

Royal Mail plc

Response to Ofcom's March 2018 Recovering Postal Regulation and Consumer Advocacy Costs Statement and Consultation

Royal Mail Submission

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Executive Summary

The postal sector has changed significantly in recent years. The old system for recovering consumer advocacy costs is antiquated and in urgent need of reform. Royal Mail is currently the only contributor to the costs of the Consumer Advocacy bodies (CABs) – namely Citizens Advice, Citizen's Advice Scotland and the General Consumer Council for Northern Ireland. In their role as the statutory consumer watchdogs, all consumers are within scope of their activities – not just those consumers that use the Universal Service. As the postal sector changes, so does the consumer experience. This is already dictating the CAB work plans and will continue to do so. It is therefore fair, equitable and cost reflective that CAB costs should be recovered across all operators and services – access and bulk, letters and parcels.

In terms of the specific proposals, our positions are as follows:

- **We agree with Ofcom's proposal to include revenues from single piece end-to-end letter delivery services for the purpose of recovering relevant consumer advocacy costs.** Single piece end-to-end letter delivery services are substitutable for letter services provided as part of the Universal Service in the geographic areas in which they are offered. As such, users of these services benefit from CAB activities and will continue to do so going forward.
- **We agree that end-to-end bulk mail providers should contribute to the recovery of consumer advocacy costs on post. But, we do not agree with Ofcom's proposal to exclude Access operator revenue.** The proposed 2018/19 work of the CABs both directly and indirectly relates to the services offered by Access operators and their customers (eg Scam Mail). Moreover, there is a growing trend in Access operators offering services directly to small businesses and residential consumers – which fall centrally within the CAB remit.
- **We agree that turnover from parcel services should be taken into account for the purposes of recovering consumer advocacy costs on post.** The changing parcels sector has seen significant innovation and growth. This has brought to light a growing range of consumer protection issues. Developments have outpaced consumer protection regulation. Unlike Royal Mail, most parcel operators are subject to little or no regulatory consumer protection standards. Moreover, some operators are using the “Gig Economy” to deliver parcels via self-employed individuals without all the costs of more traditional employment. This can have an attendant impact on quality of service. Further, we have observed two key trends which we expect to lead to a fundamental structural shift in parcel-related consumer complaints across the sector: **(a)** the increase in parcel tracking / consumer notifications; as well as **(b)** the growing role of mobile telephony – and social media – leading to an increase in consumer's propensity to complain. CAB work is already being driven by these developments and this will continue to be the case.
- **We do not agree that the minimum revenue threshold for relevant letters postal services should be set at £10m. This should be reduced to £1m.** Recovering the costs of consumer advocacy across a broader set of operators should make the charges more consistent and predictable. Any contribution would be proportionate to the share of relevant turnover. Given Royal Mail has a significant share of relevant letter services this would not create any barriers to entry. As a default, Ofcom should return to its initial proposal of a threshold of £5m to align with the network and services sectors. This would at least meet Ofcom's Statement of Charging Principles criteria of harmonisation, simplicity and transparency.
- **We do not agree that the minimum revenue threshold for relevant parcels postal services should be set at £350m.** This level is far too high and would exclude operators with consumer and small business interactions. Citizens Advice recently stated in their 2018 Parcel Delivery report that 69% of consumers have had a problem with parcel delivery in the last year. We note that Ofcom already collects information from all major parcel operators providing UK-wide services. For administrative ease, we propose that the threshold is set at a level to be consistent with this group.

Chapter 1 – Two-stage analytical framework

The legal framework – Ofcom should first consider which operators *could* pay under the Act

