



# Review of postal users' needs

A consultation document on the reasonable needs of users in relation to the market for the provision of postal services in the United Kingdom

Consultation

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## Section 1

# Summary

## The review of postal users' needs

- 1.1 In October 2011, the Postal Services Act 2011 (“the Act”) came into force and Ofcom gained the responsibility and powers to regulate postal services. Our primary duty under the Act is to carry out our functions in relation to postal services in a way that we consider will secure the provision of a “universal postal service”: the delivery and collection of mail everywhere in the UK at affordable and uniform prices, every working day (and on Saturday for letters). So that the universal service can respond to users' needs in a changing market, the Act requires us to carry out an assessment of the extent to which the postal market meets the reasonable needs of users within eighteen months of our taking over responsibility for postal regulation, i.e. by 31 March 2013. This is why we are carrying out this review of postal users' needs now.
- 1.2 As part of the process of gathering evidence on the reasonable needs of users, we are presenting the research and analysis we have undertaken so far and inviting views on both our approach and our findings. We are also seeking further evidence from stakeholders relating to the extent to which the reasonable needs of postal users are met. We welcome views and additional evidence on all aspects of our review.

## Approach to our review

- 1.3 We have carried out extensive market research to inform our understanding of the reasonable needs of postal users. This research is the most comprehensive ever published by the regulator on the universal postal service in the UK, based on a combination of surveys and discussions with both residential users and businesses, from across the UK. Through our research, we surveyed 4,085 people and 1,126 businesses, and held workshops across the UK.<sup>1</sup> We sought to obtain users' views on the current postal service and their needs from it, in particular in relation to any areas where there may be shortfalls or elements of the service which may no longer be needed. The full results of the research are published alongside this consultation. Our findings are, overall, consistent with current and past research published on the universal postal service including by the former regulator, Postcomm, and Consumer Focus.<sup>2</sup> Our results are presented by demographic groups and nations in our document in Section 7 and where relevant through the rest of the document.
- 1.4 We have also considered several specific aspects of the current universal service to test whether they remained appropriate, given changes in consumers' habits and the market more generally. To help us identify users' needs from the service, and

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<sup>1</sup> We had eight workshops of about 20 people, completed by two in-depth interviews with users with complex mobility issues. We spoke in detail to 22 businesses, through a breakfast meeting in London (8 business representatives), a breakfast meeting in Northern Ireland (6 businesses), and four telephone depth interviews in each of Wales and Scotland.

<sup>2</sup> For instance, Consumer Focus, *Sense and Sustainability - A report for Consumer Focus by Accent on the Universal Postal Service*, 2012, <http://www.consumerfocus.org.uk/files/2012/07/Sense-and-sustainability1.pdf>, and TNS-BMRB, *Customer needs from a sustainable universal postal service in the UK*, November 2010, research commissioned by Postcomm and Consumer Focus, residential and business reports respectively: <http://stakeholders.ofcom.org.uk/binaries/post/1183.pdf> and <http://stakeholders.ofcom.org.uk/binaries/post/1184.pdf>

understand better which features of the service are valued most by users, the research involved asking participants to consider hypothetical changes to the postal service. To assess whether users' needs are reasonable, we have considered as far as possible whether the costs of delivering these aspects of the service are commensurate with the benefits that users and society derive from them.

## Key findings

1.5 Our research findings should be seen in the context of a reduction in reliance on the postal service generally<sup>3</sup>, except in relation to packets. Users attending the research workshops said they are increasingly substituting post with electronic methods of communication such as email, telephone or text, online document sharing and video calling. Residential users in particular send little mail: the volume of items they reported sending by post was on average 1.5 items per week (per user) compared with 3.5 items in 2006.<sup>4</sup> Businesses send more mail than residential users, but have a wide range of postal usage: 45% of businesses spend under £10 per month on post, while five per cent send over £450 per month. The mean average spend for businesses is £245 a month. While letter volumes have decreased in recent years, there has been a trend towards ordering more goods over the internet to be delivered by post: 35% of residential users now receive packets at least once a month, a figure which has increased from 27% in 2010.

1.6 Our research indicates that:

- in most respects the current service largely satisfies users' core needs in relation to trust, simplicity, and providing a range of services. The need for a range of services was identified because users want to be able to meet the following three "core" needs in different circumstances: delivery speed, affordability/value for money and the desired level of control<sup>5</sup> about mail delivery, such as tracking the mail. For instance, senders may consider that a fast service, with tracking, is important for time-critical, important items. Users also stated a need for a postal service that fits with the demands of modern life;
- about nine out of ten residential and business users said they find the current service acceptable.<sup>6</sup> This is supported by other research, including past research undertaken by Postcomm, the previous regulator for the postal sector, which showed high levels of satisfaction with the current service;<sup>7</sup>

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<sup>3</sup> The volume of mail in the UK has fallen by about 25% between 2005 and 2011, from 22.3bn items to 16.6bn items. Ofcom, *The Communications Market Report*, 18 July 2012, [http://stakeholders.ofcom.org.uk/binaries/research/cmr/cmr12/CMR\\_UK\\_2012.pdf](http://stakeholders.ofcom.org.uk/binaries/research/cmr/cmr12/CMR_UK_2012.pdf).

<sup>4</sup> Roland Berger and Synovate for Postcomm/Royal Mail/Consumer Focus, *The Needs of Postal Users – Customer Survey 2006*, December 2006, <http://stakeholders.ofcom.org.uk/binaries/post/434.pdf>

<sup>5</sup> For more valuable or time-sensitive items participants of the qualitative research said that a level of control is important. In practice this involves using services such as tracking the mail, or guaranteeing when it arrives, or ensuring the predictability of an arrival timeslot.

<sup>6</sup> Acceptability, or "tolerability", which is the term used alongside acceptability in the rest of the document, is different from satisfaction. Satisfaction asks users how happy (satisfied) they are with a service, as opposed to tolerability which asks at what point they would be unhappy with a service, i.e. at what point it would no longer meet their minimum requirements in so far as they would have to switch to another communication or not send the mail.

<sup>7</sup> The Postcomm Customer Survey (2009) found that over eight out of ten customers were satisfied with Royal Mail, and Postcomm's and Consumer Focus's research on the universal service (2010) also found that nine out of ten find the current service acceptable. Postcomm, *Customer Survey 2009*,

- users generally considered that the service would remain acceptable even with the hypothetical changes to the service that they considered: the least acceptable combination of changes tested were still acceptable for over eight out of ten users asked; and
- users identified broader social value from the universal postal service, for instance in supporting rural communities, and to some extent in supporting the elderly, because older users are more likely to rely on the universal postal service for communicating with others. However, in many cases, users thought other forms of communication, such as emails and the internet more generally, were now far more pivotal than post.

1.7 While the current service seems generally acceptable to most users, and some specific elements of the service are clearly valued by users, our research has highlighted some areas where there may be exceptions. We highlight our key findings below:

- users want more convenient packet services and re-delivery options (largely relating to packets). Users who took part in our workshops felt that there should be changes and improvements to Royal Mail's basic packet delivery service to ensure that people could receive their packets more easily. For example, they suggested there should be changes to delivery offices' opening hours. For more valuable or time-sensitive items, users in general, and small businesses in particular, said that a level of control is important, for instance tracking the mail, or guaranteeing when it arrives, or offering an arrival timeslot;
- there is a trend towards less reliance on next day delivery, for instance in so far as users consider that in many cases a slower service would be sufficient. First Class, the current next day service, is still used by the majority of users, but the research suggests that this may be partly explained by users' perceptions: for instance, First Class is perceived by some users as more secure, or as showing they care more about the item sent and the recipient. A majority of users preferred the idea of a single tier postal service (slightly more expensive than the current Second Class, but quicker) over the current two-tier (First and Second Class) service.<sup>8</sup> This is supported by users attending our research workshops, who considered that a two-day service would be sufficient, but suggested that, if First Class were not available, a next day service for urgent, important mail that is cheaper than Special Delivery, may be needed for low income users. The costs of providing the current next day service are high<sup>9</sup>, in particular because Royal Mail has to transport some mail by air to ensure most of the mail arrives next day, to meet the current quality of service target that 93% of First Class mail should arrive next day;

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2010, <http://stakeholders.ofcom.org.uk/binaries/post/92.pdf> and TNS-BMRB, *Customer needs from a sustainable universal postal service in the UK*, November 2010, residential and business reports respectively: <http://stakeholders.ofcom.org.uk/binaries/post/1183.pdf> and <http://stakeholders.ofcom.org.uk/binaries/post/1184.pdf>

<sup>8</sup> The survey presented three choices to users: the current service; a single, two-day service at 53p and 95% quality of service; and a single, two-day service at 55p with a 98% quality of service. In response, 36% of residential users and 41% of businesses preferred the current First and Second Class service, 59% of residential users preferred one of the two single, two-day service options, and 58% of businesses preferred one of the two single, two-day service option.

<sup>9</sup> We use the following ranges in our report: low (up to £50million), medium (£51m - £150m), and high (over £151m).

- despite considering that a service slower than next day would be sufficient for everyday items, users value the high quality of service attached to First Class<sup>10</sup> - our research suggests a high quality of service is valued at least partly because users value simplicity and predictability, rather than necessarily speed of delivery. A high quality of service makes predicting the day the post will arrive easier.
- Royal Mail, as the universal service provider, must collect and deliver letters Monday to Saturday, and other packets Monday to Friday.<sup>11</sup> Participants in our qualitative research discussed the scenario of reducing the number of days collection and delivery from six to five. Overall our research shows that users would find that removing a week day would be detrimental to them, especially because businesses find it valuable. However, after discussion, participants considered that removing Saturday collections and deliveries would be acceptable, as long they could collect packets and signed-for goods from delivery offices in the evening and on Saturday. Residential users placed a higher value on Saturday collections and deliveries than businesses.<sup>12</sup> Indicative estimates suggest that the potential cost savings of removing Saturday collections and deliveries are high;
- residential users did not appear to place a high value on the current collection and final delivery times<sup>13</sup> for post, but businesses were more concerned about the impact of any possible changes. However, the changes we considered would only affect a small number of users, who would mostly be residential users. The estimated cost savings from the scenarios we considered were low;
- users value the delivery of postal items to their door: 58% are opposed to the delivery of mail to a box at the edge of their property, and 83% opposed delivery to a secure locker at a central location; and
- the majority of people who took part in our workshops considered certain less well-known services provided by Royal Mail to be more “nice to have” than “essential”, in particular ‘Certificate of Posting’, ‘Return to Sender’, ‘Keepsafe’ and ‘Poste Restante’. As these are less well-known services, we have not considered them in detail in our analysis.

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<sup>10</sup> Residential and business users would be willing to pay, respectively, 8p and 12p more on the price of a First Class stamp, rather than have 80% of First Class mail arriving next day (as opposed to 93% as currently).

<sup>11</sup> Unlike other aspects of the universal service covered by our research, the number of days per week post is collected and delivered can only be changed by Parliament. Section 31 of the Act sets out certain “minimum requirements” of the universal postal service. These minimum requirements can only be amended by Parliament or by an Order of the Secretary of State subject to approval from Parliament by affirmative resolution. The Government has made clear that it has no intention of reducing the minimum requirements of the universal postal service during this Parliament (see House of Lord Report - 17.05.11 - Hansard vol.727, col. 1319 <http://www.publications.parliament.uk/pa/ld201011/ldhansrd/index/110517.html#contents>)

<sup>12</sup> Residential users would be willing to pay 12p rather than lose a Saturday, but businesses would not be prepared to pay anything more.

<sup>13</sup> Collection times and delivery times vary according to Royal Mail's specification for different areas. The latest collection times are in commercial areas (between 6:30pm and 7:30pm), and the earliest collection times in deep rural areas (between 9am and 4pm). Royal Mail also sets its own specification for the time by which it aims to deliver all mail, which is currently 3pm in urban areas and 4pm in rural areas.

## Next steps

- 1.8 We will take into account all the evidence gathered as part of our research and analysis, including the evidence from stakeholders in their responses to this consultation. Following this consultation, we will issue a statement presenting our assessment of the extent to which the market for the provision of postal services is meeting the reasonable needs of users of postal services. As required by the Act, we must conclude this assessment by 31 March 2013.
- 1.9 If, following our assessment of postal users' needs, we consider that any changes to the regulatory framework for the universal postal service<sup>14</sup> should be made, we will consult further on detailed proposals for change.
- 1.10 We invite views on all aspects of our research and all issues raised by this consultation document by Tuesday 18 December 2012.

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<sup>14</sup> In particular, the Universal Postal Service Order and the Designated Universal Service Provider conditions. We set out the regulatory framework in Section 3 (Legal background).

## Section 2

# Introduction and background

2.1 This section outlines:

- the objective of this consultation;
- the market context to our review;
- the universal postal service and its regulatory framework; and
- the structure of the remainder of the document.

## Objective of this consultation

2.2 Ofcom has a legal duty under the Postal Services Act 2011 (“the Act”) to make an order describing the universal postal service (“the Order”). Ofcom made the first Order in April 2012. Before making or modifying the Order, or making a new one, Ofcom must carry out an assessment of the extent to which the market for the provision of postal services in the United Kingdom is meeting the reasonable needs of users of those services. Given that Ofcom took over responsibility for the regulation of the postal market from Postcomm in October 2011, it is also more generally important that we understand users’ views on, and actual usage of, the postal services market in general and the universal postal service in particular.

2.3 The Act requires us to carry out our first assessment of the reasonable needs of users within 18 months of the vesting of the responsibility for postal regulation in Ofcom, which means that we must conclude our assessment by 31 March 2013. If, following the conclusion of our review, we consider that any material changes to the regulatory framework for the universal postal service are needed, we will consult further on detailed proposals for change to the universal postal service order and/or the related regulatory conditions as appropriate in due course.

2.4 To understand the needs of users and review whether their reasonable needs are being met, Ofcom commissioned extensive market research and undertook a high level cost analysis of key features of the universal service. In this document, we present what users have told us about their needs from the service and our analysis of the research results, as well as our discussion of the costs and benefits of key features of the universal service. Our market research is the most comprehensive ever published by the regulator on the universal postal service in the UK, based on a combination of qualitative and quantitative research with robust samples of residential users and businesses across the UK.

2.5 The purpose of this consultation is twofold: to ask for views from stakeholders on our research and analysis, and to seek additional evidence relevant to our assessment of whether the reasonable needs of users of postal services are being met, both in general and in relation to key features of the universal service. While this consultation document contains a number of specific questions, we are not seeking to limit the issues on which respondents may wish to comment. We welcome views and additional evidence on all aspects of our research and analysis.

2.6 This consultation is for a period of eight weeks, and we therefore invite comments by Tuesday, 18 December 2012. Whilst our consultation guidelines state that we will

consult for up to ten weeks depending on the potential impact of our proposals, we consider that eight weeks is a sufficient consultation period in this instance because we are not making any proposals for change in this consultation; we are simply presenting our approach and research results and seeking stakeholders' input. If, following this consultation, we decide any changes to the regulatory framework for the universal service should be made, we will consult further on detailed proposals for change.

## Changes to the mail market

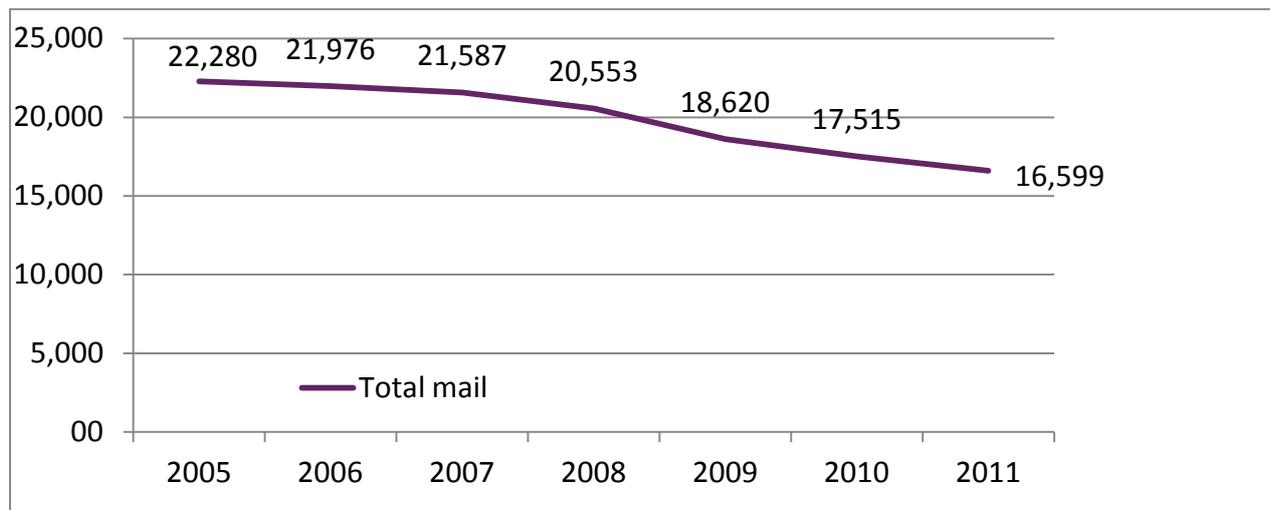
2.7 This section looks at the market context within which Royal Mail operates and recent changes to the regulatory framework.

### Declining mail volumes

2.8 The most significant postal trend of recent years is the general decline in mail volumes. Mail volumes have been falling consistently for the past five years, largely due to senders using electronic alternatives instead of physical mail and also as a result of the wider economic context

2.9 As shown in Figure 2.1 below, the volume of mail in the UK has fallen by about 25% since 2005:

**Figure 2.1: Royal Mail volume 2005 to 2011 (millions of items)**



Source: CMR (2012)

2.10 However, while letter volumes have declined, the significant rise in internet shopping has resulted in a greater use of packet services – we discuss this in Section 8.

2.11 Importantly, businesses send the majority of mail: only an estimated 14% of mail was sent by residential users in 2008.<sup>15</sup> Within the business sector, large businesses account for a significant amount of the mail sent. A relatively small number of businesses account for much of the spend; while 45% of businesses spend under £10 a month, five per cent of businesses spent over £450 a month. Our quantitative research has found that spend on post was related to size of businesses: for

<sup>15</sup> R Hooper, *Modernise or decline – policies to maintain the universal postal service in the United Kingdom*, 2008, Cm 7529, <http://www.bis.gov.uk/files/file49389.pdf>

instance, 51% of businesses with one or two employees spent under £10 a month, whereas 72% of businesses with 251 employees or more spent £101 or more per month.

2.12 This volume decline has been compounded by users, particularly businesses, moving away from higher-value traditional products and towards lower-value services:

- Bulk mail<sup>16</sup> (post sent in high volume typically by businesses) has increased significantly over the past 30 years and now accounts for the majority of all mail volumes;
- There have been substantial additional declines in First and Second Class single piece mail as users seek to save money through moving to bulk mail. Over the past five years single-piece mail has declined by 40% whereas bulk mail has declined by less than five per cent;<sup>17</sup> and
- Large mail users have largely moved to alternative (access) operators, which handle about 44% of all total mail volume.<sup>18</sup>

2.13 Such challenges for Royal Mail and the wider market were set out in the two reports undertaken on behalf of the previous and current Governments by Richard Hooper in 2008 and 2010.<sup>19</sup>

## Royal Mail

2.14 The universal postal service relied upon by residential users and small businesses is principally provided by Royal Mail. Royal Mail's current financial position is fragile and over the last decade it has accumulated sustained losses.

2.15 More recently, Royal Mail's financial situation has shown some improvement. This follows, and can partially be attributed to successive years of price rises and greater commercial freedoms under the new regulatory framework. Its financial results for 2011-12 showed improving profitability and positive cash flow for the first time in four years. The core UK business (UK Parcels, International and Letters) of Royal Mail Group returned to operating profit (after modernisation costs) of £23 million from a loss of £120 million in 2010-11.<sup>20</sup>

2.16 However, Royal Mail faces ongoing challenges. Mail volumes are likely to continue to decline as more users switch to electronic alternatives. While mail will continue to

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<sup>16</sup> Post sent in high volume typically by major business customers.

<sup>17</sup> Ofcom, *Securing the Universal Postal Service*, 2011, <http://stakeholders.ofcom.org.uk/binaries/consultations/securing-the-postal-service/summary/condoc.pdf>

<sup>18</sup> Ofcom, *The Communications Market Report*, 2012, , [http://stakeholders.ofcom.org.uk/binaries/research/cmr/cmr12/CMR\\_UK\\_2012.pdf](http://stakeholders.ofcom.org.uk/binaries/research/cmr/cmr12/CMR_UK_2012.pdf)

<sup>19</sup> R Hooper, *Modernise or decline— policies to maintain the universal postal service in the United Kingdom*, 2008, Cm 7529, <http://www.bis.gov.uk/files/file49389.pdf> and R Hooper, *Saving the Royal Mail's universal postal service in the digital age*, 2010, Cm 7937, <http://www.bis.gov.uk/assets/biscore/business-sectors/docs/s/10-1143-saving-royal-mail-universal-postal-service.pdf>

<sup>20</sup> Royal Mail, *Full year results statement*, 2012, <http://www.royalmailgroup.com/sites/default/files/RMG%20FULL%20YEAR%20RESULTS%20STATEMENT%202012.pdf>

play an essential role within the wider communications landscape, mail usage has yet to reach a new steady state and the future is highly uncertain.

- 2.17 The decline in mail volumes is not the only challenge facing Royal Mail. The postal market has also changed significantly since other postal operators have been able to access Royal Mail's network. Access competition enables alternative operators to collect mail from the customer, and transport it to an Inward Mail Centre (for onward distribution to delivery offices). Access operators rely on Royal Mail's delivery network to deliver their mail to the recipient. To date, access competition has been the prevalent form of postal competition in the UK for letters.
- 2.18 End-to-end competition is where operators, other than Royal Mail, collect, process and deliver mail directly to the recipient, without using Royal Mail's network. Levels of end-to-end competition vary depending on postal items.
- 2.19 In relation to the delivery of packets other than letters, in our March 2012 Statement on the new regulatory framework for post<sup>21</sup>, we found that the competitive options for packets were stronger as weight (and prices) increased and that competition was strongest above 2kg where some other operators were able to match Royal Mail's prices. More generally these entrants are either couriers or packets dedicated operators typically offering a niche delivery service above 500g and/or with premium elements. Increasingly, these competitive packet operators have also been growing their market share in delivering packets below 2kg, which were generally delivered by Royal Mail.
- 2.20 In relation to the delivery of letters, TNT Post UK, a subsidiary of the Dutch universal service provider PostNL and an access operator in the UK, launched a trial for end-to-end deliveries in west London in April 2012. This follows the conclusion of an earlier smaller-scale trial in Merseyside, which had been running since 2009. TNT has stated that the trial is intended to carry out further testing and analysis of its operations and that it intends to roll out a broader end-to-end service.

## Recent regulatory changes

- 2.21 In October 2011 we published a consultation on our proposals for the future framework for economic regulation of postal services,<sup>22</sup> followed by a further consultation in December 2011 on a review of the regulatory conditions.<sup>23</sup> Those consultations led to a statement, published in March 2012, containing our decision on the new regulatory framework including the regulatory conditions that took effect as of 1 April 2012.<sup>24</sup>
- 2.22 The new regulatory framework moved away from the traditional approach of regulating Royal Mail through a detailed price control regime, and instead sought to

<sup>21</sup> Ofcom, *Securing the Universal Postal Service - Decision on the new regulatory framework*, 2012, <http://stakeholders.ofcom.org.uk/binaries/consultations/review-of-regulatory-conditions/statement/statement.pdf>

<sup>22</sup> Ofcom, *Securing the Universal Postal Service - Proposals for the future framework for economic regulation*, 2011, <http://stakeholders.ofcom.org.uk/binaries/consultations/securing-the-postal-service/summary/condoc.pdf>

<sup>23</sup> Ofcom, *Review of Regulatory Conditions - Postal Regulation*, 2011, <http://stakeholders.ofcom.org.uk/binaries/consultations/review-of-regulatory-conditions/summary/main.pdf>

<sup>24</sup> Ofcom, *Securing the Universal Postal Service - Decision on the new regulatory framework*, 2012, <http://stakeholders.ofcom.org.uk/binaries/consultations/review-of-regulatory-conditions/statement/statement.pdf>

move towards giving Royal Mail greater operational freedom to respond to changes in the market, while putting in place a safeguard cap on Second Class single piece item prices to ensure that users continue to be able to access a basic, affordable universal service.

- 2.23 Importantly for this consultation, our March 2012 statement on the regulatory framework made important decisions on the universal service. First, it confirmed that we intended to retain all the essential features of the current universal service, pending this review. Second, we moved away from defining the universal service through a list of Royal Mail's service, to a description of the characteristics of the universal services. We summarise the current universal service characteristics, and the notification from Royal Mail on how it meets its regulatory obligations, at the end of the next section on the legal framework.

## Structure of this consultation document

- 2.24 The remainder of the document is structured as follows:

- Section 3, *Legal framework*, outlines the legal framework to our review, including our duties in relation to the regulation of postal services in general and this review in particular. This section presents the scope and characteristics of the universal service, and the notification from Royal Mail on how it meets its obligation in practice;
- Section 4, *Scope of the review*, outlines our approach to defining the scope of the review and the issues covered by our review, and the approach to, and scope of, our market research;
- Section 5, *Methodology used to consider whether users' needs are "reasonable"*, presents our cost benefit analysis framework for assessing the "reasonableness" of users' needs;
- Section 6, *Measurement of benefits and costs*, presents our approach to giving a monetary value to the benefits of key features of the universal service, and our results, explains the technical concept of "tolerability" (sometimes referred to as "acceptability) of the service, and outlines our approach to estimating the incremental costs of certain elements of the universal service, and our results; and
- Section 7, *The acceptability of the current service to users*, presents evidence from our qualitative and quantitative research about users' overall satisfaction with the current postal service, users' acceptability of hypothetical changes to the universal postal service, users' communication preferences, evidence on the continuing importance of post for some communications, the differing patterns of usage of specific groups of users, and finally our findings on the broader social value of post.

- 2.25 From Section 8 onwards, all sections start with an outline of the service features considered, and end with a discussion on the costs and benefits of this service feature and an outline of possible future regulatory implications of our forthcoming conclusions on the reasonable needs of users. In addition:

- Section 8, *More convenient packet services*, presents a summary of trends in the packets sector and evidence from our market research about the use of packet services to receive and, to a lesser degree, send packets (other than letters);

- Section 9, *Next day delivery*, presents evidence on why users buy the First Class service over the Second Class service and the rise of other forms of communication, together with research findings that indicate some users prefer a simple, single-tier option over the current system of having the choice of First and Second Class services;
- Section 10, *Quality of service of First Class post*, presents evidence on the value to users of a high quality of service for First Class, and in particular that this may be due to users' "need" for simplicity;
- Section 11, *Number of collection and delivery days*, presents what users have told us in relation to the number of days per week post is collected and delivered;
- Section 12, *Collection and delivery times*, presents evidence from our research on the existing specification for collection and delivery times and the impact of making changes to it;
- Section 13, *Delivery to the door*, presents the evidence of the views of users on changes to the current "delivery to the door", whereby Royal Mail delivers the mail to the door of homes and premises; and
- Section 14, *Additional characteristics of the universal service*, presents evidence, mainly from our qualitative research, on services users felt were "essential" (Special Delivery Next Day, Recorded Signed For, Redelivery, Redirections), and services users felt were more "nice to have" (Certificate of Posting, Return to Sender, Keepsafe, Poste Restante), and finally evidence on the views of users on international services (Airmail, Surface Mail and International Signed For). This chapter does not discuss the First and Second Class services.

## Section 3

# Legal framework

3.1 This section outlines:

- the legal framework to our review, including our duties in relation to the regulation of postal services in general and this review in particular; and
- the scope and characteristics of the universal service, and the notification from Royal Mail on how it meets its obligation in practice.

## Introduction

3.2 The Act, which received Royal Assent on 13 June 2011, introduced a new regulatory regime for postal services<sup>25</sup> in the United Kingdom, including transferring regulatory responsibility for the postal services sector from Postcomm to Ofcom.

3.3 The Act sets the framework for our review of the reasonable needs of users of postal services. This framework is set out in Part 3 of the Act, which came into force on 1 October 2011. Its provisions give effect to Directive 2008/6/EC of the European Parliament and of the Council of 20 February 2008, which amends Directive 97/67/EC, with regard to the full accomplishment of the internal market of Community postal services (“the Postal Services Directive”).

3.4 The Act also replaced the existing licensing regime in the postal sector with a general authorisation regime. This means that postal operators may provide postal services without the need for any licence or authorisation but that the provision of those services may be subject to regulatory conditions that Ofcom may impose under Part 3 of the Act.<sup>26</sup>

3.5 This section summarises the key features of the regulatory framework relevant to the matters considered in this consultation document.

## Duty to secure provision of a universal postal service

3.6 Section 29(1) of the Act provides that Ofcom must carry out its functions in relation to postal services in a way that it considers will secure the provision of a universal postal service. Section 29(2) of the Act provides that Ofcom’s power to impose regulatory conditions is subject to the duty imposed by section 29(1) of the Act.

## The universal postal service

3.7 Section 30(1) of the Act requires Ofcom to make a universal postal service order setting out a description of the services that Ofcom considers should be provided in

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<sup>25</sup>The expression ‘postal services’ is defined in section 27(1) as meaning the service of conveying postal packets from one place to another by post, the incidental services of receiving, collecting, sorting and delivering postal packets, and any other service which relates to, and is provided in conjunction with, any of those services. ‘Postal packets’ is defined in section 27(2) as meaning a letter, parcel, packet or other article transmissible by post.

<sup>26</sup>The types of conditions we can impose are those in sections 36, 38, 39, 41, 42, and 48 to 51 of the Act.

the United Kingdom as a universal postal service, and the standards with which those services are to comply.

- 3.8 The universal postal service must comply with certain minimum legal requirements. The Postal Services Directive obliges all EU Member States to ensure that a universal postal service encompassing a minimum range of specified services is provided.
- 3.9 The requirements of the Postal Services Directive are reflected in section 31 of the Act, which sets out the services which, as a minimum, must be included in the universal postal service in the UK. Those services are known as the 'minimum requirements' and comprise (in summary):
- at least one delivery of letters every Monday to Saturday, and at least one delivery of other postal packets<sup>27</sup> every Monday to Friday;
  - at least one collection of letters every Monday to Saturday, and at least one collection of other postal packets every Monday to Friday;
  - a service of conveying postal packets from one place to another by post at affordable, geographically uniform prices through the UK;
  - a registered items service at affordable, geographically uniform prices through the UK;
  - an insured items service at affordable, geographically uniform prices through the UK;
  - the provision of certain free services to blind/partially sighted people; and
  - the free conveyance of certain legislative petitions and addresses.
- 3.10 The minimum requirements of the Act comply with and, in some aspects, go further than the requirements of Article 3 of the Postal Services Directive. For example, while the Postal Services Directive requires the collection and delivery of postal items not less than five working days per week, the minimum requirements of the Act require the delivery and collection of letters six days per week in the United Kingdom, from Monday to Saturday; and while the Postal Services Directive requires tariffs to be affordable", the UK legislation requires them to be "uniform" as well as affordable.
- 3.11 The first universal postal service order made under the provisions of the Act was made on 26 March 2012: *The Postal Services (Universal Postal Service) Order 2012* (SI 2012/936). A copy of that order was annexed to Ofcom's Statement of 27 March 2012, *Securing the Universal Postal Service – Decision on the new regulatory framework*.<sup>28</sup> That Statement also set out the regulatory conditions to which Royal Mail, as the designated universal service provider, is subject.

<sup>27</sup> The terms 'letters' and 'postal packets' are defined for the purposes of Part 3 of the Act in sections 27(2) and 65(1) of the Act.

<sup>28</sup> Ofcom, *Securing the Universal Postal Service – Decision on the new regulatory framework*, 2012, <http://stakeholders.ofcom.org.uk/consultations/review-of-regulatory-conditions/statement/> . The first universal postal service order is at Annex 6, <http://stakeholders.ofcom.org.uk/binaries/consultations/review-of-regulatory-conditions/statement/annex6.pdf> and [http://www.legislation.gov.uk/ukxi/2012/936/pdfs/ukxi\\_20120936\\_en.pdf](http://www.legislation.gov.uk/ukxi/2012/936/pdfs/ukxi_20120936_en.pdf)

## **Legal requirement to review the reasonable needs of users of postal services**

3.12 The legal requirement to conduct a review of the needs of users of postal services is set out in section 30(3) of the Act, which provides that:

“(3) Before making or modifying a universal postal service order, OFCOM must carry out an assessment of the extent to which the market for the provision of postal services in the United Kingdom is meeting the reasonable needs of the users of those services.”

3.13 This requirement did not apply to the making of the first universal postal services order but Ofcom must, pursuant to section 30(4) of the Act, conduct an assessment of users' needs within 18 months of the coming into force of the new legal regime for the regulation of postal services on 1 October 2011.

3.14 Ofcom may, as a result of this review, reach the view that the specifications of the universal postal service in the universal postal service order (or in the designated universal service provider (“DUSP”) conditions) should be modified in some way so as to better meet the reasonable needs of users of postal services. However, the universal service must in any event continue to comply with the Postal Services Directive and the minimum requirements of the Act.

3.15 Ofcom has an additional power, under section 34 of the Act, to review at any time the extent to which the minimum requirements set out in the Act reflect the reasonable needs of users of postal services in the UK. Such a review may consider whether the requirements imposed by section 31 of the Act could be altered so as better to reflect those needs. Ofcom must send a copy of any review conducted under section 34 of the Act to the Secretary of State who then has a power, under section 34(5), to amend section 31 by order (subject to affirmative resolution procedure).

3.16 In the context of this review, we are considering the extent to which users of postal services continue to need the collection and delivery of letters six days a week, including on Saturdays. As Saturday collections and deliveries are included in the minimum requirements of section 31 of the Act any findings we make concerning users' reasonable needs in relation to this requirement will be made pursuant to section 34 in addition to section 30. However, it is important to note that Ofcom has no powers to amend the minimum requirements as specified in section 31 the Act. That is a power reserved to the Secretary of State and/or Parliament.

## **Financially sustainable and efficient provision of the universal service**

3.17 Section 29(3) of the Act provides that, in performing our duty under section 29(1), we must have regard to the need for the provision of a universal postal service to be:

- financially sustainable; and
- efficient before the end of a reasonable period and for its provision to continue to be efficient at all subsequent times.

3.18 The concept of ‘financially sustainable’ is not defined exhaustively. However, section 29(4) of the Act states that it includes the need for a reasonable commercial rate of return for any universal service provider on any expenditure incurred by it for the purpose of, or in connection with, the provision by it of a universal postal service.

## The duty to secure the provision of sufficient access points

- 3.19 Section 29(6) of the Act provides that Ofcom's duty under section 29(1) includes a duty to carry out its functions in relation to postal services in a way that Ofcom considers will secure the provision of sufficient access points to meet the reasonable needs of users of the universal postal service. This duty is subject to any direction by the Secretary of State for Ofcom to take, or refrain from taking, specified action. No such direction has to date been given to Ofcom.
- 3.20 The term 'access point' is defined at section 29(11) of the Act as meaning any box, receptacle or other facility provided for the purpose of receiving postal packets, or any class of postal packets, for onwards transmission by post.

## General duties

- 3.21 Section 3 of the Communications Act 2003 (the "2003 Act") provides that it shall be our principal duty, in carrying out our functions, to further the interests of citizens in relation to communications matters and to further the interests of consumers in relevant markets, where appropriate by promoting competition.
- 3.22 This principal duty applies also to functions carried out by us in relation to postal services.<sup>29</sup> Section 3(6A) of the 2003 Act provides that the duty in section 29(1) of the Act (to secure the provision of a universal service) takes priority over our general duties in the 2003 Act in the case of conflict between the two where we are carrying out our functions in relation to postal services.
- 3.23 In performing our general duties, we are also required under section 3(4) of the 2003 Act to have regard to a range of other considerations, which appear to us to be relevant in the circumstances. In this context, we consider that a number of such considerations appear potentially relevant, including:
- the desirability of promoting competition in relevant markets;
  - the desirability of encouraging investment and innovation in relevant markets;
  - the vulnerability of children and of others whose circumstances appear to Ofcom to put them in need of special protection;
  - the needs of persons with disabilities, of the elderly and of those on low incomes;
  - the opinions of consumers in relevant markets and of members of the public generally;
  - the different interests of persons in the different parts of the United Kingdom, of the different ethnic communities within the United Kingdom and of persons living in rural and in urban areas; and
  - the extent to which, in the circumstances of the case, the furthering or securing of the matters mentioned in section 3(1) is reasonably practicable.

