

Hermes Parcelnet Ltd (Hermes)

Response to Ofcom's March 2018 consultation: *'Recovering postal regulation and consumer advocacy costs'*.

Executive Summary:

- Online shopping is increasing year-on-year in the UK. In 2016 UK consumers spent 16% more online than the previous year. By February 2018 UK consumers had spent a further 13.1% according to Cap Gemini and IMR. This has led to an increase in parcel volumes and greater demand from consumers for quicker, cheaper and more transparent delivery.
- The 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 means that Hermes is a diminishing risk to Ofcom and the Citizens Advice Bureau (CAB) in terms of the volume of consumers calling either Ofcom or the CAB with enquiries or complaints.
- Hermes agrees with Ofcom and CAB's views that parcels are increasingly important to consumers and businesses, and consumers' interests are best served through competition rather than regulation. For this reason, Hermes is concerned that, since the last consultation, Ofcom has been sufficiently influenced to revise its view that turnover from parcel services should *not* be taken into account for the purpose of setting administrative charges and has decided to bring companies such as Hermes into scope to fund CAB's consumer advocacy work on postal services.
- Hermes understands why postal operators with a certain qualifying turnover are being required to support the funding of consumer advocacy given the growth in online shopping and parcel volumes, as well as the increasing importance of parcels to consumers. However, the charging regime proposed by Ofcom in its March 2018 consultation is **not proportionate, evidence based or reasonable**.
- Ofcom proposes to recover costs from relevant postal operators based on a share of relevant revenue to cover CAB's work in four areas: consumer needs and market development, USO and letters, parcels and the Post Office. Hermes contends that we are active in only one of these categories: parcels. The work area 'consumer needs and market developments' is sufficiently broad to capture all qualifying postal operators, although it is far from clear what work CAB carries out in this area and what Hermes would potentially be funding. This work area covers both parcels and letters. Hermes is not engaged in the letters market, so it seems unreasonable and disproportionate to expect it to fund any work CAB undertakes on letters in this work stream.

- Ofcom states in the March 2018 consultation that the benefits of its initial proposals (set out in the July 2017 consultation not to recover costs for CAB's advocacy work from postal operators other than Royal Mail) are outweighed by the concerns raised about lack of cost-reflectivity, and fairness and equity. Hermes contends that the revised proposal Ofcom has set out is equally lacking in these three characteristics. As CAB does not allocate staff hours against specific projects (a relatively easy activity which many businesses and other organisations manage to do), it is impossible to accurately determine how much is being spent on these projects, so it is impossible to fully reflect costs. As such, requiring postal operators to fund activities based on no more than estimates is far from fair and equitable. **Until CAB is able to fully allocate staff hours and provide transparency on the exact costs of work programmes, the existing funding arrangements should remain in place.**
- As previously stated, Hermes does not participate in two of the four work areas CAB focusses on: USO and letters and the Post Office. Only Royal Mail has access to the Post Office network and Royal Mail is the universal service provider and, as such, dominates the letters market. On this basis, Hermes contends that Royal Mail should bear the full burden of funding these two work areas, and that Hermes should only contribute to a portion of CAB's costs in the parcels and consumer needs and market development work streams.
- Hermes understands that Ofcom can only recover consumer advocacy costs from postal operators due to statutory limitations. However, as recognised by other stakeholders responding to the July 2017 consultation, there is a strong argument that the Post Office Ltd should contribute to CAB's consumer advocacy costs given that more than a quarter (29%) of CAB's total consumer advocacy costs is for work on post offices. Hermes suggests that Ofcom seeks to have its powers amended to allow it to recover costs from the Post Office Ltd. **In the meantime, costs for this work area should be charged fully to Royal Mail; at least until other postal operators have the opportunity to access the Post Office network, post 2022 when the exclusive relationship between the Post Office Ltd and Royal Mail is due to expire.**
- CAB's actual cost for the 2017/18 financial year was £2.267 million. Based on the charging methodology proposed by Ofcom in its March 2018 consultation, this would result in a cost to Hermes in the forthcoming financial year of approximately [REDACTED]. Not an insignificant sum given it will be used to fund significant areas of work Hermes has no involvement in. Again, Hermes contends it should only contribute to work streams it is engaged in and over which it can exert some influence: parcels and the parcels element of consumer needs and market development.
- It seems entirely unreasonable and disproportionate to Hermes to ask postal operators to blindly fund CAB's work when it could easily employ simple software to allow its staff to allocate administrative costs to specific projects and accurately calculate and apportion costs to postal operators. This would enable Ofcom to accurately charge Royal Mail for work on the USO and letters, the Post Office and its proportion of work in the parcels and consumer needs work streams.