- 1.1 In our previous consultation response, we set out our understanding of the legal framework. The qualifying expenses of the Consumer Advocacy bodies (CABs) – Citizens Advice, Citizen's Advice Scotland (CAS) and the General Consumer Council for Northern Ireland (CCNI) – relate to expenses incurred in carrying out their functions in relation to users of postal services. Section 27 of the Postal Services Act 2011 (the Act) states that postal services include postal packets. Postal packets cover all types of mail, including parcels.
- 1.2 Under Section 51 of the Act, Ofcom may impose a consumer protection condition on all postal operators (or all of a particular definition) to allow for the recovery of qualifying consumer expenses of those bodies involved in consumer advocacy (including the secretary of state). Ofcom does not have a role in setting the level of CABs fees or examining the methodology used to calculate consumer advocacy costs. However, it is responsible for determining the basis on which the fees should be recovered and then recovering those fees.
- 1.3 Ofcom currently recovers these payments under Consumer Protection Condition 1 (CP1). Under the legal framework, all postal operators could contribute towards the CAB qualifying expenses. Royal Mail is currently the only contributor. Yet, in the CABs' roles as the statutory consumer watchdogs, all functions that relate to users of postal services are within scope of their activities. As the postal sector changes, so does the consumer experience. Both consumers and small businesses are facing a range of new touchpoints with a growing set of postal actors, including Access operators. It is therefore fair, equitable and cost reflective that CAB costs should be recovered across all operators and services – access and bulk, letters and parcels.

Ofcom then need to decide which operators *should* pay. We have identified four key questions linked to Ofcom's criteria.

- 1.4 Having determined that all postal operators could pay for the qualifying expenses of the CABs, in our previous consultation response, we identified four questions that Ofcom needs to consider in determining who should pay.

| | Question to be considered | Which of Ofcom's criteria it addresses |
|----|---|--|
| 1) | Which postal users benefit from CAB activities? | Fairness and equity |
| 2) | Which postal operators are driving the CABs activities? | Cost reflective, relevance |
| 3) | Is it administratively easy to implement? | Simplicity and transparency, verifiable, harmonisation |
| 4) | Is the framework futureproof? | Adaptable and reliability |

- 1.5 In this response, where relevant and appropriate, we address each of the consultation questions by reference to the above questions.

Chapter 2 – Detailed responses to consultation questions

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 recovering consumer advocacy costs on post? Please give your reasons.

Yes, we agree with Ofcom's proposal to include revenues from single piece end-to-end letter delivery services for the purpose of recovering relevant consumer advocacy costs. Single piece end-to-end letter delivery services are substitutable for letter services provided as part of the universal postal service in the geographic areas in which they are offered. As such, users of these services benefit from CAB activities and will continue to do so going forward. It is therefore right that providers of end-to-end letter delivery services should be taken into account.

- 2.1 At present, single piece end-to-end services are primarily provided by Royal Mail to consumers using the First Class and Second Class Universal Service products. Some small¹ postal operators also offer single piece end-to-end services in defined geographic areas. However, recent experience shows that new entrants can grow quickly so the framework needs to be futureproof.
- 2.2 **Single piece end-to-end letter delivery services are substitutable for letter services provided as part of the universal postal service** in the geographic areas in which they are offered. As such, users of these services benefit from CAB activities. In response to Ofcom's July 2017 consultation, the CABs all confirmed that they undertake work in relation to single piece end-to-end letter services given the importance of these services for consumers.
- 2.3 Ofcom has completed its own analysis² of CAB spending on external research. It demonstrates that **a significant amount (24%) of the CABs spend on external research is related to universal postal services and consumers' use of letters services**. The CAB's proposed annual work plans for 2018-19 indicate that this will continue to be an area of focus. End-to-end letter operators will therefore remain relevant to the CAB activity.
- 2.4 It is therefore appropriate for these operators to contribute to the costs of the CABs based on their relevant turnover. Although only a small percentage at this stage, their activities could rapidly increase from current levels. **Whistl's entry into the end-to-end letter market in 2012 demonstrates how quickly an end-to-end competitor can gain market share**. Moreover, Ofcom already collects data from single piece end-to-end letter operators.³ We therefore believe that it would be administratively easy to implement.

¹ According to Ofcom's annual monitoring update on the postal market 2016-17, end-to-end letter operators other than Royal Mail accounted for £6m in revenue.

² Figure 3 and paragraph 4.46 of Ofcom's March 2018 consultation.

³ Ofcom requires volumes and revenues data on a regular basis from those postal operators whose combined end-to-end letters volumes are expected to exceed two million or more items a year.

Question 2 - Do you agree that revenues from end-to-end bulk mail services should be taken into account for the purposes of recovering consumer advocacy costs on post, and that revenues from services provided under an access agreement should not be taken into account for the purposes of recovering consumer advocacy costs on post? Please give your reasons.

Yes, we agree that end-to-end bulk mail providers should contribute to the qualifying expenses of the CABs.

