



**Consumer  
Focus**  
Campaigning for a fair deal

**Consumer Focus response to  
Postcomm's consultation on *The  
building blocks for a sustainable  
postal service – Analysis of  
markets: international outbound  
mail***

**July 2011**

# About Consumer Focus

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Consumer Focus is the statutory consumer champion for England, Wales, Scotland and (for postal consumers) Northern Ireland.

We operate across the whole of the economy, persuading businesses, public services and policy-makers to put consumers at the heart of what they do.

Consumer Focus tackles the issues that matter to consumers, and aims to give people a stronger voice. We don't just draw attention to problems – we work with consumers and with a range of organisations to champion creative solutions that make a difference to consumers' lives.

## Our response

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Q20 Do you agree with our initial view that Royal Mail has market power within the Single Piece market? If not, please provide evidence to support your view.

Q23 Do you consider that it is appropriate to retain a price control for Single Piece universal service international products? If so do you consider that all international mail products, add on products and payment methods should be included in the price control?

### Findings of the market analysis

We are pleased to see that Postcomm has completed its market analysis of the postal retail and wholesale markets. We hope that, when responsibility for postal regulation transfers to Ofcom as set out in the Postal Services Act, Ofcom takes account of the information contained in these analyses when making decisions about the future regulation of these markets. From the perspective of users of single piece UK outbound international mail letter post (ie residential and SME consumers) the conclusion from the international outbound mail analysis is unsurprising and unequivocal: there is no competition in this market and Royal Mail's market share of 95–100 per cent is a clear indicator of its undiminished market power. Postcomm's recent domestic retail market analysis found that Royal Mail has market power in every retail market. This is a clear demonstration of the need for continued ex ante regulation of low-volume postal products; this international analysis provides further evidence for this position.

Regulation of single piece international products and services is currently as follows:

Royal Mail's international products	Universal service (Y/N)	Price control (Y/N)
Airmail	Y	Y
Surface Mail	Y	Y
International sign for (add-on to international products)	Y	N
Airsure (add-on to international products)	N	N

It is possible to make a rough comparison with domestic products, as below:

Royal Mail's domestic products	Universal service (Y/N)	Price control (Y/N)
First Class	Y	Y
Second Class	Y	Y
Recorded Signed For (add-on to domestic products)	(under consultation)	Y
Special Delivery	Y	Y

As the tables illustrate, all of the comparable domestic products are both part of the universal service and subject to a price control (although the universal service status of Recorded Signed For is under consultation). However, International sign for is not subject to a price control and Airsure does not have either of these protections. Given Postcomm's conclusion that Royal Mail has market power in the Single Piece market we think it is reasonable to ask Postcomm to look carefully at the reasons behind this discrepancy and consider whether regulation of international products should correspond with that of domestic products.

## Limitations of the market analysis

Postcomm's initial view is that its analysis of international outbound mail should not be expanded to include electronic alternatives or courier, express, and parcel (CEP) services. However, we feel the areas of electronic alternatives such as hybrid mailing services and CEP services are developing significantly and emerging evidence would suggest that they can present a real substitute for many consumers. A significant number of businesses have used cross-border courier services in Northern Ireland to ensure their mail is reliably delivered on time. Consumer Focus Post's research (*Cross-border post: Improving mail services between Northern Ireland and the Republic of Ireland*<sup>1</sup>) has shown that almost three in 10 businesses in Northern Ireland have used courier services to transport their mail to the Republic of Ireland. These trends are growing in Northern Ireland and perhaps across the UK as CEP are developing more efficient logistics and costing options. Businesses

<sup>1</sup> <http://consumerfocus.org.uk/g/4pv> (PDF 1.18MB)

acknowledge that it is more expensive to use CEP services but is worth the higher price for the peace of mind these provide with regard to delivery.

