

Your response

Question	Your response
<p>Question 3.1: Do you agree with our proposals regarding the Annual Financial Forecasts? Please substantiate your response with reasons and evidence.</p>	<p><i>Is this response confidential? – N</i></p> <p>Before answering the direct question, brief context to our position is perhaps helpful.</p> <p>The Greetings Card Association (GCA) represents the interests of some 500 UK businesses involved in the design and production of greeting cards, generating in excess of £1.5bn¹ annually for the UK economy.</p> <p>Against the backdrop of Royal Mail’s declining letter volumes, our research demonstrates the card industry is not in decline. We also continue to lead the world in greetings’ card design and innovation. We are truly a great British export.</p> <p>Perhaps most pertinently given the current cost of living crisis, the exchange of cards represents a relatively inexpensive means of reinforcing community bonds and societal inclusion. As anyone who has received a card will attest, it is no exaggeration to describe our industry as the ‘<i>purveyors of happiness</i>’. This is particularly true at certain times of the year, such as Christmas.</p> <p>Of course, we can’t achieve any of this without an effective letters delivery business and it is this understanding that shapes our answers to the questions below.</p> <p>On Question 3.1 specifically, we are generally supportive of Ofcom’s proposals, viewing the move to a five-year forecast window and increased opportunities for alignment with Royal Mail’s reported</p>

¹ Source: GCA Market Report 2021, published Sept 2022.

	<p>numbers to be distinctly in consumers' interests.</p> <p>We believe Ofcom's proposals in relation to Sensitivity Analysis (at paragraphs 3.54 to 3.64) represent further important safeguards for consumer pricing. We would, however, go further: We understand that Royal Mail will prepare Upsides, as well as Downsides, within internal business cases and forecasts.</p> <p>Recognising that Ofcom has the ability/duty to keep commercially sensitive information confidential, we question whether Ofcom's:</p> <ol style="list-style-type: none"> 1. Understanding of Royal Mail's business, 2. Ability to protect consumers, and, 3. Ability to enter collaborative negotiations with Royal Mail <p>would be strengthened by requesting the same level of detail upon Upside Scenario Analysis as is requested for Downsides at paragraphs 3.60 and 3.61.</p>
<p>Question 4.1: Do you agree with our proposals regarding the Five-Yearly Financial Forecasts, and with our proposals regarding publication of Royal Mail's efficiency expectations? Please substantiate your response with reasons and evidence.</p>	<p><i>Is this response confidential? – N</i></p> <p>We support Ofcom's proposal to extend the use of Workload to all Operational Business Processes (at paragraph 4.52), believing this to be an appropriate additional consumer safeguard in an evolving business.</p> <p>Similarly, we welcome the additional transparency requested by Ofcom at paragraph 4.53 around the role of Royal Mail's New Parcel Hubs.</p> <p>We share Ofcom's belief in the value of focussing on WIPGH (Gross hours) not least for the reasons highlighted at paragraph 4.24, but also welcome the additional transparency Ofcom's proposed WIPWH</p>

(Working Hours) measures will offer (paragraph 4.62).

We recognise the particular importance of the accurate forecasting of wage inflation at the present time. We agree Ofcom's proposal to use the **OBR Average Weekly Earnings Index** (at paragraph 4.77) represents a suitable compromise to an area where certainty is not guaranteed.

This is not to say that Royal Mail's proposal for the start point for current wage negotiations is unreasonable. Rather, we note the proposal for Downside Scenario Analysis (at paragraphs 3.60 and 3.61) is an appropriate vehicle for Royal Mail to highlight, record and track such risks should they turn into realised issues.

In terms of **Other** costs, We view Ofcom's requirements outlined at Paragraphs 4.84 and 4.87 to be critical to protecting consumer interests. We note this concurrently offers Royal Mail opportunities to highlight genuine challenges, and link those that materialise through to future forecasts via the mechanisms outlined within Section 5.

Additional Seasonal Forecasting: We are particularly struck by the differences between the declining **Business** Letters market, and the **Social** Letters market. We have previously highlighted to Ofcom our understanding that 40% of Royal Mail's annual **Social** letters' volumes occur in just a five-week, pre-Christmas window.

On any analysis of these Christmas send volumes, it appears clear to us that Royal Mail face the exact reverse of the usual demand vs. supply cost pressures that shape the demands for rest of year regulatory reporting.

In our prelude to answering Q3.1, we have explained why we believe such seasonal **Social** sends to be critical to the *cultural fabric*

	<p><i>of the nation</i>, offering a sense of permanence during profound societal change, particularly for some of the most vulnerable postal service users.</p> <p>In our answer to question 5.1, we outline additional actuals reporting requirements relating to this period that we believe could open up new opportunities for Royal Mail to further reduce the decline of their letters business and better meet existing customer demand.</p> <p>From our related discussions with Royal Mail, it appears that such product developments is most likely to occur in a way that will meet existing customer demand, given encouragement from the regulator.</p> <p>Were Ofcom to adopt our proposals outlined in 5.1, it would follow that the seasonal forecasting requirements (not least at Paragraph 3.32) would also benefit from a similar additional level of granularity.</p>
<p>Question 5.1: Do you agree with our proposals regarding reporting on actual performance, including our proposals for the commentary Royal Mail must provide, both publicly and confidentially to Ofcom? Please substantiate your response with reasons and evidence.</p>	<p><i>Is this response confidential? – N</i></p> <p>As outlined above, we are supportive of Ofcom’s proposals around actual reporting but believe there are significant further steps that Ofcom could choose to take in order to further safeguard the nationally-important Christmas Card sending business, not least around disaggregating Royal Mail’s Letters Business Performance in December, from the rest of the year.</p> <p>We have previously highlighted the profound difference between the pressures facing the Letters business at various times of year².</p> <p>We believe that were Ofcom to undertake a more forensic approach to measuring seasonal efficiencies, this would open the</p>