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<sup>29</sup> Section 1(1) refers to such functions as may be conferred on Ofcom by or under any enactment. The reference to 'communications matters' in section 3(1) also refers generally to matters in relation to which we have functions, and similarly the reference to 'relevant markets' means markets for any of the services, facilities, apparatus or directories in relation to which we have functions: section 3(14) of the 2003 Act.

- 3.24 Section 3(5) of the 2003 Act provides that in performing our duty to further the interests of consumers,<sup>30</sup> we must have regard, in particular, to the interests of those consumers in respect of choice, price, quality of service and value for money.
- 3.25 Pursuant to section 3(3) of the 2003 Act, in performing our general duties, we must have regard, in all cases, to the principles under which regulatory activities should be transparent, accountable, proportionate, consistent and targeted only at cases in which action is needed, and any other principles appearing to us to represent the best regulatory practice.
- 3.26 In this regard, we note Ofcom's general regulatory principles<sup>31</sup> including in particular the following in the present context:
- ensuring that our interventions are evidence-based, proportionate, consistent, accountable and transparent in both deliberation and outcome;
  - seeking the least intrusive regulatory mechanisms to achieve our policy objectives; and
  - consulting widely with all relevant stakeholders and assessing the impact of regulatory action before imposing regulation upon a market.
- 3.27 Finally, we have an ongoing duty under Section 6 of the 2003 Act to keep the carrying out of our functions under review with a view to ensuring that regulation by Ofcom does not involve the imposition of burdens which are unnecessary or the maintenance of burdens which have become unnecessary.

## General impact assessment

- 3.28 As this document is not making proposals for changes to the regulatory framework, we are not including an impact assessment. However, if our review were to lead us to conclude that changes are necessary to the regulatory framework, we would include an assessment of the likely impact of those proposals, including, as appropriate, an equality impact assessment.

## The current universal service

- 3.29 The current scope of the universal postal service is described in *the Postal Services (Universal Postal Service) Order 2012*<sup>32</sup> ("the Order"), the first universal postal service order made under the Postal Services Act 2011. As explained in our December 2011 consultation on the review of the regulatory conditions and our March 2012 statement on the new regulatory framework, the approach adopted to the first Order was to describe the essential features of the universal service, without substantively changing the scope of the current universal service.
- 3.30 In summary, the Order stipulates that the universal postal service shall comprise:

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<sup>30</sup> Under section 405 of the 2003 Act as amended, references to consumers in a market for a service include, where the service is a postal service, addressees.

<sup>31</sup> See our website: <http://www.ofcom.org.uk/about/what-is-ofcom/statutory-duties-and-regulatory-principles/>

<sup>32</sup> *The Postal Services (Universal Postal Service) Order 2012*, S.I. 2012/936, [http://www.legislation.gov.uk/ukxi/2012/936/pdfs/ukxi\\_20120936\\_en.pdf](http://www.legislation.gov.uk/ukxi/2012/936/pdfs/ukxi_20120936_en.pdf)

- At least one delivery of letters every Monday to Saturday and of other postal packets every Monday to Friday to the home or premises of every individual in the UK and to such delivery points as approved by Ofcom;
- At least one collection of letters every Monday to Saturday and of other postal packets every Monday to Friday;
- The provision of certain 'end-to-end services at affordable prices', which are defined in Schedule 1 to the Order – see Table 3.1;
- The provision of certain 'free end-to-end services', which are defined in Schedule 2 to the Order – see Table 3.1; and
- The provision of certain 'addressee services', which are defined in Schedule 3 to the Order – see Table 3.1.

- 3.31 In our Statement of 29 September 2011 on the transition to the new regulatory framework for postal services,<sup>33</sup> we provisionally designated Royal Mail as the universal service provider with effect from 1 October 2011. In practice, Royal Mail is currently the only postal operator capable of fulfilling this role. As the designated universal service provider, certain regulatory conditions are imposed on Royal Mail to require it to provide the universal service. We consulted on those conditions at the same time as consulting on the scope of the first Universal Postal Service Order in our December 2011 consultation on the Review of Regulatory Conditions. Our statement of 27 March 2012 on Securing the Universal Postal Service contained our decision on the new regulatory framework and imposed certain regulatory conditions on Royal Mail with effect from 1 April 2012, including the Designated Universal Service Provider conditions (the "DUSP conditions").
- 3.32 The DUSP conditions require Royal Mail, as the designated universal service provider, to provide services matching those described in the Universal Postal Service Order. The Order sets out a description of the services that should be provided in the UK as a universal postal service and the standards with which those services are to comply. This differs from the previous regulatory regime in that the Order and the DUSP conditions set out a description of the universal service specifying its core features rather than listing the names of Royal Mail products within the scope of the universal service, as had been the case under the previous regulatory regime.
- 3.33 The DUSP conditions, which are included at Annex 7 to our 27 March 2012 statement on Securing the Universal Postal Service,<sup>34</sup> specify in greater detail the services that must be provided by Royal Mail as designated universal service provider. For instance, they include obligations relating to the provision of sufficient access points, performance targets that Royal Mail must meet in respect of each of the specified services and they require Royal Mail to notify and publish certain information, including delivery and collection times and performance data in respect of the performance targets.

<sup>33</sup> Ofcom, *Postal regulation: Transition to the new regulatory framework – Statement*, September 2011, <http://stakeholders.ofcom.org.uk/binaries/consultations/postal-regulation/statement/statement.pdf>

<sup>34</sup> Ofcom, *Annex 7, Statutory Notification: designated USP conditions*, March 2012, <http://stakeholders.ofcom.org.uk/binaries/consultations/review-of-regulatory-conditions/statement/annex7.pdf>

- 3.34 Royal Mail provides a number of different services and products in order to meet its regulatory obligations to provide the universal service. Royal Mail is required by DUSP condition 1.10.1 to notify Ofcom of the brand names of the services it provides with a view to meeting its obligations under the DUSP conditions 1.6 (end-to-end services) and 1.7 (addressee services). The services which Royal Mail has notified for those purposes are summarised in Table 3.1.

**Table 3.1: Royal Mail services provided to meet the characteristics of the universal service, according to Royal Mail<sup>35</sup>**

Order/Condition	Royal Mail service provided
<b>End-to-end services at affordable prices for single piece items</b>	
<u>Priority services</u> <ul style="list-style-type: none"> <li>To arrive next day (required to be 93% of mail next day by DUSP condition)</li> <li>Paid for by stamp, meter, and other reasonable means</li> <li>Offer Certificate of Posting and proof of delivery</li> </ul>	<ul style="list-style-type: none"> <li>First Class with and without Recorded Signed For</li> </ul>
<u>Standard services</u> <ul style="list-style-type: none"> <li>To arrive within three days (98.5% of mail up to 1kg to arrive within three days by DUSP condition / 90% of packets over 1kg to arrive within three days by DUSP condition)</li> <li>Paid for by stamp, meter, and other reasonable means</li> <li>Offer Certificate of Posting and proof of delivery</li> </ul>	<ul style="list-style-type: none"> <li>Second Class with and without Recorded Signed For</li> <li>Standard Parcels (above 1kg)</li> </ul>
<u>Registered and insured services</u> <p>A. Insured and registered services for postal items weighing up to 10kg:</p> <ul style="list-style-type: none"> <li>To arrive next day by 1pm</li> <li>To include tracking and proof of delivery</li> <li>Are paid for in advance (i.e. by stamps or meter)</li> <li>The definition of insured requires compensation for theft, loss and damage, in addition to the basic compensation (up to £46) provided on some postal services.</li> </ul> <p>B. Insured and registered services for postal items weighing over 10kg</p>	<ul style="list-style-type: none"> <li>Special Delivery Next Day (other than sold on account) - up to 10kg</li> <li>Registered services: First Class service with Recorded Signed For (10-20kg)</li> <li>Insured services (10-20kg): under development</li> </ul>
<u>Return to sender services</u> <p>Conveyance of items back to the sender (where the service used is part of the universal service)</p>	<ul style="list-style-type: none"> <li>Return to Sender</li> </ul>
<u>Outgoing European Union services</u> <ul style="list-style-type: none"> <li>Service of ensuring that postal items are handed</li> </ul>	<ul style="list-style-type: none"> <li>Airmail with and without International Signed For</li> </ul>

<sup>35</sup> Royal Mail, *Notification under DUSP Condition 1.10.1*, effective 1 April 2012, <http://www.royalmailgroup.com/sites/default/files/Statement%20as%20required%20by%20DUSP.pdf>

<p>over to the postal provider in the relevant EU member state.</p> <ul style="list-style-type: none"> <li>• Compatible with enabling the item to arrive within three days (DUSP condition specifies that at least 85% of packets must arrive within three days and 97% of packets must arrive within five days)</li> <li>• Paid for by stamps or other reasonable means</li> <li>• Offer Certificate of Posting</li> <li>• DUSP condition specifies that this must include registered and insured services</li> </ul>	
<p><u>Outgoing rest of the world services</u></p> <ul style="list-style-type: none"> <li>• Service of ensuring that postal items are handed over to the postal provider in the relevant non-EU country.</li> <li>• A service compatible with enabling the item to arrive within seven days; and</li> <li>• A service compatible with enabling the item to arrive within twelve weeks (72 days)</li> <li>• Paid for by stamps or other reasonable means</li> <li>• Offer Certificate of Posting</li> <li>• DUSP condition specifies that this must include registered and insured services</li> </ul>	<ul style="list-style-type: none"> <li>• Airmail with and without International Signed For</li> <li>• Surface Mail with and without International Signed For</li> </ul>
<p><u>Incoming European Union and rest of the world services</u></p> <p>For incoming EU mail, 85% of mail to arrive at UK addresses within three days of having been collected in another EU member state and 97% to arrive within 5 days of being collected.</p> <p>Mail sent from non-EU countries to be delivered within a reasonable period.</p>	<ul style="list-style-type: none"> <li>• “Extension of foreign operators’ post network into UK” i.e. Royal Mail delivers international mail to UK addresses.</li> </ul>
<b>Free end-to-end services</b>	
<p><u>Legislative petitions and addresses</u></p>	<ul style="list-style-type: none"> <li>• Petitions to Parliament, Addresses and Petitions to the Queen</li> </ul>
<p><u>Domestic and international services for blind or partially sighted persons</u></p> <ul style="list-style-type: none"> <li>• Up to 7kg</li> <li>• For certain eligible items related to blindness or partial sightedness</li> </ul>	<ul style="list-style-type: none"> <li>• Articles for the Blind and International Articles for the Blind</li> </ul>
<b>Addressee services</b>	
<p><u>Redirection services</u></p> <p>Service of redirecting postal item from one address to another, for a reasonable period of time</p> <p>Specific exceptions (e.g. not required for registered and insured items going outside of the UK)</p>	<ul style="list-style-type: none"> <li>• Redirections (up to 12 months, renewable for up to 12 months)</li> </ul>

<p><u>Poste restante services</u> Post offices can be used as an addressee's postal address Post offices will hold the mail for a reasonable period</p>	<ul style="list-style-type: none"><li>• Poste Restante</li></ul>
<p><u>Retention services</u> Delay in delivering the items for a reasonable period</p>	<ul style="list-style-type: none"><li>• Keepsafe (residential and business) – mail kept at a delivery office for up to three months</li></ul>

Source: Ofcom and Royal Mail websites (2012) / Ofcom analysis

## Section 4

# Scope of the review

4.1 This section:

- outlines our approach to defining the scope of the review and the issues covered by our review; and
- presents the approach to, and scope of, our market research.

## Our approach to defining the scope of the review

4.2 The Act requires us to assess the extent to which the market for the provision of postal services in the United Kingdom is meeting the reasonable needs of the users of those services. However, to a large extent, in particular for individual users and small businesses, the postal market is effectively synonymous with the universal postal service provided by Royal Mail. A review of users' needs is also a pre-requisite under the Act for making any changes to the scope of the universal service, and so this review therefore focuses in particular on the current universal postal service, taking account of the provision of postal services by other postal operators where appropriate.

4.3 In order to assess whether the market for the provision of postal services currently meets the reasonable needs of users, we defined a number of hypothetical scenarios based on potential changes to the existing universal service. These scenarios enabled us to test the reaction of postal users to potential changes to the universal service, based on our market research. We have also carried out an indicative analysis of some of these potential changes on Royal Mail's costs.

4.4 In determining the scope of potential changes to the universal service, we took the universal service required by the Directive as the starting point and considered Ofcom's existing body of knowledge about the cost and benefits of postal services. We also reviewed practices in other countries (Annex 5) and the views of stakeholders,<sup>36</sup> including from the responses to our Review of Regulatory Conditions relating to the universal service.

4.5 The results of the scoping exercise are summarised below.

### Changes to the product offering

4.6 We considered a scenario where we replaced the First Class service (the next day service) and the Second Class service (where mail arrives at least within three days) with a single two-day service. There was evidence on both benefits and costs that suggested it would be worth assessing in more detail the needs of users from the next day (First Class) service. On benefits, there was evidence from surveys commissioned by Postcomm, the previous postal regulator, that existence of a gap between the proportion of residential respondents who use First Class, compared

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<sup>36</sup> Consumer Focus, Citizens Advice and Citizens Advice Scotland, Age UK, the Federation of Small Businesses, the Direct Marketing Association, the Mail Users' Association, ISBA (Incorporated Society of British Advertisers), Postaf, Royal Mail, the Mail Competition Forum, the Department for Business, Innovation and Skills, and Intellect. We also engaged with Ofcom's advisory committees and received comments from RNIB.

with the proportion of those who say they need their mail to arrive next day, has been a consistent feature of First Class usage over the years.<sup>37</sup> We discuss this point in more detail in Section 9. Moreover, a 2010 report from Frontier Economics<sup>38</sup> showed that this aspect of the universal service is expensive to provide, as it requires fast transportation across the whole country, which requires a significant air network. Some respondents to the Review of Regulatory Conditions also mentioned that First and Second Class were not legal requirements of the Act or the Postal Services Directive.<sup>39</sup>

- 4.7 We also sought the views of users in relation to the insured and registered services. This was primarily to assess the importance of the guaranteed next day delivery which is currently required by Ofcom alongside the insured and registered product, because a next day guarantee is not required by the Act or the Postal Services Directive. We had evidence from Postcomm's and Consumer Focus's research on the universal service (2010)<sup>40</sup> that users value this guarantee. In addition, we wanted to gather further evidence on the service provided to meet the insured and registered requirement to inform discussion on the points raised by a number of respondents to the Review of the Regulatory Conditions. For instance, Consumer Focus argued that the different features of Certificate of Posting, Recorded Signed For and Special Delivery need to be separated out so that users are able to choose only those options that they need.
- 4.8 Royal Mail also provides a range of smaller services, including Recorded Signed For, Redirections, Return to Sender, Keepsafe, Poste Restante, and Certificate of Posting. Some of these services are not very well-known and we had no evidence to suggest that costs and benefits may be out of line. While we included these services in the scope of our review because they are part of the service, we did not carry out an extensive analysis with respect to these services. We considered international Airmail and Surface Mail in a similar manner.

### Changes to quality of service targets

- 4.9 In relation to benefits of a high quality of service target for First Class, as identified above, a significant proportion of First Class mail probably does not actually need to arrive the next day. Postcomm's and Consumer Focus's research on the universal service (2010) also suggested that most users found a lowering of the First Class target to 85% acceptable.<sup>41</sup> In relation to costs, maintaining a high quality of service for First Class is likely to be expensive as it requires fast transportation covering the country, including an extensive air network. We therefore considered lowering the First Class quality of service targets to a level which would allow Royal Mail to remove or reduce the air network; or restricting next day delivery targets to mail

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<sup>37</sup> Postcomm Customer Surveys 2006, 2007, 2008, and 2009. For further information see Section 9.

<sup>38</sup> Frontier Economics, *The net cost of elements of the universal service – an update*, 2010, <http://stakeholders.ofcom.org.uk/binaries/post/1805.pdf>

<sup>39</sup> Ofcom, *Review of Regulatory Conditions - Postal Regulation*, 2011, <http://stakeholders.ofcom.org.uk/binaries/consultations/review-of-regulatory-conditions/summary/main.pdf>

<sup>40</sup> TNS-BMRB on behalf of Postcomm and Consumer Focus, *Customer needs from a sustainable universal postal service in the UK*, 2010, residential and business reports respectively: <http://stakeholders.ofcom.org.uk/binaries/post/1183.pdf> and <http://stakeholders.ofcom.org.uk/binaries/post/1184.pdf>

<sup>41</sup> TNS-BMRB on behalf of Postcomm and Consumer Focus, *Customer needs from a sustainable universal postal service in the UK*, 2010, residential and business reports respectively: <http://stakeholders.ofcom.org.uk/binaries/post/1183.pdf> and <http://stakeholders.ofcom.org.uk/binaries/post/1184.pdf>

posted and delivered within the same mail centre catchment area. We have no reason to think that costs and benefits of other targets might be significantly out of line. Therefore, we did not consider any further changes to quality of service targets.

### Changes to days of the week delivery and collection

- 4.10 Again, we had evidence on the benefits and costs of the number of collection and delivery days. Previous research suggested that users may tolerate a change in the number of days per week mail is delivered, although businesses were less tolerant of a change to the number of weekdays (Monday to Friday) mail is collected and delivered.<sup>42</sup> There may potentially be significant cost savings from reducing the collection and delivery by one day. We note, however, that this would require a change to the minimum requirements of the universal service required by the Act, which the Government has indicated it has no intention to change at present.<sup>43</sup> Nonetheless, we considered the change in order to better understand the needs of users, as this is an important aspect of their experience from the service.

### Changes to collection and delivery times

- 4.11 Previous Postcomm research<sup>44</sup> suggested that earlier collections and later deliveries may be more acceptable to users than changes to collection and delivery days. Postcomm's and Consumer Focus's research on the universal service (2010) also suggested that some users may value evening or Saturday delivery of packets to some extent, and so we also included this potential improvement in the scope of our review. However, this option increased the tolerability of the postal service by only 0.5%. As this indicates only a small number of users would be affected by this change, we did not seek to identify the costs of providing this improvement in the absence of clear evidence that this may be an unmet reasonable need of users.
- 4.12 Finally, we considered whether users might also value earlier deliveries. However, in their 2008 report on the net cost of elements of the universal service, Frontier Economics estimated that the net avoided costs of bringing delivery times forward by 2 hours was £114m.<sup>45</sup> This suggested the costs may be significant in relation to the benefits, so again we did not seek to identify the costs of providing this improvement.

<sup>42</sup> TNS-BMRB on behalf of Postcomm and Consumer Focus, *Customer needs from a sustainable universal postal service in the UK*, 2010, links as above.

<sup>43</sup> Section 31 of the Act sets out certain "minimum requirements" of the universal postal service. These minimum requirements can only be amended by Parliament or by an Order of the Secretary of State subject to approval from Parliament by affirmative resolution. The Government has made clear that it has no intention of reducing the minimum requirements of the universal postal service during this Parliament (see House of Lord Report - 17.05.11 - Hansard vol.727, col. 1319 <http://www.publications.parliament.uk/pa/ld201011/ldhansrd/index/110517.html#contents>)

<sup>44</sup> Postcomm, *Postcomm customer survey 2009, 2010* (conducted by Ipsos MORI), <http://stakeholders.ofcom.org.uk/binaries/post/92.pdf>. Respondents were asked to rate the acceptability of hypothetical changes to the service on a scale of one to ten. Most respondents found these hypothetical changes unacceptable, but with responses ranging from 51% for earlier collections to 67% for five delivery and collection days. The report notes that "the changes have often been perceived as involving reductions in service levels; thus the majority view was that they were not acceptable – with the possible exception of 'earlier collection times'." We thought the methodology used by our research could help us explore what drove these preferences.

<sup>45</sup> Frontier Economics, *Net costs of elements of the universal service*, 2008, Table 6, <http://stakeholders.ofcom.org.uk/binaries/post/1579.pdf>

- 4.13 The issue of collection and delivery times was also raised by two respondents to the Review of Regulatory Conditions.<sup>46</sup>

#### Changes to access and delivery points

- 4.14 We committed to looking at access points in both the Review of Regulatory Conditions and in our March 2012 statement on the new regulatory framework for post.<sup>47</sup> We stated that we would assess whether the current density requirements are appropriate and, if not, what density requirements should replace them. We will be consulting on this issue separately, as we consider that it is best treated as a discrete issue. We did not include access points for items which do not fit through the post box or premium services which are provided by the post office network as the size of the post office network is determined directly by the Government.
- 4.15 We also included the issue of changes to delivery points, such as delivering to a central point rather than to individual addresses. This is common in some other European countries, and was raised by some stakeholders. However, some previous research by Postcomm suggested this concept is disliked by postal users in the UK, so we decided only to attempt to estimate the incremental costs of delivery to the door if the research results clearly differed from this previous research.
- 4.16 In addition we decided not to include the following aspects of the universal service in our review.

#### Uniform pricing

- 4.17 Previous research provides strong evidence that users place a high value on uniform pricing, so there did not seem to be a compelling case for testing this aspect of the service again.<sup>48</sup> Uniform pricing is also a minimum requirement under the Act.

#### Affordability

- 4.18 We are carrying out some more detailed work on the affordability of universal postal services as part of a separate project. Stakeholders suggested that we should consider affordability issues for different groups of residential users and the pressures on them at different points in the year, particularly Christmas, when postal expenditure is high. Stakeholders also suggested we should consider the diverse needs of small and medium sized businesses operating on tight margins. Our work on this forms part of our Annual Plan 2012-13 commitment to the 'ongoing monitoring of the affordability of stamps to vulnerable consumers'.

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<sup>46</sup> Ofcom, *Review of Regulatory Conditions - Postal Regulation*, 2011, <http://stakeholders.ofcom.org.uk/binaries/consultations/review-of-regulatory-conditions/summary/main.pdf>

<sup>47</sup> As above, and Ofcom, *Securing the Universal Postal Service – Decision on the new regulatory framework*, 2012, <http://stakeholders.ofcom.org.uk/consultations/review-of-regulatory-conditions/statement/>

<sup>48</sup> 57% of residential users and 52% of businesses said they would not be prepared to pay different prices depending on which part of the country they were sending their post to, compared with 28% of residential users and 34% of businesses who said they would be prepared to pay different prices. See: TNS-BMRB, *Customer needs from a sustainable universal postal service in the UK*, November 2010, residential and business reports respectively: <http://stakeholders.ofcom.org.uk/binaries/post/1183.pdf> and <http://stakeholders.ofcom.org.uk/binaries/post/1184.pdf>

- 4.19 It is worth noting that as a result of our decisions on the regulatory framework in March 2012 and in a subsequent decision in July 2012 we set a cap<sup>49</sup> on the price of a Second Class stamp Letter, Large Letters and Packets up to 2kg, in response to the risk of that prices may become unaffordable in future. In March 2012, we assessed affordability by comparing current spend on postal services with household expenditure, and noted that average household spending on post remains low at around 50p a week.

#### Single piece items paid for on account

- 4.20 Some competitors to Royal Mail have argued that items paid for by meter and PPI<sup>50</sup> should not be part of the universal service. However, this issue was considered by Postcomm in 2011, which concluded that these products should be included. This was confirmed by Ofcom in March 2012.<sup>51</sup> We therefore have not done any further research on this subject, although stakeholders are free to provide further evidence on any feature of the universal service.

#### Free services required by the Act

- 4.21 We did not include free services for blind and partially sighted people, and petitions and addresses, which are required to be provided by the Act. We considered there was likely to be social benefits from services for blind and partially sighted people,<sup>52</sup> and that free service for blind and partially sighted people and petitions and addresses are likely to be low cost to provide.

#### **Scope of our market research**

- 4.22 To assess the needs of users, we undertook market research to understand better their use of and needs from postal services. We wanted to have both depth and breadth of understanding of users' needs, leading us to conduct both qualitative and quantitative research. Both research strands were designed to complement each other, with the qualitative research moving beyond 'what' users say to 'why' they say it. Deliberative discussions enabled the research to make distinctions between what users 'want' versus what they 'need' based on analysis of their attitudes and behaviours.
- 4.23 We engaged two independent research agencies to conduct this research. The research work strands were:
- A qualitative study, made up of deliberative sessions, asking users open questions about their use of the service, potential service improvements, and why users value particular features of the universal service. It identified and tested

<sup>49</sup> Ofcom, *Securing the Universal Postal Service – Decision on the new regulatory framework*, 2012, <http://stakeholders.ofcom.org.uk/consultations/review-of-regulatory-conditions/statement/> and Ofcom, *Securing the Universal Postal Service - Safeguard cap for Large Letters and packets, Statement*, July 2012, <http://stakeholders.ofcom.org.uk/binaries/consultations/postal-service-letters-packets/statement/statement.pdf>

<sup>50</sup> Postage Printed Impression (PPI) is an indication on the envelope that the postage has been paid and can be used by customers with an account with Royal Mail. Meter is a way of paying postage in advance, and items have a franking impression made by a franking machine licensed by Royal Mail

<sup>51</sup> Ofcom, *Securing the Universal Postal Service – Decision on the new regulatory framework*, 2012, <http://stakeholders.ofcom.org.uk/consultations/review-of-regulatory-conditions/statement/>

<sup>52</sup> The Royal National Institute for the Blind told us that it was important that the scope of the Articles for the Blind service is not diminished.

needs and preferences by asking them to consider hypothetical changes to the current service. This research was conducted by Ipsos MORI; and

- Two quantitative surveys of residential users and businesses, conducted by TNS-BMRB, which included, firstly, questions to users about their postal usage and what is important to them and, secondly, questions to understand which features users value the most to elicit user needs (“conjoint analysis”, also as part of the quantitative survey)
- 4.24 The qualitative research consisted of eight workshops of about 20 users in each, breakfast meetings and in-depth interviews with medium and large businesses. In total, 22 medium and large businesses and about 155 residential users participated in our qualitative research. The research was conducted in nine locations across the four UK nations, including deep rural and off-shore locations. The main workshops lasted 3.5 hours (businesses research sessions were shorter). Deliberative methods were used to gather a considered, well-informed view and allowed respondents to consider both personal and societal needs.
- 4.25 The study explored both spontaneous reactions to the current postal service and considered responses to potential changes. It also informed participants about what is included in the universal service (including detailed products) and explored the extent to which each product met users’ needs. Providing participants with information about what is included in the universal postal service, and information on the current situation about falling mail volumes helped them assess what they actually ‘need’ against what they ‘would like’ from a postal service, in relation to both general elements (such as number of days or collection and delivery times) and current services provided (such as First and Second Class).
- 4.26 The quantitative study consisted of two large scale surveys:
- A residential survey consisting of face-to-face interviews with 4,085 residential users over 16 years old. Specific sub-groups were boosted to give us the ability to report on these (e.g. remote rural areas); and
  - A business survey consisting of telephone interviews with 1,126 businesses. Specific sub-groups were boosted to give us the ability to report on these (e.g. high postal spend, remote rural areas).
- 4.27 As well as asking about specific features of the universal service, the research asked general questions about users’ needs and views on the current postal service. This also gave users the opportunity to highlight any “needs” which they felt were not currently being met, or other areas where they felt the service currently provided was not required. We allowed for the possibility that this might lead to further potential changes we might want to add to the costing analysis but in the event this was not required.
- 4.28 The qualitative and quantitative strands of our research covered similar, but not always identical issues, to enable us to cover as many aspects of the universal service as possible. In summary we tested the following aspects of the postal service with users (Table 4.1).

**Table 4.1: Aspects of the postal service tested in our quantitative and qualitative research**

Quantitative research	Qualitative research
Usage, including access to post boxes	Usage
Unprompted and prompted question about improvements Opinions about service changes (e.g. price changes, importance of guaranteed service, mail not delivered to door)	Spontaneous discussion about needs from the service and improvements to the service Opinions about Royal Mail's specific services, including smaller services and international services
Specific attributes tested as part of the conjoint analysis: <ul style="list-style-type: none"> <li>• Move from six days to five days for collections and deliveries;</li> <li>• Earlier collection times in rural and local post boxes;</li> <li>• Shift to later delivery times;</li> <li>• Change to First Class quality of service (80% local mail delivered next day and national mail in two days);</li> <li>• Additional delivery slots (evening or Saturday); and</li> <li>• Price of First and Second Class service.</li> </ul>	Specific scenarios of changes to the universal service: <ul style="list-style-type: none"> <li>• Move from six days to five days for collections and deliveries;</li> <li>• Emptying boxes at the same time as deliveries made (resulting in earlier collection times);</li> <li>• Shift to later delivery times; and</li> <li>• Change to First Class quality of service – local mail delivered next day and national mail in two days.</li> </ul>
A scenario (tested separately) testing a single two-day service, with variations in quality of service and price <sup>53</sup>	Another specific scenario tested was: a single two-day service (First Class and Second class replaced with single tier two day service )
Social benefits question	Discussion about social benefits

Source: Ofcom (2012)

4.29 There were a number of other studies we drew on to inform our research, including:

- two further pieces of research which Ofcom recently undertook to understand the perspectives of postal service users better, given we have taken over responsibility for postal regulation. These are, firstly, a short survey of residential users, the results of which are presented in our Communications Market Report 2012<sup>54</sup> and, secondly, a qualitative study, published alongside this report.

<sup>53</sup> This scenario was originally intended as part of the trade-off analysis, but the pilots showed that the original trade-off exercise was too complex. We removed the two-day service scenario from the conjoint and tested it separately as it had already been tested in previous conjoint analysis, and we have some trend data on the use and preference for next day delivery.

<sup>54</sup> Ofcom, *Communications Market Report*, 2012, see page 377 onwards, [http://stakeholders.ofcom.org.uk/binaries/research/cmr/cmr12/CMR\\_UK\\_2012.pdf](http://stakeholders.ofcom.org.uk/binaries/research/cmr/cmr12/CMR_UK_2012.pdf)

Throughout this document we refer to this qualitative study as Ofcom's separate qualitative research on a consumer perspective on postal services (2012);<sup>55</sup>

- recent evidence from Consumer Focus, which carried out a large qualitative study on the future of the universal postal service, published in July 2012.<sup>56</sup> Throughout this document we refer to this research as Consumer Focus's qualitative research on the universal postal service (2012); and
- previous surveys carried out by Postcomm, notably the research jointly commissioned with Consumer Focus on 2010 on the needs of users from the universal postal service. Throughout this document we refer to the joint Postcomm/Consumer Focus research as Postcomm's and Consumer Focus's research on the universal service (2010).<sup>57</sup> We also reference Postcomm's Customer Surveys on postal usage (2006<sup>58</sup>, 2007<sup>59</sup>, 2008<sup>60</sup> and 2009<sup>61</sup>), and Postcomm's Customer Interest Forums (2010). In the Customer Interest Forums set up for Postcomm, overall about 100 members of the public discussed postal issues, in five workshops in different locations in the UK and with each about 20 members.<sup>62</sup>

4.30 In the remainder of this document we only refer to the title of these reports, to avoid repeating the same footnote references throughout the document. Similarly, as we quote from these reports extensively, we do not use quotations marks when our wording is the same as that in the report, as it would be too repetitive.

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<sup>55</sup> The research consisted of ten workshops of 1.5 hours in five locations across the UK complemented with telephone interviews with hard to reach and small businesses, carried out in late April and early May, at the time of Royal Mail price rises. Approximately 95 residential users and 15 small business users that took part in the research. Ipsos MORI, *Postal Services: a consumer perspective. Qualitative research with residential consumers and small business owners*, 2012, published alongside this report.

<sup>56</sup> Consumer Focus, *Sense and Sustainability - A report for Consumer Focus by Accent on the Universal Postal Service*, 2012, <http://www.consumerfocus.org.uk/files/2012/07/Sense-and-sustainability1.pdf>

<sup>57</sup> TNS-BMRB, *Customer needs from a sustainable universal postal service in the UK*, November 2010, residential and business reports respectively:

<http://stakeholders.ofcom.org.uk/binaries/post/1183.pdf> and

<http://stakeholders.ofcom.org.uk/binaries/post/1184.pdf>

<sup>58</sup> Roland Berger for Postcomm, Royal Mail and Postwatch, *The Needs of Postal Users – Customer Survey 2006*, 2006, <http://stakeholders.ofcom.org.uk/binaries/post/434.pdf>

<sup>59</sup> Postcomm, *The needs of users of the postal service – customer survey 2007 report*, 2007 (prepared by FDS International), <http://stakeholders.ofcom.org.uk/binaries/post/511.pdf>

<sup>60</sup> Jigsaw Research, *Postcomm customer survey 2008*, 2009, <http://stakeholders.ofcom.org.uk/binaries/post/93.pdf>

<sup>61</sup> Postcomm, *Postcomm customer survey 2009*, 2010 (conducted by Ipsos MORI), <http://stakeholders.ofcom.org.uk/binaries/post/92.pdf>

<sup>62</sup> Synovate, *Postcomm Customer Interest Forum Report, Wave one – Report*, October 2010 <http://stakeholders.ofcom.org.uk/binaries/post/1166.pdf>, *Wave two – Report*, February 2011, <http://stakeholders.ofcom.org.uk/binaries/post/1797.pdf>, *Wave three – Report*, May 2011, <http://stakeholders.ofcom.org.uk/binaries/post/2002.pdf>

## Section 5

# Methodology used to consider whether users' needs are "reasonable"

5.1 This section presents:

- our approach to assessing reasonable needs: a cost-benefit analysis; and
- The challenges inherent in identifying costs and benefits.

## Cost benefit approach to assessing reasonable needs

5.2 In assessing whether the "reasonable needs" of users of postal services are being met our general approach has been to consider the benefits to society of key features of the universal postal service and assess whether they are commensurate with the incremental costs of provision, and any costs of transition to Royal Mail.<sup>63</sup> That is:

- we consider scenarios of reduced specification of the universal service. We estimate the costs that would be saved under that scenario and compare this with the benefits that would be lost to see whether the changes increase net social benefits – i.e. the total benefits to individuals and society from supplying a certain service minus the cost of supplying it; and
- we consider scenarios of increased specification of the universal service. In practice, we have not sought cost information for these scenarios, as previous evidence on these improvements suggested benefits may be small, and so potentially outweighed by the costs.<sup>64</sup>

5.3 The social benefit of the provision of the universal service includes the private benefits to individuals and businesses sending and receiving mail, but also the broader benefits to society as a whole which accrue, for example, by promoting inclusion and equality (we refer to the latter as the broader social value of the universal service). The costs of the universal service are primarily the costs of providing services to meet the regulatory requirements, the "costs of provision". In addition, however, there are other less tangible costs such as the costs of regulation and the potential for market distortion which may arise from current arrangements.<sup>65</sup> Figure 5.1 illustrates this framework.

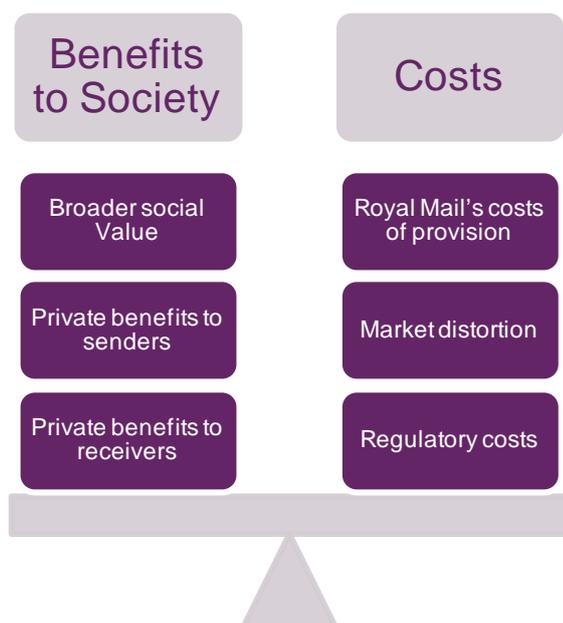
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<sup>63</sup> Most of Royal Mail's cost data is expressed in terms of fully allocated costs, which include a portion of costs which are common to a number of other activities, rather than solely the costs that would be avoided if Royal Mail ceased providing these services, i.e. the incremental costs of that service. Our analysis of the costs and benefits of elements of the universal service uses incremental costs to assess the costs of provision because these are the costs that would be avoided if Royal Mail ceased providing these services.

<sup>64</sup> See Section 4 for a discussion on the scope of our review.

