

POSTCOMM COMPETITIVE MARKET REVIEW CONSULTATION

Response from the Periodical Publishers Association (PPA)

December 2004

WHO WE ARE

The Periodical Publishers Association (PPA) is the trade body for UK magazine publishers. The association's membership consists of over 350 publishing companies who together publish over 2,500 consumer, business and professional magazines. It is the only voice of the UK magazine industry.

Magazine publishers range from sole traders and private companies with turnovers of less than £30,000, to international corporations generating turnover in the region of £500 million. Magazines often publish simultaneously in print and online and even the smallest publishers can circulate throughout the world via subscription.

The subject matter represented by the magazine industry has no boundaries. PPA members' publications include niche academic journals, industry specific and hobbyist publications through to mainstream high circulation publications typified by women's interest, celebrity and current affairs 'weeklies'.

THE MAGAZINE INDUSTRY AND THE IMPORTANCE OF THE POSTAL SERVICE

PPA welcomes the opportunity to comment on Postcomm's proposals outlined below. As a general proposition, PPA members support Royal Mail as the supplier of first choice and whilst they support any measures designed to enhance the effectiveness of the service, they would be concerned at any threat to Royal Mail's viability and thus its ability to provide an efficient cost-effective service. For business-to-business magazines there is almost no alternative to delivery by post. For consumer magazines subscription sales are a critical part of business activity. In this latter sector, there are real threats to availability and diversity through traditional newstrade supply with consolidation amongst retailers, threats to the distribution system and thus supplies to independent retailers and range reduction by multiples. Accordingly Royal Mail's service is of critical importance to both business and consumer magazines.

ECONOMIES OF SCALE

As Postcomm points out - economies of scale occur where average total unit costs (fixed plus variable) fall as volumes increase. These economies of scale can effectively rule out, in the short-to-medium term, a rival daily delivery network. Accordingly it is not unexpected that inroads into Royal Mail's market have been shallow apart from particular business sectors in limited urban areas, where delivery density achieves critical mass to compete effectively with Royal Mail. Whilst PPA would welcome the Postcomm proposals to analyse this lack of effective competition it should not artificially harness Royal Mail's legitimate activities. What continues to be necessary is for charges to those customers of Royal Mail who have no realistic alternative supplier to be properly controlled by the Regulator as a quasi-competitor.

ACCESS CODES

Postcomm has recognised the benefits of Royal Mail's economies of scale to postal users, by reducing unit costs. Postcomm has accordingly pursued downstream access to Royal Mail's

network for other operators and has said it would like to see these bilateral arrangements formalised into an access code. PPA welcomes the development of an access code as there must be a proper analytical framework for Royal Mail costs if progress is to be made in encouraging take-up of downstream access opportunities, and in establishing fair prices.

ACCOUNTS

PPA cautiously welcomes the proposal that Royal Mail should deliver greater separation of its regulatory accounts, to include costs, broken down by pipeline activity, such as delivery, sorting, collection. However, the achievement of a transparent cost and pricing structure is now considerably overdue, and PPA is minded to state this must be full separation before any price review is completed, or any further market development or additional pricing agreements for downstream access are approved by the regulator. PPA believes there is insufficient transparency at this time to be sure there is no direct market abuse, or unfair competitive advantage for Royal Mail.

VERTICAL SEPARATION

Postcomm should set a target for achieving the necessary transparent cost and pricing structure. If, due to circumstances beyond the control of Postcomm, this is not achieved, then there is a strong case that Royal Mail activities should be separated into upstream and downstream activities, as is the case in other regulated utilities. However, this should only be following consultation informed by the experiences of other utilities.

ROYAL MAIL'S VAT EXEMPTION

Postcomm's analysis showed how a reduced rate of VAT could be applied without resulting in a significant increase in prices and should be pursued accordingly.

CUSTOMER INERTIA

PPA believes this is a critical area for Postcomm. In the magazine industry, despite a prolonged programme of awareness to members and the magazine industry in general, take up of competitive options remains low.

There are two key issues:

(i) There is very limited coverage from alternatives, reducing opportunity - and therefore interest - for publishers. Most competitors have focused on B2B in urban areas, with mixed success, whilst activity in suburban areas has only been achieved through piggy-backing existing home-delivery networks; and

(ii) There are considerable additional costs for publishers and mailing houses to manage split distribution. This requires investment in new address management and sortation software, and operationally through segregation of mailings. Managing two or more suppliers is a duplication of activity across preparation, handover, customer service and account management. Tracking complaints requires cross-checking of suppliers, down to postcode sector level to identify the

service provider. For many publishers this would require yet further investment to manage their subscription and controlled circulations effectively.

PPA does not accept therefore, as promulgated in the Frontier Economics review, that barriers to use of alternatives are low.

ACCOUNT MANAGEMENT

Account management is in effect a customer service function, and is critical to both large and small customers as post is a major cost – and has been considerably variable in quality and lacking continuity. This results in considerable additional cost and service failure for users and must be addressed. Benchmarking is a part of Postcomm's remit and PPA believes that the overall aspects of Royal Mail customer service is an area to pursue with considerable urgency.

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