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Zonal pricing DMA's Response

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 zonal pricing and this document simply underlines the views that we have already expressed.

Response

Since zonal pricing would be subject to a full consultation if Royal Mail's application is pursued we have restricted our response to general comments on the principles rather than look in detail at the proposals.

- 1) None of our members want Zonal Pricing which seems to be driven by Royal Mail's requirements rather than customer or market demand. We fully understand RM's desire to prevent "creamskimming" but believe that zonal pricing is a "pre-emptive" move designed to prevent this type of competition developing. We believe that such an approach is not beneficial to the development of competition and there needs to be clear evidence that RM is being affected by this type of competition before any proposal for variable pricing according to geography is considered appropriate.
- 2) We are concerned that zonal pricing could distort the market by creating "no-go" areas for mail. A pricing differential of even 30% (let alone the 65% in access) would inevitably mean that many organisations would need to re-examine how they communicated with people in the most expensive zones. We could see the introduction of surcharges (that the consumer wouldn't understand) or simply some geographic areas not being serviced at all. It would also encourage organisations to test alternatives to mail such as e-mail in order to reduce costs.
- 3) This could result in a cost spiral - lower volumes to the "rural" zones would then mean that these would become even more expensive to deliver to and

would be used even less....leading to an increase in costs etc!

- 4) Zonal Pricing will also introduce a further level of complexity that makes Direct Mail more difficult (eg calculating the exact price of a mailing will mean analysing your data in detail to determine the different pricing zones) and adds additional cost in terms of mail preparation (RM have already given details of the additional requirements in terms of mail preparation and presentation) for no customer benefit.

Other issues

The consultation also asks for what areas Postcomm should be looking at in relation to zonal pricing - not just for this application but also future products that might be based on zonal pricing - and we believe that the key areas are:

- 1) Zonal Differentials - how transparent will the costing data for these be? How would these differentials be changed over the period to 2010 ie the transition to the end figures. What would happen if volumes drop or increase? Can a zone move up or down and how often would this be reviewed?
- 2) Postcode area - is this the appropriate geographic area to determine a delivery cost? Many Postcodes have very different geographical areas within them (eg a town and rural) Is it better to have a smaller zone?
- 3) Access and retail - we need to understand RM's proposals for their access products too. Are they proposing to continue to offer a uniform price access product? Some of the DSA licence holders do not want a zonal access product and the "retail" products would be affected by what is available as a "wholesale" product.
- 4) Other products - what other products are likely to be subject to zonal pricing? As products drop out of the reserved area would they become zonally priced? What timescales are involved?