We do not agree with Ofcom's proposal to exclude Access operators revenue for the purposes of recovering consumer advocacy costs on post. The proposed 2018/19 work of the CABs both directly and indirectly relates to the services offered by Access operators and their customers - eg activity on Scam Mail. Moreover, there is a growing trend in Access operators offering services directly to residential and small business consumers - which fall centrally within the remit of the CABs. It is therefore fair, equitable and cost reflective that Access operators contribute towards the costs of consumer advocacy.

2.5 We agree that end-to-end bulk mail providers should contribute to the qualifying expenses of the CABs. All consumers can receive this mail, and it is right that postal operators providing this service should contribute to the qualifying expenses of the CABs.

2.6 We do not agree that providers of Access services should be excluded from this service. In fact, to ensure the charging framework remains futureproof, it is vital that Access revenues are included. This is for the following reasons:

- **The work of the CABs both directly and indirectly relates to the services offered by Access operators** – Both the business-as-usual and project work undertaken by the CABs supports the effective engagement of individual consumers and small businesses with the postal services market. Problems with the consumer experience, such as lost or delayed mail, can occur at any stage in the delivery process - not just during the time it spends in the Royal Mail network. A core business-as-usual part of the CABs' workplans includes consumer education campaigns and online advice which help consumers to understand and exercise their rights in these situations.⁴ Moreover, in terms of project-based work, recipients of access mail clearly benefit from the activities of the CABs. Two examples include:
 - **Scam Mail** – In recent years, the CABs have undertaken a significant amount of activity on scam mail, including Scam Awareness Week. This work will continue into 2018-19 and beyond, with the development of a toolkit aimed at ensuring that awareness messages achieve maximum impact. Our internal research shows that Access operators account for at least [3<] % of all scam mail.⁵
 - **Parcels** – A key pillar of the Citizens Advice 2018/19 proposed workplan

⁴ For example, see here: <https://www.citizensadvice.org.uk/about-us/how-we-provide-advice/our-prevention-work/citizens-advice-consumer-education/>.

⁵ Based on items reported to Royal Mail by consumers since April 2016.

includes a “*push for a parcels market that works for consumers.*”⁶ As part of this, it notes parcel growth is being driven by parcels sent by consumers and small businesses (C2X parcels). It will commission research to understand this market segment better and look at whether the “*services are accessible, pricing is transparent, consumers have access to redress, and small businesses understand their rights and obligations.*” Given the growing focus of Access operators on the parcels sector (particularly fulfilment large letters), this project will certainly benefit recipients of access mail.

- **Growing trend in Access operators offering services directly to residential consumers and small businesses** – While the majority of Royal Mail’s access mail is bulk mail⁷, residential consumers and businesses who post relatively few letters compared to larger organisations are increasingly using Access services. In July 2017, Whistl and Parcel2Go launched a service allowing residential consumers and small businesses to send letters, large letters and parcels via Whistl’s access network for final delivery by Royal Mail.⁸ In May 2018, Whistl and Imprimus launched a service “Cornwall Collects” to consolidate mail for small businesses, stating “*small online retailers and ebay sellers will be able to enjoy the cost and service efficiencies currently only experienced by larger companies.*”⁹
- As set out in the July 2017 Consultation, Ofcom noted that, for small business users, there is some substitutability between meter and PPI services (which are both within the universal postal service) and bulk mail services including Access. In particular, it highlighted the “*trend for postal operators to reduce their minimum posting levels to qualify for bulk services including access in recent years.*”¹⁰ The old assumption that Access operators only provide business-to-business services by acting as an intermediary between a large sender of mail and Royal Mail no longer holds. As the concept of “bulk mail” becomes less bulky, consumers are no longer simply recipients of access mail, but are increasingly senders. Given this growing direct relationship between Access operators, residential consumers and small businesses, the CABs will have an increasing interest in the operations of these firms.

2.7 **CAS recognise in its response to Ofcom’s July 2017 consultation that their work is relevant to these operators.** In its response to whether access and bulk mail operators should be taken into account, CAS stated “*This duty to represent consumers of postal services includes small business consumers who may use these services. Therefore, some of CFU’s work may include areas like bulk mail and access service. We carry out this duty regardless of where our expenses are paid, but taking revenue into account would be more in line with Ofcom’s “cost –reflective” principle.*”¹¹

⁶ Citizens Advice, Draft consumer work plan 2018/19, December 2017.

