

INTELLECT RESPONSE TO THE POSTCOMM CONSULTATION ON ROYAL MAIL'S PROPOSAL TO PRICE ACCORDING TO SIZE AND WEIGHT

Introduction

Intellect is recognised as the leading high tech industry body in the UK representing over a thousand members in IT, telecommunications, software and services, and office technology. Within Intellect there is a broad spectrum of membership providing equipment, systems and services to all participants in the postal sector – mailers; mailing houses; postal service providers; facilities management providers; and intermediaries. We share Royal Mail's prime objective of growing profitable mail traffic (i.e. of value to the mailer, the recipient and the postal service provider) and so we have a mutual interest in the success of Royal Mail. We take the view that this is best achieved by providing a diversity of customer focussed products; fair, transparent and commercial pricing for all channels; and excellent quality of service. We see good management effectively supported by technology investment as the prime driver of performance improvement.

In April 2004 Postcomm announced a consultation on a proposal from Royal Mail to change the method of pricing mail from one based on weight to one based on a combination of size and weight. Similar proposals have been put forward in the past and have not been progressed due to the high risks involved and unproven benefits to be realised. The situation has not materially changed since Intellect's antecedent FEI issued a Position Paper in October 1998.

Intellect welcomes the opportunity to respond to Postcomm on this subject and believes that it is in a unique position. Its members are totally dependent upon a successful Royal Mail but they believe that these proposals would have little direct effect upon themselves but would have a significant negative effect on the market and the commercial success of Royal Mail.

Intellect apologises for its limited ability to respond on the detail of cost calculation and allocation and would suggest that if Postcomm has not yet been able to arrive at a decision, there would be little chance of Intellect members doing so.

In summary Intellect believes that size based pricing is an irrelevance to the processing of household and general office mail, although it could be appropriate as one of the elements in calculating the price for contract/bulk mail. Royal Mail should be focussing on the imaginative serving of customer needs to drive up traffic and revenues; and the imaginative adoption of technology and business processes to drive down costs. Intellect has been represented at many Royal Mail presentations to industry on this topic and it is with considerable sadness that it is clear that despite all the communications, the industry can not accept the necessity for this wholesale change in pricing and Royal Mail cannot see why the industry continues to assert that Royal Mail are missing the point and focussing on the wrong aspect of their business. All the time that this continues we lose focus on the core elements of the business, provide succour to the competitive communication channels, and add to the atrophy of this great business.

General principle

1. Other than as one element in the calculation of prices for contract or bulk mail we oppose the general principle.
2. It is more complicated (bringing in the added factors of size, thickness and thus consistency of contents) and a different system from the continuing weight-only pricing of International mail.

3. Judging thickness is a real problem; Royal Mail admits it and Postcomm feel the necessity to add approximate imperial equivalents to try and communicate effectively on this difficult topic. This will surely lead to revenue protection issues and customer conflict.
4. Reducing the number of weight bands does not significantly reduce the complexity (a single price for "anything that will go into this envelope" like the system in New Zealand is genuinely simpler (but not necessarily the best for the business)).
5. For household mail, most homes have a scale somewhere in the kitchen but few will have 5mm and 10mm gauges and even if Royal Mail distributes them, they are likely to be lost shortly thereafter.
6. Royal Mail say there are few items "close" to the price breaks but if mailers are going to increase the contents of envelopes as Royal Mail say they will do, this is likely to change as the method of pricing changes.
7. There are likely to be arguments and delays at counters about format and thickness. Once an item is on a scale there is no argument about the weight. When it comes to thickness what will happen if customers start forcing items through a gauge or trying to compress an item or saying for example "it's very thin except for where the fold is"? Intellect has seen a proposed gauge for use in Post Offices and we believe a thin but slightly bent envelope would not "drop through" and could cause confusion and anger at what is already considered a "distress purchase" activity in all but the small rural offices.
8. Currently there can be no doubt about the weight of an item and it will not change during transit. The same cannot be said for shape where an item can become crumpled or the contents move in the pillar box or during transit. Is there not a danger that, particularly franchise post offices, are likely to "give the benefit of doubt" on size and thickness to customers and thus create a revenue protection issue? The last thing that such small offices want is an argument at the Post Office counter, which could have an adverse effect on the rest of their business.
9. Pricing in an open market should be to the value provided and with contract mail, the additional traffic/revenue/contribution "pull through" that a particular mailing is likely to generate. Cost-driven pricing is a sure sign of market dominance.

