

# Consultation Response

## Review of Postal Regulation 2022

### **The PostalGroup**

Consisting of Regional Mail Services (RMS), PostalSort and Mail Matters...all Limited Companies

We have selected not to use the provided response form as our company's issues are not part of Ofcom's expected response topics.

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### **Margin Squeeze Control Omission**

RMS was the fourth company to be licenced by Postcomm in September of 2004 and is now the longest surviving contract holder still under the same ownership. We currently operate only in Northern Ireland and have created a simple to use and extremely cost effective means for businesses and organisations to access the Royal Mail's delivery network. We have been successful over the years to the point where we service all of the Province's NHS and its ancillary services, most of the GP practices and many of the province's schools, councils and SMEs.

We also have a mailing house which has been the market leader in Northern Ireland since 1990. The bulk mail from Mail Matters also passes through our DSA and RM retail accounts. Hence we could be perceived a microcosm of all things in commercial post.

The main core of PostalSort's business activity targets SMEs and organisations who would have sufficient mail to have required the services of a franking machine. There are many ancillary costs to owning a postal meter which quite often accumulate to reach the level of the discounts offered by Royal Mail retail. The discounts being effectively taken by meter companies for an easy way of paying for the service.

The ease of use of our product and the savings against the rental, maintenance, consumables, operator time etc. have given our client base many reasons to stay with post...a statement that is borne out by our year-on-year growth during times of mail volume reduction.

However, where the rest of the access community are given a modicum of fiscal protection through the *margin squeeze control*, PostalSort, over the last 5 years, has been subjected to a continual reduction of our margin. This has been caused by RM retail applying incentives for meter mail users to switch to Mail Mark facilitated machines. These incentives have

been increasing year-on-year and still exist despite the phasing out of the old red, non-mail mark franking.

During discussions with various board members of Ofcom during your recent visit to NI it became obvious that they were unaware that our type of service was being provided through access and that no margin squeeze protection was being provided.

We would like you to consider providing such protection between access D+2 and the retail metering prices.

### **The Base for zonal demarcation needs changed**

Back in 2004 it was decided at Postcomm that smaller companies who wished to take part in the DSA revolution would need a different form of agreement. We co-operated with Royal Mail Wholesale (RMW) to help design and establish an acceptable form of contract for regional operation and Zonal pricing was born.

At the height of the letter traffic volumes, to differentiate between their various zones, it was decided that the Royal Mail final mile costs would be best determined by the delivery point density. It was assumed that the greater the density the lower the cost of delivering each letter and hence the greater the profit on each. This scale of profitability was then used to determine the price structure for each of the zones.

It has been pointed out to Ofcom that this has resulted in an obvious disadvantage to the rural communities whose delivery cost can often be in excess of double those in an urban zone. RMW argued that delivery by van in comparison to the foot-and-bag delivery required them to make this level of differentiation.

A reminder that one of Ofcom's core objectives is to prevent rural communities from being unfairly disadvantaged.

Times have changed.

Over 50% of RM's revenue now comes from parcels.

The days of the foot-and-bag delivery are mostly over and the rural community, bolstered by the newly established working from home brigade, has positioned itself as the champions of e-commerce. Their delivery routes were already operated by RM's parcel friendly equipment and hence the *profitability* of rural distribution has sky rocketed.

But the urban density hasn't changed and hence the distribution of zonal pricing remains the same. The rural community is still paying the highest rates for delivery but contributes, in the form of parcel rates, and significantly higher revenues.

We would like you to request that RMW change their zonal demarcation from the simplistic and now irrelevant delivery point density to a much more meaningful system based on revenue and profitability that has been achieved by exploiting the delivery network that is mostly funded by the USO products and services. The vast (and increasing) volume of data through Mail Mark should make the calculations achievable.

## **Royal Mail Charges**

In the light of the legal findings over the Post Office software debacle, it should be pointed out that RMW also behaves in a similar (our computer is always right) manner over its automated invoicing and surcharging regime.

Significant charges are raised by RMW when they claim that mail items have failed to reach their technical standard for Mail Mark...but evidence is rarely produced and quite often irrelevant to the complaint. The assumption is always that they are right and the carrier/customer/operator is always wrong, despite the mail having been produced and checked on our certified equipment. RMW refuse to consider that their equipment and operators are just as likely to have malfunctioned. This may not appear at first sight to be an Ofcom issue, but the value of these 'adjustment charges' can be considerable...and this 'nice little earner' can make a noticeable difference to the level of margin squeeze...which is an Ofcom issue.

RMW's attitude is best illustrated by their one-way-only administrative charges regime. As an example, a fee of £28 is issued each time amendments are required to upload values etc...but we are unable to apply a similar charge on RMW where amendments are forced on us by their inaccuracies/changes. These would appear to be insignificant amounts, but they find reason to apply them every day and it typifies the monopolistic attitude which we assume Ofcom is there to protect us from.

The issue for regulatory consideration would be whether to require RMW to provide evidence for all their own adjustment charges (on request) and to accept charges for additional administration forced on the carrier/customer/operator for RMW's errors. The issue is one of trust in their financial systems and the Post Office issue has removed the trust in their automated functions.

## **Forecasting and quality-of-service**

Several years ago RMW proposed a system of forecasting that they claimed would help to improve efficiency by enabling more accurate placement of resources. We objected at the time on the grounds that we have no control or influence on when and how much mail customers will be producing in the near or distant future and that any forecast would require RMW to apply a suitable pinch of salt before applying them to any internal systems of resource redistribution. It is worth noting that RMW's long serving 'key nation posting' system already pre-warns RMW of any major, temporary volume increases of mail both nationally and to local IMCs.

RMW went ahead and introduced the forecasting requirement and have since continually tightened the requirements for forecasting and eventually introduced a regime of charges that produced a lucrative, punitive income stream for RMW based on the false assumption that the carrier/operator is responsible for the volumes of mail it has each day to present to their system.

The justification for these charges is to cover the 'stranded costs' at IMC level caused by a reallocation of staff for mail that failed to appear. No evidence is ever presented for these stranded costs nor is their proof that the failure of parcel and retail volumes has had any influence on the cost base at the individual IMC. It is also noticeable that the application of this punitive regime has had zero effect on improving the efficiency of the system.

The resulting effect of this system is for carriers/operators to under forecast (for which there is no punishment) their volumes. RMW's reaction to these figures is to reduce their costs by resourcing below the actual requirement for the incoming mail...causing delay in processing and an obvious drop in the quality-of-service figures. RMW however gain through reduced staffing costs and punitive adjustment charges to carriers/operators.

We would like you to require RMW to withdraw their punitive forecasting regime in the hope that the reversal of their unintended consequences may have a positive effect on the appalling quality of service performance. All businesses have to cope with the chaotic nature of variable customer demand, yet RMW believes it can simply dump this issue/problem on to its customers...who are already coping with the same issue in their own organisation...or else they simply fail to provide the level of service that we all pay for.