⁷ Bulk mail is a service for customers (traditionally large businesses) that offer cheaper postage options compared to normal postage options (eg stamps, franked or metered postage), providing that the consumer meets a minimum volume of letters to send with the postal operator.

⁸ Post & Parcel article, ‘Parcel2Go announces Letters and Small Parcels service’, 12 July 2017, <http://postandparcel.info/81118/news/parcel2go-announces-letters-and-small-parcels-service/>

⁹ Whistle press release <http://www.whistl.co.uk/news/new-collection-service-launches/>.

¹⁰ Paragraph 3.25 of Ofcom’s March 2018 consultation.

¹¹ CAS response to Ofcom’s 2017 consultation Recovering postal regulation and consumer advocacy costs 2017.

2.8 It is therefore fair, equitable and cost reflective that the revenue from services provided under a mandated Access agreement should be included for the purposes of recovering the costs of consumer advocacy.

Question 3 - Do you agree that turnover from parcel services should be taken into account for the purposes of recovering consumer advocacy costs on post? Please provide your reasons.

Yes, we agree that turnover from parcel services should be taken into account for the purposes of recovering consumer advocacy costs on post. The changing parcels sector has seen significant innovation and growth and the old system for recovering costs is antiquated. Developments have outpaced consumer protection regulation. Unlike Royal Mail, most parcel operators are subject to little or no regulatory consumer protection standards. We are subject to 32 regulatory conditions, other parcel operators are subject to one and new delivery operators such as Amazon have no regulatory conditions. Moreover, some operators are using the "Gig Economy" to deliver parcels via self-employed individuals without all the costs of more traditional employment. This can have an attendant impact on quality of service.

Further, we have observed two key trends which we expect to lead to a fundamental structural shift in parcel-related consumer complaints across the sector: (a) the increase in parcel tracking and consumer notifications; as well as (b) the growing role of mobile telephony and social media leading to an increase in consumers' propensity to complain. CAB work is already being driven by these developments in the parcel sector and this will continue to be the case.

- 2.9 The postal sector has been – and continues to be – subject to significant change. The new framework for the recovery of CAB costs should be sufficiently flexible to take into account future change and growth. The UK has a highly developed e-commerce industry, which in turn, is leading to growth in parcel volumes. With continued letter reduction and growth in parcels, we expect there to be an increasing focus in consumer advocacy related to the parcel sector. **Based on Ofcom's figures, in 2016–17, letter revenue for the postal sector was £4.2bn compared with £8.7bn for parcels.**¹²
- 2.10 **A significant proportion of the work of the CABs is already driven by parcel operators.** For example, both CAS and CCNI are planning to do work on parcels surcharging in Northern Ireland and the Highlands and Islands of Scotland and Citizens Advice is planning a report on the Parcels Market for Consumers. **Only one piece of CAB research since April 2014 could be classified as being solely related to the letter sector.** In fact, Ofcom's analysis shows that a significant amount (23%) of the external research undertaken by the CABs is directly related to parcels. In addition to this, a further significant amount (24%) of the CABs external research focuses on consumer needs and future developments, which covers parcels as well as letters.¹³
- 2.11 **Innovation in the parcels sector has resulted in a growing range of consumer protection issues.** Citizens Advice recently stated that 69% of consumers have had a problem with parcel delivery in the last year.¹⁴ Developments have outpaced consumer protection regulation. Unlike Royal Mail, most parcel operators are subject to little or no regulatory

¹² Ofcom's annual monitoring update on the postal market 2016–17.

¹³ Figure 3 and paragraph 4.46 of Ofcom's March 2018 consultation.

¹⁴ Citizens Advice, Parcel delivery: Delivery services in the online shopping market, June 2017.

consumer protection standards. We are subject to 32 regulatory conditions, other parcel operators are subject to one and new delivery operators such as Amazon, have no regulatory conditions. Moreover, some operators are using the “Gig Economy” to deliver parcels via self-employed individuals without all the costs of more traditional employment. This can have an attendant impact on quality of service.