<sup>65</sup> For example, Royal Mail's universal service products are VAT exempt and may compete to some extent with commercially provided products on which VAT is payable, potentially resulting in some distortion to competition. This was discussed for instance in Postcomm, *The building blocks for a sustainable postal service - Removing bulk products from the universal service and clarifying the*

**Figure 5.1: Conceptual framework: comparison of costs with benefits**



Source: Ofcom (2012)

- 5.4 We note that Royal Mail may incur costs in making changes to the universal service. These costs, which we refer to as 'transition costs', might include for example, operational costs of re-designing the network, or costs associated with relocating labour. We consider that these costs should be taken into account when considering the costs and benefits of potential changes to the universal service, and in particular that the potential increase in net social benefits from extending or reducing the universal service must be sufficient to make it worthwhile incurring such transition costs. This implies that where there is only a marginal net benefit to society from a particular aspect of the universal service, it may be efficient not to modify the universal service if there are significant transition costs.

### **Treatment of impacts outside the universal service**

- 5.5 In our analysis we focus on potential changes to the universal service and its effect on universal service users but other users might also be affected and these impacts will also affect society. It is possible that in some cases, altering the universal service may have knock-on effects on the provision of products outside the universal service that are supplied by Royal Mail or other mail providers, particularly if these products use the universal service network. For example, if there were no universal service delivery on a Saturday, non-universal service products offered by Royal Mail would either have to be delivered at much greater cost, or delivery of these products would also have to move to a five day service. We consider these impacts on non-universal service products in our cost-benefit analysis where relevant.

### **Impact on Royal Mail's financial performance**

- 5.6 Our analysis does not consider potential impacts of change on the profitability of Royal Mail. As described in Section 3, we have a duty to ensure the universal service is financially sustainable and this is being addressed through Ofcom's new economic

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*status of other universal service products - a decision document*, August 2011, <http://stakeholders.ofcom.org.uk/binaries/post/2005.pdf>

regulatory framework for post. If in future we were to make any proposals for change, we would have to consider their impact on the financial sustainability of the universal service.

## Identifying costs and benefits

- 5.7 There are a number of challenges involved in assessing the incremental costs and benefits of potential changes to the universal service. In practice, our assessment is based on a combination of quantitative estimates of the incremental benefits of particular elements of the universal service, where available, with relevant qualitative evidence. We have also sought to quantify the private benefits of certain elements of the universal service in monetary terms using our quantitative research (this is explained in more detail in section 6). Similarly, we have formed a view on the incremental costs of specific elements of the universal service based on a range of available evidence, including information provided by Royal Mail.
- 5.8 We note that the broader benefits to society of the universal service in terms of broader social value are very difficult to quantify. We therefore consider in qualitative terms possible sources of broader social value that might flow from the postal service, including for example, the protection of vulnerable users, or assistance to small businesses. We then consider to what extent these groups might be affected by any of the potential changes to the universal service considered.
- 5.9 In considering the costs of the service, we only consider the costs of provision. We do not discuss the costs of market distortion or regulatory costs.
- 5.10 Our analysis considers a number of hypothetical changes to individual elements aspects of the universal service. We note that in general our results cannot be used to infer the costs and benefits of making changes to two or more elements of the universal service at the same time. This is because the costs and benefits of different elements of the universal service may be interdependent, and hence the impact of making a number of changes may not correspond to the total cost and benefits of each such change on its own.
- 5.11 We are trying to estimate current benefits and costs. While survey results give us an estimate of current benefits, we wanted to use the best available estimate of efficient costs, so we use Royal Mail's estimate of its post modernisation costs in 2015-16 for our cost estimates (as explained in Section 6).
- 5.12 We recognise, however, that both costs and benefits of elements of the universal service will change in future. In particular, benefits associated with the provision of letter services with the universal service may diminish as alternative forms of communication continue to expand. Given the high fixed costs of the postal network, this may drive up unit costs. On the other hand, the benefits from packets services (other than letters) may increase, and costs may become lower as more packets share the costs of being sorted, transported and delivered. We therefore invite comments on the extent to which our estimates of the costs and benefits may change over time.

*Question 5.1. Do you have any views on our approach of using a comparison of the costs and benefits to assess the reasonable views of users?*

*Question 5.2. Do you have any views on the extent to which costs and benefits of elements of the service may change over time?*

## Section 6

# Measurement of benefits and costs

6.1 This section presents:

- Our approach to assessing the private benefits to postal users of key elements of the universal service, and our results;
- the concept of “tolerability” or acceptability of the service; and
- our approach to estimating the incremental costs of certain elements of the universal service, and our results.

## Assessing the benefits to users of the universal service

6.2 As discussed in Section 4 we commissioned two quantitative surveys to understand better users’ needs from the postal service. These surveys included questions about which elements of the universal service are important to users, as well as an exercise aimed at eliciting users’ preferences for different aspect of the universal service (this is referred to as the ‘conjoint exercise’).

6.3 As described in more detail below, the conjoint exercise provides a basis for estimating users’ willingness to pay for different elements of the universal service. We have used these estimates to quantify the monetary value of the private benefits to postal users of different elements of the universal service. Our estimates of the monetary value of the private benefits to users is useful insofar as it allows a direct comparison with the incremental costs of provision, and we have used this analysis, along with other qualitative evidence both on private benefits and on broader social value, to inform our assessment of whether the reasonable needs of users are being met.

### Conjoint exercise

6.4 The conjoint exercise included in the quantitative research asked respondents to choose which of two different product concepts they prefer. Product concepts are descriptions of a product or service with different combinations of component features and price. For example, one product concept that was considered was a postal service with collection and delivery five days per week with existing collection and delivery times but slower delivery for First Class mail (the next day service) priced at current prices (see table below). We summarise the scenarios tested as part of the research in Section 4 on the scope of the review and these are described in detail in the research report.

**Table 6.1: Example of trade-off conjoint package combination**

	Option A	Option B
<b>Collection and delivery</b>	Delivery and collection 6 days a week	Delivery and collection 5 days a week (Mon – Fri)
<b>Last collection times</b>	3.00pm at rural/local boxes and 6.30pm at town centre boxes	12 noon at rural/local boxes and 6.30pm at town centre boxes

<b>Latest delivery times</b>	Post is delivered by 4.00pm in all areas	Post is delivered by 3pm in rural areas and 2pm in towns and cities
<b>Service</b>	95% of First Class post arrives within one working day	80% of First Class post arrives within one working day
<b>Price of stamp(s)</b>	First Class 80p Second Class <sup>66</sup> 60p	First Class 65p Second Class 50p
<b>Additional delivery options</b>	No option to specify evening / Saturday delivery	You can specify evening or Saturday delivery for a fee of £4.50

Source: TNS-BMRB (2012)

- 6.5 The conjoint exercise is used to identify the relative importance of various aspects of the postal service to users (including changes in stamp prices). The results of the conjoint exercise are used to create a number of measures by which we can assess respondents' ranking of the benefits of each individual component feature. The main measures that we use in this report are "utility values" and "tolerability scores".
- 6.6 We describe these measures further below and explain how we used the utility values to estimate the impact on private benefits of businesses and residential users of a change and the tolerability scores to estimate the impact on social benefits.
- 6.7 Whilst we consider that the results of the conjoint exercise are informative, we note that they must be interpreted with care. In particular, respondents to quantitative surveys do not have the same amount of time or level of discussion as they are afforded in qualitative studies, and hence their responses may reflect an initial reaction to the scenarios presented which may change on further reflection. For this reason, it is important to consider the results of the quantitative research alongside those of the qualitative research.
- 6.8 For example, the qualitative research highlights users' initial reluctance to shift delivery times to later in the day. Respondents explained this reluctance by a desire to retain the status quo or return to the 'better' service they had previously. On consideration respondents went on to say they rarely dealt with their mail in the morning, or needed to respond to mail via mail on the same day and as such an extension to delivery times would have little impact on them. This scenario was then on the whole considered acceptable. In this example the lower acceptance levels reported by the quantitative research are likely to reflect the initial reaction seen in the qualitative research. As demonstrated in the qualitative research respondents did not spontaneously consider other factors such as their usage patterns when responding initially.

### Utility values (pence)

- 6.9 The conjoint exercise is designed to enable the impact of a potential change in the universal service to be expressed in terms of the implied equivalent change in the price of a First Class letter, given no change to the existing universal service. This offers a convenient way of measuring how much respondents value each aspect of the postal service in monetary terms ("monetised results"). Essentially it shows how much extra they would be willing to pay for a First Class stamp to retain an element of the universal service or to improve it in some way.

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<sup>66</sup> The three-day service

- 6.10 These values are referred to as the utility values, and are measured in terms of pence increases on the price of a First Class stamp. Table 6.2 illustrates the utility pence values for the component features we tested in the conjoint. It shows, for example, that residential users were, on average, willing to pay 12p more for a First Class stamp rather than see a change in the frequency of delivery and collection from 6 days a week, Monday to Saturday, to 5 days a week, Monday to Friday.

**Table 6.2: private utility from changes to the universal service, expressed as an average increase in the price of a First Class stamp (so per unit of post)**

	Business	Residential
<b>Changes (dis-benefits)</b>		
Delivery and collection five days a week, Monday to Friday	0	12p
Delivery and collection five days a week, Saturday + 4 weekdays	14p	12p
Last collection 12.00 noon at rural/local & 6.30 pm at town centre	6p	2p
Last collection 10.00 am at rural/local & 6.30 pm at town centre	8p	6p
Post is delivered by 5.00 pm in all areas	4p	4p
Post is delivered by 6.00 pm in all areas	6p	4p
80% of First Class arrives within one day	12p	8p
90% of First Class arrives within 1 day locally / 2 days elsewhere	4p	4p
<b>Changes (benefits)</b>		
Post is delivered by 3.00 pm in rural areas / 2.00 pm urban	2p	2p
Can specify evening or Saturday delivery for fee of £4.50	4p	2p

Source: TNS-BMRB (2012)

- 6.11 We consider that it is reasonable to assume that survey respondents were thinking about all mail they send and all items they receive (including non-universal service services such as bulk mail) when responding to the conjoint exercise. As a result, the utility estimates are a measure of how much they would be willing to pay for the universal service in relation to all their mail volumes, both sent and received. To illustrate, if users are willing to pay 12p on the price of a First Class stamp rather than lose Saturday delivery and send 60 First Class items a year on average, this tells us that they are willing to pay up to £7.20 a year in order to ensure the mail they receive continues to be delivered on a Saturday, and that the mail they send can also be delivered on a Saturday.
- 6.12 In order to estimate the total private benefit across all universal service users, we multiply the average utility value for residential and business users by Ofcom's calculations of the total volume of First Class mail used by each group in 2011-12.<sup>67</sup>
- 6.13 The estimated changes in total private benefits associated with the potential changes to elements of the universal service considered in the conjoint analysis is presented

<sup>67</sup> We use the volume of First Class single piece letter mail in 2011-12.

in table 6.3. We categorise the impact in terms of ranges with £0-£50m classified as Low, £51-£151m as Medium and above £151m as High. These ranges are intended to give an approximate idea of the severity of impact. The table shows the impact on business and on residential users separately, as well as the total impact. The impact on businesses tends to be higher than the impact on residential users, even though the utility values in terms of pence on a First Class stamp are similar. This is because to calculate the overall dis-benefit (or benefit), we have to account for the impact of an increase in the price of a stamp on the amounts paid overall on post. As business users tend to send more mail, any increase in the price of the stamp costs businesses more than residential users overall. We assume the overall increase in the amount they would pay reflects the impact on them both as a sender or receiver (see above). Overall, the table shows that the total aggregate impact of most changes is 'medium', with only two changes having a 'high' dis-benefit and one change having a 'low' dis-benefit. Both of the potential improvements to the universal service have 'low' benefits.

**Table 6.3: Aggregated private benefit from changes to the universal service (£m), 2011-12<sup>68</sup>**

	Change in Private Benefit (£m) 2011-12		
	Business	Residential	Total
<b>Reductions to the USO</b>			
Delivery and collection five days a week, Monday to Friday	Low	Low	Low
Delivery and collection five days a week, Saturday + 4 weekdays	Medium	Low	High
Last collection 12.00 noon at rural/local & 6.30 pm at town centre	Medium	Low	Medium
Last collection 10.00 am at rural/local & 6.30 pm at town centre	Medium	Low	Medium
Post is delivered by 5.00 pm in all areas	Low	Low	Medium
Post is delivered by 6.00 pm in all areas	Medium	Low	Medium
80% of First Class arrives within one day	Medium	Low	Medium
90% of First Class arrives within 1 day locally / 2 days elsewhere	Low	Low	Medium
<b>Improvements to the USO</b>			
Post is delivered by 3.00 pm in rural areas / 2.00 pm urban	Low	Low	Low
Can specify evening or Saturday delivery for fee of £4.50	Low	Low	Low

Source: Ofcom calculation (2012)

<sup>68</sup> Ranges are applied to the aggregate change in private benefits for residential and business users, these are then added up to create an estimate of total benefits. A "Low" value is a range of £0m-£50m; "Medium" value is £51m-£150m; and "High" value is £151m +.

- 6.14 These figures do not include the impact on users which rely on non-universal services. The impact on users of non-universal services is discussed separately where relevant in our document.

### “Tolerability” (or “acceptability”) scores and attractiveness scores

- 6.15 In the conjoint exercise respondents are asked to choose between two product concepts. In doing so, respondents can indicate which product they prefer, or indicate that they would not choose either product concept. This would be the case if the service level in both options was so bad that the respondent would choose not to use the service at all – in this case both options are said to be “intolerable”. Allowing respondents to indicate that neither option would be tolerable ensures that they are not required to make spurious choices and gives an indicator of the level at which component features become sufficiently unattractive not to be chosen.
- 6.16 This is also used to create a “tolerability” score – we sometimes also refer to “tolerability” as “acceptability” elsewhere in the document. The tolerability score shows what proportion of users consider that a package meets their minimum needs. The current service is tolerable for 92.5% of residential users. However, this drops to 91.3% if delivery and collection is only five days a week (Monday-Friday). So the impact on tolerability of reducing delivery and collection to five days per week (Monday-Friday) is that an additional 1.2% of residential users find the service intolerable. The tolerability scores for residential and business users for the current service are shown in the tables below, along with the tolerability scores associated with hypothetical changes to the universal service.

**Table 6.4: Conjoint results: Impact on tolerability of a single change – residential users, ranked by tolerability score**

Change to the Service	Tolerability (%)	Change relative to current service (%)
Current service	92.5	
<i>As current service but...</i>		
90% arrives within 1 day locally/ 2 days elsewhere	92.3	-0.2
Last collection at 12.00 noon at rural/local & 6.30pm at town centre	92.3	-0.2
Final delivery by 5pm in all areas	92.2	-0.3
80% of First class mail arrives within one day	92.1	-0.4
Final delivery by 6pm in all areas	92.1	-0.4
Last collection at 10am noon at rural/local & 6.30pm at town centre	92.0	-0.5
First Class stamp price 70p	91.6	-0.9
Delivery and collection five days per week, Saturday and four weekdays	91.4	-1.1
Delivery and collection five days per week, Mon-Fri	91.3	-1.2
Second class stamp price 60p (& 70p First Class)	91.2	-1.3

First Class stamp price 80p	91.1	-1.4
First Class stamp price 90p	90.1	-2.4

Source: TNS-BMRB (2012)

**Table 6.5: Conjoint results: impact on tolerability of a single change – business users, ranked by tolerability score**

Change to the Service	Tolerability %	Change relative to current service (%)
<b>Current service</b>	<b>93.9</b>	
<i>As current service but...</i>		
Delivery and collection five days per week, Mon-Fri	93.9	0
90% arrives within 1 day locally/ 2 days elsewhere	93.4	-0.5
Final delivery by 5pm in all areas	93.3	-0.6
Final delivery by 6pm in all areas	93	-0.9
First Class stamp price 54p/70p <sup>69</sup>	92.7	-1.2
Last collection at 12.00 noon at rural/local & 6.30pm at town centre	92.7	-1.2
80% of First class mail arrives within one day	92.6	-1.3
Last collection at 10am noon at rural/local & 6.30pm at town centre	92.5	-1.4
Second class stamp price 41p/60p (&54p/70p First Class)	92.6	-1.3
First Class stamp price 64p/80p	91.4	-2.5
Delivery and collection five days per week, Saturday and four weekdays	91.2	-2.7
First Class stamp price 74p/90p	88.2	-5.7

Source: TNS-BMRB (2012)

6.17 We consider that the tolerability scores provide a useful indication of whether any of the potential changes we consider would have a significant impact on certain vulnerable groups of society. In particular, vulnerable users with low incomes may have only a low willingness to pay to keep an element of the universal service, even though its removal may cause them significant harm. For this reason, we consider that the tolerability scores figures give a better indication of the impact of the potential changes we consider on potentially vulnerable groups than the estimates of the

<sup>69</sup> The business survey replicated the fact that there is currently a discount from stamp prices when single piece services are bought via meter or on account ("PPI"). For instance, currently, instead of 60p, postage for a First Class letter (0-100g) is priced at 44p when purchased via meter, and instead of 50p, postage for a Second Class letter (0-100g) is priced at 31p when purchased via meter. Postage Printed Impression (PPI) is an indication on the envelope that the postage has been paid and can be used by customers with an account with Royal Mail. Meter is a way of paying postage in advance, and items have a franking impression made by a franking machine licensed by Royal Mail.

change in private benefits derived from the conjoint exercise. A significant reduction in the tolerability score in relation to a potential reduction in an element of the universal service would indicate that the postal service has become intolerable to a significantly greater proportion of a group of users, and hence is indicative of a risk of significant harm to these users and a potential loss of broader social value.

- 6.18 For improvements to the universal service, our conjoint analysis also allows us to estimate how much users like services, using “attractiveness” scores. Attractiveness scores help us to differentiate between services with equal levels of tolerability.<sup>70</sup> It is only appropriate to use the attractiveness scores for assessing a potential need for improvements to the service. The other changes assessed would make the service poorer and, thus, will not improve its attractiveness.
- 6.19 The attractiveness of a package, or of individual attributes, is calculated using utility scores from the conjoint exercise. The principle behind utilities is that they can be added together to provide a score for the entire package. By adding together the utility values of component parts we get a measure of the total attractiveness of the final package. These attractiveness scores are used to assess preferences between packages tested. It is also possible to report the attractiveness of different packages as a summary measure. To present these scores, they are indexed against the current service offer, such that the current service is given an attractiveness score of 100.

## Estimating the costs of provision

- 6.20 This section sets out our approach to estimating the costs of provision of certain aspects of the universal service, and our results. The aspects of the universal service for which we estimate these costs are:
- Earlier collection from low volume post boxes and removal of very low volume post boxes;<sup>71</sup>
  - Later final delivery times (up to 2 hour delay);
  - Lower First Class (next day service) quality of service – low cost network;<sup>72</sup>
  - Lower First Class quality of service – intra mail centre standard;<sup>73</sup>
  - Single class of service with delivery within two days of posting; and
  - Five day delivery and collection.

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<sup>70</sup> The attractiveness of a package, or of individual attributes, is calculated using utility scores from the conjoint exercise. Utilities can be added together to provide a score for the entire package. By adding together the utility values of component parts we get a measure of the total attractiveness of the final package. These attractiveness scores are used to assess preferences between packages tested. It is also possible to report the attractiveness of different packages as a summary measure. To present these scores, they are indexed against the current service offer, such that the current service is given an attractiveness score of 100.

<sup>71</sup> We have also assessed this scenario without the removal of post boxes.

<sup>72</sup> In this scenario less First Class mail receives a next day delivery (about 88% instead of 93%).

<sup>73</sup> In this scenario only First Class mail which is being delivered in the same mail centre catchment area will be delivered next day (less than 50% of First Class would be delivered next day instead of 93%).

- 6.21 These are not completely identical to the set of scenarios considered in the conjoint analysis (for a summary of these scenarios, see Table 4.1).
- 6.22 The cost of provision is defined as the incremental cost of each aspect of the universal service considered in the above scenarios. These are the costs that would be avoided by Royal Mail if it ceased providing the relevant aspect of the universal service. In practice, however, estimation of the incremental cost of an aspect of the universal service is not a straight-forward exercise, as most of Royal Mail's cost data is expressed in terms of fully allocated costs, which includes not only the costs that would be avoided if services were ceased but also costs that are shared between those services and other services that Royal Mail already provides. As a result we needed a bespoke estimate of the incremental costs of the scenarios above.
- 6.23 We also needed a bespoke estimate of the transition costs that would be incurred if these scenarios were implemented. Transition costs are the costs that are incurred in making the change, for example, the costs of relocating or decreasing resources or the costs of making changes to existing processes and systems.

### **Royal Mail's cost estimates**

- 6.24 We asked Royal Mail to provide us with an estimate of incremental costs for these scenarios and the transition costs of implementing them. This required Royal Mail to undertake an operational assessment of how these scenarios (and their implementation) would affect costs in each area of the mail pipeline, e.g. what delivery costs would be avoided if Royal Mail no longer delivered mail on a Saturday.
- 6.25 We asked Royal Mail for estimates of its post-modernisation costs. This is because these provide the best estimate available of the efficient costs of providing the service. Royal Mail provided us with costs estimated for the year 2015-16. If Royal Mail assessed the savings it could make by reducing the universal service against its cost base pre-modernisation the estimates of incremental costs might be larger. This might lead us to conclude that costs outweigh benefits when in fact the opposite may be the case by 2015-16.
- 6.26 As these specific changes have not previously been implemented in any part of Royal Mail's network Royal Mail has told us that its estimates are based on a desktop exercise and are therefore theoretical and high-level. Royal Mail highlighted to us that its analysis does not address the various practical issues that it would need to address if changes to the scope and/or specification of the universal service were proposed.
- 6.27 Furthermore, Royal Mail has highlighted that it is currently in the process of implementing an operational modernisation and transformation programme. While this programme is ongoing Royal Mail considers that it does not have the capacity to embark on another wave of radical change.

### **Our review of the estimates**

- 6.28 The information provided by Royal Mail has been reviewed by our consultants Consult Sirius. We asked Consult Sirius to review the methodology and underlying operations assumptions underpinning Royal Mail's estimated cost savings, and to report on:
- The operational scope for Royal Mail to make its proposed cost savings; and

- The risks (upside/downside flexibility) with Royal Mail achieving these savings.

6.29 Their analysis and findings are published separately.<sup>74</sup>

6.30 Consult Sirius found that Royal Mail's cost estimates are generally based on reasonable operational assumptions. However, Consult Sirius found that Royal Mail's estimates may understate the potential cost savings, except in relation to the five day collection and delivery scenario.

### Results of our assessment

6.31 As a result of the theoretical nature of the estimates, and the confidentiality of cost information, we have presented them according to a range, using the mid-point of RM's cost estimates which were also presented in a range. The ranges are:

- Low savings: Costs of provision in the range of £0-50m per annum;
- Medium savings: Costs of provision in the range of £51-150m per annum; and
- High savings: Costs of provision in excess of £151m per annum.

6.32 We also estimate the costs required to actually implement the change. These are not categorised in ranges, but it is worth noting that the estimated transition costs of the scenarios of a lower quality of service (intra Mail Centre), a single class of service and five day delivery and collection could be higher than for the other scenarios.

6.33 Table 6.6 sets out the estimated cost savings associated with each of the scenarios, and the transition costs. It presents both Royal Mail's estimates and the estimates of Consult Sirius.

**Table 6.6: Costs of Provision and Transition Costs (p.a.)**

	Earlier collection from and removal of post boxes <sup>75</sup>	Later final delivery (up to 2 hour delay)	Lower 1c quality of service – low cost network	Lower 1c quality of service – intra MC standard	Single class of service	Five day delivery and collection (no Saturdays)
<b>RM</b>						
Annual cost saving (£m)	Low	Low	Medium	High	High	High
Transition cost (£m)	[X]	[X]	[X]	[X]	[X]	[X]
<b>CS</b>						
Annual cost saving (£m)	Low	Low	Medium	High	High	High

<sup>74</sup> Consult Sirius, *Ofcom Review of Postal Users' Needs - Review of operational and cost impact of potential changes to the Universal Service Obligation*, 2012, published alongside this document.

<sup>75</sup> We have also assessed this scenario without the removal of post boxes.

Transition cost (£m)	[X]	[X]	[X]	[X]	[X]	[X]
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Source: Royal Mail, Consult Sirius estimates

- 6.34 The cost information indicates that some of the hypothetical changes to the scope of the universal service considered would be likely to result in significant costs savings for Royal Mail. As expected, those scenarios which require far reaching changes to the scope of the universal service have the potential to generate significant cost savings for Royal Mail (if deployed) although it is important to note that such changes would be likely to impose appreciable costs in the short term.
- 6.35 We appreciate that Royal Mail considers that deploying the scenarios presented would pose significant operational challenges and risks. Understandably, these challenges differ in their nature and scale depending on the scenario under consideration.

### Other impacts

- 6.36 Our analysis of the costs of providing the universal service is restricted to the immediate cost savings that are available and the immediate transition costs. Royal Mail has highlighted that there are a number of other impacts that should be taken into account to understand the potential impact of changes to the universal service.
- 6.37 These include the impact a change could have on the volume of mail sent. A change that leads to mail users sending less mail could have a secondary impact on net savings by reducing revenue but also reducing the volume of mail that Royal Mail needs to process, resulting in a cost saving. We have not sought to estimate these volume related cost savings.

*Question 6.1. Do you have any views on our approach to the monetisation of the private benefits?*

*Question 6.2. Do you have any views on our approach to estimating the high-level, theoretical cost savings?*

## Section 7

# The acceptability of the current universal service to users

7.1 This section presents:

- a brief summary of what the universal service is;
- evidence from our qualitative and quantitative research about users' overall satisfaction with the current postal service;
- users' acceptance of lower levels of service, despite initial high expectations from the universal postal service;
- the context of users' changing use of communication methods: usage of post is decreasing, while usage of other communication methods, via mobile telephony and the internet, are increasing;
- evidence on the continuing importance of post for some communications, in particular personal communications, "formal" mail and packets, and the differing patterns of usage of specific groups of users; and
- our findings on the broader social value to post.

## Introduction

7.2 This section presents evidence relating to the universal postal service as a whole. While the universal postal service as a whole has many characteristics, as we outline in Section 3, in its simplest form the universal postal service required by Parliament is the collection and delivery of letters Monday to Saturday (Monday to Friday for other postal packets), at a uniform, affordable price, everywhere in the UK. Parliament also requires registered and insured services, international services, and two free services (services for blind and partially sighted people and petitions and addresses).

7.3 Sitting underneath those minimum legal requirements, the Order and regulatory conditions issued by Ofcom require Royal Mail to provide the universal service according to specific characteristics. In particular, we require a Priority (next day) service, provided by Royal Mail via the current First Class service; a Standard (three day) service, provided via the current Second Class service; registered and insured services, provided via the current Special Delivery Next Day (up to 10kg); and their international equivalents. While we do not require Royal Mail to collect and deliver the mail at specific times, collection and delivery times are within the scope of regulation, and Royal Mail must notify us of any changes to the times it aims to provide these services so that we can consider if there is a need for investigation by Ofcom.

7.4 Importantly, while users were asked for their views on the universal service and its characteristics, their views will also be affected by their interaction with the people who provide this service. Ofcom's separate qualitative research on a consumer

perspective on postal services (2012)<sup>76</sup> found that perceptions of quality and value for money of the service were influenced by users' experience of local post offices<sup>77</sup> and delivery staff. For instance, friendly local services, with staff who knew local users and the local area, made them feel the service was more responsive to the needs of users. Our qualitative research also found that users' personal views about Royal Mail – whether as a public sector organisation or a company which should behave as a private sector company – affected users' discussions about their needs from the service.

- 7.5 As we outline in Section 4, we also tested whether hypothetical alternatives to some key characteristics of the universal service are acceptable to users, in particular: the percentage of First Class mail which must be delivered next day, the number of days a week post is collected and delivered, earlier collection times, earlier and later delivery times, and additional delivery slots (evening and Saturday). This section also presents our findings on the acceptability of the service in the “worst case” scenario.

## Users are broadly satisfied with the current service overall

- 7.6 Our qualitative research identified some core needs from what participants said about their use of post and their needs from the service:
- **Simplicity and trust**, which apply to both residential and business users and are overarching needs across *all* usage situations. The need for simplicity is the need to be able to calculate what to expect from a service, make an informed decision and plan one's usage of post;
  - **Range** (to choose the service that best meets their needs and trade off against other needs);
  - **“Speed”**: in most cases a two day service was felt to meet this need, although it was felt that on time-critical occasions some users would need a more ‘affordable’ next day service than Special Delivery currently provides;
  - **“Affordability/value for money”** (as defined by respondents, this related to both perceived value for money and the cost of the service);
  - **Control** (which contains elements of tracking of mail, reliability that it will arrive on time, and security);
  - **Fit with the demands of modern life** (postal services need to be as ‘convenient’ as possible, particularly with regards to packet delivery/collection – this is most relevant to younger users and businesses); and
  - **Predictability** of delivery times for large businesses, and additionally a regular morning delivery, which allows for post to be dealt with on the same working day, if required.
- 7.7 Overall, the research evidence suggests that in many respects the current service is in line with users' stated “core” needs. There were, however, some exceptions to that general finding, and in particular two main exceptions, in relation to packet provision

<sup>76</sup> See Section 4 for a description of this separate qualitative research, published alongside our consultation document.

<sup>77</sup> However, Post Office Ltd and Royal Mail are two different companies, albeit both part of Royal Mail Group.

and next day delivery (provided by the First Class service). We discuss our findings below. These are complemented where relevant by the findings of a separate qualitative research undertaken by Ofcom which, as mentioned in Section 4, we have also undertaken to understand better users' perspective on the postal service, given we now have responsibility for postal regulation. We refer to this separate qualitative research as Ofcom's separate qualitative research on a consumer perspective on postal services (2012).

- **Trust**– lack of trust did not appear to be an issue from the research findings;
- **Simplicity** -- the research found that First and Second Class services were clear and straightforward to understand for users, although there are a number of areas where postal users stated they were confused by current service. Firstly, although pricing is not part of the scope of our review,<sup>78</sup> we note that Ofcom's separate qualitative research on a consumer perspective on postal services (2012) shows that users find pricing of different services confusing. Secondly, many users also lack clarity over differences between Special Delivery and Recorded Signed For, a finding we highlight in Section 14. Thirdly, as we discuss in relation to the next day service, there are also some misconceptions about the First and Second Class services. Finally, users are not always aware of all the characteristics of the service, notably redelivery, as we set out in Section 8;
- **Range** – there did not seem to be a concern identified by the research. Participants in the qualitative research are using the range of services available to meet their other “core” needs;<sup>79</sup>
- **Speed** – this is discussed in relation to next day in Section 9;
- **“Affordability”** – this was the term used by participants of our qualitative research, but Ofcom's separate qualitative research on users' perspectives on the postal service shows that the concern in this area encompasses feelings around value for money.<sup>80</sup> More generally, there was a concern that prices will continue to rise without concurrent improvements. As mentioned above, Ofcom is currently undertaking a project considering affordability;
- **Control** – while no issues were raised in respect of control in relation to letters, additional requirements were suggested in relation to packets for residential and small business users, a finding we discuss in Section 8;
- **Fit with the demands of modern life** – generally users felt that the packet service should be more convenient and flexible, a finding we discuss in Section 8; and

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<sup>78</sup> Pricing is only a characteristic of the universal service in so far as prices must be affordable and uniform.

<sup>79</sup> However, users said Special Delivery Next Day would not provide sufficient range or choice, when considering a single, two-day service. They felt that disaggregating elements of the service (e.g. guarantee next day and insured), and so providing different options at different prices, would be required so that a next day delivery is not too expensive for users on low incomes.

<sup>80</sup> This research found that “rather than raise concerns about affordability, consumers tended to voice frustrations in relation to certain services starting to feel more of a “luxury” or poor value for money. As such, participants said they might start to resent spending their money on the more expensive services.” The research also found that rather than thinking in terms of affordability, they tended to consider the quality of services and whether the cost seemed proportionate to the service received.

- **Predictability (of delivery times)** – this was a need identified by large businesses. Delivery times do not appear to be particularly important to residential users, who are more concerned about simplicity. Small and medium businesses want early or at least predictable delivery times, but the quantitative research shows that delivery times are a relatively less important feature of the service. We discuss delivery times in Section 12.

- 7.8 Ofcom's separate qualitative research on a consumer perspective on postal services (2012) also found that users were broadly satisfied with the service. In addition, Postcomm's Consumer Interest Forums, held across the UK in 2010, found that, when considering the postal service as a whole, users were generally satisfied and felt the service provides good value for money.<sup>81</sup>
- 7.9 Finally, the results of our conjoint survey show that nine out of ten residential and business users find the current service "acceptable" or "tolerable" in so far as they would use it to send post. This reflects in previous surveys: over eight out of ten users were satisfied with Royal Mail in 2009,<sup>82</sup> and Postcomm's and Consumer Focus's research on the universal service (2010) found high level of acceptability of the current service, with nine out of ten finding the service acceptable.<sup>83</sup>

## Users generally accept an hypothetical reduction of the universal service

### Users started with high expectations of the service

- 7.10 Participants in the qualitative research began the workshop discussions with high expectations of the postal service, a finding shared by Ofcom's separate qualitative research on a consumer perspective on postal services (2012).
- 7.11 The qualitative research found that the postal service is seen in the context of a history of providing services to a higher level than today. Early in the deliberative process, participants stated that they 'need things to be how they used to be'. As stated by the research report, this may be explained partly by the bias towards retaining, or wishing to return to, the status quo, and could also be related to Royal Mail's long history, which made it easy for participants to call on memories from the past. However, on reflection, most participants tended to agree that some elements of the service of the past, such as early morning residential delivery, are not actually required today.
- 7.12 In addition, Royal Mail is seen as a public sector organisation which is expected to provide universal services at low cost, and part of the country's infrastructure. At the same time, however, Royal Mail is expected to behave as a private sector company which should be continually improving.
- 7.13 The research also found that for many participants, the concept of "need" in relation to postal services was challenging, and the boundary between "want" and "need" was not clear.

<sup>81</sup> This finding refers to the first wave of Customer Interest Forums. See Section 4 for full reference.

<sup>82</sup> Postcomm Customer Survey 2009, see Section 4 for full reference.

<sup>83</sup> See Section 4 for full reference.

## Acceptability of a reduced specification of the universal service

- 7.14 Despite initial high expectations, the qualitative research strands found that hypothetical changes to the current service were generally “tolerable”, a finding supported by the quantitative research.
- 7.15 In general, after discussion, all of the scenarios tested in the deliberative sessions were acceptable, with the exception of a change to the quality of service whereby local mail would arrive next day and national mail would arrive in two days (we discuss this scenario in relation to quality of service).
- 7.16 The research could identify the “least acceptable” scenario of service changes, i.e. the current service with highest prices tested (90p First Class and 60p Second Class), collection and delivery Monday to Friday for residential users (four weekdays and Saturday for businesses), a First Class quality of service target of 80% of mail arriving next day, latest delivery times at 6pm and 10am collection times in rural/local post boxes.
- 7.17 The quantitative research shows that 92.5% of residential users and 93.9% of business users find the current service tolerable, while 86.7% and 81.7% respectively find the “least acceptable” scenario still tolerable.
- 7.18 Perhaps unsurprisingly, given most users find the current service acceptable, only a small proportion of users consider that improvements to the service make it more acceptable. The scenario of the current service with evening / Saturday delivery options and latest delivery times one hour earlier only resulted in a very small rise in the levels of tolerability (92.8% residential users and 94.7% of businesses find the service tolerable). Although this tends to show that, for a significant majority, the current service is acceptable, a scenario is only intolerable to users if it would cause them to switch to another method of communication, or not send the postal item altogether.
- 7.19 In addition, the results show that users, and in particular businesses, were more sensitive to a change to the highest price tested than any change to the service tested: an increase to the price of a First Class stamp to 90p (74p for those using meter/PPI<sup>84</sup>) is the single change with the most impact on tolerability, with 90.1% of residential users and 88.2% of businesses finding the service tolerable. Users would therefore be more tolerant of changes to the service than an increase to the price of a First Class stamp to 90p. They would tolerate significant reductions in the service to maintain prices or minimise further price rises in future.
- 7.20 When presented with a list of some possible changes in the postal service,<sup>85</sup> the most common response was that none of these changes would have a significant negative impact on them or their business: 28% of residential users and 25% of business users said that none of the changes would have a significant impact on

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<sup>84</sup> As mentioned in Section 4, Postage Printed Impression (PPI) is an indication on the envelope that the postage has been paid and can be used by customers with an account with Royal Mail. Meter is a way of paying postage in advance, and items have a franking impression made by a franking machine licensed by Royal Mail.

