

Direct Marketing Association
DMA House
70 Margaret Street
London, W1W 8SS
T 020 7291 3300
F 020 7323 4165
E dma@dma.org.uk
W www.dma.org.uk



REVISED MARKET OPENING TIMETABLE

Proposals for consultations

DMA's RESPONSE

David. I. Robottom
Draft 1 21.12.04

DMA

The Direct Marketing Association (DMA) UK Ltd is the largest trade association in the communications sector, representing both users and suppliers of direct marketing. We represent the majority of the major users of postal services and our client membership base represents the largest Royal Mail customer group. We represent all aspects of the supply side of postal services from mailing houses to consolidators and from agencies to data bureaux. We have consistently pushed for market opening to facilitate competition and welcome the opportunity to contribute to this consultation.

REVIEW OF POSTCOMM'S MARKET OPENING TIMETABLE

Proposal to fully open the UK market to competition from 1.1.05, (with no intermediate step between 1.4.05 and 31.12.05).

We fully support Postcomm's proposal to fully open the UK market by 1st of Jan 2006. This is based on the following key factors:

- Despite opening 30% of the market back in 2003, the level of competition is minimal.
- Although in theory downstream access opens up a great deal of the market, the reality is somewhat different, with Royal Mail's obstinate slow approach to access, stifling any attempts by new entrants to innovate in the market.
- There are serious barriers to competition, particularly VAT, opening up the market early, will give entrants an incentive to maintain/increase their commitment and investment.
- This regulatory action could act as an effective proxy for competition by stimulating Royal Mail to improve their performance and efficiencies.
- The media needs to ensure it can compete against other advertising media. It can only do this by the introduction of competition and the innovation and efficiencies resulting from such an introduction.
- Royal Mail needs pressure to improve its efficiencies and quality of service performance.
- Its very doubtful that Royal Mail's ability to provide a universal service would be undermined by the opening of the market, given the level of competition and financial state of Royal Mail.

- Ideal timing would be 1st Jan 2006, as it would coincide with the next step of EU liberalisation to 50gms.

LICENSING

Postcomm proposals for reviewing the licensing regime, raising market awareness, raising the priority of interoperability issues and the process for dealing with requests from Royal Mail to move some of its prices more closely into line with its costs.

Licences should ensure the licence holder's company is fit for purpose. The DTI take a similar approach with company registrations, which is worth considering. As we move to full market opening, the need to a rigorous licence is limited. The market itself will determine and evolve the standards for mail integrity. If a new operator fails to meet customers' standards for mail integrity, it will lose that customers business.

Therefore Postcomm's review should be focused on a light touch of regulation, acting as a catalyst for market entry rather than a barrier.

The problem with market awareness of market opening and competition is that it will be a function of the level of competition, choice and offers. Therefore if the level of competition is low, the awareness will probably be lower. Postcomm's proposals for market awareness are well intentioned but Postcomm's resources are probably better spent by resolving market barrier problems, such as VAT.

It is essential that Postcomm take the lead on interoperability. There is a great deal of evidence in other regulated industries where a lack of interoperability guidance or direction from the regulator, leads to slow development. Postcomm must take the lead on the following issues:

- Access code- waiting for Royal Mail to resolve or market dynamics, will not work and be too slow.
- PAF- Management and ownership should be removed from Royal Mail and licensed by Postcomm.
- Redirections and gone aways - clear guidelines and protocols must be put in place to facilitate the quick movement of mail.

Current approaches are based on Royal Mail taking the actions, which will lead to slow drawn out development.

We totally support prices, which reflect costs. Postcomm must be assured that Royal Mail understand their own cost base and are taking steps to ensure such prices reflect an efficient operation rather than an inefficient one. On the issue of SBP, unless Postcomm are convinced by rigorous analysis that SBP does reflect Royal Mail costs, then SBP should not progress. On the issue of geographic pricing, flexibility is worthwhile if it reflects an efficient operation and gives some benefit to customers. Payment channel changes relative to costs are to be supported providing they do reflect costs of an efficient operation.

ROYAL MAIL'S USO FOR BULK MAIL

Postcomm proposals for defining Mailsort 1400 (1c and 2c) as the generic universal service product for bulk mailers and to allow, subject to safeguards, Royal Mail some geographic pricing flexibility on other bulk mail products (including access products).

By definition the universal service should reduce as competition develops within the market place. Overtime what should result is the minimal universal service. Using mailsort 1400 as the bulk mail universal product ensures that the majority of large mailers have a bulk mail product that they use. Although there is concern that by not including mailsort 120 or Cleanmail as USO products, the opportunity for new users or SMEs to benefit from large scale discounts is reduced.

Geographic pricing must be linked directly to costs. Controls must be in place to ensure Royal Mail do not use geographic access pricing with direct customers, as a means of restricting competitors using Royal Mail's network, through an access arrangement.

The necessary licence provisions must be used by Postcomm to ensure Royal Mail do not abuse their pricing flexibility or abuse their position re products defined outside the universal service.