2.12 Further, we have observed **two key trends** which we expect to lead to a fundamental structural shift in parcel-related consumer complaints across the sector:

- **Tracking and notifications** – There appears to be a higher propensity for consumers to complain about tracked items over standard parcels, particularly when they include a customer notification (eg text message). A tracked parcel with a customer notification is significantly more likely to generate a Denial of Receipt complaint than a standard untracked parcel with delivery confirmation.
- **Mobile telephony** – the growing role of mobile telephony and social media leading to an increase in consumers’ propensity to complain. In just five years, the smartphone visits to the Track and Trace feature on our consumer website have increased from 10m to 88.9m per year, up 785%. Mobile phones now account for 57% of visits, with desktop visits a modest second (36%). Five years ago, desktop accounted for the majority of visits (76%). It is much easier for consumers to complain or contact us “on the go”.¹⁵

2.13 These trends will increasingly drive the work of the CABs. Importantly, their work is not dominated by issues relating to the Universal Service. **The CABs represent residential consumers and small businesses. Consumers do not care whether a service is bulk or single piece, letter or parcel; they want it delivered on time and safely.** As such, the revenue from parcel services should be taken into account for the purposes of recovering consumer advocacy costs on post.

2.14 Given Ofcom already collects data from 14 nationwide parcel operators under its regulatory powers, we believe that including them in the scope of cost recovery will be administratively easy to implement. Ofcom can use elements of this information to identify the relevant parcel revenue. Recovering the CAB’s costs across a broader set of operators should make the charges more consistent and predictable. Given the growth and innovation in parcels, it will also futureproof the framework. We agree with Ofcom’s statement that that “*it is reasonable to assume that parcel services will remain important to the work of the CABs*”.¹⁶

¹⁵ Internal Royal Mail statistics.

¹⁶ Paragraph of 4.60 of Ofcom’s March 2018 consultation.

Question 5 - Do you agree that the minimum revenue threshold for relevant letters postal services, for the purposes of recovering consumer advocacy costs on post, should be set at £10 million? Please explain why.

No, we do not agree that the minimum revenue threshold for relevant letters postal services should be set at £10m. This should be reduced to £1m. Any contribution would be proportionate to the share of relevant turnover. Royal Mail has a significant share of relevant letter services, it would not create any financial barriers to entry. As a default, Ofcom should return to its initial July 2017 proposal of a threshold of £5m to align with other sectors and better meet Ofcom's Statement of Charging Principles (SoCP) criteria.

- 2.15 Single piece end-to-end letter delivery services are substitutable for letter services provided as part of the Universal Postal Service in the geographic areas in which they are offered. As such, consumers of these services benefit from CAB activities. It is therefore appropriate for them to contribute to the costs of the CABs based on their relevant turnover. **But, we do not agree with Ofcom's proposal to set a threshold of £10m** for contributing to consumer advocacy costs.
- 2.16 **We consider that a threshold of £1m is more appropriate.** We do not believe that this would create any barriers to entry or competition concerns as any contribution would be proportionate to the share of relevant turnover. In relation to the decision around its own fee, Ofcom recognised this point: *"Given that any contribution they would be liable to pay would be proportionate to their share of relevant turnover, we do not believe that competition would be damaged as new market entrants with relatively small revenues would only be required to pay a small part of our fee. We consider that this approach is cost reflective, fair and equitable, and adaptable."*¹⁷ We believe that this logic is equally applicable in the case of recovering the costs of the CABs.
- 2.17 As noted by Ofcom in its March 2018 consultation, when end-to-end letter revenues are considered (i.e. those letter revenues considered as relevant turnover for the recovery of consumer advocacy costs), **Royal Mail accounts for 99.8% of end-to-end letter revenues in the UK.** In 2016/17, the CAB fee was £3.42m. Assuming all the alternative end-to-end letter operators were above the revenue threshold of £1m, they would be **liable for a maximum combined contribution of c.£3,500**¹⁸. As such, we see no situation in which competition would be damaged. Existing and any new market entrants would only be required to pay a very small portion of the CAB costs. However, should their presence in the market grow, they would rightly be liable for proportionately more of the cost.
- 2.18 Moreover, a threshold of £1m would mean that the cost of consumer advocacy is spread more evenly across the industry. **Recovering the costs of consumer advocacy across a broader set of operators should make the charges more consistent and predictable.** We also do not consider that the application of a lower threshold will significantly lead to an administrative burden for Ofcom. Ofcom may consider that there should be a minimum

¹⁷ Paragraph 3.16 of Ofcom's March 2018 consultation.