<sup>85</sup> Respondents were asked which, of the following changes, would have the most significant negative impact: no guaranteed next day delivery, First Class stamps at 90p, post delivered by 6pm, post box further to your business/home, delivery reduced to five days per week, Monday to Friday, no insured service available, earlier collection of post from post boxes, 90% of First Class post sent to local addresses arrives within one day, and 90% of post sent elsewhere in the UK arrives within two days.

them or their business.<sup>86</sup> Among those who identified that some changes would have a significant negative impact, only a minority (around one in ten residential and business users) said that the change would have a severe negative impact on them or their ability to run the business.

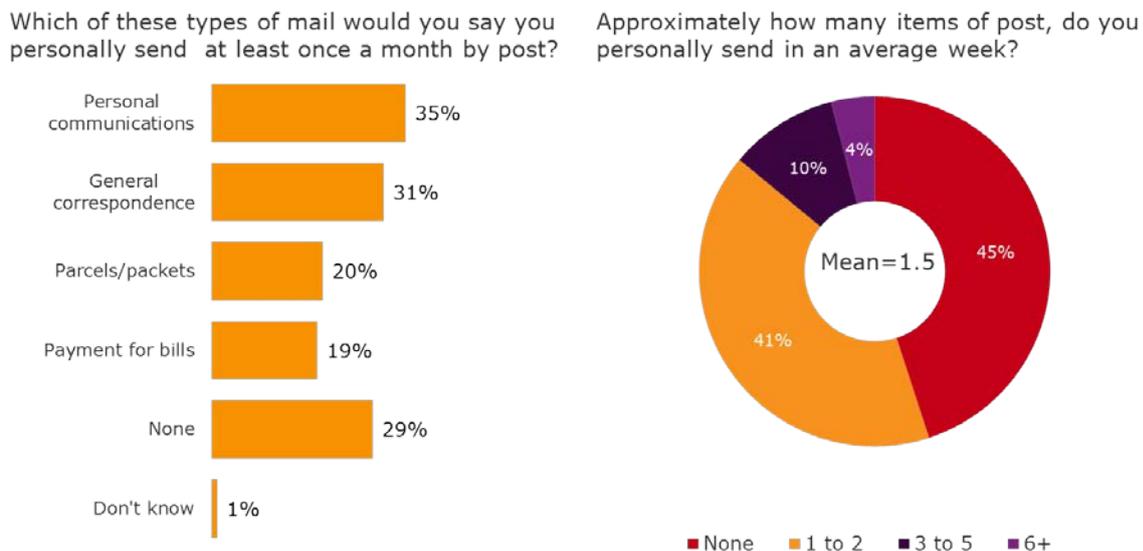
## The need for post has changed as users use post to a lesser extent, and other communication methods to a greater extent

7.21 Users' overall high tolerability of changes to the postal service should be seen in the context of changing habits in communication patterns. As users rely less on post for their communication, and more on other forms of communication, the benefit they derive from the postal service decreases – conversely while they increasingly buy goods on the internet, they rely more on packet services, discussed in a later section.

### Decline in the use of post

7.22 Our research findings should be seen in the context of low postal usage generally. Our quantitative research shows that the volume of mail reportedly sent by residential users is low compared with the volume of mail sent in 2006, at an average of 1.5 items per week compared with 3.5 items per week in 2006.<sup>87</sup> This is similar to the levels reported in the Postcomm's and Consumer Focus's research on the universal service (2010), where items sent were reported at just over one item per week. Nearly a third of residential users said they do not send any post at least once a month (Figure 7.1).

**Figure 7.1: Type and volume of mail reportedly sent – residential users**



Source: Residential Survey B1 & B3  
Base: All residential respondents (4085)

Source: TNS-BMRB (2012)

<sup>86</sup> Asked which potential changes to the postal service would have the most significant negative impact on their business/life, out of a prompted list, 28% of residential users and 25% of business users stated that none of the changes tested would have a significant impact on their life, followed by 22% of businesses and 12% of residential users choosing no guaranteed delivery next day, and 14% of businesses and 15% of residential users choosing the price of stamps at 90p.

<sup>87</sup> Postcomm Customer Surveys (2006), see Section 4 for full reference.

- 7.23 While businesses are generally using post more than residential users (the mean average monthly spend is £245), a relatively small number of businesses account for much of the spend: five per cent of businesses spent over £450 a month, while 45% of businesses spent under £10 per month.
- 7.24 This is consistent with data reported in Ofcom's Communications Market Report (2012), which shows that claimed use of post has declined dramatically over the past two years. 33% of users said they now use postal services *less* than two years ago, while three per cent said they use post *more* now than two years ago (shown as - 30% net in Figure 7.2 below as 30% more users say they use post less now than the number that said they used post more than two years ago).<sup>88</sup> In addition, 22% more users predicted that they will reduce their use of post than said they will increase their use of post.
- 7.25 These findings are supported by qualitative research. In Ofcom's separate qualitative research on a consumer perspective on postal services (2012), users said they were using the post less, particularly for sending and receiving personal communication and official documents. There was agreement that preferred methods of communication and other aspects of lifestyles had changed in recent years. Consumer Focus's qualitative research on the universal postal service (2012) similarly shows that all but a minority of users (who still prefer to use postal services) acknowledge a decline in use of, and reliance on, post, with a shift from sending letters to receiving packets.

### **Growth in the availability of other forms of communications**

- 7.26 Decreasing postal usage is part of a wider trend in the availability of new communication methods, particularly the internet and mobile telephony. For instance, Ofcom's Communications Market Report (2012) shows that:
- Household internet access rose to 80% by the first quarter of 2012. Internet access through a broadband connection stood at 76% of households; and
  - Most users, 92%, now have access to mobile telephony. Text messages are the most-used method for daily communication with family and friends. The majority of UK adults (58%) text friends and family at least once a day. The volume of text messages (or SMS messages) sent in 2011 increased by 17.3% compared with 2010, a slight slowing on the compound annual growth rate for the period 2006-2011 of 24.1%. The total volume of text messages sent exceeded 150 billion in 2011.
- 7.27 Generally, Ofcom's Communications Market Report (2012) also shows the increased availability of the internet through other devices:
- Take-up of connected devices has increased. Smartphone ownership rose to 39% of UK adults in the first quarter<sup>89</sup> of 2012, up 12 percentage points on the first quarter of 2011, and 42% of Smartphone users say their phone is more important for accessing the internet than any other device. Smartphones are increasingly being used in different ways in users' lives – to help them shop

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<sup>88</sup> The question was: "Which of these methods of communication do you use to communicate more/less than you did 2 years ago?" The Communications Market Report (2012) shows the net percentage, i.e. the percentage of respondents who said they use post more, minus the percentage who said they use post less.

<sup>89</sup> 1 January – 31 March

(57%), check-in on a social network (30%), tweet (23%) and watch TV/film content (22%); and

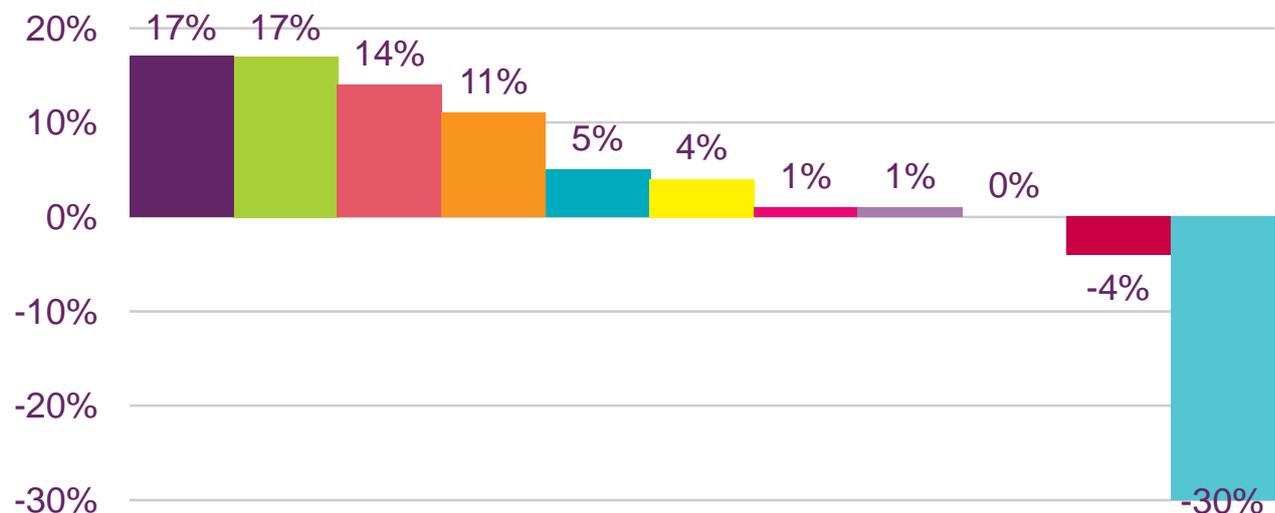
- Tablet ownership has also risen rapidly in the past year, from 2% of UK households in the first quarter of 2011 to 11% in the first quarter of 2012. This growth looks set to continue as around one in six (17%) households say they intend to buy a tablet in the next year. Tablets are affecting online use, with 37% claiming that they browse the internet more than they did before owning a tablet.

### Increasingly, users are preferring other forms of communication over post

7.28 When sending and receiving post, the majority of participants to our qualitative research stated that they are substituting the postal service for electronic methods much more than they were in the past. For instance email, phoning, or online document sharing are all being regularly used to meet core communication needs. The analysis of our qualitative research found that these methods of communication are universally felt to be meeting core 'needs' of speed, control, affordability, trustworthiness, simplicity, and fitting in with the demands of modern life. Consumer Focus's qualitative research on the universal postal service (2012) also found that, for most users, the need for personal contact is now met by electronic substitutes which also satisfy a need for fast and low cost communication.

7.29 These findings are supported by Ofcom's Communications Market Report (2012): claimed decrease in the use of post contrasts with claimed increase in most other communication media. For instance, 17% more users said they use email and text more than they did two years ago, than said they used email and text less than two years ago. Most users agree that new technology has changed the way they communicate (64%).

**Figure 7.2: net percentage change in use of communication methods (claimed) from 2010 to 2012**



Source: CMR (2012), from Ofcom research (2012). Note: chart shows net percentage (% who claimed to use more - % who claimed to use less)

## Post remains important for some communications and some users

### Post remains important for personal communications, business communications, “formal” mail and packets

- 7.30 While there is a decreasing use of postal communication, post remains important to users for personal communications, “formal” mail and packets.

#### Personal communications

- 7.31 Ofcom’s Communications Market Report (2012) shows that post is one of the most often used methods to send greetings (58% of users). This finding is consistent with Consumer Focus’s recent research, which found that the personal contact offered by physical mail is still valued, particularly in relation to sending and receiving greetings. Similarly, Ofcom’s separate qualitative research on a consumer perspective on postal services (2012) also showed that users’ reasons for continuing to use postal services seem to be changing, with the emotional significance of post becoming relatively more important. For example, some users linked sending and receiving cards with positive emotions and experiences.
- 7.32 Our quantitative research also shows that, in future, users continue to envisage sending items by post, in particular for personal communications. In response to our surveys on users’ needs, 82% of residential respondents and 87% of business respondents agree that there are some things they will always need to send by post. Residential customers were most likely to anticipate that personal communications and packets (see below) would continue to go by post. Consumer Focus also found that users stated that they would still continue to use post for social mail, such as greeting cards.

#### “Formal” mail

- 7.33 Post remains important for “formal” mail, although this may be in decline. Ofcom’s Communications Market Report 2012 also found that respondents use post more often to communicate with businesses and services than they do to communicate with friends and family (13% use post once a week to communicate with businesses while ten per cent use post once a week to communicate with friends and family). Respondents used post most in that context to contact other organisations for official matters and to contact services and utilities companies. This may explain the fact that, in our quantitative survey, 31% of users reported sending “general correspondence” at least once a month. Consumer Focus’ qualitative research on the universal postal service (2012) also found that there are some users who have a preference for sending “formal” correspondence by post, because it provides a reassuring proof of transaction for important documents. Most businesses in our quantitative research, unsurprisingly, send “formal” communications: 66% of businesses sent post related to financial transactions at least once a month, and 64% send general correspondence.
- 7.34 However, in future, less residential users envisage using “formal” communication than personal communication: 35% of those users who continue to envisage sending items by post think they will use post for general correspondence with businesses, organisations, or the Government, and 21% for bill payments (compared with 63% for personal communications). Our deliberative research on users’ needs found business users divided as to their future use. Some business users predicted that more and more transactions would be moved online, while others were of the view

that they had 'gone online' as much as possible and that their future use of post would remain as it is now. Consumer Focus' qualitative research on the universal postal service (2012) found that many residential users believed that most business and formal communications would eventually all be carried out online. In that research, business users envisaged their use of letter post decreasing, with the move towards digital signatures and more streamlined methods of online payment.

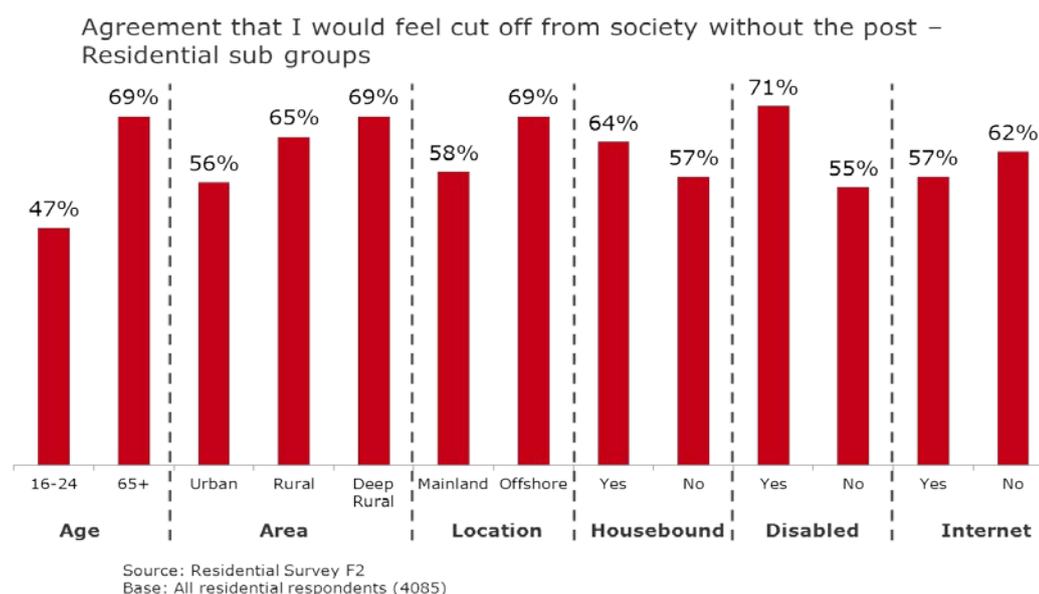
### Packet services (other than letters)

- 7.35 Ofcom's Communications Market Report (2012) also reveals that most users still rely on post to send and receive packets, with 64% of users claiming to receive one or more packets each month and 19% saying they send at least one packet every each month. Our quantitative research shows that 35% of residential users now receive packets at least once a month, a figure which has increased from 27% in 2010.
- 7.36 Our quantitative research also found that, in future, out of residential users who say they will continue to send items by post, 57% envisage they will always need post for packets. Similarly, 51% agreed that in three years' time, they will be ordering more goods which they will receive through the post, a rise from 2010 where the equivalent figure was 43% (although the question was slightly different: "I expect to do more shopping online for goods"). Consumer Focus's qualitative research on the universal postal service (2012) also found that users stated that they would still continue to use post for online shopping, particularly packets, but businesses did not foresee their packets traffic substantially increasing. We discuss the trend in packet services in Section 8.

### **Specific categories of users rely on post more than the general population**

- 7.37 Post is more important to some categories of users. In particular, users aged 65+, disabled users and housebound users, and those in rural areas, deep rural and offshore areas are more likely to use post, whereas those in socio-economic groups DE are less likely to use post (see below).
- 7.38 Unsurprisingly, users who are more reliant on the post were more likely to feel cut off from society without the post (figure 7.3).

**Figure 7.3: Feeling cut off from society without post – sub-groups**



Source: TNS-BMRB (2012)

7.39 Some users also have less tolerance of the current service and the hypothetical “least acceptable” service (Figure 7.4). This suggests that they might be more disadvantaged than other groups by a detrimental change to the service. This would be an important factor to take into account in future, if we decide that we should make a change to the current requirements of the universal postal service, especially in light of our duties under the Equality Act 2010 and our general duties under section 3 of the Communications Act 2003 to have regard, amongst other matters, to the needs of specific groups of the population, such as disabled users, the elderly and those on low incomes, and the different interests of people in different parts of the UK including those living in rural and urban areas.

7.40 We also found that size of business is an important factor in understanding responses from businesses – responses from the quantitative surveys show that larger businesses are more likely to use and value post, although the qualitative research also highlighted some areas where small businesses were particularly reliant on post.

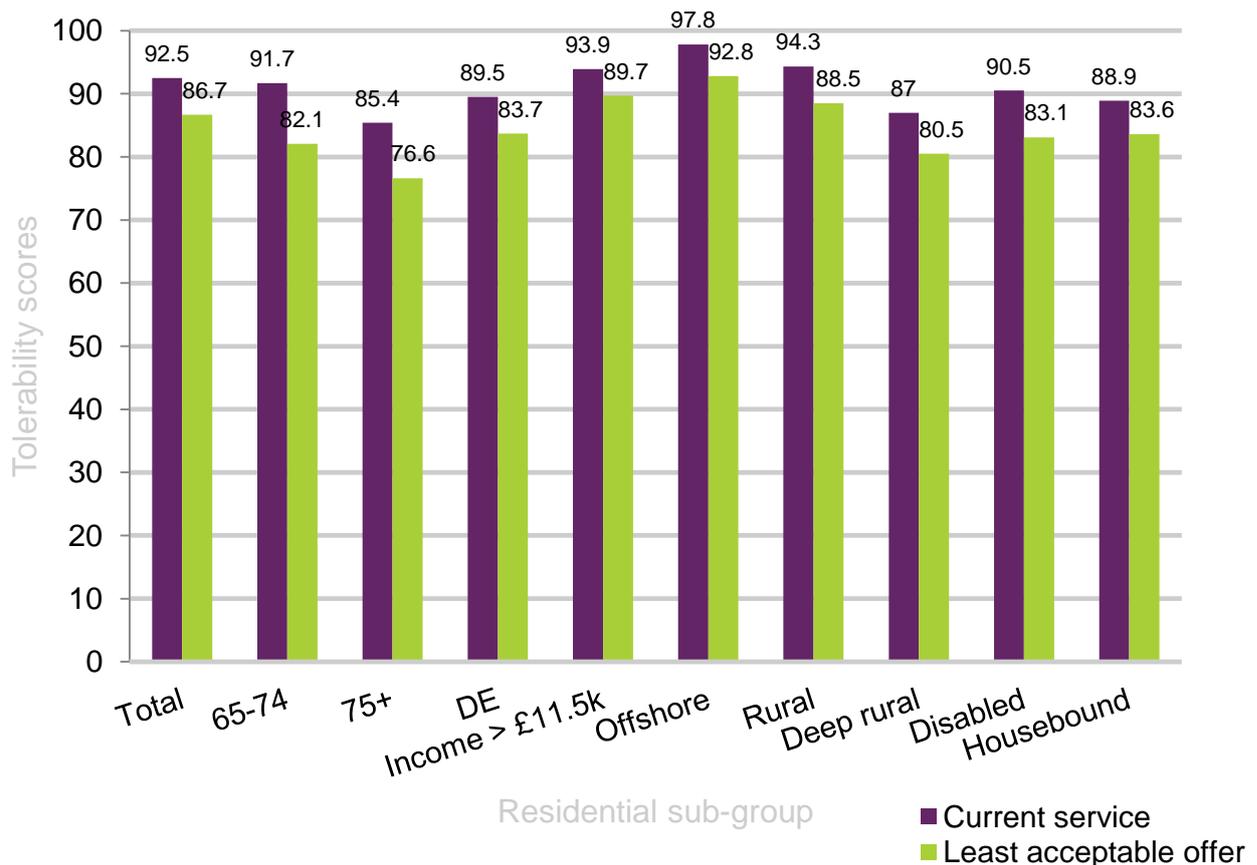
### Users aged 65+

7.41 Those aged 65+ sent and received a higher volume of post than younger people (figure 7.5). In terms of sending post, those aged 65+ were no different from those aged 45+, but did send more than young people: from age 45 years upwards the average number of items sent was similar for every age group at 1.6-1.7 per week, compared with 0.5 items per week amongst 16-24s.

7.42 Users aged 65+ were more likely to say that they would feel cut off from society if they could not send or receive post: 69% of those aged 65+ agreed that this would be the case compared to 58% of the population overall (figure 7.3). This is supported by our qualitative research, which identifies that older users feel more of an attachment to post than electronic methods of communications, with some still conducting their financial transactions on paper for security and safety reasons.

- 7.43 Those aged 65+ were less likely to find the current postal service tolerable compared with the population as a whole (Figure 7.4). Those aged 65+ were also significantly less likely than average to find each of the scenarios tested tolerable. This tendency was particularly marked for the "least acceptable" scenario amongst those aged 75+, who were the least likely of any sub-group to find it tolerable (more than seven in ten of them would tolerate it). The lower tolerance of those aged 75+ for the "least acceptable" scenario suggests that they might be more disadvantaged than other age groups by a detrimental change to the service.

**Figure 7.4: Tolerability scores by sub-groups**



Source: TNS-BMRB (2012) / Ofcom analysis

#### Disabled and housebound users

- 7.44 Disabled or housebound users tended to send and receive a higher volume of post than average (Figure 7.5). Disabled or housebound users sent an average of 1.8 and 1.9 items per week respectively, compared to 1.4 items by the population overall. In terms of mail received, disabled or housebound users also reported receiving a slightly higher number of items of post per week. Possibly because they are more reliant on the post, they were more likely to agree that they would feel cut off from society without the post (71% and 64% respectively compared with 58% for the population overall).
- 7.45 The vast majority of disabled or housebound users (more than eight out of ten) found the current postal service tolerable. Nevertheless, disabled and housebound users were also less likely than average to find the "least acceptable" scenario tolerable. As for users aged 75+, this suggests that they might be more disadvantaged than average by a detrimental change to the service.

## Rural areas

- 7.46 Those in rural, deep rural<sup>90</sup> and offshore locations<sup>91</sup> sent and received a higher volume of post than average (Figure 7.5). For instance, in terms of sending post, the average number of items sent per week was 1.9, 2.0 and 2.0 respectively, compared to 1.5 for the population as a whole.
- 7.47 People in these areas were more likely to say that they would feel cut off from society if they could not send or receive post: 65% of rural residents and 69% of deep rural and offshore residents agreed that this would be the case compared to 58% of the population overall. Ofcom's qualitative research also indicated that post played an important role to users living in rural areas, particularly in very remote locations in Scotland, and those living offshore, in making them feel connected to other communities.
- 7.48 Other rural users also highlighted as an additional value of post the ability to buy goods online and have them delivered directly to your door, when in the past those same goods would otherwise be hard to come by or require driving to a neighbouring town or city. This finding is supported by our quantitative survey, that showed that rural/deep rural and offshore users are most likely to receive packets or goods ordered on a monthly basis (39%, 47% and 54% respectively) compared to urban and mainland users (34% and 35% respectively).

**Figure 7.5: Average post sent and received by sub-groups**



Source: TNS-BMRB (2012) / Ofcom analysis

- 7.49 Residential users living in deep rural areas were relatively less tolerant of the current postal service: 87% of deep rural users were willing to select the current postal service from a pair of alternative service options, rather than say that neither service option would be acceptable. This compares to 92.5% of the total population.

<sup>90</sup> Rural and deep rural areas are defined in Appendix I of the TNS report. In summary, the deep rural designation in England and Wales was “hamlets and isolated dwellings”, in Northern Ireland it was “small hamlets (with less than 1,000 inhabitants)” and in Scotland “very remote” or “remote rural” (fewer than 3,000 inhabitants and a 30 minute drive or more from an urban centre).

<sup>91</sup> Islands were defined as any offshore Island that is not connected to the Mainland by a road bridge. Appendix I of the TNS report.

- 7.50 However, this was not the case for offshore users: the highest level of tolerability with the current service amongst residential users was amongst those who live offshore (97.8%). This was also not the case for rural users in general, who were more likely to be tolerant of the current service than average (94.3%). This finding is supported by our qualitative research, which found that rural users tended to be more sympathetic to the postal services and less demanding of targets. Rural users in general felt they were more accepting of change, and many felt they were already operating their own “personalised” way with Royal Mail, for instance the delivery staff collecting their mail when making a delivery.
- 7.51 When faced with scenarios involving lower levels of service than currently, those living in deep rural areas were more negative than the wider population to all changes. Again, this lower tolerance suggests that they might be more disadvantaged than those in other areas by a detrimental change to the service.

### Users in socio-economic groups D and E

- 7.52 Postal users in DE socio-economic groups<sup>92</sup> tended to send and receive a lower volume of post than other groups. In terms of sending post, this category of users sent an average of 1.0 items per week compared to an average of 1.5 items for the population overall.
- 7.53 DE users found the current service less tolerable. When various possible service packages were tested against each other, DE users were also less tolerant of changes to the current service compared to other socio-economic groups: 83.7% found the least tolerable service, compared with 86.7% of the total population.

### National differences

- 7.54 The profiles of those living in England, Scotland, Wales and Northern Ireland were relatively similar in terms of age and socio-economic group. Those living in England were the most urbanised, while those living in Northern Ireland were most likely to live in a rural area. Despite having a more rural population, residents in Northern Ireland reported sending and receiving less post than residents of other nations:
- In terms of sending mail, residents of Northern Ireland reported sending only 1.2 items, on average, per week. Those in the other nations reported sending 1.5-1.6 items; and
  - Residents in Northern Ireland received an average of 7.4 items per week. Those in Wales received the most, at 10.6 items. Residents of Scotland received 10.0 items and those in England received 9.2 items.
- 7.55 Those in Wales and those in Scotland had a wider than average range of tolerability between the best and the worst postal service packages tested, and this indicates that they would be more affected by service changes than other groups. The average range for the UK population was 6.1 percentage points. Those living in Scotland had a range of 10.3 and those living in Wales had a range of 9.4.
- 7.56 As part of our qualitative research, residents in very remote locations in Scotland, in particular offshore, said they were very reliant on the postal service to keep them connected. This was also the case in Northern Ireland, where users expected to pay a premium to receive goods and services and appreciated that the universal postal

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<sup>92</sup> See definitions in Annex 6

service applied uniformly. The only issue particular to Wales was the separation of north and south by geographical barriers which contributed to a feeling that each had a distinct identity in our sample. In general, national divisions did not have as big an effect on users' attitudes as whether living in a rural area or as age.

### Small businesses

- 7.57 In line with business population estimates,<sup>93</sup> in our quantitative research, most businesses surveyed are small: 95% of businesses have up to ten employees. The vast majority of businesses surveyed use stamps, at 87%. This means that many small businesses are reliant on the universal postal service to send their mail.
- 7.58 Our research found that size of business (which is linked to spend of post) is an important factor to understand responses from businesses, with smaller businesses less likely to use, and value, post:
- The research found that spend on post was linked to size of business: 51% of businesses with only one to two employees spent under £10 a month, whereas over half of those with 51+ employees spent £101 or more; and
  - Smaller business users (less than 51 employees) appeared to value the post less than larger businesses: the proportion who felt that post was either core or critical fell to between 29% (businesses with one to two employees) and 45% (businesses with three to ten employees). Businesses in deep rural areas were less likely to agree there will always be some items that they need to send by post than businesses on average (74% compared with 87% of businesses in general), a result which does not seem dependent on business size.
- 7.59 Despite small business generally relying less on post, our qualitative research identified that many small businesses have not yet moved their payment systems online and are still receiving payments in the mail by cheque. Post therefore has a direct impact on cash flow, magnifying its importance to small businesses.

### **The research identified wider benefits to society from the universal service**

- 7.60 Overall, participants to our qualitative research suggested the following benefits from the service:
- Providing a cost-effective universal service that is accessible to all. This is supported by Consumer Focus's qualitative research on the universal postal service (2012), which found that participants believe that Royal Mail has a role to play in linking communities and providing an inclusive service which is open and affordable to all groups in society. Ultimately, most rural residential users and older urban based residential users feel it would be a retrograde step if the UK no longer had an inclusive universal postal service which can reach all groups in society;
  - Continuing to support and promote the growth of UK businesses by ensuring they are able to keep their costs at low or competitive level;

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<sup>93</sup> Department for Business, Innovation and Skills, *Business Population Estimates for the UK and Regions*, 2010, Table 1, shows that over 95% of businesses in the UK have no employees or 1-9 employees, [http://www.bis.gov.uk/assets/biscore/statistics/docs/b/bpe\\_2010\\_stats\\_release.pdf](http://www.bis.gov.uk/assets/biscore/statistics/docs/b/bpe_2010_stats_release.pdf)

- Helping protect people from identity theft and fraud; and
  - There was also an element of national pride and nostalgia, with emotional attachment to the institution of Royal Mail.
- 7.61 We also tested areas of potential broader social value with participants. This list was not intended to be exhaustive but to prompt respondents to think in more detail about social value. Our research found that respondents identified slightly different areas of social value than those tested.
- 7.62 Participants agreed that the postal service provided social benefits in keeping rural areas alive and helping the safety of vulnerable users:
- In relation to the postal service “keeping rural areas alive”, participants felt that the universal service obligation was very beneficial to rural communities and played a key role in their economic viability, although the internet was also seen as having as much, if not more, of a role in keeping rural areas alive. Respondents also identified a role for postal services in allowing residents to access the modern benefits of internet shopping; and
  - In relation to helping safety and security, in so far as the postman can “keep an eye” on vulnerable users, participants felt that delivery staff were very important figures for a number of particularly vulnerable users.
- 7.63 Other social benefits tested were felt to be less, or only partially, important, in the context of the increased importance of other communication methods:
- While we tested whether the postal service helps communities feel more connected to each other as everyone can send and receive letters and packets, participants did not feel that the postal service significantly contributed to communities staying connected, as other methods of communication are now more important. Participants felt that connecting communities was mostly applicable to elderly users in general, and slightly more applicable to rural communities than urban communities. However, the postal service was felt to offer some benefits, specifically the ability to send gifts and tangible letters:
  - In relation to the postal service helping to support a functioning democracy, other means of communication also allow users to engage in the democratic process. Post was also one of the ways the Government can contact everyone in the UK, perhaps in a case of emergency: and
  - In relation to the postal service helping users “run their life”, in that everyone can communicate with vital services, this statement was only felt to be relevant for the older generation. It was also perceived to be a greater social benefit to help older or digitally disadvantaged users to learn more about new ways of communicating, so that nobody is left behind. Participants noted that users in receipt of Government benefits and those in contact with solicitors were likely to receive letters.
- 7.64 Our quantitative research showed that a core group of residential postal users felt that post was important in connecting them to society.<sup>94</sup> This was especially true for some groups in society, in particular, users aged 65+, those in rural/deep rural areas,

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<sup>94</sup> 19% of residential respondents strongly agreed with the statement ‘I would feel cut off from society if I were not able to send or receive post’. Overall 58% agreed in total, with 39% agreeing and 19% strongly agreeing with this statement.

those off-shore, disabled or housebound users and those without the internet (Figure 7.3 above).

*Question 7.1. Do you have any views on the results presented on general satisfaction and use of post?*

## Section 8

# More convenient packet services

8.1 This section presents:

- a description of Royal Mail's universal service packet services (other than letter services);
- a summary of trends in the packets sector;
- evidence from our market research about the use of packet services to receive and, to a lesser degree, send packets;
- a discussion of the costs and benefits of changes to packet delivery services; and
- the possible future regulatory implications if our review were to conclude that the reasonable needs of users are not being met or are being exceeded in relation to the provision of packet services.

## Introduction

8.2 Section 31 of the Act requires a service of conveying postal packets at affordable, geographically uniform prices. The Act also sets the maximum weight of postal packets within the scope of the universal service at 20kg. This section is concerned with postal packets other than letters.

8.3 Royal Mail provides a range of packet services other than letters, including some which are outside the scope of the universal service. In addition to the services available to senders, Royal Mail also offers services to the receiver in respect of packet delivery. These services allow recipients, for instance, to choose a day they are at home to receive their item, or to collect it from a post office.

## Current specification

8.4 Postal users can send packets in the UK using the following Royal Mail products that fall within the scope of the universal service:

- First Class: Next day delivery of packets up to 20kg;
- Second Class (up to 1kg): three day delivery for packets up to 1kg;
- Standard Parcels: three to five day delivery for packets up to 20kg; and
- Special Delivery Next Day: Next day delivery by 1pm including full tracking, delivery guarantee and insurance for packets up to 10kg.

8.5 Where an item is not delivered on the first attempt, Royal Mail provides additional services to recipients to ensure correct delivery of their packets. These are:

- Redelivery to one's address on a named day;

- Redelivery to another address nearby;<sup>95</sup>
- Collection from a local post office; and
- Collection from a delivery office.

### Potential changes to packet services

- 8.6 We have considered as part of our research a scenario where there is an option to have packets other than letters delivered in the evening or at the weekend for an additional fee. This scenario was considered as part of our conjoint analysis but we have not attempted to assess the costs of such a service.<sup>96</sup>
- 8.7 Our qualitative research also produced some unprompted suggestions for changes to packet services, when identifying “core” stated needs:
- **The need for control** – participants to our qualitative research said that for more valuable or time-sensitive items a level of control is important. In practice this involves services such as tracking the mail, or guaranteeing when it arrives, or ensuring the predictability of an arrival timeslot; and
  - **‘Fit with the demands of modern life’** – generally users felt that the packet service should be more convenient and flexible. For example, residential delivery times are during the day, and delivery offices are also largely only open during the day from Monday to Friday and Saturday morning, and participants said this was out of step with their own working lives.
- 8.8 The need for deliveries (and collections) out of working hours and additional tracking features, guaranteed delivery options, were mentioned (amongst other things) in the research as ways that Royal Mail could meet these stated needs. However, respondents noted that in certain cases these needs are met by couriers.
- 8.9 As improvements to the packet services were spontaneously suggested by participants in the qualitative research and as not part of the conjoint analysis, we do not have a monetary value to users of these changes.

## Market trends in the delivery of packets

### The rise in online shopping

- 8.10 The use of a postal service for the delivery of packets (other than letters) is increasing as the fulfilment<sup>97</sup> sector grows. Online shopping offers users greater choice, the ability to compare prices and also convenience, for instance in terms of when items are delivered. For retailers there are also potential benefits, such as efficiencies offered by internet sales, and the increased reach enabled by the ability to address a wider market compared to bricks and mortar shops.
- 8.11 This growth in online shopping is illustrated by several indicators. Research by Interactive Media in Retail Group (IMRG) estimated that in the past five years, the value of online shopping has almost doubled, rising by 93% between 2007 and 2011.

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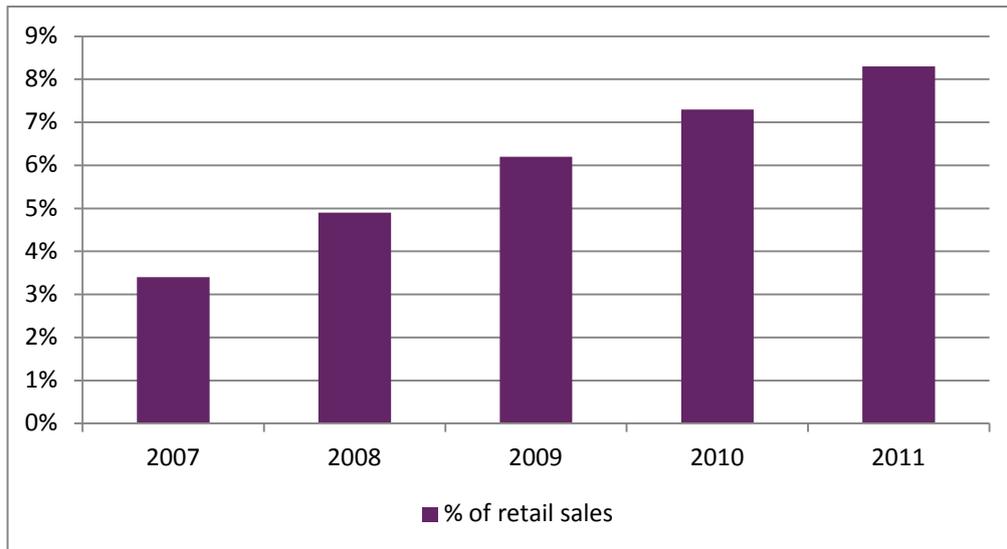
<sup>95</sup> Not available for Special Delivery Next Day.

