

# Consumer Futures

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Dear Puja

## Annual Plan 2014/15 – Invitation to Comment

Consumer Futures welcomes the opportunity to provide a response to Ofcom's Invitation to Comment consultation for its 2014/15 Annual Plan. We are happy to contribute the following comments, which we hope are helpful.

The UK postal services market is facing the most significant level of change for several decades with the continued decline in letters volumes and growth in parcels volumes taking place against the background of a more flexible regulatory environment and a new ownership structure of the universal service provider. The recent privatisation of Royal Mail, brings with it opportunities and challenges for the entire postal industry. However as Royal Mail continues to enjoy a dominant position in the provision of postal services for consumers and businesses (small and micro), there is often little real choice for postal consumers particularly in the letters market and for those sending low volume of parcels. It is critical that their needs in respect of access, as well as for value and quality services continue to be fully taken into account by Ofcom.

Ofcom's statutory duty of securing the provision of a sustainable universal postal service is given priority to that of its principal duty of furthering the interests of citizens in relation to communication matters and to further the interests of consumers in relevant markets, where appropriate by promoting competition.

Consumer Futures recognises and welcomes the importance Ofcom places on the financial sustainability of the universal service and on Royal Mail as the only operator currently capable of providing it. However, the efficient provision of the universal service is instrumental in its viability. A universal service that is not provided efficiently could result in stamp prices set high above costs. It is essential that Royal Mail seek to deliver efficiency gains within their business, to avoid an over-reliance on increasing stamp prices for universal service products.

Under private ownership and with the risk of increasing postal prices, it is likely that an increased focus will be on whether the provision of providing the universal service

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brings a net cost/net benefit to Royal Mail. In the interests of transparency and openness for both consumers and postal competitors, **Consumer Futures would ask Ofcom to build on the efficiency studies undertaken (and to be published) during this financial year** to ensure that whether the financial impact of providing the universal service is a net cost or benefit to Royal Mail has been properly assessed.

To ensure an adequate return of investment for its stakeholders, a commercially driven Royal Mail may seek to explore ways to generate more income and offset the effects of volume decline in the letters market. It may seek to do this through reducing overhead costs, increasing stamp prices or seeking lower quality of service performance standards. Consumer Futures would urge Ofcom to **strengthen its monitoring regime of universal service provision and provide greater transparency of the company's costs, revenues and profits**. With Royal Mail under private ownership, Ofcom's regulatory role in monitoring and scrutinising Royal Mail's detailed financial reporting becomes even more critical. It is important that Ofcom provide stakeholders and consumers with confidence that Royal Mail is providing the universal service efficiently and indicate the type of regulatory intervention that will be considered should they fail to do so.

The link between digital communications services and postal services is becoming increasingly important, and any regulatory changes must be considered with regard to the wider communication market and how electronic communications affects postal consumers across the UK. Growing evidence<sup>1</sup> suggests that consumers have an increasing appetite for online shopping and digital communications. Whilst this can create challenges for Royal Mail with the decline in traditional mail volumes, a rapidly developing parcel market creates new opportunities for Royal Mail.

Regulation should only be used where the market fails, but given the growth in the competition within the parcel market, Ofcom needs to **remain vigilant to market issues, including the development of choice and competition particularly in rural and remote areas**.

We note Ofcom's work on monitoring the competitive developments within the postal sector given the potential for harm to the provision of the universal service. However we would urge Ofcom to consider the impact on the market of the types of potential interventions for postal competition whilst considering possible detriment to all postal consumers across the UK. Consumer Futures would encourage Ofcom to **continue to consider the appropriate regulatory framework for end to end competition particularly implementing the options of tendering out of loss making elements, state aid or compensation funding arrangements** as we have previously suggested<sup>2</sup>.

We are aware Ofcom specify certain mail access and distribution requirements, within the conditions imposed on Royal Mail as the designated universal service provider, in order to meet the legislative requirements relating to the collection and delivery of mail.

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<sup>1</sup> 80% of UK adults have access to the internet at home via a fixed or mobile broadband connection or via a mobile handset and average weekly internet sales grew 10% in the year to May 2013 Ofcom CMR Report 2013


<sup>2</sup> <http://www.consumerfutures.org.uk/files/2013/05/Consumer-Focus-response-to-Ofcoms-Consultation-on-End-to-End-Competition-in-the-UK-Postal-Sector.pdf>

Royal Mail fulfils aspects of those conditions via the Mails Distribution Agreement or Inter-Business Agreement (IBA) with Post Office Limited, which is in force for a period of ten years, following Post Office Limited's formal separation from the Royal Mail Group in March 2012.

Royal Mail is the only postal operator to use Post Office Limited, and therefore Post Office branches act as a retailer of postal services and acceptance or collection point for postal items. As the post office network is the key access point for universal postal services for consumers and businesses, its ability to effectively provide postal services is vitally important. Our predecessor's (Consumer Focus) research<sup>3</sup> suggests that consumers' awareness of the appropriate postal products for their needs is low. Furthermore, our research uncovered that post office counter staff do not always provide the correct pricing and product advice or appropriately guide consumers in identifying the correct product to meet their needs. With the recent separation of Post Office Limited from the Royal Mail Group, and possible changes in that relationship as a result of Royal Mail's privatisation there is a clear need **for Ofcom to remain vigilant of the implications and impact of any changes in the relationship between Royal Mail and Post Office Limited** to ensure consumers are provided with a high quality and accessible service which meets their needs, and allows them to make informed decisions on the postal products they require.

As the consumer representative body for postal consumers in the UK, both Consumer Futures and our successor bodies hope to work closely with Ofcom in the future to develop a postal service which meets consumer needs.

Yours sincerely



**Robert Hammond**

Director of Postal Policy and Regulation

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<sup>3</sup> <http://www.consumerfocus.org.uk/files/2012/11/Getting-the-most-from-the-post.pdf>