



Hermes Parcelnet Limited ("**Hermes**")

Response to Ofcom's July 2017 Recovering Postal Regulation and Consumer Advocacy Costs Review

December 2017

Executive Summary

In recent years in the UK the parcel sector has grown rapidly. In 2015 the UK logistics industry hit a landmark 1 billion parcels delivered, with volumes 15% higher than the previous year¹. This will only increase according to industry analyst *Interactive Media in Retail Group*² which predicts that UK shoppers will spend 11% more on ecommerce in 2017 compared to 2016. Indeed, in the financial year 2016-2017 there was a 7% increase in parcel volumes with 2.1 billion items delivered³.

The digital economy represents 31% of UK GDP and is forecast to grow to 33% of UK GDP by 2020⁴. Ecommerce is a significant proportion of the digital economy and in 2014 this contributed £199 billion to the UK economy⁵. A significant proportion of this spending will be online shopping. This is supported by IMGR's *Sales Index Report August 2017*⁶ which states that 'UK online sales grew by 11.1% in July and Britons spent an estimated £11.94 billion online shopping during July'. Over the Black Friday weekend, including Cyber Monday, *Statista*⁷ expect that £3.13 billion and £4.65 billion was spent online and in the shops respectively, totalling £7.78 billion.

This continuing increase in online shopping and greater demand in parcel delivery is forcing parcel carriers to constantly increase the processing capacity of their networks and improve their services. This means greater investment in large assets like automatic sortation equipment, but also in improving Customer Service and Customer Experience, utilising technology to enhance interactions with end consumers.

The investment that Hermes has made in technology and innovation (as described in the Question 4) means that Hermes is a diminishing risk to Ofcom and CAB in terms of the volume of consumers calling either Ofcom or the Citizen's Advice Bureau ("**CAB**").

Hermes also agrees with Ofcom that parcels are increasingly important to consumers and businesses and that consumers' interests are best served through competition rather than regulation. Levies will put off new entrants to the market.

¹ www.edelivery.net/2016/05/parcel-deliveries-break-1-billion-barrier

² www.imrg.org/media-and-comment/press-releases/uk-online-sales-in-2016

³ Ofcom 2017: Annual monitoring update on the postal market, financial year 2016-2017

⁴ Digital Economy as defined by Accenture Strategy – includes digital skills, digital technologies and digital accelerators:
https://www.accenture.com/t00010101T000000_w/gb-en/acnmedia/PDF-4/Accenture-Strategy-Digital-Disruption-Growth-Multiplier.pdf#zoom=50

⁵ Using the website sales statistic of ONS: sales over a website or "app" irrespective of the payment method.

⁶ IMGR Capgemini Sales Index Report August 2017 https://www.imrg.org/uploads/media/report_download/0001/04/Index%20Report%20-%20August%202017.pdf?st

⁷ Statista *Expected offline and online spend over the course of the Black Friday weekend in the UK 2017*
<https://www.statista.com/statistics/791077/black-friday-expected-offline-online-spend-united-kingdom/>

Question 1

Do you agree that revenues from single piece end to end letter delivery services should be taken into account for the purposes of setting administrative charges?

Hermes specifically does not operate in the single piece end-to-end letter delivery service space and therefore would not be affected. However, Hermes agrees with the Mail Competition Forum's view in their submission⁸. Furthermore, it is Royal Mail's market dominance that drives the majority of Ofcom's work; therefore it is appropriate that Royal Mail pays the majority of Ofcom's postal regulation costs.

Question 2

Do you agree that revenues from bulk mail and access services should be taken into account for the purposes of setting administrative charges?

Ofcom's charging principles, set out in the 2011 Act, are that if a postal operator provides a service within the scope of the universal postal service, the operator must pay to Ofcom the administrative charge that is fixed by Ofcom as applicable to the operator⁹. It appears to Hermes that as bulk mail and access services are not in the scope of the Universal Postal Service, accordingly Ofcom does not have the power under current legislation to levy these charges. The same would apply to CAB's recovery of costs.

Hermes specifically does not utilise downstream access service and therefore would not be affected.

Question 3

Do you agree that turnover from access revenues should be calculated on a net basis (i.e. after the deduction of access charges to Royal Mail)?

Hermes has no comment.

Question 4

Do you agree that turnover from parcel services should not be taken into account for the purpose of setting administrative charges?

Yes, Hermes agrees with this proposal that turnover from parcel services should not be taken into account. This is largely based on Ofcom's own admission in that only 1% of its postal regulation cost is derived from parcels and Ofcom are only required to regulate the USP of the USO and the dominance that Royal Mail has due to this.

Royal Mail is a super dominant privatised operator in the postal market and it is the risk that *this* presents for consumers which requires the activity of a regulator and a statutory consumer advocate in the form of the Citizens Advice Bureau.

⁸ Mail Forum Competition response to Recovering Postal Regulation and Consumer Advocacy Costs
https://www.ofcom.org.uk/data/assets/pdf_file/0020/107246/MCF-Response.pdf

⁹ Paragraph 1(1) of Schedule 4 to the 2011 Act

Hermes is on a journey of improving the service and experience that our clients and end consumers receive through digital data analysis and implementing new methods of communication to keep consumers updated at every stage in their parcel's journey. This journey began with [X] investment in state of the art Hand Held Terminals (HHTs) and software that our self-employed couriers use. Hermes is improving its communications with end customers include development of SMS, email and App push notifications and the development of "safe place photos". These photos will be sent to the consumer so they are aware of the safe place where the parcel has been delivered to. Hermes will begin to understand customers' safe place preferences and will use these to ensure that deliveries are made first time, every time.

Hermes' investments in customer experience will shortly include the provision of real time tracking.

In communicating to its corporate clients and consumer customers Hermes utilises calls, web chats and social media. This, along with defined processes, means that Hermes can answer and deal with any enquiry to the satisfaction of all involved. Hermes complies fully with Ofcom's *Consumer Protection Condition 3: Complaints Handling and Redress*¹⁰ which states "a postal operator shall establish, make available and comply with transparent, simple and inexpensive procedures for dealing with complaints of consumers of postal services, which facilitate the fair and prompt settle of disputes.

Hermes supports Ofcom's principle position that parcel operators should not be required to pay an administrative charge in relation to Ofcom's and Citizen's Advice's work because:

- (1) Hermes and other non-Royal Mail parcel operators are not the reason for why Ofcom regulates the postal sector and why there is a need for a statutory consumer advocate in respect of the postal sector; and
- (2) The market is operating to ensure that Hermes invests significantly to improve customer experience so that the risk presented to consumers by Hermes, and the number of complaints made to CAB in particular, will decline over time.

Question 5

Do you agree that the minimum revenue threshold for payment of administrative charges should be lowered to £5m?

Hermes has no comment.

Question 6

Do you agree with the proposed changes to CP1 that are set out in Annex 6?

On the basis of Hermes' response to Question 4, we do not believe this question is applicable to Hermes and accordingly we do not offer any comment.

¹⁰ Ofcom *Consumer Protection Condition 3: Complaints and Handling and Redress*
https://www.ofcom.org.uk/data/assets/pdf_file/0019/105256/cp3.pdf