

Zonal Pricing by Royal Mail

Response to the Initial Consultation

Author: John Hughes
CEO Mail Matters / RMS / PostalNet
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Qualifications for response:

Owner and Manager of a Regional Mailing House for 16 years.
Owner, developer and manager of Regional Mail Services for 3 years.
Founder of PostalNet, a co-operative of senior, UK mailing houses.
Fellow of the IDM.

Royal Mail's Application

Q. Recognising the fact that Postcomm will issue a second consultation document on Royal Mail's 5th July application in due course, is there anything in that application that respondents would like to bring to Postcomm's attention at this stage?

In paragraph 2.1 of the consultation document you include the list of RM products that they have requested be considered for zonal pricing. This list does not include Mailsort 120 – OCR or CBC in 3rd class.

It is unusual for RM to make such a fundamental mistake as a mere typo. Can Postcomm confirm therefore that RM does not intend to continue with these products or intends to retain them at a National Uniform Price. 120 sortation is fundamental to how Condition 9 suppliers function and hence any threat to its continued offering would be of interest.

It is also noteworthy that the latest RM DSA contracts have been amended to include a provision for the withdrawal of the Walksort product from DSA, should RM Retail obtain Postcomm's approval to withdraw Walksorts 1 and 2. This product is extremely useful to localised mailers, such as local authorities, and provides the lowest delivery price product for DSA (Zone A walksort letter at 10p). The removal of Walksort 1 and 2 as a consequence of zonal pricing would therefore disadvantage access competitors by raising the cost of delivery in city centres and areas of high business density, the very areas that end-to-end delivery would target as its starting point. Postcomm will presumably deliberate on whether this is considered competitive or anti-competitive. Should the withdrawal be part of the introduction of Walk-Sequencing machinery, which is to improve efficiency and remove cost, then the product's replacement will presumably be even cheaper?

The application proposes a six month period when retail customers will be allowed to select whether they run their mailing in zonal or non-zonal. Presumably the 'smart' customer will split their mailing in to 2 and select zonal for the advantageous areas? It is therefore presumed that for the corresponding period, DSA contract holders' customers will be relieved of the requirement within NGP (non-zonal) contracts of actually achieving an NGP profile?

Should this not be the case, RM will hold a considerable advantage for 6 months, at a critical time for competitors' development.

Q. What are the factors to which you think Postcomm should give particular attention in applying the criteria set out in Royal Mail's licence (in Condition 21 Paragraph 19)?

Revenue Neutral: It has become obvious since the introduction of PIP that Royal Mail had either seriously misjudged the financial effects of PIP ...or it intended to lower its prices by 'other means'. During a period of competitive growth, it was interesting to note that the areas of customer financial advantage mostly coincided with the areas in which would-be competitors had been making inroads. Postcomm should therefore consult in depth with those already involved in zonal work to discover the true nature of their financial offer and the likelihood of it being revenue neutral.

Cost Reflective: The primary reason for the introduction of Zonal Pricing is to prevent competition taking advantage of RM by cherry-picking the low delivery cost areas and leaving RM to collect the tab for uniform pricing over the rest. This proposal has been referred to as becoming more cost reflective. Without pointing out the obvious, when, since the introduction of zonal access, have the true costs been offered for analysis? Postcomm would appear to have their horse and cart in reverse order ...with their Access Zonal price review due to take place in 2007, after this determination of zonal's cost reflectivity. Our current application for Upstream Access, and the review of a combination of Upstream and Downstream prices should assist you in this task.

Rural Services: The full consultation should have extensive customer (the mailer) input as to how an increased rural cost would affect their distribution profiles. A negative view of continuing with their current pattern of rural (zones D & E) mailing would indicate that this proposed move would seriously disadvantage rural communities ... contrary to Postcomm's charter / mission.

Unreasonable Changes: Postcomm must understand that a zonal price structure prevents the budgeting of a mailing. The actual price of each mailing will be dependant on the data and most major mailers will not extract the data from their database until the last possible moment. A publisher with 2 titles, 'City Life' and 'Derbyshire Sheep Farming' will have a postage differential over 100,000 copies of over £10,000! Hence the RM Retail proposed zonal price structure will induce fundamental changes in the way DM customers use (or can't use) the system ...or they will desert to the fixed price alternative providers in droves. On the grounds that budget holders are predominantly risk averse, the desertion route seems more likely.

Production of the mail: Provided the presentation requirements for RM Retail zonal are the same as for DSA suppliers (a licence requirement!), then it is unlikely that anyone beyond the very top quality mailing houses will be able to step easily in to zonal. Any huge increase in the refusal of mail due to technical infringements will drive users to other media ...or non-zonal DSA suppliers.

Q. How do you think the importance of these factors may change over time?

Revenue Neutral: Postcomm has it within its powers to correct any 'unfortunate' advantage that has occurred due to 'unforeseen' lack of revenue neutrality in any of RM's proposals. Perhaps it could indicate its willingness to use these powers by investigating PIP. This would discourage RM from using zonal as a weapon in its current battle with competition and maybe help them review how the customers' return on investment will be affected positively by its proposed changes.

Cost Reflective: Time will allow Postcomm to acquire more data on RM's true costs and hence should introduce some provision for adjustment of differentials...perhaps at the review of access zonal?

Rural Services: Delivery percentages to the various zones should be a reporting requirement.

Unreasonable Changes: Time and software development should ease this burden, as will the easing of the current, 'difficult' presentation requirements.

This response has tried to avoid the specific problems and detail that will be included in the full consultation in 2007.