² Not least in our communications with Ofcom in April 2022 of this year.

door for Royal Mail to explore further pricing/service incentives at particular times of year, offering:

- a) An important consumer 'win' that might lessen opposition to the apparent constant march of price rises,
- b) Opportunities to protect a genuinely world-leading British industry, currently contributing an estimated £364m³ in Christmas card sales to the UK economy and,
- c) Additional, less tangible, political and feel-good benefits, not limited to the sense of national unity, community cohesion and the individual mental health benefits that seasonal Christmas card exchange enhances.

This is particularly important given the volume of sends customers have historically made over the Christmas period. Whilst previous Ofcom Qual. and Quant. research offers a sense of the importance Consumers attach to the price of a stamp in the aggregate, this research appears more applicable to birthdays and letters, when a single send is being considered.

Our contention is that, instead, the impact of rising prices has a far larger impact during this key time of year when customers have traditionally anticipated sending cards to multiple recipients concurrently.

In highlighting the benefits to the nation of Christmas card exchange, we note Easter, Mother's and Father's Day represent

³ Source: GCA Market Report, 2021, calculates the Single Greetings Card market to be currently worth £164.2m per annum. Greetings Card Pack sales are harder to calculate, not least due to different distribution models, but the GCA estimates these to be worth a further £200m per annum.

	<p>further defined seasonal holidays prompting annual card purchases.</p> <p>We believe these events offer Royal Mail similar, if smaller, opportunities to offset wider decline, through the use of similar incentives.</p> <p>Again, there are clear national benefits to encouraging closer family bonds at a time when inter-generational division is a frequent topic of which we are all too painfully aware.</p> <p>For the reasons outlined above, we believe the regulator's support with such metrics to be critical in exploring additional options that will help meet the demand we know already exists.</p>
<p>Question 6.1: Do you agree with our proposals to make changes in relation to the change control requirement, the statements of capital employed and cash flow, reporting on a 52/53 week basis, and the copy on request requirements? Please substantiate your response with reasons and evidence.</p>	<p><i>Is this response confidential? – N</i></p> <p>We are comfortable with Ofcom's proposals, with the exception being that we have significant concerns relating to Ofcom's move to require submission of macro-product group level data only (outlined at paragraph 6.14).</p> <p>Whilst we appreciate Ofcom's stated intention that lower-level product data will continue to be requested when required, the timing of this change appears strange to us, when Royal Mail are consulting around the affordability of Premium Saturday and Sunday Letter Delivery Services.</p> <p>We have previously highlighted serious concerns that the pricing of such services could represent a tipping point between a vicious and a virtuous cycle for Royal Mail's everyday Letters business.</p> <p>Indeed, we would point to the international parallels already available to Ofcom from the US postal market, where volumes of sends have been impacted despite postal</p>

	<p>costs representing only 20% of the value of the average card (vs 35% in the UK)⁴.</p> <p>We cannot see how Ofcom could be in a position to determine appropriate pricing for such services, or determine what should fall inside and outside of the scope of the USO, without access to exactly the level of granular data that it is proposing to cease collating.</p> <p>In such circumstances, it is wholly unclear how this change better enables Ofcom to discharge its principal duty to further the interests of citizens and consumers⁵.</p>
<p>Question 6.2: Do you agree with our proposal in relation to USO delivery suspensions? Please substantiate your response with reasons and evidence.</p>	<p><i>Is this response confidential? – N</i></p> <p>Notwithstanding, Ofcom’s assurances regarding past stability, we have concerns with Ofcom’s proposal to remove the requirement for Royal Mail to notify Ofcom within one week of any new multi-premise delivery suspension (outlined at paragraph 6.41).</p> <p>We believe this change cannot be viewed in isolation from other changes being proposed, not least Royal Mail’s aforementioned desire to consult on the removal of 6 days a week letter delivery service from the Universal Service Obligation.</p> <p>We believe the cumulative effect of any reduction of service in any geography to be ratchet-like for a declining business, further heightening pressure on (often vulnerable) users least able to adapt</p> <p>We believe Ofcom’s new proposal would leave Ofcom unable to act in a timely fashion to protect consumer interests, should a spike in such suspensions occur.</p>

⁴ Data from Hallmark indicates the US average price of a card as \$2.99, with the cost of a stamp being \$0.60. By comparison, the GCA Annual Market report 2022 indicates the average UK card price £1.97 with a second class stamp being £0.68. Costs of a first class stamp are even higher at >48% of the cost of an average card.

⁵ Source: Paragraph 2.8, Changes to Royal Mail’s Regulatory Reporting Requirements, OFCOM, 2022.

	<p>This appears to represent a significant risk to Ofcom’s ability to undertake its primary goal to protect Consumers.</p> <p>We therefore believe a better compromise would be to reduce the requirement to a quarterly frequency, whilst enforcing a return to weekly reporting should suspension volumes increase by >5% in any quarter.</p>
<p>Question 7.1: Do you agree with our proposal for the changes to the USP Accounting Condition, the RAG and the Delivery Exceptions Direction to come into force on 27 March 2023? Please substantiate your response with reasons and evidence.</p>	<p><i>Is this response confidential? –N</i></p> <p>Subject to our concerns outlined above, we are supportive of Ofcom’s proposed implementation timeline.</p>