

## **Guernsey Post Limited**

### **OUR review of market dominance in the Guernsey postal market: Proposed Decision**

#### **1.0 Introduction**

On 9<sup>th</sup> September 2005 the Office of Utility Regulation (OUR) issued its decision notice with a statutory invitation to comment (OUR 05/21) following its work reviewing dominance in Guernsey's postal market. This paper is a response to that document 'Review of Market Dominance in the Guernsey Postal Market: Proposed decision'.

Guernsey Post Limited (GPL) wishes to express its concern in respect of the regulatory process applied by the OUR, its proposed decision on the definition of markets and the subsequent proposed decision of dominance in some of those markets.

GPL would like to take this opportunity to provide the OUR with data and rationale to suggest a revised market structure.

In Annex 1 a glossary is provided of relevant terms and expressions in order to ensure a consistent use of terminology and shared understanding.

#### **2.0 Regulatory process**

GPL recognises that the OUR initiated market analysis in October 2004 in order to inform its work on market definition and findings of dominance. However at the time, GPL was unable to engage fully in respect of the market analysis work due to legal proceedings initiated as a result of changes to Condition 18 of the GPL Licence.

GPL wishes to express its disappointment that the OUR did not embark on a formal and full consultation procedure in order to inform its work on market dominance after the successful resolution of the GPL Licence issues. GPL believes that a comprehensive consultation process, similar to that applied to the Telecommunications sector, would have allowed for a balanced view of the market place from which market definitions and dominance could have been considered. However it recognises that the decision not to do so was one of expediency and that GPL now has its opportunity to inform the process.

### **3.0 Market definitions**

GPL believes that the premises on which the markets have been defined are unclear and whilst the OUR states that it has adopted a pragmatic and transparent approach, GPL is unable to extract any consistent criteria from the OUR's paper from which the markets have been defined.

In the absence of such clear criteria, GPL proposes to provide additional rationale and data leading to a refinement and modification of the suggested markets.

GPL believes that in particular the following markets require modifying:

- The market for letters and parcels
- The market for priority letters and parcels
- The market for courier services

#### **3.1 The market for letters and parcels**

In determining the markets the OUR concludes that the difference between standard and courier services is large enough to distinguish these two distinct postal markets. GPL endorses this view. However, GPL does not believe that the distinction between standard and courier services therefore warrants letters and parcels to be considered as one market and GPL believes that the OUR paper does not provide any rationale to support its conclusion.

GPL believes that unique market forces operate in the parcel market, which would justify it being considered a separate market. Specifically for parcels coming into the Bailiwick, GPL faces considerable competition from parcel delivery companies and contends that the market for inbound parcel services should be considered a separate market.

It follows that GPL believes that the following separate markets can be identified:

- The market for letters
- The market for outbound parcels
- The market for inbound parcels

GPL contends that defining such markets would allow the OUR to approach the question of dominance in a more considered manner.

#### **3.2 The market for priority letters, parcels and courier services**

The OUR appears to have defined the market for priority letters and parcels on the basis of the Special Delivery product (for which GPL acts as an agent). The OUR paper indeed refers to the 'Special Delivery priority postal services' (page 15) and 'priority Special Delivery' (page 20). The OUR highlights that the main difference between Courier Services and Priority Letters and Parcels is determined by price. It

also points out that courier services tend to be used for important individual items, such as business documents or high value commercial items.

GPL contends however that the market for priority letters and parcels does not warrant being separated from the market for courier services; the whole being a market that is recognised by the industry as “Express”. Having established that the OUR based the market for priority letters and parcels on the Special Delivery product offering, GPL believes it is important to outline what the Special Delivery service entails, which customer needs it addresses in the market and how it compares to express (courier) offerings. GPL will also provide additional information on pricing and competitor intensity in order to strengthen the rationale that in fact the two markets proposed by the OUR constitute one single market.

### 3.2.1 Special Delivery

Special Delivery is a secure and insured service, guaranteeing delivery next working day by 13:00 for business papers and documents to Jersey, the Isle of Man and most UK destinations. The service is aimed at Business (primarily fulfilment, finance and legal sectors) and social customers, who require security for important documents and valuable items and want to safeguard them against loss or damage, and who require a guaranteed next day delivery service. Special Delivery is a fully track and traceable service and provides proof of delivery. Although it is an unbundled service offering, business customers can organise a collection of the items by GPL at an additional charge.

### 3.2.2 Definition of Express

In order to assess whether ‘Special Delivery priority postal services’ are different from courier services and as such operate in a different market, it would help to ascertain how ‘Express’ is defined.

According to Oxford Economic Forecasting (OEF)<sup>1</sup>, express operators provide guaranteed, fast, reliable, on demand, world-wide, integrated, door-to-door movement of shipments which are tracked and controlled throughout the journey. Express operators organise collection, usually at the end of the business day, allow the sender access to information on the progress of shipments from pick-up to delivery and provide proof of delivery. The core-business of the express industry is the provision of value-added, door-to-door transport and deliveries of next-day or time-definite shipments, including documents, parcels and merchandise goods.

