, presumably, choose the most commercially viable locations and numbers (likely to be public sector customers in cities) and 'leave' Royal Mail with other less viable areas. Ofcom must consider these three factors when considering an approach to regulatory intervention.

There is the possibility for Royal Mail to charge a cost reflective price for deliveries to areas that end-to-end operators do not want to deliver to - in this case end-to-end operators would probably deliver to high population areas and use access to deliver to harder to reach areas. This gives Royal Mail the opportunity to increase charges for operators doing this.

The March 2012 Statement set out Ofcom's view that an indicative Royal Mail EBIT/revenue range of 5% to 10% was *'appropriate and consistent with the need for Royal Mail to earn a reasonable commercial rate of return'* – i.e. to effectively sustain the universal service. However, Royal Mail EBIT is currently 2.3% (2011-12). Therefore, it has been noted that should Ofcom not intervene regards end-to-end it may potentially appear that they are going against their own objective.

One suggestion which has been discussed is to require contributions to a 'universal service compensation fund' to meet the burden of the universal service operator. In general, our members feel this would take too long to set up and administer in reality and does not effectively mitigate the threat to the USO – although we encourage Ofcom to take note of the experiences of mail operators in other countries, such as PostNL (who currently have a request for compensation fund with the Dutch regulator). It is also worth exploring using a GUSC (General Universal Service Condition) intervention rather than looking at setting up a compensation fund, and making *all* end-to-end operators open up their network to access.

It is also worth noting in the context of the industrial fabric of the postal system that the end-to-end service provides Royal Mail with a tool against the Unions in commercial negotiations – end-to-end competition provides an alternative to Royal Mail, thus hampering their negotiating position.

Conclusion and next steps

The impact of end-to-end competition on the USO must be closely monitored – it is not clear at present but our members do identify potential serious risks should such competition be allowed to develop unchecked or with limited oversight.

Likewise, Ofcom must closely monitor this in advance of likely market developments and be prepared for appropriate intervention as required.

Intellect's Postal Services Group welcome the opportunity to input our comments on an important topic and would welcome the opportunity to discuss this area with Ofcom as it develops and invite Ofcom to get in touch at any time.

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