Intellect response to the Postcomm consultation
"2006 Royal Mail Price and Service Quality Review. Initial Proposals June 2005"

Intellect appreciates the opportunity to contribute to the consultation process for the establishment of the 2006 Royal Mail Price and Quality Controls. We have been involved in meetings with Postcomm on this subject through direct contact and as contributors to the representations of MUA and Postwatch. In addition there have been individual representations from Intellect members.

Without restating all the details of the responses of the other bodies there are certain key points which we would like to reinforce as follows:

Mail Volume Forecasting

- Postcomm believe that Royal Mail will retain virtually all first class mail because entrants will find it difficult to develop competing networks. This thinking misses what is taking place in the mind of mailers - a behavioural change. Moving from First Class to a 2-day product can make significant savings.
- This behavioural thinking does not require competing networks to be in place but for organisations to trade off the level of delivery versus price. Those organisations that have already moved to access for bulk mail are now actively considering how to move their first class bulk mail but also their standard tariff PPI and metered mail (as many large organisations use a wide variety of payment channels) to achieve the maximum levels of discount that Access provides.
- With the new entrants also now targeting the unsorted mail market - UK Mail has 2 sorters in place with plans for 4 more this year and with TNT Mail taking delivery of its first sorter in September - competition will now be available to the small and medium sized business user the majority of which are now using standard tariff first class.
- Intellect would therefore disagree with the assumptions from Postcomm (and LECG) that 1st class mail is "captive" and is therefore under threat, and believe that the forecasts put forward by LECG need to be reworked based not only on 1st Class mail but also in respect to the volumes of mail already switching to access products, which appear higher than in the LECG forecasts.

Captive Versus Non Captive baskets.

- If the above argument on the switching of First Class mail is seen as rational and logical then the rationale of the way that the tariff baskets is structured becomes questionable. This is because 1st Class PPI and Metered mail would then move to the non–captive baskets leaving only stamped mail, standard parcels, response services, airmail and surface mail within the captive basket. The ability of Royal Mail to then rebalance prices based on cost reflectivity is negated, and as such Intellect recommends that the existing one basket approach be retained.
- Additionally the "baskets" approach makes the proposals for the groupings for quality of service even more perverse:
    - Second class metered mail which is in basket B from a competition perspective but with stamps from a quality perspective and
    - First class PPI, which is in basket A from a competition perspective but in the bulk mail first class category for quality of service.
- It appears to make no sense whatsoever to group stamps and metered together for quality of service. The primary market for stamps is social mail whereas meters are positioned at the business market. Additionally, Royal Mail through its channel-reflective pricing introduced in April 2005 classified both metered mail and PPI as business mail with the first class element priced at 1p lower than the stamps equivalent* and hence the current proposals do not reflect what is happening in the market. (*Standard tariff first price band only).

Removing Special Delivery From the Price Control for large and medium business users

- Postcomm believes that the distinction between large and medium sized customers, and residential and small business customers, is determined by the payment method. This is based on Royal Mail distinguishing between those paying at a post office (residential and small businesses) and those paying on account. Whilst the above may be true we have previously been advised that about £100M of Special Delivery is evidenced by the meter channel and is either collected from business customers via the normal Royal Mail collection, either free or paid for, or is taken to a Post Office. As such the premise above using the Post Office/payment method is incorrect as it totally misses out those customers that pay for Special Delivery via the meter channel.

- This will mean that Postcomm must clarify where customers stand who pay for Special Delivery through their meters. Are they to be considered as "domestic and small business" or will they have the same benefits as those paying via PPI?

Further information and explanation

Intellect would welcome the opportunity for a meeting with Postcomm to expand on these points should Postcomm believe such a meeting to be of value.

John Park, Intellect 9th September 2005