¹⁸ Estimates based on an assumption of total relevant revenue being £6bn as used in Ofcom's worked example.

invoice level which for example could align to the £100 minimum set for CAB helpline cost recharges. This threshold is also within the range of minimum thresholds that Ofcom has set for other sectors:

- Network and Service Charges – minimum threshold £5,000,000.
- Television Licence fees – Category A and B licence – minimum threshold £0.
- Radio Licence fees – National and Local Licence fees – % of relevant turnover – minimum threshold £0.

2.19 At the very least, Ofcom should return to their original July 2017 consultation proposal of a threshold set at £5m which it applies to its own fees. As it notes, this aligns with other sectors and would therefore meet SoCP guiding criteria of harmonisation, simplicity and transparency. It would also ensure that the costs are borne more widely by those who are subject to or benefit from consumer advocacy activities.

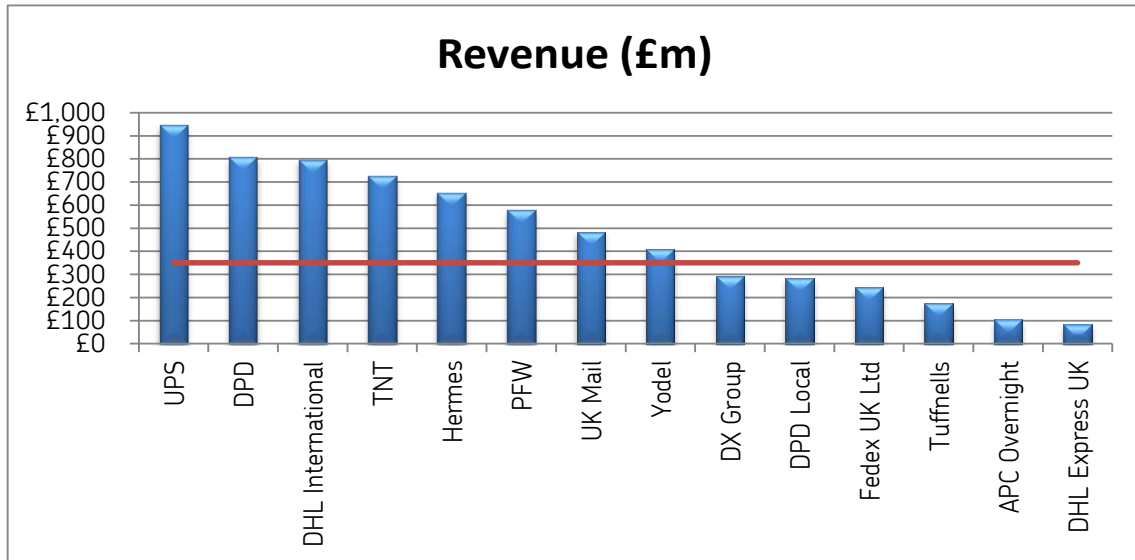
Question 6 - Do you agree that the minimum revenue threshold for relevant parcels postal services, for the purposes of recovering consumer advocacy costs on post, should be set at £350 million? Please explain why.

No, we do not agree that the minimum revenue threshold for relevant parcels postal services should be set at £350m. This level is far too high and would exclude operators with consumer and small business interactions. It is also inconsistent with its proposed £10m threshold for relevant letters postal services. Citizens Advice recently stated in their 2018 Parcel Delivery report that 69% of consumers have had a problem with parcel delivery in the last year. We note that Ofcom already collects information from all major parcel operators providing UK-wide services. For administrative ease, we propose that the threshold is set at a level to be consistent with this group. Ofcom can then use information it already has to calculate fee contributions.