Postcomm's approach to assessing the cost information

1. Postal costs are incredibly complicated as Royal Mail admit and show by their inconsistencies.
2. "Costs" are not static and there appears to be little or no consideration to attacking the cost issues referred to by Royal Mail especially through investment in technology and improved business and management systems.
3. Weight is an indicator of costs; and size too is only an indicator of costs - there is no absolute correlation between one attribute and the cost of handling. We have seen nothing to substantiate that size and thickness are a better indicator than weight for household and general office mail. The industry can follow the theoretical justification for the change but cannot accept that this will translate into actual benefits when applied to real mail being processed.
4. If mail is sorted down to delivery office it does not have to be machined e.g. UK Mail downstream access. If the driver is cost because of machineability, presumably large-format mail sorted to delivery offices will be charged at the same rate as small mail which is sorted in the same way?
5. If cost is the key driver for change then deliverability presumably is a significant factor. Will mail delivered to business addresses (where there is normally attended receipt and mail is delivered in "bulk") be priced lower than mail addressed to private addresses? If no why not?
6. With regard to "winners and losers", if there are losers then traffic will fall and virtually the same costs spread over smaller volumes which will drive prices up to those customers who are left. This in turn will drive up prices and consequently there will be no "winners", only "losers now and losers later".

7. In 4.31 of the Postcomm consultation it states “Royal Mail argued that there was strong correlation between the volumetric size of mail items and the weight of mail items”. If this is the case why not continue to use weight as the criterion for establishing price?
8. Royal Mail appear to be apologising for the inadequacies of their costing information. Postcomm point out the internal inconsistencies in the three different sources of information provided by Royal Mail. Why should customers face such disruption and how can Royal Mail build a major realignment of their pricing regime if it is built on such poor foundations?
9. Royal Mail has suggested that an advantage of the change to SBP is that mailers will be able to fill envelopes with more mail for the same price. Have they taken into account the probable reduction in traffic as a result of this “mail consolidation”?
10. If SBP is necessary to combat competition why has it not been introduced into the parcel sector which has been open to competition in the UK for many years?
11. If size is such a key driver of costs why has Royal Mail not introduced a *minimum* size as well, as they have done with Response Plus services?
12. Postcomm (A2.37) refers to New Zealand Post having a pricing structure in which the size of the mail is determinant for price. Our understanding is that thickness is not a criterion for determining the price in New Zealand so what pricing logic does that suggest?
13. If prices have to be related to costs, will the price of postcards be raised to compensate for the higher cost of processing?
14. Royal Mail refers to the fact that other postal service providers have introduced size based pricing but they would appear to have failed to provide any detailed evidence of the effects of such changes. The feedback that we have received (not formally collected or analysed) suggests significant negative effects on the traffic without any visible reduction in costs. It is also said (although again we cannot substantiate this) that failure to follow up under payment (because of the costs and consumer backlash) results in relatively low levels of adoption of correct pricing especially by household and SME mailers.

Impact on customers and notice period

1. Size based pricing will add complications to pricing especially in SME businesses where in most cases today a scale and franking machine act as a gateway to Royal Mail services. Anyone in the office can walk up to a scale enter the service (inland or overseas) and the rate is calculated (and in many cases the meter can be set automatically). This will no longer be the case with SBP. However the mailer will still need the scale to cover the weight element and to process overseas mail while it is still determined by weight.
2. Royal Mail refers to people who regularly handle mail, such as mailroom staff, being able to price almost all mail by sight under the SBP proposal (Postcomm 5.9). This implies that those who do not handle mail regularly will not be able to do so and this applies to the vast majority of business. Only the larger mailing operations in larger companies have dedicated mailroom staff. However this statement is only true if “other things are equal” which they never are. For example mail profile is likely to change under any new pricing structure as marketing departments seek new ways to obtain the maximum from their postage. Such actions will make “rating by sight” more difficult. In addition all mailrooms will continue to keep scales for the weight element and for international mail so introducing the element of size complicates, not simplifies, the process.
3. If it is easier to price mail by sight, why is Royal Mail proposing to put gauges on Post Office counters?
4. Where is it planned to put the gauges in Post Offices? They will need to be in addition to the scales and where they can be seen from both sides of the counter (in case of dispute). We were not aware that there was that much additional space available on most post office counters.