<sup>96</sup> See Section 4 for the scope of the review.

<sup>97</sup> Fulfilment can be considered as goods and services ordered online, by mail or telephone that need to be delivered to the consumer.

IMRG estimate that the value of online shopping reached £68bn in 2011.<sup>98</sup> According to the Office for National Statistics (ONS), the estimated average weekly spend online in August 2012 was £466.1 million, which was an increase of seven per cent in comparison to the value last August. This is also illustrated by Figure 8.1 which shows that the proportion of retail sales transacted online has been rising.<sup>99</sup> This trend of increasing volumes in the fulfilment sector is contributing to the growth in packet volumes: for instance, Royal Mail's packet volumes grew by 6% between 2010-11 and 2011-12.<sup>100</sup>

**Figure 8.1: Internet sales as a percentage of total retail sales<sup>101</sup>**



Source: ONS (2012)

8.12 Going forward, this trend for further growth in packet volumes is expected to continue. Our quantitative survey shows that, amongst those residential users with internet access, 57% agreed that they are more likely in future to be ordering goods that will be delivered by post. As we noted in our 2011 consultation on the regulatory framework, while increasing amounts of music, films and books can be delivered online, the majority of fulfilment items such as clothing and electronic goods are not electronically substitutable.

### Provision of postal packets outside the universal service

8.13 Alternative providers such as couriers also provide packet services. These services are aimed at both universal service users and larger mailers who are less likely to rely on universal service products.

<sup>98</sup> IMRG website, see: <http://imrg.org/ImrgWebsite/User/Pages/Press%20Releases-IMRG.aspx?pageID=86&parentPageID=85&isHomePage=false&isDetailData=true&itemID=7771&specificPageType=5&pageTemplate=7>

<sup>99</sup> Office of National Statistics (ONS), *Retail Sales Statistical Bulletin*, August 2012.

<http://www.ons.gov.uk/ons/rel/rsi/retail-sales/august-2012/stb-rsi-august-2012.html>

<sup>100</sup> Royal Mail Holdings Plc, *Annual Report and Financial Statements*, 2011-12, page 32, <http://www.royalmailgroup.com/sites/default/files/RMG%20FULL%20YEAR%20RESULTS%20STATEMENT%202012.pdf>

<sup>101</sup> Value of internet retail sales non-seasonally adjusted from ONS Retail Sales Statistical Bulletin, August 2012.

- 8.14 In our qualitative research, business users mentioned that whilst they use Royal Mail services on a daily basis, they turn to couriers when they feel that Royal Mail is not offering them a service that meets their business needs. Residential users indicated that packets with gifts are typically sent by Royal Mail. When these are time-bound, people may tend to try and send them to arrive on a particular day such as a birthday. However, couriers are used by some users (either more affluent people or for more valuable presents). Participants in our qualitative research thought that they could obtain some services – such as greater level of control – from couriers. Some participants mentioned the ease with which users can now go online and arrange for couriers at different times of the day.
- 8.15 Packet services available outside the universal service, as offered by other operators (and also Royal Mail), generally include the following 'premium features':
- Tracking: This feature is provided by all carriers. It provides users with assurance that the item has been dispatched by the carrier and also confirmation once it has been delivered;
  - Timed delivery: Most carriers provide this service at a premium. Postal users are offered the option to choose a range of timed slots during the day when they want the item delivered;
  - Delivery notification is provided by some carriers as a value added service; and
  - Out of hours delivery: Evening delivery has limited provision but most carriers provide Saturday delivery subject to a surcharge.
- 8.16 While universal services are provided UK-wide at uniform prices, the coverage and prices for non-universal services can vary across the UK. For example, it is common for couriers to ask for a surcharge for delivery to some postcodes, and some deliver to the UK mainland only. On this basis not all users have the same access to packet services offered outside the universal service. In addition, couriers' services are often accessed through the internet.

## **Evidence on users' reliance on postal services to receive and send packets**

### **Usage of services for packets (other than letters)**

- 8.17 Our research shows that packet services are important to users. In the qualitative survey, residential users said that although they are not sending items through the post as frequently as they did in the past, they still rely on post for the receipt of 'official correspondence' and packets.
- 8.18 Ofcom's Communications Market Report (2012) also reveals that most users still rely on post to send and receive packets, with 40% of users claiming to receive one or more packets each month and 69% saying they send at least one packet every three months.
- 8.19 Our quantitative research also shows that residential users surveyed are more likely to receive packets through the post than to send them, 35% of residential users now receive packets at least once a month, a figure which has increased from 27% in 2010.

- 8.20 Receipt of packets was especially important for deep rural and offshore recipients of whom around a half received packets once a month.

**Table 8.1: Percentage of residential users receiving packets (excluding letters) at least once a month – subgroups**

Sub-group	% receiving packets
All	35
<u>Area</u>	
Urban	34
Rural	39
Deep Rural	47
<u>Location</u>	
Mainland	35
Offshore	54

Source: TNS-BMRB (2012)

- 8.21 In particular younger users mentioned that while they tended to send very little post, they were still reliant on the postal network for receiving goods, with younger users regularly citing online purchases as the core way in which they are using postal services.
- 8.22 Business users were likely to send fewer packets than letters but they sent more packets than residential users. Nearly half of business users (44%) claimed to send packets at least once a month, compared to 20% of residential users.
- 8.23 Our quantitative research also found that postal users' demand for packets services is likely to increase in the future:
- Out of residential residents who say they will continue to send items by post, 57% envisage they will always need post for packets;
  - Similarly, 51% agreed that in three years' time, they will be ordering more goods which they will receive through the post. This trend was stronger for internet users, younger survey participants and those on higher incomes.<sup>102</sup>
- 8.24 Reflecting a similar trend, Consumer Focus's qualitative research on the universal postal service (2012) found that the majority of residential users did feel that their online shopping activity would increase somewhat. There were some sub-groups, in particular older residential users, who do not necessarily expect that they will be doing more shopping online in the future. However, they mentioned being persuaded by younger relatives to try online shopping for the convenience, price advantage and range of goods they can have access to. Businesses, on the other hand, did not foresee their packets traffic substantially increasing.

### **Users say they need more convenient delivery options**

- 8.25 Our qualitative research shows that residential users have a preference for more convenient packet delivery services:

<sup>102</sup> 57% of those with internet access agreed (compared with 22% of those with no internet connection), 63 % of 16-24 year olds agreed (compared with 18% of those aged 75+) and 65% of those who earn £50k or more per annum agreed (compared with 42% amongst those with an income of less than £11.5k per annum).

- Residential users noted that large item and packet deliveries were often not successful first time. Participants suggested a service with more flexibility to deliver to disabled or elderly people;
- Younger people in particular say they need postal services to be efficient, regularly updated and modern, so that they can fit with the other services which users navigate in the course of their lives. For example, residential delivery times are during the day, and delivery offices are also (largely) only open during the day. Participants also said this was out of step with their own working lives; and
- Full time workers and those with children also said that delivery office opening times were inconvenient and, crucially, out of step with other businesses which now open later throughout the evenings and weekends as standard.

8.26 These findings are supported by Consumer Focus's qualitative research on the universal postal service (2012). The research found that residential users who work say they are never at home when their mail is delivered or when the post office or delivery office is open for them to collect an undelivered packet. The system is seen as inflexible with few alternatives offered to residential users.

8.27 Likewise businesses in our qualitative research suggested improvements to the service:

- Businesses expressed the need for a fast service in some situations when it is critical that items are received by a certain time. Business participants also indicated they would like better tracking of packets and greater flexibility of delivery times and delivery office opening hours; and
- Small businesses said they would also like more control over delivery. They thought packet delivery is too unpredictable when they send items to residential users (regarding, for instance, the time of delivery, or alternative ways for the recipient to receive the packet).

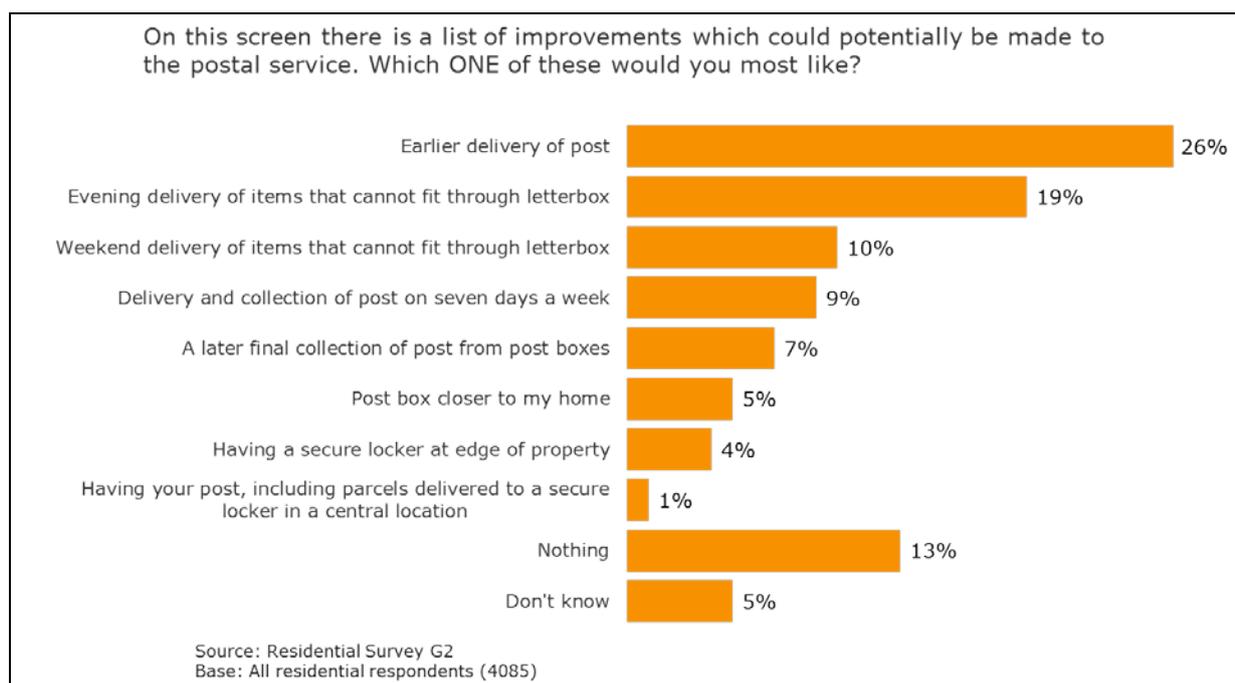
8.28 However, when discussing packet services in our qualitative research, many users may have been thinking about the items they receive from businesses. These are often delivered by alternative providers to Royal Mail or are bulk mail products offered by Royal Mail, all of which fall outside the scope of the universal service.

### **Evening and Saturday delivery**

8.29 Many residential users in our qualitative research pointed out that it would be more convenient if packets were delivered in the evening when people are at home. This is partly supported by our quantitative research. Respondents were asked which of a list of improvements to the postal service they would most like. One fifth (19%) of residential respondents said evening delivery of items that cannot fit through the letterbox. Weekend delivery was also one of the most popular improvements (ten per cent) (see Figure 8.2).<sup>103</sup> This means that overall, 29% of users most liked as an improvement to the service the delivery of packets at a time they are more likely to be able to receive packets.

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<sup>103</sup> When first asked without a prompt, 4% of residential respondents and 1% of business respondents said evening delivery of items that cannot fit through a letterbox

**Figure 8.2: Preference for potential changes (prompted) – residential users**

Source: TNS BMRB (2012)

- 8.30 The groups more likely to favour this option were younger and those from higher income households and those with internet access, those who receive packets at least once a month and those that work full time.
- 8.31 However, while users suggested evening delivery as a possible improvement to the service, their preference may not be strong.<sup>104</sup> The research found that residential users had only a small willingness to pay to have the option of choosing evening or Saturday delivery for an additional fee. This small willingness to pay could perhaps reflect attitudes towards the £4.50 indicative fee we specified for this option.<sup>105</sup>
- 8.32 For improvements to the universal service, our conjoint analysis allows us to estimate how much users like services, using “attractiveness” scores. Attractiveness scores help us to differentiate between services with equal levels of tolerability.<sup>106</sup> It is only appropriate to use the attractiveness scores for assessing a potential need for improvements to the service. The other changes assessed would make the service poorer and, thus, will not improve its attractiveness.
- 8.33 Introducing evening and weekend deliveries increases attractiveness by a small but significant amount compared to the current service. The groups which showed the largest increases were those with higher incomes/AB socio-economic grades, younger people, full time workers and those living in rural areas in Northern Ireland. These results seem consistent with our qualitative evidence which shows that the

<sup>104</sup> In order to make the product concept used in the conjoint easier for respondents to understand we included a price (£4.50) for evening and weekend deliveries which reflects an example of a price that Royal Mail could charge for a service of this type.

<sup>105</sup> Residential users valued the option to specify evening or Saturday delivery for a fee of £4.50 equivalent to a 2p increase in the price of a First class stamp.

<sup>106</sup> The attractiveness of a package, or of individual attributes, is calculated using utility scores from the conjoint exercise. To present these scores, they are indexed against the current service offer, such that the current service is given an attractiveness score of 100. This is discussed in more detail in Section 6.

groups that would benefit from more convenient delivery options are younger postal users, those with high incomes and those who work full time.

**Table 8.2: Attractiveness for residential users of the current service with the ability to specify evening/weekend delivery**

	Attractiveness	
	Current service	Plus option of evening/weekend delivery (£4.50)
<b>Residential</b>	<b>100</b>	<b>103.6</b>
NI rural/deep rural	100.0	104.7
Annual income £30,000 - £49,999	100.0	104.6
25-34	100.0	104.6
AB	100.0	104.2
Full time	100.0	104.1

Source: TNS-BMRB (2012)

8.34 Businesses have a higher preference than residential users for more delivery options. The results show that business users would be willing to pay more than residential users for the option to use this service.<sup>107</sup> Similarly, slightly more businesses (0.5%) than residential users (0.1%) found the service more tolerable with the option of an evening or Saturday delivery.

8.35 The impact on attractiveness showed a clearer pattern with the biggest increases for large mailers, large businesses and those for which mail is critical. These businesses saw some large increases in attractiveness possibly reflecting a need to send packets to residential users. In this respect we note that businesses for which mail is core to their operations were more likely than other businesses to send packets (84% send at least once a month vs. 44% of all businesses).

**Table 8.3: Attractiveness for businesses of the current service with the ability to specify evening/weekend delivery**

Business	Current service	Plus option of evening/weekend delivery (£4.50)
	Attractiveness	
<b>All business</b>	<b>100</b>	<b>105.3</b>
Mail is critical for our customer communications and statements but not core to our business <sup>108</sup>	100.0	108.5
51-250 employees	100.0	108.3

<sup>107</sup> Business users valued the option to specify evening or Saturday delivery for a fee of £4.50 equivalent to a 4p increase in the price of a First Class stamp.

<sup>108</sup> For businesses responding that mail is core to their business operations, the attractiveness is 106.5; for businesses responding mail is mainly administration, the attractiveness score is 104.3

Monthly mail spend £450-£2,499	100.0	108.2
251+ employees	100.0	108.1
Turnover £250,000 - £499,999	100.0	107.9

Source: TNS-BMRB (2012)

## Costs and benefits of changes to packet delivery

- 8.36 Our research indicates that some groups of residential users and businesses overall would benefit from a more convenient packet service.
- 8.37 Our research also indicates that there are some areas where more convenient services could create broader social value. This relates to the role that internet shopping plays in rural communities where access to nearby services might be limited. Our quantitative research found that those living in deep rural areas, Scotland, Wales and Northern Ireland were more likely to find the postal service more tolerable as a result of more flexible delivery services.
- 8.38 Another area of social value that was spontaneously mentioned in our qualitative research was 'Providing a cost effective universal service that was accessible to all'. Some respondents to our qualitative research expressed concern that some groups, particularly those with low incomes or mobility problems, may find travelling to a delivery office to collect packets difficult.
- 8.39 We have not sought to quantify the costs of these types of service changes. Changes to the way Royal Mail handles the delivery of packets could have significant costs. In particular, evening delivery would require delivery staff to undertake a separate delivery round and delivery notification would require the introduction of more widespread tracking in Royal Mail's network. However some changes could potentially be lower cost to implement such as extending hours for collecting packets at delivery offices.
- 8.40 It is worth noting that Ofcom has, at Royal Mail's request, recently amended the definition of "delivery points" in DUSP 1.2.2, to allow Royal Mail to deliver certain postal packets to recipients' neighbours. Royal Mail is now able to roll out its delivery to neighbour service. With this new service, where the recipient of an item of mail is not at home to receive the delivery, Royal Mail will attempt to deliver the item to a neighbour of the recipient instead (and leave a card for the recipient informing them of the delivery). This would therefore avoid larger postal items and certain items requiring a signature being returned to a Royal Mail delivery office.<sup>109</sup> This would potentially result in a 40% reduction in items returned to the delivery offices, if the trial results are repeated across the UK.
- 8.41 The services included within the Delivery to Neighbour scheme are:
- First Class without and with Recorded Signed For;
  - Second Class without and with Recorded Signed For;
  - Standard parcels (above 1kg);

<sup>109</sup> Ofcom, *Royal Mail - Roll out of Delivery to Neighbour Scheme, Statement*, September 2012, <http://stakeholders.ofcom.org.uk/binaries/consultations/royal-mail-delivery-neighbour/statement/statement.pdf>

- Free services for blind and partially sighted people in respect of items specifically related to their impairment e.g.: Braille items; and
- International services (excluding International Signed For).

8.42 An evening delivery service was trialled by Royal Mail within the M25 catchment area in 2010 and 2011. The initial trial began on 20th Oct 2010 and ran for 6 months to 20th April 2011. There was take up for the service during the initial trial, however, this pilot was discontinued due to lower than expected demand. The trial enabled businesses which purchase Royal Mail's Tracked services<sup>110</sup> to offer the option of evening delivery to their customers, when these customers order goods from them. It involved delivery of items between 6pm and 10pm. The retailers paid a premium for the evening delivery option. Royal Mail's Tracked services are not part of the universal service.

## Possible regulatory implications

8.43 Certain packet services currently fall within the scope of the universal service. They are covered by various layers of regulation, from the minimum requirements of the Act and the Postal Services Directive to the further detail contained in the Universal Postal Service Order and the regulatory conditions imposed on Royal Mail as the designated universal service provider.

8.44 The purpose of this review is to assess the extent to which the market for the provision of postal services is meeting the reasonable needs of users of those services. If, as a result of our review and based on the evidence provided to us as a result of this consultation, we conclude that the needs of users are under- or over-provided for in respect of packet services, this may lead to changes to the regulatory requirements:

- If we were to conclude that the reasonable needs of users are not being met in respect of packet services, we may consider extending the scope of the universal service in respect of those services by adding additional requirements on the designated universal service provider;
- If we were to conclude that the postal and packet services currently within the scope of the universal service were over-providing for the reasonable needs of users of those services, we may consider reducing the scope of the universal service accordingly;
- Both of these potential outcomes could be achieved by amending the Universal Postal Service Order or the Designated Universal Service Provider Conditions; and
- In any event, the universal service would need to continue to comply with the requirements of the Postal Services Directive and the minimum requirements of the Act.

8.45 We would consult separately on any changes.

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<sup>110</sup> Royal Mail's Tracked services (24 hour or 48 hour delivery) are available to businesses which send 5,000 parcels a year per account per site for the 24-hour service, and to businesses which send 2,000 parcels per account per site per year for the 48-hour service. Volumes can also be combined. See: <http://www.royalmail.com/delivery/business-delivery-options-uk/royal-mail-tracked-services/details>

*Question 8.1. Do you have any views on the results presented in relation to packet delivery services?*

*Question 8.2. Do you have any further evidence on the costs and benefits of more convenient packet services, currently and in the longer term?*

*Question 8.3. Do you have any views as to whether the current provision of packet services by the postal market meets the reasonable needs of users, over-provides for the needs of users, or under-provides for the needs of users?*

*Question 8.4. If so, do you have any views about which characteristics of the universal service should be modified in order to meet better the reasonable needs of users of postal services?*

## Section 9

# Next day delivery

9.1 This section presents:

- A description of the current First (next day) and Second Class (three day) services;
- The research evidence on next day delivery, specifically:
  - usage of First Class may rely on perceptions of the service as much as, if not more than, the need for next day delivery;
  - the need for “speed” can be met by other forms of communications;
  - users recognise they do not need a next day service for everyday items – in fact many prefer a simple, single-tier option over the current system of having the choice of First and Second Class services;
  - however, a next day service is important for urgent, important items, and some categories of users;
- a comparison of the costs and benefits of the service; and
- the possible future regulatory implications if our review were to conclude that the reasonable needs of users are not being met or are being exceeded in relation to next day delivery.

## Introduction

9.2 The Postal Services Directive and the Act require a postal service to be available as part of the minimum requirements of the universal postal service, but do not specify how long it should take for the postal items to be delivered once they have been posted, except in relation to cross-border items.

## Current specification

9.3 Royal Mail (then the Post Office) introduced a two-tier service, with a next day service and a slower service, in 1968.<sup>111</sup> These two streams of service, called First and Second Class, were assigned regulated quality of service standards and required to be provided as part of the universal service when the independent regulator for post, Postcomm, was created by the Postal Services Act 2000. When regulatory responsibility for post transferred to Ofcom in 2011, the requirements for a Priority (next day) and Standard (three day) service were adopted as characteristics of the universal service by Ofcom in its first Order, pending this review of user needs.

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<sup>111</sup> Duncan Campbell-Smith, *Masters of the Post – The Authorized History of the Royal Mail*, 2011, Allen Lane, ISBN 978-1-846-14324-3

Ofcom requires Royal Mail to provide these services by virtue of a DUSP condition.<sup>112</sup>

- 9.4 Royal Mail has notified us that it fulfils its obligation to provide the Priority service by offering its First Class service, and the Standard service by offering its Second Class service.<sup>113</sup> Ofcom also requires specific targets for the quality of service of First Class (93% next day) and Second Class (98.5% in three days). We discuss quality of service targets in the next section.

### Potential changes to the current specification

- 9.5 In our research, we tested a single, two-day service scenario, replacing the current First and Second Class services, currently priced at 60p and 50p respectively.
- 9.6 Our quantitative research tested preference for the current two-tier service against both of the following alternatives:
- a single tier service priced at 53p with 95% of mail being delivered within two days; and
  - a single tier service priced at 55p with 98% of mail being delivered within two days.
- 9.7 Our quantitative research also tested preference for the two tier services with hypothetical higher prices, specifically First Class priced at 90p and Second Class at 60p:
- a single tier service priced at 63p with 95% of mail being delivered within two days;
  - a single tier service priced at 70p with 98% of mail being delivered within two days; and
  - as this scenario was tested separately from the conjoint analysis, we do not have a monetary value to users of these changes.

### Evidence on next day delivery

- 9.8 This section sets out the evidence we have, mainly from market research, on users' reliance on next day delivery. It covers possible reasons for the high usage of First Class, the use of other forms of communication which can meet the need for fast communication, views on a single two-day service replacing the current First and Second Class services, and the importance of a next day service for urgent important items, and for specific groups of users.

### High usage of First Class may be linked to perceptions of the service

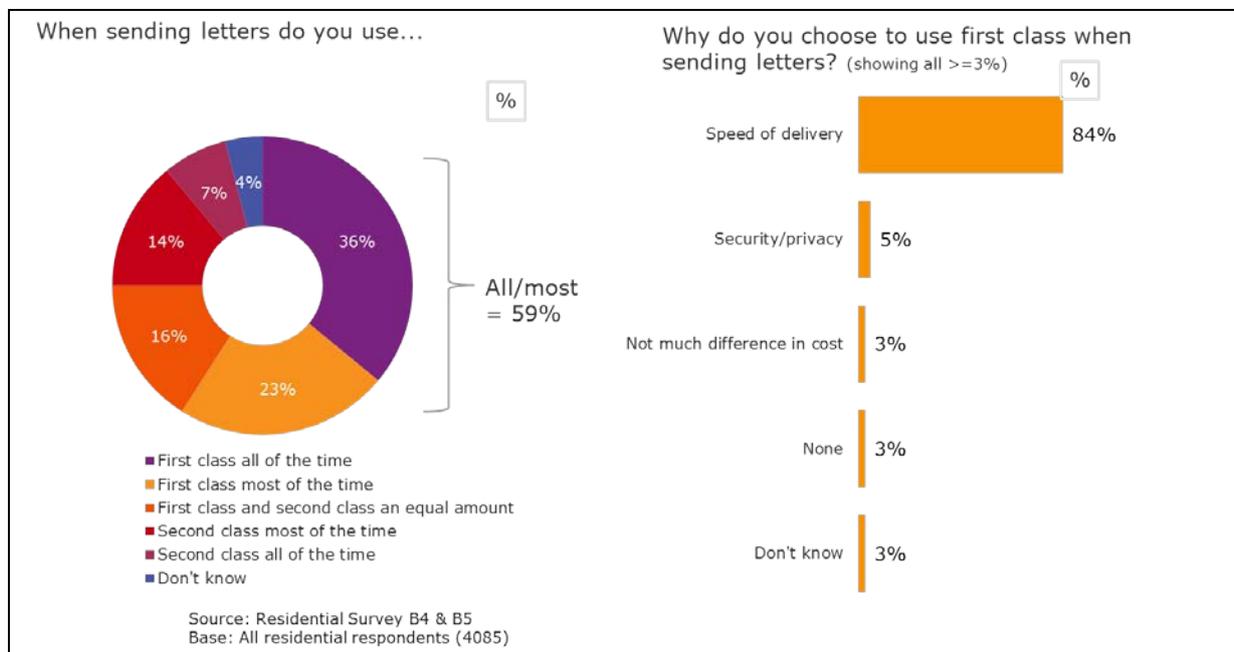
- 9.9 Although residential respondents are more likely to use First Class, and most give speed as a reason for using First Class, they do not necessarily require a next day service.

<sup>112</sup> See Section 3 for background. These conditions can be found on: <http://stakeholders.ofcom.org.uk/binaries/consultations/review-of-regulatory-conditions/statement/annex7.pdf>

<sup>113</sup> Both First and Second Class services with and without Recorded Signed For

9.10 Our residential surveys on user needs show that 59% of all residential respondents use First Class all or most of the time, and the vast majority of those cite speed of delivery as a reason to choose First Class (84% unprompted, 92% prompted) (Figure 9.1).

**Figure 9.1: Use of First versus Second Class post – residential users**



Source: TNS BMRB (2012)

9.11 However, the importance of speed in choosing First Class is not supported by other evidence, which suggests that most users regard only a small proportion of their mail as urgent. Only 9% of residential respondents say they need to respond to or deal with all or most of their post the day it arrives, compared with seven per cent saying about half of their mail, 38% saying a small proportion of their mail, and 45% saying none. This suggests that only a small proportion of mail received by residential users is actually urgent.

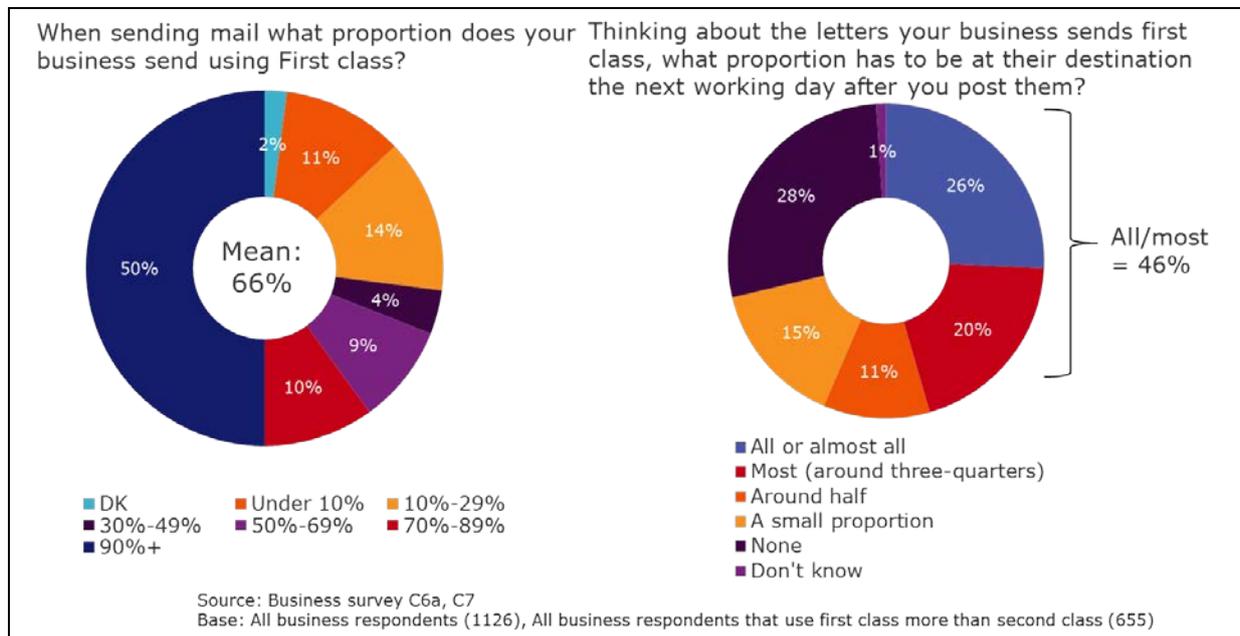
9.12 In addition, previous Postcomm Customer surveys show that the existence of a gap between the proportion of residential respondents who use First Class, compared with the proportion of those who say they need their mail to arrive next day, has been a consistent feature of First Class usage over the years.<sup>114</sup> This is supported by the Communications Market Report (2012) which stated that 67% of residential respondents said they use First Class all or most of the time, but only 33% said their letters need to arrive next day.

9.13 This pattern is reflected to some extent by business users. Our business survey on user needs shows that businesses send an average of 66% of their mail using First Class, with 76% of those who use First Class more than Second Class citing speed of delivery as a reason to choose First Class. However, only 46% of business respondents said that all or most of the post they send First Class had to arrive next

<sup>114</sup> The questions asked in the Postcomm Customer Survey 2006, 2007, 2008 and 2009 are not all similar, but still show a consistent gap. In 2006, 75% used First Class all or most of the time, and 23% of mail had to arrive next day; in 2007, 75% used First Class all or most of the time, and 27% said all or most post has to arrive next day; in 2008, 72% used First Class all or most of the time, and 24% said all or most post has to arrive next day; and in 2009, 73% used First Class all or most of the time, and 29% said all or most post has to arrive next day.

day, compared with 11% saying about half, 15% saying a small proportion, and 28% saying none at all (Figure 9.2).

**Figure 9.2: Use of First versus Second Class post – business users**



Source: TNS BMRB (2012)

9.14 It would therefore appear that residential users and businesses use First Class even when they do not necessarily report that the mail is needed to arrive next day. This gap may exist because of perceptions of the First and Second Class services, and the fact that First Class may be the “default” service to choose. The choice of stamps is not necessarily something they deliberate over. This is shown in our qualitative research:

- In the deliberative sessions on users needs, some participants said First Class is simply the default stamp they use. This is supported by Ofcom’s separate qualitative research on a consumer perspective on postal services (2012)<sup>115</sup>, where many users said that they did not usually deliberate over whether to use a First or Second Class stamp. There were three main reasons for this: low frequency of usage, making it a relatively unimportant decision with little financial bearing; habit, meaning alternatives to their usual choice were often not considered; and buying lots of stamps at the same time (e.g. books of stamps) resulting in them rarely thinking about individual purchase decisions (and presumably simply using the stamps they already have);
- Participants in our deliberative research perceived First Class as more secure (better looked after) and less likely to get lost;
- First Class also allows users to show they care and demonstrate they are not “cheap”.<sup>116</sup> This is supported by Ofcom’s separate qualitative research on a

<sup>115</sup> As mentioned in Section 4, Ofcom recently undertook, separately from this review, a qualitative study to understand the perspectives of postal service users better, given we have taken over responsibility for postal regulation. The report of this separate qualitative study is published alongside our consultation document.

<sup>116</sup> For instance, one participant said “I think it looks a bit like you’ve been scrimping if someone sends you a card they’ve put a Second Class stamp on it, you think “cheap” p.43 of the report.

consumer perspective on postal services (2012), in which users felt that First Class denotes care and consideration for the recipient; and

- First Class does allow users to send something affordably and quickly, particularly if they are running late. Again this is supported by our other qualitative research, where most users felt that very few items they sent in the post needed to be sent using First Class - it was more likely that they had left postage to the last minute.

9.15 There were some common misperceptions across both qualitative research pieces:

- First Class is more reliable than Second Class; and
- First Class guarantees next day delivery – although at the same time, in contrast to this perception, users do not always see First Class as a next day service. For instance, in the deliberative sessions, users in rural areas tended to find that First Class was taking at least two days to get to and from where they live. The recent Consumer Focus qualitative research on the universal postal service also showed that users saw no discernible difference in service quality between First and Second Class.

9.16 Awareness of the next day target for First Class is a lot higher for both residential users and businesses than their awareness of the three-day target for Second Class, which may again be a factor in choosing First Class. In previous Postcomm Customer Surveys, about two thirds of residential users (68%, 64%, and 61% in 2006, 2008 and 2009 respectively) and between two thirds and three quarters of business users (76%, 70%, and 69%) know that Royal Mail aims to deliver First Class next day. This contrasts with around a third of residential and business users identifying that Royal Mail aims to delivery Second Class with three working days.<sup>117</sup>

9.17 This seems consistent with the findings of the qualitative research, which found that, if users were aware of First and Second Class delivery times and prices, they would usually pay the small amount extra for a slightly superior service, but if they did not know delivery times, they would want to send their post First Class as they thought it would be superior in terms of security and care. They often thought Second Class would take up to a week to deliver. While users considered Second Class as “essential”, this was simply because it was the cheapest option: participants were “pleasantly surprised” to see the high proportion of mail which arrives within three days

9.18 Businesses seem to share or reflect to some extent the perception that using First Class indicates that the mail is more important. Postcomm’s and Consumer Focus’s research on the universal service (2010) asked businesses the proportion of mail that needs to arrive next day: just over half (55%) said that all or most need to arrive the next working day; and around a quarter (27%) said a small proportion or none. However, the survey also tested whether businesses agreed or disagreed with the statement that “my business only sends items by First Class post to indicate to customers that the communication is important” - 50% of businesses agreed, while in contrast 36% disagreed with this statement.