- 2.20 In justifying the proposed £350m threshold, Ofcom has put forward a range of arguments. First, Ofcom states: “*we consider that it is reasonable to establish a minimum threshold for relevant parcel revenues which ensures that only the largest parcel operators are liable to contribute. We consider that such an approach is also fair and equitable, and cost-reflective.*”¹⁹ It also notes that many of the operators with a revenue share of less than 5% provide business-to-business parcel services, “*which are of little or no relevance to consumers or the work of the CABs*”. Finally, it asserts that it would be administratively difficult to recover fees from a large number of parcel operators, hence its preference for a £350m threshold. We address each of these points in turn below.
- 2.21 First, Ofcom should focus on the existing SoCP guiding criteria and not introduce the completely new filter of “largest providers”. **This indicates a fundamental change to its approach, which is inconsistent with Ofcom’s decision around its own fees.** The proposed recovery mechanism ensures that any contribution is proportionate to the share of relevant turnover. Similar to Ofcom, we believe that this is already sufficient to meet the criteria of fairness, equity and cost-reflectiveness. Our research from 2013 showed that there are at least 600 active parcel companies in the UK market.²⁰ If Ofcom were adamant it wanted to narrow recovery down to the largest providers, focussing on the 14 operators from whom it already collects volume and revenue information achieves this.
- 2.22 Royal Mail understands the principle that there should be a minimum threshold below which postal operators should not contribute, and that the balance of this threshold needs to be carefully considered. However, **the proposed threshold of £350m is far too high and excludes some important parcel operators.** Taking a snapshot of data on total sales from Companies House for a range of parcel operators, the threshold would mean that operators with important consumer and small business interactions would be out of scope – see **Annex 1** for the raw data. Given that a portion of total revenue may not be deemed to be “relevant revenue” as per CP1, some operators who appear to be above the threshold will also likely not be within scope.

¹⁹ Paragraph 4.86 of Ofcom’s March 2018 consultation.

²⁰ Royal Mail commissioned research in 2013 that identified more than 600 courier, parcel delivery and transport companies active within the UK – excluding freight and regional specialists.

Figure 1 – Revenue registered at Companies House²¹

2.23 In justifying this threshold, Ofcom also notes that many of the operators with a revenue share of less than 5% provide business-to-business parcel services. However, a key reason for undertaking the review is to ensure that the cost recovery framework is fit-for-purpose and futureproof. As such, **what the market looks like today, including the business models of the current players, should not distract from applying the guiding criteria consistently.** DX Group, for example, states that it “*provides a wide range of delivery services to both business and residential addresses across the UK and Ireland.*”²² The proposed revenue threshold may therefore arbitrarily exclude relevant operators.

2.24 **In terms of the threshold itself, it is also inconsistent with Ofcom’s proposed £10m threshold for end-to-end letters – which we argue should be set at £1m.** Ofcom notes that the average unit price of letters at 36p and the average unit price of parcels at £4.07.²³ Using Ofcom’s average unit revenue and its proposed letter threshold of £10m for end-to-end letter operators, this equates to a volume of c.28m letters. If this volume were to be applied to the parcel market, **this would result in a threshold of c.£100m.**²⁴ A £350m threshold would allow a parcel operator to deliver c.86m parcels before meeting the threshold for relevant revenue.

2.25 **Ofcom already collects volume and revenue data from all major parcel operators providing UK-wide services. For administrative ease, we propose that the threshold is set at a level to be consistent with this group.** Ofcom can then use information it already has to calculate fee contributions. If this approach is adopted, this counters Ofcom’s assertion that it would be administratively difficult to recover fees from a large number of parcel operators.

²¹ The most up to date total sales figures as registered by Companies House on 23 March 2018.

²² See <https://www.dxdelivery.com/corporate/about-dx/>.

²³ Paragraph 4.82 of Ofcom’s March 2018 consultation.

²⁴ 27.8m parcels at an average unit price of £4.07 would give a threshold of £113m.

Annex 1 – Total revenue for sample of parcel operators

| Latest Accounts | Company Registration Number | Carrier | Revenue (£m) |
|-----------------|-----------------------------|-------------------|--------------|
| 31/12/2016 | 1933173 | UPS | 945 |
| 01/01/2017 | 732993 | DPD | 806 |
| 31/12/2016 | 1184988 | DHL International | 796 |
| 31/05/2017 | 1628530 | TNT | 725 |
| 28/02/2018 | 3900782 | Hermes | 653 |
| 31/03/2018 | N/A | PFW | 577 |
| 31/03/2016 | 2800218 | UK Mail | 481 |
| 30/06/2017 | 5200072 | Yodel | 410 |
| 30/06/2017 | 8696699 | DX Group | 292 |
| 01/01/2017 | 1421773 | DPD Local | 283 |
| 31/05/2017 | 1541168 | Fedex UK Ltd | 245 |
| 31/08/2016 | 319964 | Tuffnells | 176 |
| 31/03/2017 | 2855735 | APC Overnight | 103 |
| 31/12/2016 | 2275780 | DHL Express UK | 83 |