5. Rating devices that also measure dimensions (format and thickness) would be considerably more expensive than those which rate by weight alone. It is not possible to estimate the additional cost of such items as primary research would first have to be undertaken to design such equipment for the SME businesses.
6. If folding A4 items into C5 envelopes is such a good thing for business mailers (as suggested by Royal Mail) why haven't mailers done it already to avoid the additional cost of C4 envelopes over smaller ones? The simple fact is that A4 direct mail generates significantly higher response rates than A5 or DL mailings to the point where some direct mailers have said that if increased prices drive them to A5 they will have to stop mailings and seek alternative marketing communications channels especially the telephone.
7. Royal Mail does not believe that most mail will change in size to more closely match the maximum dimensions under the SBP proposal (Postcomm 5.13). Why should it come to this conclusion?
8. We believe some of the research carried out for Royal Mail was flawed. The "show card" which we saw explained in the introduction that they were considering changing pricing according to format because their costs were driven more by size than weight. Such qualification would make any reasonable person (i.e. over 50% of the population) inclined to support the proposal when asked for their views later in the survey. In a real survey, no reason for the proposed change would have been given because of the danger of the respondent giving their views based on the justification rather than their judgement of the elements of the proposal.
9. Pricing by weight is well established in the householder mailer's mind. Changes are going to be disruptive. It is said that people will quickly grasp the changes but even if this is the case, it is also true that they will quickly forget the detail again. In the home mailer sector these proposed changes are likely to cause considerable and unnecessary concern and anxiety to the elderly and infirm.
10. Postcomm reports that Royal Mail has not provided a detailed communications plan (5.26). We find this surprising in view of their assertion that it is a simple message that will be easily absorbed.
11. Royal Mail's assertion that size based pricing is a simple concept and will be adopted speedily would not be supported by their experience with under payment of mail to Ireland. It is a simple fact, generally acknowledged, that Ireland is not UK but a separate member state of Europe. However that does not prevent Royal Mail experiencing considerable under payment of mail from households and businesses where the UK domestic tariff is applied to the item rather than the "Europe rate".
12. The industry has seen no plans from Royal Mail on their proposals as to how they are going to police size based pricing and how they will treat under payment. Until their proposals and the associated costs are announced it is difficult to judge the effectiveness of size based pricing in meeting Royal Mail's objectives.
13. Royal Mail reports that it has spoken to all its large customers through its Account Management team. Most of the large customers with whom we have had contact query the nature and the quality of this "contact" and the validity of the findings.
14. Royal Mail has announced at meetings on SBP that size is only the first attribute that will be used to determine price. They have stated that other attributes such as readability, address contrast with the substrate, colour of envelopes, envelope text which conflicts with the address, free space for Royal Mail coding (a big item on postcards), etc. are likely to be introduced as price determinants after the adoption of SBP. This is not "simplification".
15. Intellect believes that these changes will take much longer to become embedded than has been suggested by Royal Mail. Should it be decided to approve the size based pricing proposal, Intellect calls for a minimum of 12 months between full approval by Postcomm and the introduction of SBP. Royal Mail has not been particularly accurate over the last few years in their forecasts of speed of adoption and benefits derived from their changes including restructuring, service changes, Mail sort changes and the change of name to Consignia. Intellect cannot appreciate why their forecasts for size based pricing should have any greater validity.

Proposed changes to non-price terms and conditions

1. Intellect has no comments to make with regard to the proposed changes to non-price terms and conditions

Impact on competition in the market

1. As Postcomm's plans to open up the market to competition are governed by weight breaks, presumably a move by Royal Mail to size based pricing with a first weight break at 100 gm would result in a simultaneous, complete removal of the monopoly reserved area.

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