Your response

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Whistl welcomes Ofcom's continual involvement in the Postal Market with dual regulatory aims of ensuring a financially sustainable and efficient postal service and benefiting consumers where necessary by promoting competition. Stakeholders want to see a successful, efficient and professionally run Royal Mail, a respected and trusted institution that the country should be proud of.

Much has changed since Ofcom took over in 2012. Ofcom removed many of the price control, and other, regulations imposed by Postcomm and granted Royal Mail far greater commercial freedoms in order to sustain the financing of the USO. Royal Mail took advantage of these freedoms and for example have consistently increased bulk mail prices beyond inflation in each subsequent year; increasing downstream prices by over 50% in the period. These price increases have in recent years helped drive an EBIT performance that have provided Ofcom some regulatory comfort that the USO is sustainable.

In our response to the 2019/20 workplan we pointed out that the future provision of the USO was not as secure as it was the year before, and unfortunately we need to make the same point again this year. Royal Mails profitability has been reduced greatly by a combination of letter volume decline and frankly poor performance in driving required efficiency improvements across the business.

Whistl agree with Ofcom's view that efficiency gains are crucial to the sustainability of the universal service. There is a belief that Royal Mail have sufficient incentive arising from shareholder pressure to improve their efficiency and that regulatory monitoring, rather than intervention, is the appropriate solution. Whistl disagree. Shareholder pressure has demonstrably not been effective in driving efficiency improvements in the business over the last few years and **Whistl repeats its request for Ofcom to set an efficiency improvement target and hold Royal Mail to account for hitting this target** in the same way that Ofcom do for quality of service.

Whistl suggested that Ofcom survey key business mailers as part of the ongoing monitoring regime and were gratified that a small ad-hoc survey and customer workshop was indeed held in 2019 and as a consequence some output was published in the 2019 AMR. However we do not see any commitment in the plan of work to repeat this or indeed to strengthen the analysis.

Financing of the USO is dependent on revenues from USO traffic, bulk mail and parcels. Bulk mail currently accounts for some 70% of the daily postbag and the needs of postal users in this sector are not being comprehensively and consistently sought as part of the user needs work run by Ofcom. **Whistl would like to see a regular, structured survey of these key business mailers as an integral part of the ongoing monitoring regime producing both quantitative and qualitative data each year** to aid Ofcom in policy decisions.

In particular Whistl remain concerned that the price elasticity arguments used to justify "no regret" price increases in business mail don't reflect posting customer actions or attitudes and **Whistl would welcome an independent Ofcom study to look at the impact of pricing on volumes going forward and if necessary the introduction of a cap price control on bulk mail services.** These volumes are key to supporting the provision of the USO, and currently do not get the regulatory attention they require. With shrinking profitability, due to lack of efficiency / productivity improvements, Ofcom must not allow Royal Mail management to duck the inherent problems in its business and to plaster over the issues in the business by simply imposing excessive double digit price increases as they have all too often in the past. Similarly Ofcom should be alert to the possibility of Royal Mail obfuscating large future price increases in D+2 by offering decreased delivery service standards.

Whistl welcomes the work that Ofcom carried out during 2019 to enhance its understanding of Royal Mail cost modelling work and believes that this will be very useful in informing policy with differing user needs scenarios and in any additional regulatory investigations. However we note that the models have been prepared on a "scorched node" basis which assume that the key locations won't be changed. Royal Mail to their credit have run a comprehensive Mail Centre rationalisation programme roughly halving the numbers of mail centres and it is difficult to see significant change in this estate going forward. However the 1400 delivery office infrastructure has remained largely unchanged for many years and the new parcel automation strategy must have a major impact on this estate and its costs going forward. **Whistl would welcome Ofcom extending its cost allocation work to include a "scorched earth" approach.** Ofcom's current approach is about verifying Royal Mails cost allocation to the existing network and Whistl would welcome an extension to this valuable work to see what the optimal positions could be.

Finally Whistl welcome the work Ofcom is doing in the parcels marketplace. Having identified the market as competitive Ofcom withdrew the mandate to offer access to packets in 2012 but made it clear that it may reconsider should the demand increase or Royal Mail not offer Access on fair and reasonable terms. In 2017 Ofcom noted Royal Mail's very high share of volume and value in the lightweight bulk and single piece market.

Royal Mail does offer access to a basic untracked packet delivery service through its "Bespoke Parcel Contract" but this offering is not keeping up with market developments, particularly in the provision of tracked services which Royal Mail offer in the market. These bespoke contracts are tightly controlled for volume and fall to earth requirements that do not feature in the Retail equivalent services. Pricing of these untracked packet services has risen sharply over the last two years to just below the price point of competitive tracked services, risking loss of these volumes from DSA and Royal Mails network. Retail tracked lightweight offerings have grown rapidly year on year and impressive growth rates are often used to impress potential shareholders on analyst days. **Whistl would welcome both the re-Mandation of packet traffic and mandated access to Royal Mails tracked services before the 2022 review.**

Whistl believes that this would be consistent with the need to promote efficiency, effective competition and would confer significant benefit on users of postal services. Parcel revenue is one of the three key pillars in funding the USO and by extending the mandate Ofcom will both secure the vital downstream revenue for Royal Mail whilst making the upstream element competitive and provide a cost effective solution to carriers and their posting customers for the (secure) delivery of their items.

Whistl would welcome a meeting with the Ofcom team to expand on its analysis, further explain its viewpoint and discuss potential solutions.