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<sup>117</sup> Residential customers: 40%, 30%, 30%, 29% in 2006, 2007, 2008 and 2009 respectively; business customers: 34%, 29%, 30%, 36% in 2006, 2007, 2008 and 2009 respectively

## Need for “speed” can be met by other communication methods

- 9.19 Usage of First Class stamps in recent years has decreased, and volumes have also fallen faster than general mail volumes. The downward trend in First Class stamped mail volumes is likely to continue, alongside usage of letter post more generally. As stated in our 2011 October consultation on the economic regulation of post, Royal Mail’s central case, as set out in its Plan, projects that over the period from 2010-11 to 2015-16, mail volumes will decline by over 20%.<sup>118</sup>
- 9.20 As we discussed in Section 7, the increasing availability of the internet and mobile telephony has led many users to substitute other communication methods for post. Participants to our qualitative research tell us that these other communication methods can often meet their “core” need for “speed”:
- The report from our qualitative research concludes that methods such as email, phoning, online document sharing and video calling are all being used to meet many core communication needs, including speed;
  - In terms of receiving post, older postal users are more likely still to be using post for personal administration such as paying and receiving bills. However, for most residential respondents, when it comes to their personal administration, the post is simply for receiving paper copies rather than needing to transact urgent business; and
  - The findings of Consumer Focus’s qualitative research on the universal postal service (2012) are similar, as the report found that texting and mobile telephone calls are best suited to satisfy the increasingly important speed in communicating with others.
- 9.21 These findings are consistent with previous survey results. In the 2010 Postcomm Retail Market Study, the preferred method of communication for speed of delivery was by far telephone, followed by email: 38% said telephone was the most likely mode of communication they would use (and 21% the second most likely), 33% said email (and 25% the second most likely), 15% said text messages (and 21% the second most likely), and seven per cent said post (and 22% the second most likely).<sup>119</sup>

## Users recognise they do not need a next day service for everyday items

- 9.22 After discussion, participants to our qualitative research recognised that they do not need a next day service for everyday items. We tested the hypothetical scenario of replacing the current two-tier system of next day and three day delivery, by a single, two-day service, in order to understand better the needs of users in relation to next day delivery by post.
- 9.23 In our deliberative sessions, generally, a two-day service was felt to meet everyday needs. This was a spontaneous suggestion in a number of workshops, and was the most popular scenario tested. However, there were significant discussions on the

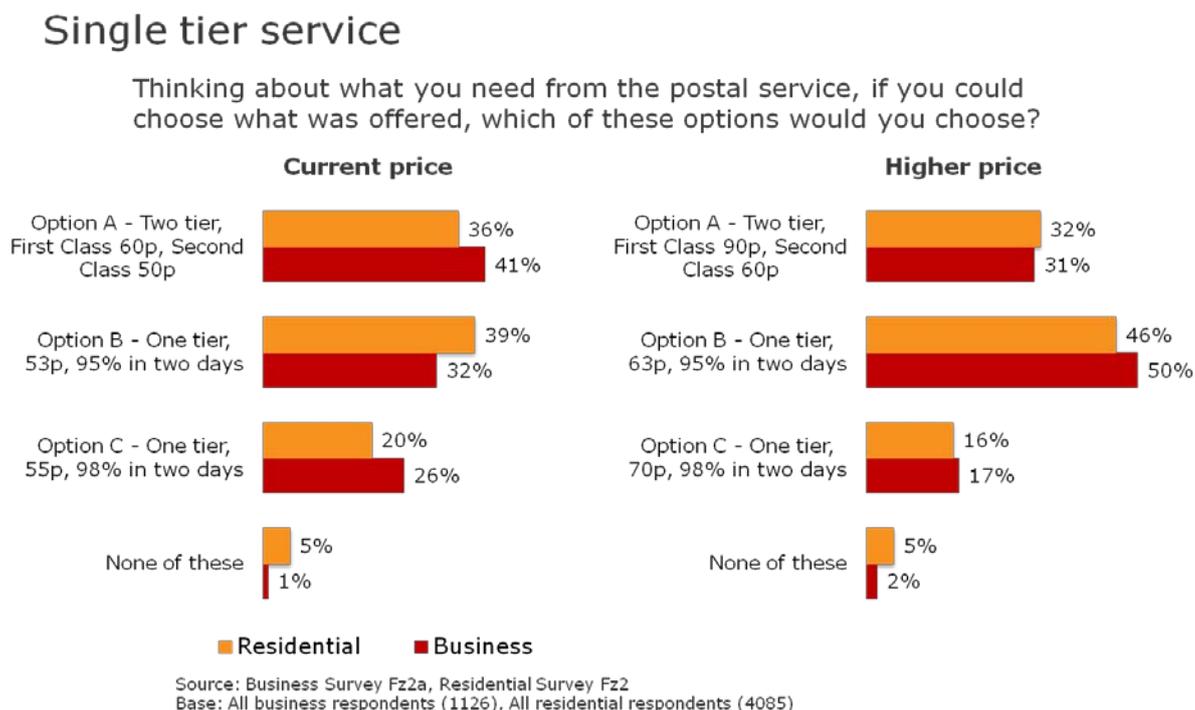
<sup>118</sup> Ofcom, *Securing the universal postal service – proposals for the future framework for economic regulation*, October 2011, <http://stakeholders.ofcom.org.uk/binaries/consultations/securing-the-postal-service/summary/condoc.pdf>

<sup>119</sup> Ipsos MORI, *Postcomm Retail Market Survey 2010 - Report of Findings From Research with Business Mailers and Residential Customers*, December 2010, <http://stakeholders.ofcom.org.uk/binaries/post/1810.pdf>

availability of an affordable next day service for occasions where there is a real need to get something there within 24 hours. We discuss this further in a later sub-section.

- 9.24 Consumer Focus’s qualitative research on the universal postal service (2012) shows similar results. Residential users settled on a compromise of a three or four day a week delivery with a two-day rather than next day delivery. If the change in the number of deliveries was to be introduced, residential users across age and social groups and across geographic nations would no longer see a need for a First and Second Class service and believed that one standard would be acceptable for non-urgent mail. Additionally, most participants in the research also saw that a longer delivery option is acceptable for most packets. However, it is important to note that users would want a reliable and predictable service so they would know exactly when delivery will take place and when mail will be collected.
- 9.25 The results of our quantitative survey also show that users prefer to some extent a simpler single, two-day service, over the choice of having First and Second Class. In our quantitative survey, we tested the attractiveness of a single tier system with varying prices and quality of service targets compared with the current two-tier system of having both First and Second Class (see Figure 9.3 – Single tier service). At current prices, there is a slight majority of both residential users and businesses who prefer the option of a single service, at 59% and 58% respectively. At higher prices, the preference for a single two-day service is more pronounced.

**Figure 9.3: Single tier service**



Source: TNS BMRB (2012)

- 9.26 Users thus trade off the choice of both a more expensive next day service and a cheaper three day service for a simpler service which retains high quality of service. In light of the findings of our qualitative research in particular, this seems to suggest that users trade off choice (i.e. a range of services) for simplicity. Given the higher usage of First Class post, and the fact that a price of 90p for the First Class service

is the least tolerable of all single changes tested,<sup>120</sup> the findings also suggest that responses were driven by the cost of First Class post, suggesting that, to some users, a single, two-day service may have been seen as cheaper overall than a two-tier service.

- 9.27 It is important to recognise, however, that there is an important minority of users for whom the current system is preferable. Even at higher prices (90p for a First Class stamp), still a third of business and residential users (31% and 32% respectively) preferred the current two-tier system.

### **A next day service is important for urgent, important items**

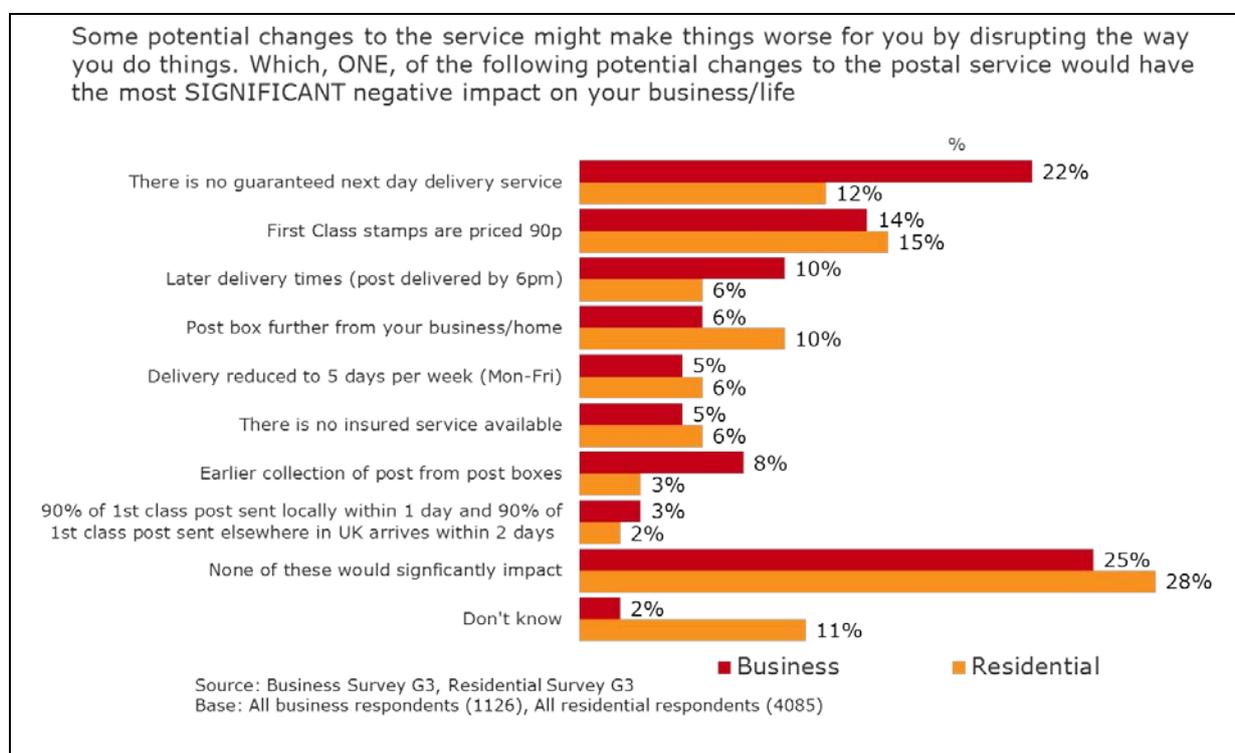
- 9.28 While there seems to be a trend towards less of a need for next day delivery, if there was no First Class service, users said they still sometimes need a next day service in relation to urgent, important items, which is not too expensive. When discussing the scenario of a two-day service, participants generally<sup>121</sup> were concerned about the possible impact on low income users of not having a next day service, as users on low incomes would have to use Special Delivery Next Day for urgent, important items, which might be too expensive. Participants suggested a cheaper, scaled-down special delivery service may be required, which they felt did not need to include the ability to personally track the item or provide insurance but carried a guarantee that it would arrive the next day. Participants considered this to be of particular importance for low income users.
- 9.29 Importantly, currently, if users want a guarantee that important, urgent items must arrive next day, their only alternative from the universal service is Special Delivery Next Day. This is supported by our research, as many residential users felt that they already used a Special Delivery service when sending such items.
- 9.30 Our qualitative research also found that instances where post is required relate to “official communications”, perhaps with Government/public services or solicitors that require paper forms to be sent and received within specific timeframes. It is this type of mail which in some circumstances was referred to by users as “crisis mail”, i.e. relying on the postal service to deliver documents that require urgent attention, perhaps due to a problem or “crisis”. These are the circumstances where users felt there should be an affordable next day service, but within the qualitative groups there were few examples given.
- 9.31 Residential users who took part in Consumer Focus’s qualitative research on the universal postal service (2012) stated that there was a need for a letter or packet service that offers next day delivery. However, they accepted that such a product would be more expensive if the number of weekly deliveries were to be reduced (while it is not explicit in the report, we presume that this is because they considered that Royal Mail would sometimes have to deliver next day mail on days where a collection and delivery would not normally be provided any more, thereby incurring high costs for this tailored delivery). Small and Medium Enterprises also felt there was a need for a premium service for time sensitive items.

<sup>120</sup> A price of 90p for First Class is the least tolerable single change to the service for both residential and business users: 90.1% of residential users and 88.2% of businesses would find the service with a 90p (74p for PPI/meter users) tolerable, a decrease from 92.5% and 93.9% of residential users and business users respectively finding the current service tolerable.

<sup>121</sup> The groups were not focussed on low income groups. So this relates to a concern amongst the general population included in the deliberative research that Special Delivery Next Day at current prices may be expensive for some postal users.

- 9.32 This is further supported by the findings of our quantitative research on the importance of guaranteed next day delivery (currently provided as part of the universal service by Royal Mail's Special Delivery Next Day service). Most respondents to our residential survey agreed that a guaranteed next day delivery is important: 59% agreed it is extremely or very important, 22% somewhat important, and only 17% not very important or not at all important. Similar results were also found in the business survey: 61% agreed it is extremely or very important, 23% somewhat important, and only 16% not very important or not at all important.
- 9.33 No guaranteed delivery next day was also the change most often chosen by businesses as having a significant negative impact on their business (22%), just behind the proportion of businesses stating that none of the changes proposed would have a significant impact (25%) and above higher First Class prices (14%). Residential users are less concerned – 12% think that the absence of a guaranteed service would have a significant impact on their lives (Figure 9.4).

**Figure 9.4: Change which would have most significant negative impact**



Source: TNS-BMRB (2012)

### Specific categories of users and larger businesses

- 9.34 As we must have regard to the needs of those groups of users, we were particularly concerned to see whether those over the age of 65, those on low income, disabled users and those living in rural areas may rely more on the next day service.
- 9.35 Most of the times, this does not appear to be the case. The tendency to use First Class over Second Class occurred across all types of residential users, but was weakest amongst those over the age of 65 and those on low incomes. A minority (43%) of those over the age of 65 said they use First Class all or most of the time (43%), compared with 59% overall. 58% of those earning less than £11,500 per year used First Class all or most of the times, compared with 59% overall, and 72% of those earning over £50,000 per year.

- 9.36 In relation to users' preference for a single, two-day service over the current two-tier service, there were a few differences in how specific groups of residential users saw this option. In particular, those who are likely to be particularly price-conscious - those on low incomes, those over the age of 65, those in social groups DE and those who use Second Class post all or most of the time – were even more likely than average to favour the cheaper of the one-tier services over the two-tier service when the price of First/Second Class is as high as 90p/60p.
- 9.37 However, a slightly higher proportion of those in rural/deep rural areas within Scotland, Wales and Northern Ireland opted for the option of retaining a two-tier service at both current and higher price levels than the average. It is unclear from our research whether this indicates a preference for retaining the cheaper, Second Class service, or the next day service, First Class. There did not seem to be a specific difference in how users in deep rural areas saw a single service in our qualitative research, which was generally acceptable to all participants in our research. This could be related to a general perception of change from users in deep rural areas, who were generally less tolerant of changes than the rest of the population.
- 9.38 Among business users, First Class is used most by smaller companies and those who spend the least on post. Businesses with one or two members of staff reported sending an average of 70% of their mail First Class. Those with 251+ staff said they send an average of 55% First Class. This is still more than half, but is a significantly lower proportion than for the smallest businesses.
- 9.39 There were also some sub-group differences in how businesses view the scenario of a single, two day service. In particular, those businesses with high postal spends tended to prefer the lower-priced version of the one-tier options, as did those who currently mainly use Second Class post. However, there is an indication (based on a small number of respondents) that the very highest spenders on post tended to prefer the two-tier option. Postcomm's research on the needs of bulk mailers from the universal service (2010) suggests that this is because such organisations value the lower cost of the Second Class service over improved speed of the single tier service.<sup>122</sup>
- 9.40 Our survey asked respondents to focus on their single piece mail. Therefore, large businesses would not have considered the impact of a two-tier service on their use of bulk mail, either purchased from Royal Mail or from access operators.<sup>123</sup> The impact may be small, except possibly for a minority of large mailers reliant on First Class mail.
- 9.41 Large mailers generally rely less on the First Class service as they are more likely to use Second or Third Class services or services provided by other operators, which also provide a two delivery or later service. Postcomm's research on the needs of bulk mailers from the universal service found that they were concerned above all with retaining low prices.

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<sup>122</sup> TNS-BMRB, *Bulk mailer needs from a sustainable universal postal service in the UK*, 2010, <http://stakeholders.ofcom.org.uk/binaries/post/1179.pdf>. The research found that price is a key driver of acceptability of postal services by bulk mailers. The highest price tested in the conjoint analysis was the least acceptable change tested, and reduced the acceptability levels of the service considerably. Only 23.9% of bulk mailers finding this change acceptable.

<sup>123</sup> Where these mailers were included in the survey they were asked to respond in respect of their single piece mail.

- 9.42 There is, however, a minority of the post sent by large mailers which continues to be sent for next day delivery.<sup>124</sup> It is possible that a two-day service for some of these items may not be acceptable to large mailers. In addition, large mailers which currently use Second Class products could see an increase in price (as well as service quality) if they were forced to switch to a two-day service. As discussed above, given that they are concerned primarily with retaining low prices, it is likely that many large mailers would not find this change acceptable.

## Comparison of the costs and benefits of the next day service

### Costs of the next day service

- 9.43 Our analysis indicates that the cost of providing a next day service is relatively high.<sup>125</sup> We have considered how much more it costs Royal Mail to provide a next day service, compared to a scenario of providing a two-day service only (which would also replace the current three-day service, i.e. the Second Class service).<sup>126</sup> If the requirement for a next day service were not there, it would hypothetically enable fundamental re-structuring of the mail centre estate, remove or reduce the requirement for an air network, and remove the need to stream mail (into First and Second Class). In this scenario, the cost savings would be reduced to some extent to retain a national next day coverage for the current next day guaranteed service (Special Delivery Next Day). This scenario would require a fundamental network re-design, and incur transition costs, which would reduce the case for change.

### Benefits of the next day service

- 9.44 There are some private and social benefits to the current two-tier service, in particular for important, urgent items.
- 9.45 In relation to private benefits, we did not test the benefits of a two tier service as part of our conjoint analysis.<sup>127</sup> We therefore do not have information on the monetary value put by respondents on this service, and thus rely more generally on research evidence. In summary, the research points towards a trend towards a lesser need for speed in general, although users state they would continue to need a next day service for important, urgent items. This suggests that the private benefits of having both the next day and three-day services have diminished, and in particular that the need for next day in relation to everyday items will continue to diminish, with the replacement of post by other means of communication. The impact on large businesses of not having a First Class service may be small. However, there continues to be a significant minority of users for whom a two-tier service is important.

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<sup>124</sup> Postcomm's bulk research on the universal service (2010) found that First Class bulk mail services are chosen for financial transactions required by regulation to be sent First Class, some time critical mail (e.g. debt collection) and in a crisis caused by delays during the life of the communication material. TNS-BMRB, *Bulk mailer needs from a sustainable universal postal service in the UK*, 2010, <http://stakeholders.ofcom.org.uk/binaries/post/1179.pdf>

<sup>125</sup> "Low" cost saving impact is £0m-£50m; "Medium" cost saving impact is £51m-£150m; and "High" cost saving impact is £151m and over.

<sup>126</sup> This scenario also included the assumption of cost savings from a change to final delivery times at 5pm.

<sup>127</sup> See Section 4: this scenario was originally intended as part of the trade-off analysis, but the pilots showed that the original trade-off exercise was too complex. We removed the two-day service scenario from the conjoint and tested it separately as it had already been tested in previous conjoint analysis, and we have some trend data on the use and preference for next day delivery which can form part of our evidence base.

- 9.46 There are some social benefits to the postal service as discussed in Section 7, some of which may be derived from a next day service. A service that is slower than First Class may affect businesses, including small and rural businesses, where they send mail which needs to arrive quickly. Participants suggested it may also “slow the wheels of commerce” more generally. The need for a low cost next day service may be greater among certain groups who are more reliant on post to run their lives and connect with others, such as those living in rural communities, given they may have less alternatives. Where speed is required, these groups may find it harder to access Special Delivery Next Day, or may find it expensive. However, the social benefits of a next day service are likely to be diminishing along with the private benefits, as other methods of fast communication become more prevalent.

### **Provisional conclusion**

- 9.47 Our analysis seems to suggest that costs of a next day service are high and the benefits of a next day service would appear to be diminishing over time as the use of other communication methods can fulfil the need for “speed”. We note, however, that a fundamental change to the requirement for a next day service, such as replacing it with a two-day service, would be challenging and take time to implement.
- 9.48 However, users would be likely to continue to need to send important, urgent items, at a price which should not exclude those on low incomes. In addition, there could be a greater impact for some categories of users, and this would be important in considering any change in future.

### **Possible regulatory implications**

- 9.49 The current regulatory requirements for separate Priority and Standard services are to be found in the Order. Royal Mail has notified us that it currently meets these requirements by providing its ‘First Class’ and ‘Second Class’ mail products, respectively.
- 9.50 Both the Postal Services Directive and the Act require a universal postal service to be provided that meets certain minimum legal requirements. However neither the Directive nor the Act require there to be separate Priority and Standard services (i.e. separate First Class and Second Class mail). This is an additional requirement specified in the Order and, as such, is something that falls within the remit of Ofcom’s powers of regulation and which Ofcom has the power to change in the event that it considered it was appropriate to do so.
- 9.51 A further layer of regulation is provided by the DUSP conditions, imposed on Royal Mail as the designated universal service provider. The DUSP conditions contain the quality of service targets which must be met in respect of the Priority and Standard services.
- 9.52 The Order and the DUSP conditions could, potentially, be amended so as to merge the current separate Priority and Standard services into a single standard universal postal service. Conversely, additional alternative services could potentially be added to the regulations if a reasonable need for them were to be established.
- 9.53 As discussed in previous sections, our primary duty in relation to postal services is to carry out our regulatory functions in a way that we consider will ensure the provision of a financially sustainable and efficient universal service. If, as a result of our review and based on the evidence provided in response to this consultation, we come to the conclusion that the reasonable needs of users are not being met, either because they

are under-provided for or over-provided for, we will consider making appropriate changes to the Order and DUSP conditions in order to align the regulatory requirements to the reasonable needs of users. Potential options for future change to the regulatory requirements include:

- Keeping the current two-tier system and so continuing to require both the Priority and Standard services. The regulatory implication is that we would make no change to the current regulatory requirements in the Order and the DUSP conditions;
- Combining the current Priority and Standard services into a single-tier service, either by introducing the requirement for a single, two-day service, or by only requiring the current three-day service, thus leaving out the requirement for the next day service;
- Maintaining the current distinction between Priority and Standard services, but modifying the latest day the mail must arrive and/or the quality of service targets that apply to them; and
- Introducing additional regulatory requirements which may be needed so as to meet the reasonable needs of users that are not being met by the current regulatory requirements.

9.54 Before making any changes, we would consult on options for change.

*Question 9.1. Do you have any views on the results presented in relation to next day delivery?*

*Question 9.2. Do you have any further evidence on needs of users in relation to next day delivery, currently and in the longer term?*

*Question 9.3. Do you have any further evidence on the costs of provision of next day delivery?*

*Question 9.4. Do you have any views as to whether next day delivery meets the reasonable needs of users, over-provides for the needs of users, or under-provides for the needs of users?*

*Question 9.5. If so, do you have any views about which characteristics of the universal service should be modified in order to meet better the reasonable needs of users of postal services?*

## Section 10

# Quality of service of the next day service

10.1 This section presents:

- a description of the current requirements for the quality of service of the next day service and the alternatives tested in the research;
- evidence on the value to users of a high quality of service for next day mail;
- a high-level comparison of the costs and benefits of a high quality of service of the next day service; and
- very briefly, the possible future regulatory implications if our review were to conclude that the reasonable needs of users are not being met or are being exceeded in relation to the quality of service of the Priority service.

## Introduction

### Current specification

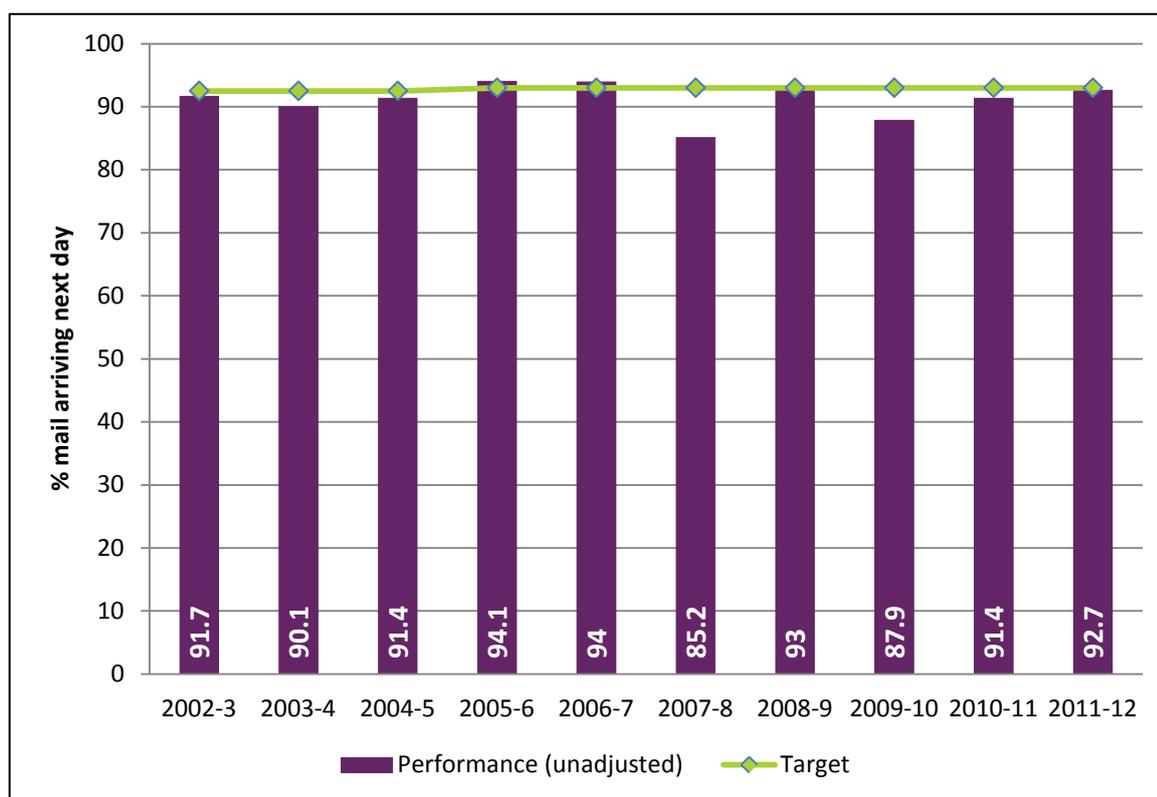
10.2 The Postal Services Directive requires quality of service standards to be set and published, and the Act allows Ofcom to set such targets. Ofcom also sets quality of service targets for the Priority (next day) and Standard (three-day) services: 93% of Priority items must arrive next day after posting, while 98.5% of Standard items must arrive three days after posting. As mentioned in Section 9, Royal Mail has notified us that it meets its obligation to provide Priority and Standard services with the First and Second Class services.

10.3 The next day target has been challenging for Royal Mail, which has nonetheless delivered nine out of ten letters next day in most of the recent years,<sup>128</sup> except in 2007-08 and 2009-10 due to industrial action arising from Royal Mail's modernisation process. This year, Royal Mail narrowly missed its First Class target, reporting that 92.7% of items arrived next day in 2011-12.<sup>129</sup> Figure 10.1 shows Royal Mail's performance against the next day quality of service target since 2002.

<sup>128</sup> In 2002-03, 2003-04 and 2004-05 the First Class target was 92.5% instead of 93%.

<sup>129</sup> Royal Mail, Quality of Service Report, Quarter 4 2011-12, <http://www.royalmailgroup.com/our-customers/quality-service/quality-service-reports>

**Figure 10.1: Royal Mail's performance against the next day quality of service target<sup>130</sup> (92.5% until 2005 then 93%), 2002-2012**



Source: Royal Mail website (2012) / Ofcom analysis<sup>131</sup>

### Potential changes to the current specification

10.4 As part of the conjoint analysis, we tested the following scenarios:

- The current service with a target of 93% of mail to arrive next day (using 90% as a simplification);
- 80% delivered next day; and
- 90% of First Class post sent locally arrives within one day and 90% of First Class post sent elsewhere in UK arrives within two days. We refer to this scenario as a split quality of service for local and national mail.

### Evidence on the value to users of the high quality of service attached to First Class

10.5 Our research suggests that the relative importance of a high quality of service target may reflect a need for simplicity rather than speed.

<sup>130</sup> Unadjusted results do not take account of any adjustments to Royal Mail's quality of service performance resulting from "force majeure" events such as severe bad weather.

<sup>131</sup> Royal Mail publishes its results against quality of service targets quarterly, with the last quarter also reporting the cumulative yearly report. See: <http://www.royalmailgroup.com/our-customers/quality-service/quality-service-reports>

- 10.6 A key theme of the deliberative sessions was a need for simplicity, both in the products offered and in their prices. This came through in particular during discussions relating to two hypothetical scenarios put forward, replacing the current First and Second Class services with a single two-day service (discussed in Section 9) and changing the current next day quality of service to a split quality of service for local and national mail. In discussions of both these scenarios participants stated their preference for simpler products which make it easier to calculate how long mail would take to arrive at its destination.
- 10.7 In our qualitative research, both residential and business users preferred the hypothetical scenario of a single, two-day service to the current two-tier service, on the basis that it would be easier to calculate when post would arrive. Moreover, although businesses were concerned there could be a significant knock-on impact on some suppliers, in particular where cheques for goods and services were being sent out, they also recognised that cheques are likely to be less used in future, and that their customers would adapt. This clearly suggests that simplicity and certainty are more important to users than speed of delivery, as long as a reasonably priced next day service exists when it is necessary for urgent, important items.
- 10.8 Users' views on the desired quality of service levels seemed to be influenced by perceptions of the current service. In our qualitative research, some views were based on the assumption that First Class always means next day delivery, which resulted in dissatisfaction with the service levels. Others felt that a 93% target is very high given the low cost of stamps and the challenging logistics faced by Royal Mail. Rural users tended to value next day delivery less because of a perception that First Class was taking at least two days to get to and from where they live.
- 10.9 Users value a high quality of service, relative to the other features of the service tested in our quantitative research.<sup>132</sup> In our quantitative research, residential and business users were willing to pay 4p on the price of a First Class stamp rather than have a split quality of service target for local and national mail. Residential and business users were willing to pay 8p and 12p respectively on the price of a First Class stamp rather than have an 80% quality of service target. Research conducted by Postcomm and Consumer Focus in 2010 found that a significant reduction in the quality of service of First Class was one of the least acceptable changes for both residential users and business users. Given the preference of participants to the qualitative research for a simple service which helps them predict when post will arrive, and their need for simplicity, it is possible that the value of the high quality of service related to First Class reflects the importance of certainty to users, possibly as much or more than the importance of speed.
- 10.10 Consumer Focus's qualitative research on the universal postal service (2012) finds that what all users (small and medium-sized businesses and residential users across the nations) want most importantly from any future service is reliability and predictability. Users believe quality of service has deteriorated, and they find that the distinction between First and Second Class has become unclear. Users believe that signed for services are the only assured way of getting an item to its destination on time.
- 10.11 There are, however, some differences on how specific sub-groups see quality of service (Table 10.1), which suggests that the impact on these groups would need to be carefully considered if there were any changes. In particular, users aged 75+,

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<sup>132</sup> See Section 6, Table 6.2, on willingness to pay (on the price of a First Class stamp) to retain the current service against hypothetical changes.

those in socio-economic groups DE, those in deep rural areas, and disabled and housebound users were less likely to find a change to the quality of service tolerable.

**Table 10.1: First Class quality of service – residential users**

	80% of First Class within one working day	90% of First Class within one day locally / two days elsewhere	Current service
	Tolerability	Tolerability	Tolerability
<b>TOTAL RESIDENTIAL</b>	<b>92.1</b>	<b>92.3</b>	<b>92.5</b>
16-24	93.9	94.0	94.2
25-34	93.7	93.9	94.1
75+	84.7	85.0	85.4
Annual income £50,000 +	97.3	97.5	97.6
DE	89.0	89.3	89.5
Retired	89.0	89.3	89.7
Scotland	89.8	90.1	90.6
Northern Ireland	89.3	89.5	89.9
London	89.3	89.6	89.8
Deep rural	86.4	86.7	87.0
Rural	93.9	94.1	94.3
Scotland rural/deep rural	93.8	94.0	94.3
NI rural/deep rural	85.4	85.6	85.9
Have disability	90.0	90.3	90.5
Housebound	88.4	88.7	88.9
Offshore	97.6	97.7	97.8

Source: TNS-BMRB (2012). Grey shading = the service is more tolerable. White = the service is less tolerable. Red = current service

10.12 The picture is slightly different for businesses, showing that a change in quality of service impacting businesses in rural areas would be likely to impact the stated social benefit of supporting rural UK businesses. Small businesses located offshore and in rural areas, in particular, were less likely than others to find these changes tolerable. In general, smaller businesses (three to ten employees) were more tolerant of changes to quality of service than average (Table 10.2).

**Table 10.2: First Class quality of service – business users**

	80% of First Class within one working day	90% of First Class within one day locally / two days elsewhere	Current service
	Tolerability	Tolerability	Tolerability
<b>TOTAL BUSINESS</b>	<b>92.6</b>	<b>93.4</b>	<b>93.9</b>
3-10 employees	96.2	96.5	96.8
251+ employees	88.3	89.5	90.6
London	88.5	89.7	90.4

South East	87.4	88.4	89.3
Rural	89.9	90.6	91.4
Turnover under £50,000	94.6	95.2	95.6
Monthly mail spend £450-£2,499	83.0	84.3	85.4
Monthly mail spend £2,500+	95.4	95.9	96.7
Small businesses - rural	89.8	90.5	91.3
Small businesses - offshore	87.3	88.4	89.5

Source: TNS BMRB (2012). Grey shading = the service is more tolerable. White = the service is less tolerable. Red = current service

## Comparisons of the costs and benefits of a high quality of service for First Class post

### Costs of the current quality of service for First Class post

10.13 The cost impact of the current requirement of 93% of mail arriving next day is medium to high<sup>133</sup>, depending on the scenarios considered (both scenarios also include the assumption of cost savings from a change to final delivery times at 5pm). We tested two theoretical costing scenarios to measure the sensitivity of costs to variations in the quality of service requirement:

- a reduction in the quality of service of about 5%, resulting in a quality of service of about 88%, with remote areas particularly affected and quality of service relatively unaffected elsewhere; and
- a scenario of next day delivery only within the “catchment” of the mail centre, described in the research as next day delivery for local mail and delivery in two days for national mail. Overall, this would lead to a reduction in the First Class service specification much further, to less than 50% next day delivery.<sup>134</sup>

10.14 The scenario of a reduction in the quality of service where quality of service is about 88% has a medium cost impact, while the scenario of a split quality of service target for local and national mail has a high cost impact. Reducing the quality of service to about 88% is estimated to have a medium impact because it would enable the total removal of the air network. Reducing the current target to less than 50% of mail delivered next day is estimated as high as this would include further savings in addition to the removal of the air network driven by a fundamental re-structuring of the mail centre estate. Importantly, these scenarios would also impact on Special Delivery Next Day and international mail, i.e. fewer items would be able to arrive next day. Therefore, the cost savings would be reduced if the current next day guaranteed service (Special Delivery Next Day) remains unchanged.

### Benefits of the current quality of service for First Class post

10.15 In relation to private benefits, as we discussed above, one of the findings of our qualitative research is the need for simplicity of the service.

<sup>133</sup> See Section 6: “Low” cost saving impact is £0m-£50m; “Medium” cost saving impact is £51m-£150m; and “High” cost saving impact is £151m and over.

<sup>134</sup> Both scenarios also included the assumption of cost savings from a change to final delivery times at 5pm.

- 10.1 The dis-benefits derived from a change to the quality of service of First Class mail is medium, both in the case of a lower quality of service of about 88% and in the case of a split quality of service for local and national mail.
- 10.2 The findings of the qualitative research suggest that these results from our quantitative survey may underestimate the dis-benefits of a lower quality of service target, and in particular of a split quality of service target for local and national mail. The qualitative research clearly found that simplicity is a stated need of users, which means that any service change which would make the service more complicated for users to understand would not meet a core need of users. The only scenario tested in the qualitative research which was not considered acceptable was a split quality of service for local and national mail.
- 10.3 A lower quality of service exacerbates the geographical differences affecting how long it takes the mail to arrive, with mail being more likely to miss the target the further it has to travel. We believe that it is possible that respondents in the quantitative survey preferred the option of a split quality of service for local and national mail because it appeared higher (90% for local mail), but did not fully appreciate that this scenario would lead to more complexity and a more uneven quality of service across the UK. Similarly, and in particular because the question assumed that the target would apply nationally, respondents may not have considered fully the implications of a lower quality of service target of 80%, which also would lead to greater geographical differences in service delivery standards than currently exist.
- 10.4 The broader social value of the service would be likely to be impacted by a change in the quality of service which is unequal across the country. As stated by the 2010 Frontier Economics report on the net cost of elements of the universal service, removing the air network completely would reduce quality of service for stamp and meter mail to approximately 85%. Removing the air network would primarily affect long distance mail, while local mail could continue to receive a high quality next-day service. As such, it would have a disproportionate impact on some parts of the country. While many areas in central England would still receive a service where over 90% of letters are delivered the next day, Scotland, Northern Ireland, South Wales and more parts of England could see First Class quality of service fall to just 50 to 75%.<sup>135</sup>
- 10.5 This would create significant disparities in the service across the UK, and have an impact on several identified social benefits:
- Participants in our workshops felt that it was important to have a cost effective universal service that was accessible to all. A change in the quality of service would impact rural and remote areas considerably more than urban areas, and may make it less accessible to recipients of mail living in those areas, compared with urban users, which would impact on the “equality” of the service. We know from previous<sup>136</sup> and recent<sup>137</sup> research that people value uniform pricing,

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<sup>135</sup> Frontier Economics, *The net cost of elements of the universal service – an update*, February 2011, <http://stakeholders.ofcom.org.uk/binaries/post/1805.pdf>

<sup>136</sup> As noted in Section 4 about the scope of the review, Postcomm’s and Consumer Focus’s research on the universal service (2010) shows that 57% of residential users and 52% of businesses said they would not be prepared to pay different prices depending on which part of the country they were sending their post to, compared with 28% of residential users and 34% of businesses who said they would be prepared to pay different prices.