In our response to the domestic retail market analysis we questioned why Postcomm had limited itself to defining postal markets according to consumer switching in response to a price change. Postcomm itself presented evidence that residents do not choose to use post because of the price. We made the argument that focusing on a market analysis, which precludes consideration of switching behaviour for reasons other than price, provides a limited view of a market whose decline Royal Mail itself believes owes far more to e-substitution than competition from other postal operators. However, consumers switch from mail for a number of reasons, including advances in new technology, convenience and reliability. Evidence for this comes from Consumer Focus Post's cross-border mail research. This research found that when customers in Northern Ireland were asked why they chose to cross the border to post their mail destined for the Republic of Ireland, overwhelmingly, they cited speed of delivery and convenience over price. In Northern Ireland we have noticed the emergence and increase of other practices that many customers are using to ensure a more convenient, reliable and faster cross-border postal service. In particular, both anecdotal evidence and our research findings<sup>2</sup> reveal that almost one in five businesses in Northern Ireland physically post their mail destined for the Republic of Ireland across the border, in an attempt to bypass the slower logistics route for international mail that would occur if posted in Northern Ireland.

We urge Royal Mail not to miss any opportunities to look at these reasons for switching behaviour and to look beyond price value if it is to convince consumers to return. In its response to this consultation Royal Mail included the shift to electronic communications as part of its case for de-regulating the universal service. It reasons that consumers will 'act with their feet' and move to alternative means of communications in response to a price rise, and that this would serve to limit Royal Mail's pricing power.

From the consumer perspective post is becoming the service of last resort, not the service of choice. However, the phrase 'last resort' is crucial: there are still many consumers (particularly vulnerable consumers) who are dependent on post for their communication needs and would be affected by price rises. For them it remains important to assess the impact of price rises on switching behaviour. Our joint research with Postcomm into consumer needs from the universal service highlighted this point: 60 per cent of those aged 75+ say they exclusively use traditional forms of communication (landline, mail and face-to-face), and 90 per cent of rural residents believe they will always need to send some things by post. Not all consumers can (or want to) communicate via mobile phone, email or online, and it is vital that their needs are central to any discussion of the future regulatory framework for post.

## Consumer needs

We feel more emphasis could have been provided within the consultation in analysing the needs of consumers of international outbound mail. We welcome the research undertaken by Synovate on understanding how consumers use the postal service for international mailing. Interestingly, the findings of this research mirror the findings Consumer Focus Post uncovered in its study of consumer preferences for cross-border mail<sup>3</sup>, which include a more convenient, reliable and cost-reflective service. An analysis of the consumer perspective on

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<sup>2</sup> <http://consumerfocus.org.uk/g/4pv> (PDF 1.18MB)

<sup>3</sup> Ibid

Outbound International mail services would assist Postcomm/Ofcom in determining the correct regulatory intervention for this market.

## Geographical considerations

Postcomm has stated in its consultation that the importance of mail varies from country to country and that international mail generally represents a relatively low proportion of overall (domestic and international) mail flows. While we do not dispute this assertion, Consumer Focus believes that International Outbound mail has more importance in some parts of the UK than others. We are disappointed that Postcomm has narrowly focused its analysis of the International Outbound mail market on the UK as a whole, rather than including regional-level analyses, particularly for Northern Ireland. Consumer Focus Post's cross-border research<sup>4</sup> found that in 2010 two in three businesses (68 per cent) in Northern Ireland regularly sent post to the Republic of Ireland, and the majority of business customers (85 per cent) stated that cross-border mail is an important service for their business with almost half (45 per cent) saying it is essential. The UK-wide approach adopted by this consultation does not take into account the land border between Northern Ireland and the Republic of Ireland and the importance of this mailing channel to many residential and business consumers in Northern Ireland. Indeed the success of many Northern Ireland businesses and the Northern Ireland economy is dependent upon an efficient, reliable and affordable postal infrastructure to support the increasing cross-border trade.

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<sup>4</sup> <http://consumerfocus.org.uk/g/4pv> (PDF 1.18MB)



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For more information contact Natasha Dare on 020 7799 8054 or email [natasha.dare@consumerfocus.org.uk](mailto:natasha.dare@consumerfocus.org.uk)

[www.consumerfocus.org.uk](http://www.consumerfocus.org.uk)

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From a textphone, call 18001 020 7799 7900

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**Consumer Focus**

Fleetbank House  
Salisbury Square  
London EC4Y 8JX

t 020 7799 7900

f 020 7799 7901

e [contact@consumerfocus.org.uk](mailto:contact@consumerfocus.org.uk)

Media Team: 020 7799 8004 / 8005 / 8006

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