

Sarah Chambers  
Chief Executive  
Postcomm  
Hercules House  
6 Hercules Road  
London SE1 7DB

22 October 2007

Dear Sarah,

### **Review of Royal Mail's pricing flexibility**

I am writing on behalf of Haymarket Media to express our most serious concerns about Postcomm's proposal to allow Royal Mail greater flexibility to increase prices, in particular the proposal to increase the "re-balancing sub-cap" from 3% to 8.5%.

Using the price control formula as the basis for calculation, should Royal Mail choose to maximise this greater flexibility in terms of Presstream, publishers at Haymarket could be facing increases of as much as 12-13% from April 2008 – significantly above the rate of inflation.

Increases of this magnitude would be on a par with zonal pricing (which we have recently written to you to oppose) and what is worse, publishers would have only 3 months notice before implementation. This would pose a serious threat to the viability of some magazines.

Whilst as part of previous submissions made to Postcomm I have outlined the reasons why significant price increases (and implemented within unacceptably short timescales) would have a dramatic impact on publishers' businesses;

- Budgets are set, subscription models are built and investment is made on the basis of assumptions which reflect likely increases in CPI.
- Over the last few years, it has become increasingly difficult for publishers to generate sustained investment in subscription marketing while the fulfilment costs are unpredictable.
- In addition, controlled circulation titles (accounting for 70 per cent of all business magazines) by their very nature are free to recipients and therefore publishers cannot pass on additional postal costs to readers, nor is it feasible to pass on these costs to advertisers.
- Faced with potential increases on the scale outlined above, Haymarket publishers would be forced to take mitigating action to avoid a total collapse of our business model.

- This would involve reducing distribution levels in certain areas; switching promotional expenditure back to the newsstand; accelerating the delivery of some content online; and reducing paper weights and print formats. Both magazine and DM-related traffic would be further reduced, leaving higher fixed costs for Royal Mail.
- Additionally, as we also publish Customer Magazines, we would have to seriously review postal delivery with Royal Mail, seeking alternative routes to market, such as retail outlets.

I fail to see the long term benefits of such a strategy for any party as higher prices will ultimately lead to reductions in volume, triggering higher prices, leading to reduced volumes, eventually making the entire proposition untenable and posing a threat to the USO.

I note that Postcomm recognises in its Zonal consultation that Royal Mail's costs are higher than forecast, owing to its failure to achieve the required efficiency savings and that Royal Mail is taking two years to take out costs from its business which it was supposed to remove in one year. What is more, as previously stated, I have had no real indication from Royal Mail that it is seriously tackling cost issues within its own business, despite the fact that I have indicated that I would be happy to work with Royal Mail to help it realise those savings. I also believe that customers should not be required to pay, through higher prices, for management failure to tackle its high cost base and huge pension deficit.

I am also aware that in Royal Mail's response to Postcomm's zonal pricing consultation, it now acknowledges the need for a longer notice period before implementation (12 months), should zonal pricing be approved. I therefore assume that this same principle would apply to a change such as the revision to the sub-cap.

Whilst sustainable, like-for-like competition for magazine delivery is now beginning to emerge, it is still very much at an embryonic stage, carrying only 2-3% of Haymarket's magazines.

Royal Mail must therefore act in a responsible manner to customers who, as yet, have no viable alternative to its service. As a result, I strongly urge Postcomm to reject this application in favour of maintaining the current sub-cap.

If you have any questions relating to the above, please do not hesitate to get in touch with me.

Kind regards

Chris King

**Group Production Director**