<sup>137</sup> Consumer Focus’s qualitative research on the universal postal service (2012) found that one single price to all destinations is greatly valued and there is little appetite for zonal pricing.

possibly because they value simplicity. It seems likely that the value of uniformity in relation to price also applies to service features such as when users receive their mail. Again, such disparities would diminish the social benefits experienced from the current service; and

- Another of the social benefits identified by our study is helping “to keep rural areas alive”, partly by allowing businesses to run in rural areas and residents to access the modern benefits of internet shopping. Businesses and residents in rural areas would be negatively affected compared with the rest of the UK, potentially making it more difficult to run businesses in rural areas, and resulting in users potentially waiting longer to receive packets.

10.6 Our survey did not include the impact on bulk mailers using Royal Mail or access operators.<sup>138</sup> While bulk mailers predominantly use Second or Third Class,<sup>139</sup> qualitative feedback suggests that a service change which affected the predictability of First Class mail would affect some large mailers who rely on predictable delivery times.<sup>140</sup>

### Provisional conclusion

10.7 To conclude, the scale of the losses to users of changes to the quality of service service appear lower than the estimated cost savings, but the findings of the qualitative research suggest that our quantitative survey may underestimate the dis-benefits, as users value a simple quality of service which makes it easier for them to predict when mail arrives. The broader social value of the service would be likely to be impacted by a change in the quality of service which is unequal across the country.

### Possible regulatory implications

10.8 As discussed in the previous chapter, the DUSP conditions contain the quality of service targets which must be met in respect of the Priority and Standard services. The DUSP conditions could, potentially, be amended so as to change the quality of service target of the First Class service.

10.9 As discussed in previous sections, our primary duty in relation to postal services is to carry out our regulatory functions in a way that we consider will ensure the provision of a financially sustainable and efficient universal service. If, as a result of our review and based on the evidence provided in response to this consultation, we come to the conclusion that the reasonable needs of users are not being met, either because they are under-provided for or over-provided for, we will consider making appropriate changes to the DUSP conditions in order to align the regulatory requirements to the reasonable needs of users. Before making any changes to the current regulatory

<sup>138</sup> Where these mailers were included in the survey they were asked to respond in respect of their single piece mail.

<sup>139</sup> As noted in Postcomm, *The building blocks for a sustainable postal service: Removing bulk products from the universal service and clarifying the status of other universal service products – a decision document*, August 2011, actual usage of First Class bulk mail by volume is much lower than Royal Mail's Second and Third Class bulk mail and, importantly, the majority of bulk mail (in total) is now handled upstream by access operators. The vast majority of the access operators' services are D+2 and later services. See: <http://stakeholders.ofcom.org.uk/binaries/post/2005.pdf>

<sup>140</sup> We spoke to a small number of large mailers during the Review of User Needs to understand the impact of changes to the universal service on their use of mail. While most did not use First Class services, those that did stated that reliability of First Class was important.

requirements for separate Priority and Standard' services, we would consult on the specific options for change.

*Question 10.1. Do you have any views on the results presented in relation to quality of service for First Class post?*

*Question 10.2. Do you have any further evidence on needs of users in relation to a high quality of service for First Class post, currently and in the longer term?*

*Question 10.3. Do you have any further evidence on the costs of provision of a high quality of service for First Class post?*

*Question 10.4. Do you have any views as to whether a high quality of service meets the reasonable needs of users, over- provides for the needs of users, or under-provides for the needs of users?*

*Question 10.5. If so, do you have any views about which characteristics of the universal service should be modified in order to meet better the reasonable needs of users of postal services?*

## Section 11

# Number of collection and delivery days

11.1 This section presents:

- background information on the current service and the changes considered in our research;
- what users have told us in relation to the number of days per week post is collected and delivered;
- the costs and benefits we have identified in relation to the number of collection and delivery days; and
- the possible future regulatory implications if our review were to conclude that the reasonable needs of users are not being met or are being exceeded in relation to the number of collection and delivery days.

## Introduction

### Current specification

11.2 Royal Mail, as the designated universal service provider, must collect and deliver letters six days a week from Monday to Saturday, and packets five days a week from Monday to Friday. There has been little change in the number of days post is collected and delivered in recent times, except that in 2007 Royal Mail ended Sunday collections (which had been re-introduced in 1990).<sup>141</sup>

### Background

11.3 The number of days post must be collected and delivered is set by legislation, through a hierarchy of requirements. First, the European Postal Services Directive requires a collection and delivery of post five working days a week. This requirement is reflected in, and to a degree exceeded by, the UK legislation (section 31 of the Act), which requires a collection and delivery of letters six days a week, from Monday to Saturday, and a collection and delivery of packets five days a week, from Monday to Friday. The number of collection and delivery days is specified as part of the 'minimum requirements' of the Act, and only the Government and Parliament can make changes to the minimum requirements.<sup>142</sup> The Government has made clear that it has no intention of reducing the minimum requirements of the universal service during this Parliament.<sup>143</sup>

<sup>141</sup> The cessation of Sunday collections is mentioned at <http://news.bbc.co.uk/1/hi/uk/7065912.stm>

<sup>142</sup> This requirement can be amended by the Secretary of State by Order subject to approval from Parliament by affirmative resolution (as long as the changes proposed retain uniformity of provision in relation to the minimum requirements).

<sup>143</sup> Baroness Wilcox stated: "As I said during Committee, and as my colleague the Minister for Postal Affairs has said in the other place, the Government have no intention of reducing the minimum requirements of the universal service during this Parliament." HoL Report - 17.05.11 - Hansard vol.727, col. 1319 - <http://www.publications.parliament.uk/pa/ld201011/ldhansrd/index/110517.html#contents>

- 11.4 In the context of this review, we are considering the extent to which users of postal services continue to need the collection and delivery of letters six days a week, including on Saturdays. As explained in our section on the scope of the review, we decided to include in our review only those aspects of the universal service which exceed the requirements of the Postal Services Directive. The number of collection and delivery days is an important part of how users experience postal services, and we already have a body of evidence on the importance of six days collection and delivery which can be complemented by this review. Therefore, although it is part of the minimum requirements of the Act, we believed it would be a gap in our understanding of the needs of users more generally not to ask for users' feedback on this aspect of the universal service.
- 11.5 As we explain above in the legal background section, Ofcom has a power, under section 34 of the Act, to review at any time the extent to which the minimum requirements set out in the Act reflect the reasonable needs of users of postal services in the UK. As Saturday collections and deliveries of letters are included in the minimum requirements, any findings we make concerning users' reasonable needs in relation to this requirement will be made pursuant to section 34 in addition to section 30. Any conclusions we reach in our final report on this review in respect of potential changes to the number of collection and delivery days will be made in the form of a report to the Secretary of State under section 34 of the Act. However, it is important to note that Ofcom has no powers to amend the minimum requirements of the Act. As mentioned above, that is a power reserved to the Government and Parliament. Our intention in reviewing the number of collection and delivery days is to understand better, based on the evidence available and responses to this consultation, the reasonable needs of users.

### **Potential changes to the current specification**

- 11.6 We have considered scenarios for changes to the number of collection and delivery days: whether this could be changed to five days a week, Monday-Friday, or whether this could be changed to five days a week, Saturday plus four weekdays. This was tested against the option of continuing to deliver and collect post six days a week.

### **Evidence on the collection and delivery of post six days a week**

- 11.7 Users (both residential users and businesses) in the qualitative research found a scenario of five weekday collections and deliveries a week generally acceptable, under certain conditions. However, a scenario of four weekdays plus Saturday collections and deliveries was not felt to be acceptable, by businesses in particular.
- 11.8 Many participants in our deliberative sessions found a five-day week scenario acceptable<sup>144</sup> in relation to removing collections and deliveries on Saturday, as long as there are weekday collections and deliveries for businesses, and users can still access packet services (Saturday being the only day available for many users to collect packets).<sup>145</sup> Some participants felt that such a change would put post in line with other services which also run only five days a week. However:

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<sup>144</sup> Some younger groups suggested that even fewer delivery and collection days would be sufficient for their needs. Conversely, there were calls from a small minority for a seven day service. The research suggests that this was because of a sense that this would fit with the demands of modern life, not because they said they needed to use the postal service seven days a week.

<sup>145</sup> Many participants argued that to support this in practice, delivery offices should open later into the evening (until at least 8pm) and all day Saturday in order for people to receive parcels and other

- There were concerns about the impact on “full time workers” who feel Saturday is the only real day they can use postal services and receive deliveries. Many participants argued that to support this scenario in practice, delivery offices should open later into the evening (until at least 8pm) and all day Saturday in order for users to receive packets and other signed-for goods outside of regular work hours. There was even a suggestion to stop delivering/collecting letters on a Saturday but add Saturday delivery of packets to the characteristics of the universal service; and
  - Small businesses, which often operate six or seven days per week, were concerned about the possible impact on their business. This was particularly so for those reliant on sending out goods and services to customers wanting to receive a packet on a Saturday, as they considered that to meet this customer expectation they would need to use a courier, thereby increasing the overall costs of their service. Other small business users were reliant on receiving post on a Saturday in order to process an item or use it over the weekend.
- 11.9 Consumer Focus’s qualitative research on the universal postal service (2012) shows similar results. Residential users want to see the collection and delivery of letters continue under the Royal Mail structure and be subject to regulation and monitoring, but accept that six day delivery and collection might not be sustainable in the long-term and therefore settle on a compromise (which relates to a reduction in the number of collections and deliveries per week but also a change to the current next and three day services, i.e. the report mentions a compromise of a three or four day a week delivery with a two day rather than next day delivery).
- 11.10 The evidence from our quantitative residential and business surveys tends to support the qualitative evidence but is slightly more mixed.
- 11.11 Reducing the number of collection and delivery days results in the highest dis-benefit of all the features of the universal service tested for residential users, although for businesses this is only true of removing a weekday:
- Residential users valued losing a six day a week delivery and collection service as the equivalent to a 12p rise in the price of First Class (the next day service). The impact was the same for losing either a weekday or Saturday; and
  - Business users did not value Saturday deliveries at all, but would rather increase the price of a First Class stamp by 14p than lose a weekday.
- 11.12 It is possible that the relative value to residential users of a weekday compared to a Saturday collection and delivery would be affected by a knock-on impact of the scenario of retaining only four weekdays and a Saturday collection and delivery. If Royal Mail did not have to deliver and collect postal packets (both letters and other packets such as gifts or internet orders) one weekday, it would need to do so on the Saturday. We think it is unlikely that users would have been aware of such knock-on effects and therefore taken them into account in their valuation of the service.
- 11.13 Consistent with users’ willingness to pay, reducing the number of delivery and collection days to five is the least tolerable service change for residential users (with respect to losing a Saturday) and business users (with respect to losing a weekday), although it was still more tolerable than the largest price increases tested (see Table

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signed-for goods outside of regular work hours. A trade-off was seen to be requiring parcel delivery on Saturday.

6.2 in Section 6). There were a number of differences observed in the quantitative research, which suggests the impact on specific groups would have to be carefully considered if there were any changes.

11.14 In relation to residential users, sub-groups less likely to find a change in the number of days of delivery and collection tolerable included users aged 75+, those in deep rural areas, those housebound, those disabled and those living in Northern Ireland or Scotland (Table 11.1). This is in line with the general trend that those aged 75+, housebound, disabled and those living in deep rural areas were more negative to all changes (as well as the current service).

**Table 11.1: Days of delivery and collection – residential users**

	Losing a Saturday delivery / collection	Losing a weekday delivery / collection	Current service
	Tolerability %	Tolerability %	Tolerability %
<b>TOTAL RESIDENTIAL</b>	91.3	91.4	92.5
16-24	93.7	93.7	94.2
25-34	93.3	93.3	94.1
75+	83.5	83.6	85.4
Urban	91.2	91.3	92.4
Rural	92.9	93.0	94.3
Deep rural	85.1	85.2	87.0
Housebound	87.9	88.0	88.9
Disabled	88.5	88.7	90.5
Annual income £50,000 +	96.0	96.3	97.6
DE	88.5	88.5	89.5
Offshore	97.1	97.1	97.8
Northern Ireland	88.2	88.3	89.9
Scotland	88.3	88.5	90.6
Northern Ireland rural / deep rural	84.4	84.5	85.9
Scotland rural/deep rural	93.3	93.3	94.3

Source: TNS -BMRB ( 2012). Grey shading = the service is more tolerable. White = the service is less tolerable. Red = current service

11.15 Businesses in rural areas were also less tolerant of a change in the number of delivery and collection days (see Table 11.2). More generally, the businesses which would find the change in the number of days of collection and delivery least tolerable tended to be large (251+ employees), situated in rural areas, offshore (particularly small businesses), or located in London or the South East. This is in line with the general trend that changes in the service were less tolerable for small businesses in rural, deep rural and offshore locations.

11.16 As discussed above, some small businesses in the qualitative research were concerned about the impact on their businesses. The quantitative research does not find that small businesses would be most concerned: as shown below, businesses employing between three and ten users found a change in the number of collection and delivery days more tolerable than average. This could be because participants of the qualitative research had more opportunity to discuss the impact on their business, such as the ability to offer a Saturday delivery of packets.

**Table 11.2: Days of delivery and collection – businesses**

	Losing a Saturday delivery / collection	Losing a weekday delivery / collection	Current service
	Tolerability	Tolerability	Tolerability
<b>TOTAL BUSINESS</b>	93.9	91.2	93.9
3-10 employees	97.2	95.2	96.8
251+ employees	91.5	86.5	90.6
Rural	91.2	89.2	91.4
Small businesses - rural	91.1	89.1	91.3
London	91.8	86.6	90.4
South East	88.1	85.4	89.3
Northern Ireland	97.3	94.6	98.5
Offshore	90.6	87.4	92.2
Small businesses - offshore	87.1	83.0	89.5
Monthly mail spend £2,500+	97.2	95.7	96.7

Source: TNS-BMRB (2012). Grey shading = the service is more tolerable. White = the service is less tolerable. Red = current service

11.17 Businesses are also unlikely to value Saturday delivery in relation to non-universal services. They may, however, value weekday delivery for non-universal services, in line with businesses generally. Postcomm's and Consumer Focus's research on the universal service (2010) found that generally bulk mailers were comfortable with the idea of five collection and delivery days a week, with a preference for losing Saturday delivery over a weekday. Some bulk mailers made the point that they were not open to 'act' on mail received over the weekend.<sup>146</sup> Some still favoured retaining six day delivery as a result of customer expectations for Saturday delivery and perceived benefits of sending some types of marketing mail for weekend delivery. This research found general resistance to losing a weekday delivery.

## Comparison of the costs and benefits of six days collection and delivery a week

### Costs of one additional day collection and delivery per week

11.18 The incremental cost of providing a collection and delivery on Saturday is high.<sup>147</sup> The cost of providing a collection and delivery on a day of the week other than Saturday is also high<sup>148</sup>. High savings could potentially be achieved because one day less would enable the ceasing of operations throughout the pipeline for an extra day, including scaling the air network down to four nights per week. For the hypothetical scenario of removing Saturday, the costing assumptions still include collections from

<sup>146</sup> TNS-BMRB, *Bulk mailer needs from a sustainable universal postal service in the UK*, 2010, <http://stakeholders.ofcom.org.uk/binaries/post/1179.pdf>.

<sup>147</sup> See Section 6. Low means below £50million, medium means between £51million and £150million, and high means £151million and over.

<sup>148</sup> The estimates focus on collections and deliveries on Saturday. In the view of Consult Sirius, which reviewed cost estimates, cost saving opportunities from ceasing deliveries on a weekday would add complexity and would be likely to result in cost savings that are materially lower than cost savings of not having Saturday collection and delivery.

post offices and callers' offices being available. Continuing to provide the Special Delivery Service and the international services would add some costs back, although these are not as significant as the overall savings which would be achieved. However, reducing the number of collection and delivery days would require a full national workplan redesign, which could take time to implement.

### **Benefits of one additional day collection and delivery a week**

- 11.19 The private benefits of six day a week collection and delivery are high for a weekday collection and delivery, and low for Saturday collection and delivery.<sup>149</sup> This is mainly due to the fact that businesses value weekday collections and deliveries, but not Saturday collection and delivery. Based on previous research, as discussed above, businesses which use non-universal services are likely to follow the same pattern of preferences.
- 11.20 This can be seen in the context of the findings from our qualitative research (and Consumer Focus's qualitative research on the universal postal service (2012)). After discussion, users found that five weekday collection and delivery, i.e. no post box collections and no deliveries on Saturday, would be acceptable, as long as they could access packet services conveniently.
- 11.21 In relation to the broader social benefits of providing a cost-effective universal service that was accessible to all, and supporting rural communities, there was nothing in our qualitative research which suggested particular reliance on a Saturday collection and delivery by specific residential groups, beyond "full time workers" and some small businesses discussed above. However, there were a number of differences observed in the quantitative research. In relation to residential users, sub-groups less likely to find a change in the number of days of delivery and collection tolerable included users aged 75+, those in deep rural areas, housebound users, disabled users, and those living in Northern Ireland or Scotland. Businesses in rural areas were also less tolerant of a change in the number of delivery and collection days.
- 11.22 In relation to continuing to support small and rural businesses by ensuring they are able to keep their costs at a low/competitive level, the impact on broader social value would mostly only apply to losing a weekday delivery, as businesses were not as concerned about losing a Saturday delivery. Some small businesses were concerned about the impact of no Saturday collections and deliveries on their businesses in the qualitative research.

### **Provisional conclusion**

- 11.23 When we tested the hypothetical move to the collection and delivery of mail five days a week, both the costs and benefits from collections and deliveries Monday to Friday were high. Businesses, in particular, value collections and deliveries Monday to Friday. In relation to collections and deliveries on Saturday, while costs are also high, the benefits overall (to both residential users and businesses) are low due to the fact that many business users do not value Saturday collections and deliveries. There does not appear to be a significant impact on broader social value.

### **Possible regulatory implications**

- 11.24 The number of days collection and delivery is a regulatory requirement that is specified by both the Postal Services Directive and the Act:

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<sup>149</sup> See Section 6.

- The Postal Services Directive requires, as a minimum, that there be collection and delivery of mail not less than five working days a week; and
- The Act makes a distinction between letters and other postal packets in this regard. The minimum requirements of the universal service in the UK, as set out at section 31 of the Act, require the delivery and collection of letters every Monday to Saturday and of other postal items every Monday to Friday.

11.25 As a result of our review and the evidence provided to us in response to this consultation, we may come to a finding that:

- the reasonable needs of users are, on balance, being met by the postal services market in respect of the number of days collection and delivery currently required under the existing regulatory requirements; or
- the reasonable needs of users are, on balance, under-provided for or over-provided for in respect of the number of days collection and delivery.

11.26 However, it is important to note that Ofcom has no legal power to modify the minimum requirements set out at section 31 of the Act and therefore cannot change the number of days collection and delivery of post through regulation. Ofcom may review under section 34 of the Act the extent to which the minimum requirements reflect the reasonable needs of users and provide a copy of its findings to the Secretary of State.<sup>150</sup> However, any decision as to whether to make any consequential modification to the minimum requirements rests with Government and/or Parliament.

*Question 11.1. Do you have any views on the results presented?*

*Question 11.2. Do you have any further evidence or views on the needs of users in relation to the number of collection and delivery days per week, currently and in the longer term?*

*Question 11.3. Do you have any further evidence or views on the costs of provision of one collection and delivery day?*

*Question 11.4. Do you have any views as to whether six collection and delivery days meet the reasonable needs of users, over- provide for the needs of users, or under-provide for the needs of users?*

<sup>150</sup> See section 34(3) of the Act.

## Section 12

# Collection and delivery times

12.1 This section presents:

- background information on the current service and the specific changes that we have considered in our research;
- evidence from our research on the existing specification for collection and delivery times and the impact of making changes to it;
- our discussion of the costs and benefits of potential changes to universal service users; and
- the possible future regulatory implications if our review were to conclude that the reasonable needs of users are not being met or are being exceeded in relation to collection and delivery times.

## Introduction

12.2 Post box collection times affect the time it takes for mail to reach its destination or the distance senders need to travel to post mail if they want an earlier collection. Collection on delivery refers to a case where the post person makes a final collection of mail at the same time that post is delivered in that area, and generally implies earlier collections from post boxes. An earlier collection means that some more users will miss the last collection when posting mail leading to a days' delay in the processing of their mail. Alternatively, these users may choose to travel further to post their item in a post box with a later collection time in order to avoid this delay.<sup>151</sup>

12.3 Final delivery times are a target for the time at which all of that day's mail should be delivered. A later final delivery time affects the latest time that the last recipients receive their mail. Where there are later delivery times, other recipients, situated earlier on the delivery staff's walk, may also receive their mail later.

## Current specification

12.4 Times of collection and delivery are not currently regulated directly as part of the universal service. However, as the designated universal service provider Royal Mail is required to notify Ofcom of the specified delivery and collection times from post boxes, any changes they intend to make to those times, and any reclassification of post boxes which results in the collection time starting earlier.

12.5 Royal Mail's current specification for collection times specifies the time of the final collection by type of collection point. On weekdays collection targets are:<sup>152</sup>

- Commercial areas: 6:30pm to 7:30pm;

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<sup>151</sup> The time of the next collection is displayed on every post box including the location of the nearest post box with a later collection. This helps posting customers to know if they have missed that day's collection and gives them the option to travel to another box in order to post mail for collection that day.

<sup>152</sup> Collection times are between 7am and 1pm on a Saturday regardless of location.

- Town/City Area: 5:30pm to 6:30pm;–
  - Rest of UK: 4pm to 5:30pm;
  - Deep Rural: 9am to 4pm; and
  - Business Boxes:5:30pm to 7:30pm.
- 12.6 Royal Mail's current specification for delivery times sets the time of the final delivery at 3pm in urban areas and 4pm in rural areas. The final delivery time refers to the time at which all mail must be delivered.<sup>153</sup>
- 12.7 The majority of mail is delivered before the final delivery time as most delivery spans are typically 3.5 hours long in urban areas (5.5 hours in rural areas) so most delivery routes start at or before 11.30am in urban areas (at or before 10.30am in rural areas). In addition to this, firms' deliveries often take place earlier as part of a separate van based round which starts earlier than the main delivery rounds.
- 12.8 Businesses are also able to purchase collection and delivery services including business collections, timed delivery<sup>154</sup> and early collect.<sup>155</sup> These services are provided outside the universal service.
- 12.9 Royal Mail reports its compliance with these targets to Ofcom on a quarterly basis. Current and cumulative performance against these targets is above 99%.<sup>156</sup>

### Potential changes to collection and delivery times

- 12.10 We have considered a scenario for changes to collection times which brings collection times forward allowing Royal Mail to collect from some boxes at the same time as delivery ("collection on delivery"). Collection on delivery would not affect all boxes with some still receiving a late collection. In our survey we asked respondents to consider a scenario where local and rural boxes were collected on delivery but boxes in the town centre were collected later.<sup>157</sup> Our costing analysis makes similar assumptions, assuming that most boxes would be collected on delivery but that a significant minority would retain their existing collection times.

<sup>153</sup> Delivery times have been subject to a number of changes in the last decade. In 2004 the second delivery for urban areas was dropped replacing two deliveries per day, with a standard of 9.30am for completion of first delivery, with a single delivery by 1pm. By 2010, final times had been extended by one hour, and Royal Mail was operating to a completion specification of 2pm for urban deliveries, and 3pm for rural deliveries. During 2010 both times were relaxed by a further hour, to the current 3pm urban / 4pm rural specification.

<sup>154</sup> Timed delivery allows a recipient to specify a certain delivery time (or day) from 6am onwards and is charged at £3,400 plus VAT per year. See: <http://www.royalmail.com/delivery/inbound-mail/timed-delivery>

<sup>155</sup> Early collect allows a recipient to pick up their mail from a local Delivery Office between 6am and 8.30am and is charged at £2,900 per year. See: <http://www.royalmail.com/delivery/outbound-mail/early-collect/prices>

<sup>156</sup> Royal Mail, *Quarterly quality of service report to Ofcom and Consumer Focus*, 2011-12 Quarter 4 Report, [http://www.royalmailgroup.com/sites/default/files/Q4%202011-12\\_Quarterly%20Quality%20of%20Service%20Report%20to%20Ofcom.pdf](http://www.royalmailgroup.com/sites/default/files/Q4%202011-12_Quarterly%20Quality%20of%20Service%20Report%20to%20Ofcom.pdf) .

<sup>157</sup> Respondents were told that delivery times at local/rural boxes would be between three and five hours earlier (12am or 10am relative instead of 3pm) but collections from town centre boxes would be at 6.30pm.

- 12.11 We have considered a scenario for changes to delivery times which delays delivery times by one to two hours to 5pm in all areas. As in the existing specification most mail would be delivered before these times with the majority of mail delivered by 3pm and a small proportion delivered after 4pm.
- 12.12 The change would involve a delay to the whole delivery operation so would also affect the time at which receiving users are able to schedule timed delivery and early collect.
- 12.13 These changes are hypothetical scenarios which have been assessed in order to understand the impact of a change to collection and delivery times on postal users.

## Evidence on collection and delivery times

### Collection times

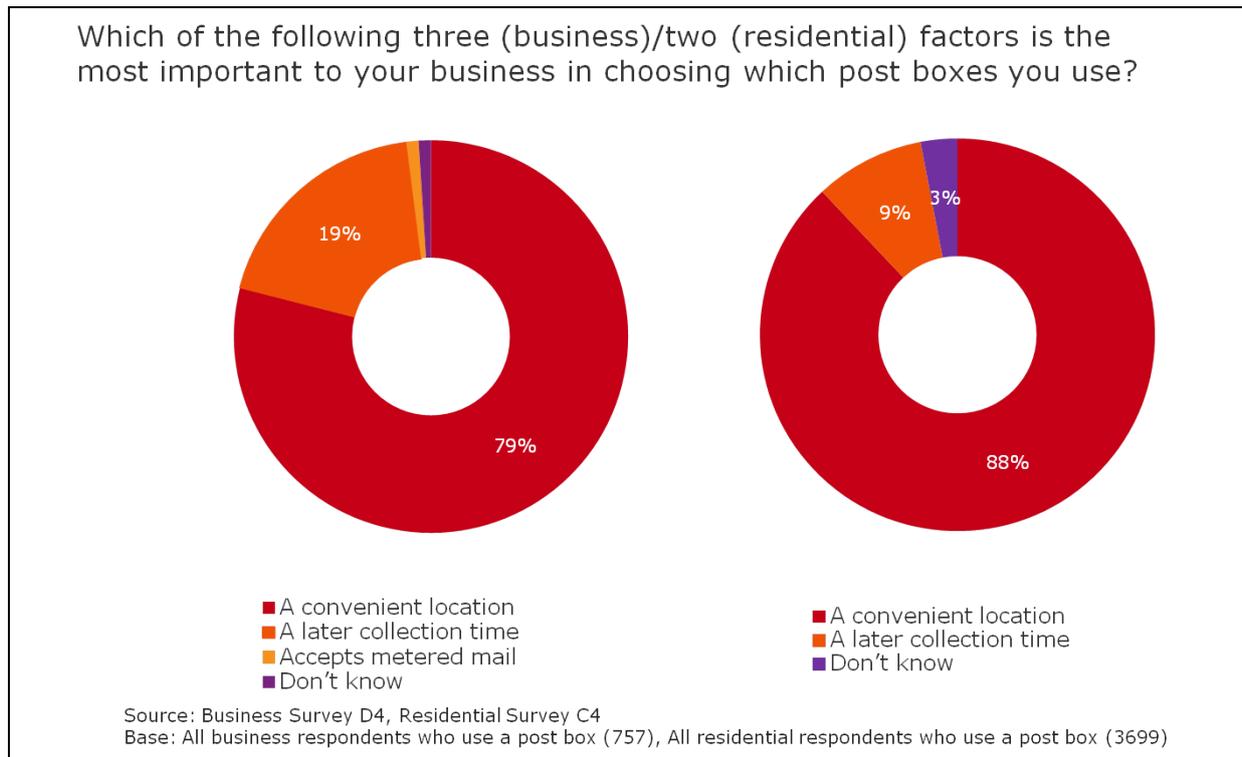
- 12.14 The research indicates that collection times are relatively un-important for residential users in driving current posting decisions as choice of post boxes is driven by location rather than collection time. This is based on current collection times which are relatively homogenous except in deep rural areas where final collections can take place anywhere between 9am and 4pm. The main findings that related to collection times for residential users were:
- Two-thirds used a post box at least once a month;
  - those living in rural/deep rural areas, off-shore, those aged 55+<sup>158</sup> and those from AB households, used post boxes more regularly;
  - When asked which improvement to the postal service they would choose, 7% of respondents chose later final collection times (2% unprompted);
  - Earlier collection from post boxes was one of the hypothetical changes to the postal service least likely to have a 'significant' negative impact' on residential users' lives;<sup>159</sup>
  - Most users said they knew the collection time of their closest post box (65%);
  - When asked which of two factors – a convenient location, or later collection times – was the more important when choosing which post box to use, 88% said a convenient location, compared to nine per cent who choose their box based on collection times; and
  - Those that said the most important factor in choosing which post box to use is the collection time were more likely to use a post office (25%).

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<sup>158</sup> Specifically, 75% of those aged 55-64 used a post box once a month or more, and 72% of those aged 65+ said the same, compared with an average of 65% of respondents.

<sup>159</sup> When asked which of a list of potential changes to the postal service would have the most significant negative impact on their life, three per cent of residential users said earlier collections from post boxes.

**Figure 12.1: Most important factors in choosing a post box**



Source: TNS BMRB (2012)

12.15 While businesses use post boxes regularly, this is not the case for large businesses: three-quarters of businesses used a post box at least once a month, but three-quarters of larger businesses (251+ employees) never used a post box (Table 12.1).<sup>160</sup>

**Table 12.1: Use of post boxes by number of employees**

	Total	Number of employees					
		1-2	3-10	1-10	11-50	51-250	251+
<b>Ever (Net)</b>	85%	87%	81%	86%	69%	39%	28%
<b>Once a Month or More (Net)</b>	75%	76%	75%	76%	63%	31%	22%
<b>Less than once a month</b>	10%	11%	6%	10%	6%	7%	6%
<b>Never</b>	15%	12%	19%	13%	31%	60%	72%
<b>Don't know</b>	*	*	*	*	1%	1%	-

Source: TNS BMRB (2012)

12.16 As with residential users, few businesses cite collection times as driving their current posting habits, although most say they know what their collection time is, and are generally more aware of collection times. As with residential users this might reflect

<sup>160</sup> Business users who do not use a post box might post mail at a post office or have a business collection.

homogeneity of collection times and if some boxes were collected much earlier than others there could be a shift in behaviour. The main findings for business users were:

- Out of three factors – convenient location, later collection times, or acceptance of metered mail – the location of post boxes was the most important factor in choosing which post box to use for most businesses (79%). One-fifth said that later collection time is the most important factor, this is particularly the case for larger businesses and those that said mail is core to their operations;
- The majority (four-fifths) said they knew what the collection time is Monday-Friday for their nearest post box;
- When asked which improvement to the postal service they would choose, seven per cent of respondents chose later final collection times (three per cent unprompted); and
- Eight per cent of businesses thought earlier collection times would have a serious impact on their business but of those a majority suggested they could think of ways to work round it/find alternatives; only 13% said it would have a severe impact on their ability to run the business.<sup>161</sup>

12.17 The research found there were mixed views about whether it was essential (or nice to have) for Royal Mail to maintain current collection times. Respondents emphasised the need for certainty of collection times but some were concerned about earlier collection times specifically. Concerns related to the need for collection times to 'fit with the demands of modern life' and fulfil the need for speed. A few had concerns about leaving mail in a post box overnight in the event that they missed the last collection. Businesses in particular felt they needed to retain a collection time at the end of the day enabling them to work around it as they accumulate post during the day.

12.18 To understand how changes to collection times might affect postal users our qualitative research asked respondents to consider the impact of a scenario whereby collections are made at the same time as deliveries.<sup>162</sup>

12.19 Respondents were positive about the idea of moving collections, particularly from low volume boxes onto delivery primarily because they could understand why it would be more efficient and it fitted in with their desire for a more efficient postal service. The qualitative discussion also suggested that the impact of this scenario may be small because very few residential respondents were able to provide examples of where they might need to respond to a communication received by post by return of post the same day.<sup>163</sup>

12.20 Collection on delivery could have a greater impact on rural areas insofar as there are likely to be more low volume boxes in rural areas, so could be viewed as increasing the difference in provision between rural and urban areas. However, this discrepancy

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<sup>161</sup> The remainder thought that it would make running the business more costly but they would work round it/find alternatives or it would have a small impact.

<sup>162</sup> The research did not specify the exact time at which collection would take place in this scenario.

<sup>163</sup> As described above, the inability to respond by return of post, without posting from a post box with later collection times (e.g. in a town centre), is the main impact of this scenario.

already exists to some extent.<sup>164</sup> Some rural participants in the qualitative research felt they had already adapted to collection on delivery.

- 12.21 Whilst users in rural areas considered knowing collection times particularly important (as their nearest post office with a later collection time could appear to be far away) they did not suggest the collection time was too early, but rather needed to be very clear about when the last collection was, presumably in order to enable them to plan around it.
- 12.22 However, some respondents did note the impact this change could have on the speed of mail, in particular, combined with other changes such as the loss of Saturday deliveries and changes to First Class mail (the next day service). It was perceived this could make it difficult to calculate how long mail would take to arrive and that the impact on the delivery date could then become too great.
- 12.23 Business respondents were more concerned about this scenario as it was felt it could add an extra day to turning around important documents. Small businesses who did not have a business collection service noted that this would require them to travel further to post their mail potentially adding to costs.
- 12.24 The conjoint exercise also assessed the impact of a change in collection times. It asked users to trade off current collection times against a scenario where local and rural post boxes were collected at 10am or 12 noon with a later collection in the town centre.
- 12.25 Collection at 10am was found to be equivalent to an increase of 6p (residential) and 8p (business) on the price of a First class stamp i.e. users would be willing to pay a price of 66p to 68p for a First class stamp in order to retain existing collection times.<sup>165</sup> If collection on delivery were introduced, however, only a few users would be affected to this extent, as many boxes would still be collected after 12 noon. Perhaps a better reflection of the average impact of changes within an affected area would be last collection at 12 noon from rural and local boxes. This scenario was found to be equivalent to an increase of 2p (residential) and 6p (business) on the price of a First class stamp.
- 12.26 This indicates a 'medium' aggregate loss in private value for both scenarios (although the loss is considerably higher under the 10am scenario) which implies a significant impact on postal users. This impact seems particularly high because many postal users would not be affected or not affected significantly by the changes i.e. their nearest box may retain its existing collection time or there may be a box with a later collection nearby. There could be a number of reasons for this:
- It is possible respondents may have assumed they would be affected by the stated change when responding and may not have considered the location of their nearest 'town centre' box unless they lived in close proximity to one.<sup>166</sup> The boxes that would be collected on delivery would be those with lower volumes, this

<sup>164</sup> There is already some discrepancy in collection times between rural and urban areas, as collections times can be earlier in deep rural areas.

<sup>165</sup> For businesses using meter/PPI the equivalent price following the increase would be lower reflecting generally lower prices for meter and PPI mail.

<sup>166</sup> We do not have information on how collection on delivery would impact the distance postal users would need to travel to reach a box with a later collection time. It is likely that most would not need to travel as far as a 'town centre' to post mail with some 'local' boxes that receive a lot of mail continuing to be collected later in the day.

means whilst a majority of all boxes would be affected, these would be lower volume boxes that are likely to be used less; and

- Large businesses are also unlikely to be significantly affected by collection on delivery as they tend not to use post boxes, yet some larger businesses reacted more strongly to the hypothetical changes.<sup>167</sup> This might be because they responded to the conjoint exercise on the basis that the change would affect them, whereas in reality it may not given they often have their own arrangements. For example, if businesses assumed that earlier collections applied to all mail not just mail collected from a post box this would significantly affect their viewpoint on this question.<sup>168</sup>

12.27 External factors such as these should be borne in mind when analysing the data. It should also be noted that respondents to quantitative surveys do not have the same amount of time/level of discussion as they afforded are in qualitative studies. As such some responses can reflect an initial reaction to the scenarios presented. The qualitative research should be considered alongside this quantitative data for these reasons.

## Delivery times

12.28 Our research shows that:

- on average residential users received nine items a week;
- those aged 55-64 and those aged 65+<sup>169</sup>, and those with higher incomes,<sup>170</sup> tended to receive more;
- bills and statements were the items most commonly received, followed by direct mail and correspondence from businesses. Parcels, packets and goods ordered were received by a third of users; and
- businesses received a wide variety of post, most reported receiving financial transactions, direct mail, general correspondence, catalogues/brochures and packets. Bigger companies and businesses that said mail is core to their operations were more likely than others to receive all types of post.

