



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

ROYAL MAIL PRICE CONTROL 2006 - 2010 Final Proposals

DMA's Response

Alex Walsh
2.03.06

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 been actively involved in all the consultations relating to Price Control and welcome the opportunity to contribute further to these proposals.

Introduction

We support the stated objectives of the Price Control proposals and Postcomm's vision of "*a range of reliable, innovative and efficient postal services, including the universal service, valued by customers and delivered through a competitive market*". This response focuses specifically on the changes from the original proposals and proposed changes to Royal Mail's licence. It should be viewed in conjunction with our response to the initial proposals that covered a wider range of issues that will not be repeated here.

Issues for Consultation

Pension deficit

- We still do not accept the principle that present and future customers should fund the pension deficit. Typically this would be funded through profits and a reduced (or no) dividend to shareholders. Postcomm estimates that customers would pay over £2bn for pension related costs effectively adding an additional 10% to the cost of regulated products. We have noted the additional information relating to the pension deficit that has been provided and the DTI's view that this represented a major threat to Royal Mail's viability but this ignores the benefit that the shareholder has had in the past.
- If customers are to fully fund the deficit then we agree that it is inappropriate for them to also bear the risk of any increases in the future. It is important to ensure that Royal Mail and its shareholder accept responsibility to do everything within their control to manage the risk and not simply rely on the customer - through increased prices - to bail them out. We don't accept that the customer should have to accept any responsibility for the future pension volatility risk as in the pension pass through proposals. This introduces

another variable that doesn't support the stated aim of providing as much certainty as possible for stakeholders.

Volume adjustment and sculpting of the price caps

- We welcome the proposal for a fairer sharing risk and benefit should the mail volumes differ significantly from the projected volumes. As Postcomm has pointed out Royal Mail has a disproportionately high level of fixed costs and the relative impact of volume increase or reduction is exaggerated.
- Direct Mail however has to compete against many other advertising media and we are concerned that the combination of the volume adjustment and the sculpting of the price caps could lead to a vicious spiral of price increases with the medium becoming increasingly uncompetitive.
- The sculpting of the price caps allows Royal Mail to "front load" price increases into the first year of the price control - potentially over 9%. Assuming that there are no significant changes in volumes (or pension deficit) this will mean little scope for increases in subsequent years if Royal Mail is to keep within the constraints of the Price Control.
- Under these proposals however if volume falls - possibly as a result of Direct Mail being less competitive compared to other media or Royal Mail failing to meet efficiency targets - then there is the scope to increase prices beyond what has been projected to help protect Royal Mail's revenue.
- This could then set off another round of volume reduction and greater than projected price increase that while it provides some degree of certainty to Royal Mail does not provide the same certainty for the customer.
- We appreciate that the new tariffs published by Royal Mail from April 2006 do not show the prices of its business products and services increasing by as much as they could under these proposals but these prices are, of course, still only "indicative" and subject to change.
- These proposals however need to be seen in the context of the introduction of Pricing in Proportion in August where some customers will face the prospect of a second significant price increase within 5 months.
- Although we support the principle of a fairer sharing of the risk and benefit we believe that there needs to be a clearly defined limit as to the maximum price increase allowed over the Price Control period that includes the potential adjustments from volume and pension adjustments.

New products and non-price terms and conditions

- We believe that new products should be outside the control since this will encourage innovation and development of the market.
- As has been covered in the consultation document the issue is what constitutes a "new" product as opposed to an evolution of an existing one and the potential to move products outside the control by simply introducing a "new" variant.
- Rather than Postcomm itself being the arbiter of what constitutes a new product we would like to see a similar process to that recommended for the control of non-price terms and conditions with the involvement of Postwatch and the Trade Association Forum. Only if Royal Mail cannot agree with Postwatch could it refer to Postcomm for a decision.
- It is in both Royal Mail's and the industry's interests that new products are brought to market as quickly as possible and that there is a process that enables this rather than hinders it. Providing any concerns that Royal Mail may have around commercial confidentiality can be addressed this would mean that representatives from a broad cross section of customers would be able to review any proposals and reach a decision within a short timescale.

Transparency and simplicity

- We fully support Postcomm's objective that the price controls should be transparent and simple and believe that this should extend to Royal Mail's published prices especially when publishing tariff increases.
- The "sum of it" published for April 2005 clearly laid out the new price effective from April 2005 next to the existing price and showed both the change and percentage change.
- The equivalent document relating to the proposed price increase from April 2006 only includes the new prices making it much more difficult to compare. It also makes it much more difficult to identify where there have been significant changes in the way that a price has been calculated, for instance Mailsort discount structures for direct and residue selections.
- In the interests on transparency and simplicity any new tariff should at least be displayed next to the existing price and ideally - as Royal Mail did in 2005 - show the difference in monetary and percentage terms.

The Price Control review

- We are concerned about the way this Price Control review has been carried out which has resulted in a high degree of uncertainty for customers.

- The final Price Control proposals themselves cannot be finalised before the 6th March when the consultation closes. This is only 3 weeks before Royal Mail's proposed price increases come into effect - assuming that they agree to Postcomm's final price control proposals.
- Customers are having to use "indicative" prices that - as Royal Mail clearly states - are subject to change for planning their campaigns and setting budgets. (This of course also impacts on the proposed pricing for Pricing in Proportion where there is a commitment to provide 6 months advance notice of actual prices.)
- The DMA and other Trade Associations have repeatedly stated that customers need a minimum of 90 days notice of any change to prices since Direct Marketing campaigns often take this long to implement with mailing volumes being determined at an early stage in the planning.
- We would like to see guarantees that a minimum of 90 days notice must be given before any price change which would mean that the current situation would not happen again in future.