

VIEWS ON POSTCOMM'S COMPETITIVE MARKET REVIEW 2005**PPA RESPONSE****(I) Where competition has developed...**

1. *What developments in competition in the UK postal market are you aware of? What have been the benefits, or are the likely benefits, to postal users? And the shortcomings, if any?*

PPA is aware of developments around Downstream Access. There are very limited benefits for magazine traffic due to:

- The 2-3 day delivery time. Most magazines need next day delivery;
- Alternative aggregators have only been interested in supplying services for small lightweight items.
- The access price which alternative providers are required to pay Royal Mail is set too high for them to be able to compete with current Presstream prices, or whatever Royal Mail is able to charge if it fully exploits its economies of scale;
- Alternative operators are unable to compete effectively for magazine traffic, as Royal Mail internal cost savings for Presstream products such as repetitive traffic, are not passed on through access pricing, rather aggregated and averaged across all services, and even then are market, i.e. price-minus rather than cost-plus, based;
- The access price does not reflect added value of Presstream traffic achieved by driving additional postal revenue that lowers overall unit costs.

4. *Have you been approached by alternative providers? How (type of medium)? How often? How responsive have you found alternative operators to your specific requirements? Please specify what your specific needs are.*

[Material redacted]

5. *Have you switched any of your mail (all or part) to alternative operators?*

[Material redacted]

6. *If no to Q.6...why did you stay with Royal Mail? What would lead you to switch some of your mailings to alternative providers? Please specify the relative importance of price, quality and innovation.*

Publishers have stayed with Royal Mail due to the lack of viable alternatives and despite poor service performance. Lack of a next day delivery service and of delivery to

residential addresses are the main reasons. Delivery must be reliable, on time and cost-competitive.

7. *How safe do you believe your mail is when carried by Royal Mail? And by alternatives?*

PPA is not aware of any particular issues relating to the security of mail, either for that which is carried by Royal Mail or for that carried by alternative operators.

8. *Are you aware of innovation in the market, responding to customers' needs? Please specify. What are your specific needs in this respect?*

PPA is aware of very little innovation in the market. Some suggested areas where publishers would like to see greater innovation are as follows:

- Products that promote growth with long term cost guarantees (for new titles & higher volumes);
- Robust track and trace facility offering visibility of delivery. The ideal would be to doorstep, but to delivery office is a good start point. Problems to be notified by exception;
- Bundled magazines not bags for presort products;
- More incentives for workshare;
- Choice to carry magazines unwrapped;
- Greater flexibility on collection and entry times for downstream access.

(II) Royal Mail's response to competition and the regulatory regime...

9. *Have you noticed any change in Royal Mail's behaviour as a result of the introduction of competition?*

We have noticed very little change in Royal Mail's behaviour as a result of the introduction of competition.

10. *Has there been any effect, (detrimental or otherwise) on Royal Mail's provision of the universal service obligation as a direct result of competition? If so what and why?*

We have not noticed any effect (detrimental or otherwise) on Royal Mail's provision of the universal service obligation as a direct result of competition. We assume that this is because competition has been limited, access prices are generally too high, and access arrangements too inflexible to promote change.

(III) How competition is likely to develop in the medium-term and what the likely benefits are for postal users.

- 11-13 *How do you think the UK postal market will develop in the future? How do you think competition will develop in the future? In which areas of the market do you expect this to be successful? Why? Do you think a particular form of competition (access or end-to-end) is more likely to develop in the UK postal market? Why might this be the case?*

Downstream access will continue to develop. However, we believe there will be very limited development of end-to-end delivery networks by alternative providers even in the medium-term. We are also concerned that next day delivery to residential addresses will not be a priority for alternative providers. Thus there will be little impact on the market for not only consumer magazines, but also business-to-business magazines, for whom more and more subscribers are choosing to receive their copy at home, and are generally extremely time-sensitive.

16. *Where do you think innovation is likely? Why? What types of new products or services are likely to emerge?*

It is difficult to see any form of innovation developing, given the current feedback from current and potential suppliers and the existing base level. Publishers are not currently seeking major developments in the product offering of alternative carriers, but more opportunity for competition at the base level. Only then will publishers consider longer-term developments of competitors to Royal Mail.

(IV) The regulatory measures Postcomm can take to improve the prospects for effective and sustainable competition benefiting postal users and leading to competition.

17. *Are there aspects of current regulatory regime restricting the development of competition or encouraging unsustainable competition? If so, what are they and how are they impacting?*

VAT is clearly an issue. PPA recognises it is not directly under the control of the regulator, but Postcomm must continue to consider this aspect of market distortion when assessing the competitive opportunities in the postal market.

18. *What regulatory measures should Postcomm focus on to deliver effective and sustainable competition? Can you rank in order of importance?*

Postcomm must retain Presstream both within the Price-control regime and the USO, until sufficient and sustainable competition has developed. This will restrict Royal Mail's opportunity for unregulated price increases and poor service provision without the checks and balances of a fully functioning postal market.

Access pricing should be developed to reflect the cost benefits of repetitive traffic, guaranteed volume and workshare, to aid the development of competitors in downstream access for magazines.

19. *How will you judge the success of these regulatory measures?*

When new market entrants can offer services that are equivalent to those offered by Royal Mail at comparative and market-reflective prices and service levels for a sustained period.