The OEF point that the main reasons for using express services are:

- Need for next day delivery (98% very important and sometimes important)
- Need for guaranteed delivery (98% very important and sometimes important)
- Need to be able to track products en-route (80% very important and sometimes important)

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<sup>1</sup> Source: The Economic Impact of Express Carriers in Europe, Oxford Economic Forecasting, October 2004

### 3.2.3 Pricing

As referred to earlier, the OUR highlights that the main difference between Courier Services and Priority Letters and Parcels is determined by price in that Courier services appear to have significantly higher price points compared to the service offered in the priority letters and parcels market (Royal Mail Special Delivery). GPL contends that in market segmentation, pricing is a market tolerance and not a market justification.

The impression of significant price differences is also clouded by the fact that DHL and UPS offer their express services as part of a discounted bundled offering, whereas GPL provides Royal Mail's Special Delivery and value added services (such as collection) unbundled.

### 3.2.4 Competitive intensity

There is clear market evidence in the Bailiwick that Royal Mail's Special Delivery and other express services are in direct and intense competition with each other.

GPL would also like to refer to a complaint made by TNT Express (see Annex 2) in the UK against Royal Mail about claims from Royal Mail that its service (Special Delivery) was better and cheaper. This is further evidence that express operators consider Special Delivery as direct competition operating in the same market place fighting for market share.

### 3.2.5 Conclusion

In light of the specification of the Royal Mail Special Delivery service (considered priority letters and parcels), the definition of the express services, the customer needs each service addresses together with the additional market insights, GPL contends that there is no justification for a separate or distinct market for priority letters and services.

Specifically this can be drawn from the fact that:

- Special Delivery has a very similar product specification compared to the majority of express products, in terms of guarantee, security, speed, insurance and tracked delivery.
- Price levels are similar when taking into account the significant volume discounts offered by other express operators.
- Royal Mail's Special Delivery is an unbundled service, whereas express products tend to be bundled. The core services on offer and the customer needs they address are exactly the same.
- The OUR points out that courier services tend to be used for important individual items, such as business documents or high value commercial items. Special Delivery is a service specifically developed by Royal Mail to handle such important business documents and high value items.
- There is high competitive rivalry in the express market and Royal Mail Special Delivery is considered a key competitive offering by its rivals.

## **4.0 Summary**

Annex 3 provides a summary overview of the proposed markets and some of the characteristics that GPL believes define those markets.

In summary, GPL proposes that the OUR adopts the following markets:

- The market for letters
- The market for outbound parcels
- The market for inbound parcels
- The market for express services
- The market for bulk services

## **5.0 Conclusions**

GPL broadly endorses the principles of the OUR's approach and analysis on establishing dominance in a specific market. In light of the modified markets identified in this paper however, GPL suggests that it is found dominant in the markets for:

- letters
- outbound parcels
- bulk services

This follows that GPL suggests that it is found not dominant in the markets for:

- inbound parcels
- express services

# Annex 1

## GLOSSARY

Sector	The Postal sector.
Markets	A group of customers who share some particular characteristics, which affects their needs and makes them potential buyers of a product.
Segments	Increasingly homogenous sub group of customers, sharing more specific characteristics
Express & Courier services	Provision of time and/or day guaranteed, secure, insured door to door collection and delivery service.
Regular Inbound parcels	Parcels coming into the Bailiwick, which are not time and day guaranteed, have no insurance and are not handled differently from normal mail in terms of security.
Regular Outbound parcels	Parcels going to the UK, which are not time and day guaranteed, have no insurance and are not handled differently from normal mail in terms of security.
Bundled services	The principle that products/ services are offered at one price point combined with any number of value added services.
Unbundled services	The principle that products/ services and value added services are offered at separate price points.

## Annex 2

From Precision Marketing:

The Advertising Standards Authority (ASA) has thrown out a complaint lodged by TNT Express (UK) against Royal Mail's Special Delivery service following a spat over whose premium service is the best.

TNT Express complained to the advertising watchdog about a direct marketing campaign in which Royal Mail claimed its service was cheaper and better than its competitors.

The first mailing, which asked 'How many reasons do you need to choose Royal Mail Special Delivery at your local Post Office branch?' quoted study carried out in February 2004 by Research International. The probe found its service was at least half the price of rival companies' schemes, and more reliable, with staff helpful and polite.

A second mailing claimed that for every 100 packages sent by Special Delivery, 95 were delivered undamaged, while TNT only managed to get 77 packages in 100 delivered intact. These claims were based on NOP Courier Challenge research in 2002.

TNT Express complained that both mailings were misleading, because the methodology of the surveys was not made clear.

It submitted a 2004 survey carried out by Triangle Management Services reporting a better service than claimed in the mailing. But the ASA ruled the report measured different aspects of performance and products that were not relevant in this case.

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## Annex 3

### Market characteristics

Market	Characteristics
Regular letters	Monopoly provider Regulated High barriers to entry (access and network)
Regular parcels outbound	High barriers to entry (access and network) Low competition intensity
Regular parcels inbound	Low barriers to entry High competition intensity
Express (or Courier services)	Highly competitive Unregulated Relatively high barriers to entry (innovation and technology)
Bulk	Competitive in customer recruitment but price controlled through condition 18