12.29 Our survey also found that much of the mail received is non-urgent, although a minority of mail is dealt with on the day it arrives. However, this does not necessarily mean that the mail is urgent – businesses may simply find it more efficient to deal with it on the same day. Where mail does need to be dealt with on the day of receipt, this could require action by return of post, but it can also be dealt with in many other ways. The research shows that:

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<sup>167</sup> Businesses with 251+ employees or 11-50 employees had the highest utility loss and businesses with three to ten employees the lowest. Businesses with one to ten or 51-250 employees had a utility loss in line with the average.

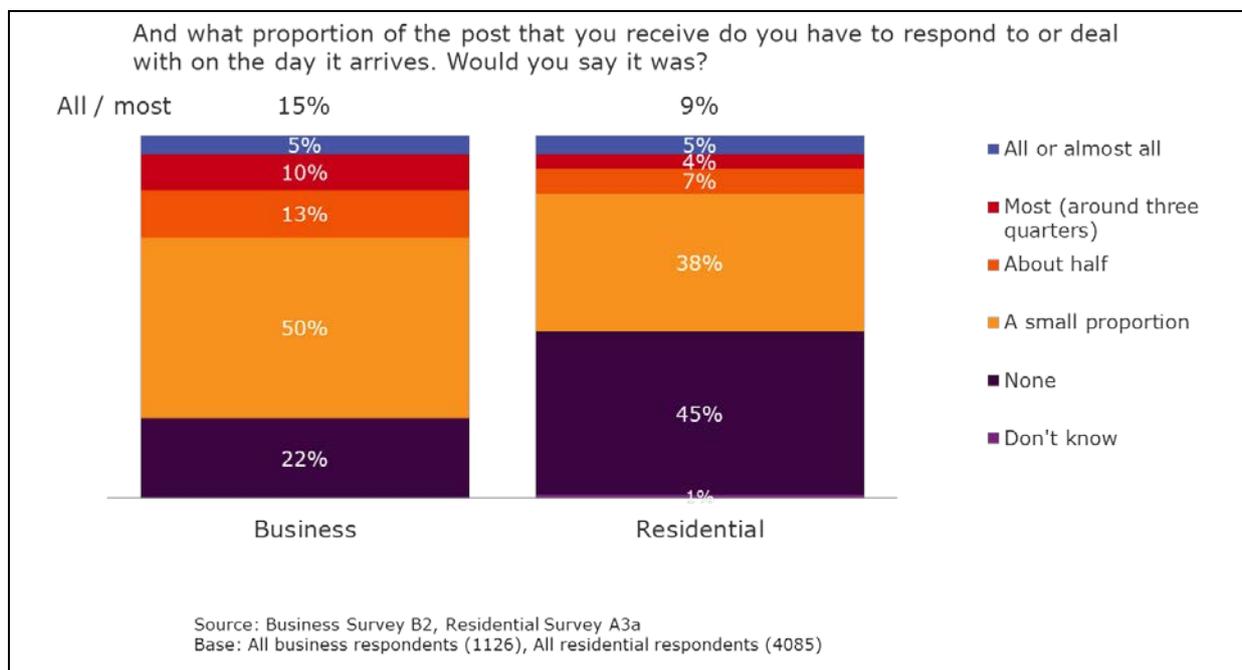
<sup>168</sup> Some of this difference could also be explained by differences in frequency of post box use: of those larger businesses who do use a post box they are likely to use it more frequently and therefore be more affected by a change.

<sup>169</sup> Specifically, 39% of those aged 55-64 received 11 or more items per week; 35% of those aged 65+ said the same. This compares with 29% overall claiming to receive 11 or more items per week across the UK.

<sup>170</sup> 43% of adults from a household with an income of over £50k per year claimed to receive 11 or more items per week, compared with 29% of respondents across the UK.

- almost half of residential users said they deal with none of their post on the day they receive it and only a minority (nine per cent) dealt with all or most of it on the same day;
- only 15% of businesses said that all/most of the post they receive has to be dealt with on the day it arrives with three-quarters saying this was true for a small proportion or none;
- bigger businesses were more likely to say that all/most of the post has to be dealt with on the day of arrival (40%); and
- the sort of mail that has to be dealt with on the day of arrival tended to be financial transactions.

**Figure 12.2: Proportion of post need to deal with on day of arrival**



Source: TNS-BMRB (2012)

- 12.30 Despite indications that most mail is non-urgent, when asked which of a list of improvements to the universal service they would choose earlier delivery times was the most popular change for both residential users and businesses. This apparent anomaly might be explained by the deliberative research which found that initial reactions were to retain current delivery times or get back to earlier ones that used to exist. However, on reflection and consideration of actual usage patterns most residential users accepted changes to delivery times and said once the early morning slot was gone it made no difference at what point in the day the post arrived so long as it was there in the evening when they got home.
- 12.31 To understand how changes to delivery times might affect postal users our qualitative research asked respondents to consider the impact of a scenario whereby deliveries are made by 5pm (an hour or two later than current rules).
- 12.32 The research showed that the impact of later delivery would be small for residential users but more significant for businesses. Residential users felt that once delivery times had shifted from the morning a further delay in delivery would not affect them as long as mail arrives before users come back home in the evening. This finding is

consistent with Consumer Focus's qualitative research on the universal postal service (2012) which found that although residential users were concerned about later delivery times the impact was minimal and respondents could not offer a compelling reason why they needed earlier delivery.

- 12.33 Whilst some small businesses thought users would adapt, businesses generally were concerned. A number of small businesses were very concerned that later deliveries would have a real detriment on their business preventing them from performing some same day transactions.
- 12.34 Medium sized businesses were more likely to be concerned that later deliveries would affect their ability to turn things around quickly in general and could put more pressure on their business or result in delays to goods and services. Again, this is supported by Consumer Focus's qualitative research on the universal postal service (2012) which found that Small and Medium Enterprises would like to see a return to earlier morning deliveries and later afternoon collections as they say changes to delivery and collection times have made their working day much more difficult.
- 12.35 Larger businesses were more likely to be able to purchase non-universal services such as timed delivery or early collection and so were less concerned; however, they were concerned that delays to delivery might cause a general slowing of the wheels of commerce.
- 12.36 The conjoint exercise asked users to consider the same scenario (final delivery by 5pm) plus a scenario whereby final delivery times are put back to 6pm. The impact of changes to delivery times is fairly homogenous with both delivery times at 5pm and 6pm equivalent to a 4p increase in the price of a First class letter for residential users i.e. a price of 64p. Delivery at 6pm was the same as 5pm for residential users but worse for business users for whom it was equivalent to a 6p increase.
- 12.37 This indicates an aggregate loss in private value that is medium under both scenarios. This indicates a significant impact but, as discussed above, this data should be considered alongside our qualitative research where respondents had more time to discuss the impact of a change on them. The qualitative research shows that, on consideration, respondents said that they rarely dealt with their mail in the morning, or needed to respond to mail via mail on the same day and as such an extension to delivery times would have little impact on them.
- 12.38 In this example the lower acceptance levels reported by the quantitative research are likely to reflect the initial reaction. As demonstrated in the qualitative research respondents did not consider other factors such as their usage patterns when responding initially.

### **Specific groups of users**

- 12.39 In addition to the private benefits to individuals, we are also interested in the social value from a service, in particular whether certain groups are particularly dependent on an element of the service, and would be significantly harmed by its removal.
- 12.40 Changes to collection and delivery times could have an impact on broader social value if rural businesses were most affected, as would be the case for collection on delivery. Our research found that postal users value the universal service insofar as it helps keep rural areas alive and is accessible to all. Any service changes that worsen the service in rural areas will affect these areas of social value.

- 12.41 However, access to the universal service is already geographically differentiated with collection times generally earlier in deep rural areas and later in commercial areas, and the research did not identify this as a concern.
- 12.42 Our research also identifies that a next day service is important for urgent, important mail.<sup>171</sup> Participants had a concern about those on low incomes were thought if they need to send urgent, important mail as they may not be able to access courier services and are less likely to be online. Collection on delivery would mean that more users would have to travel to their nearest post office or town centre to obtain next day delivery for urgent, important items and our qualitative research raised a concern that rural users or users who have mobility issues may struggle to get to a central post box should they require a later collection.
- 12.43 The following tables look at the needs of sub-groups in society for collection and delivery times.
- 12.44 Differences in the impact of changes in the universal service on residential users' tolerability of the service as a whole are small and does not indicate that rural or low income users are disproportionately affected by these changes.
- 12.45 Those that were less tolerant of changes to collection times were respondents aged 75+, those in socio-economic groups DE, retired users, housebound users and those living in deep rural areas. The same groups found changes to delivery times less tolerable. However, these differences were small.

**Table 12.2: Final collection times and final delivery times - tolerability by residential sub-groups**

	Current service	Final collection time rural/local (6.30pm town centre)		Final delivery time	
		12am	10am	5pm	6pm
	Tolerability (%)				
<b>TOTAL RESIDENTIAL</b>	92.5	92.3	92.0	92.2	92.1
16-24	94.2	94.0	93.9	94.0	93.9
75+	85.4	85.1	84.7	85.0	84.8
Annual income £50,000 +	97.6	97.4	97.2	97.4	97.3
DE	89.5	89.2	89.0	89.2	89.0
Retired	89.7	89.3	88.9	89.3	89.0
Housebound	88.9	88.6	88.5	88.5	88.4
Rural	94.3	94.0	93.8	94.0	93.9
Deep rural	87.0	86.6	86.2	86.6	86.4
NI rural/deep rural	85.9	85.6	85.4	85.5	85.3
Offshore	97.8	97.7	97.6	97.7	97.6

<sup>171</sup> This was an unprompted concern about users on low incomes in the context of changes to the availability of a next day service (which could also apply to earlier collection times).

Source: TNS-BMRB (2012). Grey shading = the service is more tolerable. White: the service is less tolerable. Red = current service.

- 12.46 Business sub-groups were more likely to find changes to both collection and delivery times intolerable.
- 12.47 More businesses find earlier collections intolerable overall (1.2-1.4%) and twice the number of deep rural businesses (2.4-2.9%) find the change intolerable. Larger businesses also found this change less tolerable; those with a turnover of over £5m were the group that found it least tolerable overall.<sup>172</sup> As discussed previously, it is likely that respondents have assumed that the change will affect them, while in practice many businesses would not be affected.
- 12.48 For later delivery, the groups with the lowest level of tolerability are those with a monthly mail spend £450-£2,499 and small businesses in an offshore location. Business users also have a larger decline in tolerability as a result of later delivery times. Delivery by 6pm leads to nearly 1% more businesses finding the service intolerable, this increases to 2% for small businesses offshore and is more than 1.5% for all businesses in deep rural and offshore locations. The full differences are shown below.

**Table 12.3: Final collection times and final delivery times - tolerability by business sub-group**

	Current service	Final collection time rural/local (6.30pm town centre)		Final delivery time	
		12am	10am	5pm	6pm
		Tolerability (%)			
<b>TOTAL BUSINESS</b>	93.9	92.7	92.5	93.3	93.0
3-10 employees	96.8	96.1	95.9	96.5	96.3
11-50 employees	90.3	89.0	88.7	89.1	88.8
251+ employees	90.6	88.8	88.5	89.5	89.0
Turnover £5,000,000+	92.3	83.3	81.1	91.5	91.1
Monthly mail spend £450-£2,499	85.4	84.2	83.9	84.2	83.7
Monthly mail spend £2,500+	96.7	96.1	95.9	95.7	95.5
Rural	91.4	89.4	89.1	90.5	90.3
Deep rural	92.6	90.2	89.7	91.4	91.0
London	90.4	89.4	89.3	89.8	89.3
South East	89.3	87.2	86.8	88.6	88.3
Northern Ireland	98.5	97.5	97.3	98.0	97.8

<sup>172</sup> While larger businesses might be expected to rely less on post boxes, 56% of businesses with a turnover of £5m use a post box. This group of businesses are also more likely than the average to need to deal with all/most of their post on the day it arrives.

Small businesses - rural	91.3	89.2	88.9	90.5	90.2
Small businesses - offshore	89.5	87.4	87.0	88.1	87.5
Small businesses - deep rural	92.7	90.3	89.8	91.5	91.2

Source: TNS-BMRB (2012). Grey shading = the service is more tolerable. White = the service is less tolerable. Red = current service. Comparison of the costs and benefits of collection and delivery times

## Costs of collection and delivery times

12.49 Collecting on delivery would allow Royal Mail to avoid making dedicated collection runs for some boxes saving vehicle and staff costs. Those boxes would instead be collected by the delivery person as part of their delivery round. The estimated<sup>173</sup> potential savings from collection on delivery are low.<sup>174</sup> These are relatively modest cost savings, compared to some of the other changes considered in this report, reflecting the fact that collections costs are a small proportion of Royal Mail's total cost base.

12.50 Later delivery times would allow Royal Mail to achieve cost savings by creating a longer operational window (the time between collection and delivery) to process mail. This longer window could be used to remove part of the air network, with shorter flights replaced by slower but cheaper surface connections. It could also be used to increase the level of automation within Mail Centres. Consult Sirius have reviewed Royal Mail's estimate of potential savings and found that potential savings are 'low'.<sup>175</sup>

## Benefits of collection and delivery times

12.51 Overall, the private benefits from the current collection times relative to collection on delivery (12 noon) are low for residential users and medium for business users. We consider this is because:

- Residential users are unlikely to deal with the majority of their mail on the day it arrives. Perhaps as a result residential users have a relatively low valuation of the current service relative to one where local and rural boxes are collected at 12 noon. This is likely to reflect their decreasing reliance on mail arriving next day and their less frequent use of mail; and
- Business users send more mail and are more likely to need to deal with mail on the day it arrives. Perhaps as a result, business users have a much higher valuation of the current service. However, the valuation of the service as "medium" might be a worst case scenario if businesses responded to the conjoint

<sup>173</sup> To construct this estimate we disaggregated the cost savings in Royal Mail's estimate for Scenario A which included savings for collecting on delivery for some boxes but removal for others.

<sup>174</sup> See Section 6. Low means below £50million, medium means between £51million and £150million, and high means £151million and over.

<sup>175</sup> Consult Sirius assume that Royal Mail's costing estimates reflect a two hour delay to the whole delivery operation so urban mail would be delivered by 5pm and rural mail by 6pm. However, they note that it is unlikely that Royal Mail's estimates, or their findings, would be fundamentally different should a small minority of mail be delayed by one hour rather than two in order to achieve a 5pm specification for all mail.

exercise on the basis that the change will affect them, whereas in reality not all businesses will be affected.

- 12.52 The private benefits of current delivery times are more consistent between business and residential users in relation to final delivery times of 5pm, but still higher for business users than residential users in relation to final delivery times of 6pm. Overall, the aggregated private dis-benefits are medium.
- 12.53 The quantitative results reflect users' initial reaction and should be considered alongside the qualitative research which allows users to think in more depth about their usage patterns and the impact of a change on their posting behaviour.
- 12.54 The qualitative research suggests that the impact of both changes are likely to be low for residential users:
- whilst they were initially resistant to changes, residential users found it hard to think of examples of where they needed to act on mail on the same day. Users' main concern related to the impact that moving collection times would have on the ability to calculate when mail would arrive at its destination, particularly if this scenario was considered alongside others such as having collections and deliveries of letters only Monday to Friday, and that as a result of all these changes, a letter might actually take a week to arrive at its destination; and
  - qualitative research on delivery times suggests that residential users felt that once delivery times had shifted from the morning a further delay in delivery would not affect them as long as mail arrives before users come back home in the evening.
- 12.55 For business users the research suggests that the impact would be larger although it was noted that the change would not affect all businesses:
- business respondents were concerned that collection on delivery could add an extra day to turning around important documents. Small businesses who did not have a business collection service noted that this would require them to travel further to post their mail potentially adding to costs; and
  - businesses generally were concerned, although some businesses did not think they would be affected as they were able to purchase additional delivery services outside the universal service, and some small businesses thought users would adapt.

### **Provisional conclusion**

- 12.56 Currently collection times do not appear to drive posting behaviour insofar as few postal users choose their post box based on collection times. Furthermore, a small minority of both residential and business respondents would choose to improve the postal service by making last collection times later. Our analysis shows that the theoretical cost savings of collection on delivery are low. Whilst our conjoint analysis shows that the dis-benefits of collection on delivery are medium, this should be considered alongside qualitative research.
- 12.57 There may also be an impact on broader social value if earlier collections affect the universality of the service by diminishing access in rural areas, or have a significant impact on small and rural businesses.

12.58 Similarly, the cost savings associated with later delivery are low, and whilst we estimate that the aggregate dis-benefits are medium for both residential users and business users this should be considered alongside qualitative research. In particular, few residential users will be materially affected insofar as most residential recipients are not at home to receive their post during the day. Although business users are more concerned, they are less likely to receive mail at the latest delivery times as they may receive earlier deliveries as part of a firm specific delivery.

## Possible regulatory implications

12.59 Collection and delivery times are not currently specified in the Universal Postal Service Order. Under the DUSP condition, Royal Mail is required to notify Ofcom of collection times and latest delivery times, and of any changes it intends to make to those times. Royal Mail is also required to publish its collection times and latest delivery times, and any changes to those times, in such a manner as will ensure reasonable publicity for them.

12.60 If, as a result of this review, we conclude that the reasonable needs of users are not being met by the current service in respect of collection and delivery times, we may consider amending the regulatory requirements of the Order and/or the DUSP conditions so as to specify more detailed requirements in relation to collection and delivery times. We would only do so if the evidence available demonstrated that regulation of collection and delivery times was necessary in order to meet the reasonable needs of users. We would consult on any proposed changes to the Order and/or the DUSP condition.

*Question 12.1. Do you have any further evidence on needs of users in relation to existing collection times?*

*Question 12.2. Do you have any further evidence on needs of users in relation to collection on delivery?*

*Question 12.3. Do you have any further evidence in relation to the needs of users for existing delivery times?*

*Question 12.4. Do you have any further evidence on the impact of earlier collection or collection on delivery on the costs of provision of the universal service?*

*Question 12.5. Do you have any further evidence on the impact of later delivery times on the costs of provision of the universal service?*

*Question 12.6. Do you have any views as to whether collection and delivery times meet the reasonable needs of users, over- provide for the needs of users, or under- provide for the needs of users?*

*Question 12.7. If so, do you have any views about which characteristics of the universal service should be modified in order to meet better the reasonable needs of users of postal services?*

## Section 13

# Delivery to the door

13.1 This section presents:

- background information on the current service and the specific changes considered in our research;
- the evidence of the views of users on changes to the current “delivery to the door”, whereby Royal Mail delivers the mail to the door of homes and premises;
- our discussion on the costs and benefits of delivery to the door; and
- the possible future regulatory implications if our review were to conclude that the reasonable needs of users are not being met or are being exceeded in relation to delivery to the door.

## Introduction

### Current specification

13.2 Royal Mail is obliged to provide at least one:

- delivery of letters every Monday to Saturday to the home or premises of every individual or other person in the United Kingdom, or to such identifiable points for the delivery of postal packets as Ofcom may approve; and
- delivery of other postal packets every Monday to Friday to residences and business premises.

13.3 Ofcom may grant Royal Mail exceptions to these obligations if delivery personnel have difficulty gaining access due to exceptional geographical conditions or there is a long-term health and safety risk at a specific address.<sup>176</sup> In these cases Royal Mail is required to put in place alternative arrangements including frequency of delivery.

13.4 Royal Mail will also provide delivery to an alternative point at the request of a recipient. In these cases delivery can be to a roadside box, a central point on a multi occupancy site or a local post office.

### Potential alternative delivery point specifications

13.5 As part of this Review of User Needs, Ofcom has considered the impact of alternative delivery points on postal users. We have considered in our research the impact of changes that would allow Royal Mail to deliver to delivery points on the boundary of a property or in a central location. This would be a significant change for postal recipients as the vast majority of addresses currently receive delivery to their letterbox.

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<sup>176</sup> The main categories for excepting an address from the universal service daily delivery obligation are long term or temporary suspension and difficulty of access. Royal Mail's 2011 Exceptions Annual Review noted there were approximately national 3,000 Universal Service delivery exceptions in the UK. (See <http://www.royalmailgroup.com/regulation/regulation-framework>).

13.6 The quantitative research<sup>177</sup> considered two potential alternatives:

- Mail would be delivered to a secure weatherproof box at the edge of your property or block of flats; or
- It would be delivered to a secure locker in a central location (such as your local train station, village or town centre) which could also accommodate items which were too big to be posted through a letterbox.

13.7 As questions about alternative delivery points are part of the conjoint analysis, we do not have a monetary value to users of these changes.

## Evidence on delivery to the door

13.8 The majority of residential users are strongly against mail being delivered to the boundary of the property of a central location. Respondents were asked how they would feel if instead of mail being delivered to the door it was delivered to an alternative delivery point. Of all respondents, 50% said they were strongly against the idea of a letterbox at the edge of their property whereas only 11% were strongly in favour. For a secure locker in central location, just over three-quarters, 77%, were strongly against this. Even fewer respondents were in favour of this (5%) than were in favour of delivery to an alternative delivery point.

**Figure 13.1: Impact of a change in delivery points**



Source: TNS BMRB (2012)

13.9 Table 13.1 shows the impact of changes to delivery point to sub groups of residential users.<sup>178</sup>

<sup>177</sup> Delivery to the door was only tested as part of the quantitative research.

<sup>178</sup> Business respondents were not asked this question.

**Table 13.1: Respondents against alternative delivery specification by sub-group**

Sub-group	Base size (unweighted)	% against secure letterbox	% against secure locker
<u>Age</u>			
16-24	423	46	74
65+	1150	67	91
<u>Social grade</u>			
AB	813	55	no differences
DE	1373	63	
<u>Area</u>			
Urban	2446	no differences	82
Rural	1291		90
Deep rural	348		90
<u>Location</u>			
Mainland	3806	58	83
Off-shore	279	63	88

Source: TNS-BMRB (2012)

- 13.10 The results suggest that the impact on these groups would have to be carefully considered if there were any changes: those aged 65+ and those that live off-shore were more likely to be against these alternative specifications as were those in the DE socio-economic groups.
- 13.11 This might reflect a broader resistance to change by some groups (e.g. those aged 65+<sup>179</sup>) possibly related to a greater reliance on post. For some groups there may be specific reasons for opposition to this idea such as groups who tend to live in areas where crime is more common who are worried about the security of their post. For housebound users, who were also more resistant to this change, it is likely to be related to the difficulty of accessing an alternative delivery point.
- 13.12 Introducing lockers in a central location idea was also unpopular with those in rural and deep rural areas. This is likely to reflect difficulties in accessing a central location where populations are more spread out.
- 13.13 Our survey evidence, set out above, shows that the majority of residential users say that they would be 'strongly against' a change to delivery points. We do not have similar information for business respondents but previous survey evidence shows that small businesses were more opposed to a change in delivery points than residential users.<sup>180</sup>
- 13.14 Our qualitative research did not focus on delivery points as a scenario for change in the universal service. However, delivery points were raised in the context of broader social value derived from the universal service. Respondents thought that the universal service played a role in 'keeping an eye on vulnerable people'. In particular, respondents perceived the postal service as benefiting elderly users, and others who would appreciate regular human contact from having a post person visiting regularly. Universal delivery was also perceived as creating benefits in terms of personal safety and security in remote and rural areas.

<sup>179</sup> Respondents aged 65+ were more likely to find changes to the universal service 'intolerable' in our conjoint research. 9.6% of respondents aged 65+ found the worst combination of universal service services we presented to be intolerable (compared to the best combination), this was higher than the overall population of which 6.1% found the same changes intolerable.

<sup>180</sup> Postcomm Customer Survey 2006.

## Comparison of the costs and benefits of delivery to the door

### Costs of delivery to the door

- 13.15 The main driver of costs of delivery to the door is the number of addresses that need to be visited, and in particular the number of addresses that need to be visited on any particular day. The incremental costs of delivery to the door compared with more central points are, essentially, due to the delivery staff travelling further when delivering to the door.
- 13.16 For some addresses delivery to a point other than the home or premises might lower delivery costs by lowering the time it takes a delivery person to detour from their route to deliver letters to the letterbox on a premise. An example of this is letter box banks in collective buildings where a delivery person is able to deliver mail to a central point in the building so avoiding the detour of visiting each building or flat.
- 13.17 We have not sought information on how changes to delivery points would affect delivery costs in the UK,<sup>181</sup> given previous survey results on users' preferences for delivery to the door. Some savings might exist for some addresses where the distance from the edge of a property to the property itself is large and for van based deliveries. However, these savings might be offset by additional costs incurred by alternative delivery points, e.g. maintaining them or having to deliver items that require a signature to the door anyway.

### Benefits of delivery to the door

- 13.18 Overall, survey evidence clearly indicates that residents place a high value to the delivery to the door, and that there would therefore be significant dis-benefits in making any changes.
- 13.19 The impact of a change to the delivery specification would be likely to vary between postal recipients. Receiving mail at the edge of the property would not affect many recipients for whom the edge of their property may correspond to their existing letterbox or in the case of those living in multiple occupancy dwellings they may already receive their mail at a central location. Receiving mail at a central location would be likely to have a much larger impact with a larger number of recipients suffering inconvenience. In a small number of cases this could be a significant inconvenience, for example, for housebound recipients.
- 13.20 There may also be dis-benefits in terms of broader social value as the postal service would no longer provided the benefit of promoting safety and security. However, given this is an unintended benefit there may be other, more efficient, ways to deliver this benefit through services that have the specific aim of promoting safety and security.

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<sup>181</sup> Detailed studies have been carried out on cost savings relating to alternative delivery points in the US where existing deliveries are made to the door, curbside or a central location. These identify savings from curbside delivery and delivery to central location. In 2010 less than 30% of delivery points in the US received delivery to the door with the remainder receiving delivery to the curbside (42%) or a central location (30%). However, these findings are unlikely to apply to the UK, where only some mail delivery taking place by van. See: [http://www.uspsaig.gov/foia\\_files/DR-AR-11-006.pdf](http://www.uspsaig.gov/foia_files/DR-AR-11-006.pdf)

## Provisional conclusion

- 13.21 Users have a strong preference for delivery to the door and alternative delivery points are unlikely to meet postal users' needs. Given this, we have not sought detailed information on the costs of delivery to the door. We expect that there are likely to be some cost savings, but also additional costs incurred for alternative delivery points.

## Possible regulatory implications

- 13.22 The Postal Services Directive requires that the universal service shall include at least one delivery "to the home or premises" of every person each working day. However, it also allows by way of derogation to this general requirement for delivery to alternative "appropriate installations" to be permitted where this is approved by the relevant national regulatory authority.
- 13.23 This is reflected in the UK regulatory requirements, namely the Act, the Order and the DUSP conditions. The Act provides that letters and other postal packets must be delivered "to the home or premises of every individual or other person in the United Kingdom" or "to such identifiable points for the delivery as Ofcom may approve". The Order and the DUSP conditions allow delivery to be effected if the postal packet has been delivered to another delivery point requested by the addressee or approved by Ofcom.
- 13.24 Accordingly, Ofcom could, if appropriate, approve delivery to specified alternative delivery locations (including to the edge of a property or to a central location) without the need to make any changes to the current regulatory framework. If following this consultation Ofcom were to propose approving any such alternative delivery points, it would consult separately on that proposal as appropriate.

*Question 13.1. Do you have any views on the evidence presented in relation to delivery to the door or any additional evidence on this point?*

*Question 13.2. Do you have any views as to whether delivery to the door meets the reasonable needs of users, over-provides for the needs of users, or under-provides for the needs of users?*

*Question 13.3. If so, do you have any views about which characteristics of the universal service should be modified in order to meet better the reasonable needs of users of postal services?*

## Section 14

# Additional characteristics of the universal service

14.1 This section presents:

- background information on most of the services provided by Royal Mail, which Royal Mail has notified us as meeting its regulatory obligations;
- information on the costs of these services;
- evidence, mainly from our qualitative research, on services users felt were “essential”: Special Delivery Next Day, Recorded Signed For, Redelivery, Redirections;
- evidence on services users felt were more “nice to have”: Certificate of Posting, Return to Sender, Keepsafe, Poste Restante;
- evidence on the views of users on international services (Airmail, Surface Mail and International Signed For);<sup>182</sup> and
- the possible future regulatory implications if our review were to conclude that the reasonable needs of users are not being met or are being exceeded in relation to the services discussed in this Section.

## Introduction

14.2 Royal Mail offers a wide range of services to fulfil its regulatory obligations, some of which are not widely known about or understood.<sup>183</sup> We asked participants of our qualitative research for their views on services which Royal Mail notified us as providing to meet its regulatory obligations to provide the universal service, and asked them whether they considered them to be “essential” or “nice to have”. We present the findings of this aspect of the research below, excepting First Class and Second Class, which are considered in the section on the next day service. We discuss Special Delivery Next Day below and in the section on the next day service.

14.3 Participants in our qualitative research identified some services which they considered to be “essential”. These were:

- **First Class**, which provides delivery of mail next day, and is discussed in Section 9 on next day delivery. However, importantly, as set out in that Section, several participants to our qualitative research spontaneously suggested merging the First and Second Class services to create a single “universal stamp”. When participants considered the scenario of a single, two-day service later in the workshops, they considered that this service would be sufficient for everyday items;

<sup>182</sup> We did not seek the views of users on free petitions and addresses and services for the blind, as mentioned in Section 4.

<sup>183</sup> The description of all these services is mostly based on Royal Mail's website, see <http://www.royalmail.com/atoz>

- **Second Class**, which provides delivery of mail within three days of posting, also discussed in Section 9 – as above, later participants considered that a single, two-day service would be sufficient;
- **Special Delivery Next Day** is a tracked service which guarantees delivery of mail by 1pm the next working day, offers additional compensation, and requires a signature on delivery. Users have the option of buying different levels of compensation;
- **Recorded Signed For** provides the sender with a signature for First or Second Class mailings in the UK. Royal Mail offers partial tracking in so far as its customers can see online that the item has been delivered, with the signature obtained. Standard compensation for loss and damage is available;
- Royal Mail's **redelivery service** for packets which cannot fit through the letterbox, Special Delivery Next Day and Recorded Signed For means that a packet can be delivered to a local post office for collection by the customer, redelivered to another address within the same postcode, or redelivered another day to the original address. Collection from the delivery office ("caller's service") is also available. While redelivery and caller's service are two distinct activities, we have included caller's service in the discussions on redelivery;<sup>184</sup> and
- **Redirection** is the service of redirecting all mail addressed to a particular person from one address to another for a specified period of time.

14.4 Participants in our qualitative research also identified, largely by residential users, some services as potentially "nice to have", as opposed to "essential". The qualitative research was conducted among a broad cross-section of residential and small business users with varying levels of exposure to some of these services. It is likely that their views on whether a service is "nice to have" would change among the users of these services. The services identified as "nice to have" were:

- **Certificate of Posting** is a receipt which provides proof of posting. It is free of charge and available from Post Office counters. It can be used in connection with compensation claims for lost or damaged items;
- **Return to Sender** is the service whereby the customer receives a letter with the correct address but the wrong name, and can return it by writing "return to sender" or "not known at this address" on the envelope and putting it back in a postbox or returning it to a post office. Royal Mail then, where it is able to identify the sender, delivers the letter back to the sender;
- **Keepsafe** is a service through which Royal Mail holds UK customers' mail for up to two months at their local delivery office, and delivers it on their return; and

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<sup>184</sup> Delivery is deemed effected if, amongst other things, there has been first an unsuccessful attempt to deliver the item, and the universal service provider offers to the addressee a choice of redelivery or collection from a delivery office, a post office, or another collection point approved by Ofcom. DUSP 1.2.2, <http://stakeholders.ofcom.org.uk/binaries/consultations/review-of-regulatory-conditions/statement/annex7.pdf>

- **Poste Restante** is a service which allows users to have mail delivered to a post office. The address of the post office is therefore used as the customer's postal address.<sup>185</sup> It is currently required to be free of charge.
- 14.5 Participants in our qualitative research felt that an international service is essential. The research identified a range of views in relation to the international products currently available:
- **Airmail** is the “priority” delivery service for postal items going abroad. The delivery of Airmail items takes within three to five days to Europe, and within five to seven days to the rest of the world. Airmail was seen as the most essential of the international services;
  - **Surface Mail** is the “standard” delivery service for postal items going abroad. Surface Mail is lower cost than Airmail, but delivery takes longer, depending on where the item is sent: for instance, up to two weeks to Western Europe, but up to eight weeks to deliver items to Australasia. Overall, Surface Mail was seen as less essential than Airmail; and
  - **International Signed For** is an add-on to Airmail and Surface Mail. Royal Mail notified us that Airmail and Surface Mail with International Signed For provide the international outbound services required by regulation, which include the requirement to convey registered and insured items. International Signed For provides a signature on delivery, standard compensation, and offers the option to purchase additional compensation. Overall, International Signed For was seen as less essential than Airmail.
- 14.6 As these services were discussed by participants of the qualitative research and not part of the conjoint analysis, we do not have a monetary value to users of these changes.

## Costs of additional characteristics

- 14.7 The characteristics of the universal service discussed in this chapter range from products identified by many postal users, such as Recorded Signed For, to small services less well known by postal users, such as Keepsafe. We did not seek estimates of the costs of providing these services as we did not have prior evidence to suggest that costs and benefits were out of line (although we did ask Royal Mail some information in relation to Special Delivery Next Day – see below).
- 14.8 However, we considered existing information on the fully allocated costs of each of the services for which we hold this information, to indicate the magnitude of costs and compare this to the findings of our research.
- 14.9 Fully allocated costs include costs attributed directly to a product and a proportion of costs that are shared between that product and other products and services provided by Royal Mail. They are based on Royal Mail's costing system and are therefore the best proxy available to consider the costs of these service without a bespoke estimate of their incremental costs.

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<sup>185</sup> For further information on Poste Restante see <http://www.royalmail.com/sites/default/files/docs/pdf/Poste%20Restante%20December%2010.pdf>

- 14.10 Information on the fully allocated costs of these products provides an indication of the maximum costs that could be attributed to these products. Based on confidential Royal Mail data on fully allocated costs, we consider that, in each case, the incremental costs of the following services are likely to be low, i.e. less than £50m: Certificate of Posting, Keepsafe and Poste Restante.
- 14.11 As part of our review, we asked Royal Mail to provide information on how the costs of Special Delivery Next Day can be attributed to different elements of the service (timed delivery, guaranteed next day delivery, tracking and insurance). Royal Mail could not provide a breakdown of the costs of Special Delivery Next Day by service element but they have indicated that an unbundled product that included a guaranteed next day delivery without the additional features of Special Delivery Next Day would have a very similar cost structure to the existing Special Delivery Next Day product and as a result the costs would not be expected to be materially lower.

## **Users felt that many of these services were essential**

### **Special Delivery Next Day**

- 14.12 Participants felt that this service was essential. Participants valued all the key features of this service: guarantee of delivery next day, insurance, and tracking. The research found that participants say that the most important aspect of Special Delivery is when you need to send an item to arrive as soon as possible. Participants also value the insurance when sending a very valuable item, which was often the case with businesses but also sometimes with residential users. Businesses and residential users also value the tracking feature, either to ensure that the customer's order requirements have been fulfilled, or to check on the guarantee of time-sensitive items.
- 14.13 Special Delivery Next Day was felt by participants to meet their core needs of trustworthiness, speed, and control. In some respects, couriers were felt to meet users' expectations better. For instance, while the guarantee of delivery next day by 1pm helps users fit services around their lives, couriers can meet this need better for some users by picking up items. There was some concern that, if Special Delivery Next Day is the only way of having an item delivered next day in future, it will be too expensive. While Special Delivery Next Day means that users have an additional universal service to choose from, some said that Special Delivery Next Day bundles too many features in one price and it would better meet needs if it provided a range of options by separating out different elements at different prices.
- 14.14 We presented the results of our quantitative research, and previous research, on the importance of a guaranteed next day product in Section 9, when presenting users' views on next day delivery. In summary, most respondents to our residential and business surveys agreed that a guaranteed next day delivery is important; this is a well used service; and no guaranteed delivery next day was the change most often chosen by businesses as having a significant negative impact on their business (just behind the proportion of businesses stating that none of the changes proposed would have a significant impact).

### **Recorded Signed For**

- 14.15 Recorded Signed For was felt to meet the needs of participants to our qualitative research of having a range of products, affordability, trustworthiness and control. This service was considered by participants as the service which best combined affordability and security for residential users on the occasions when one is required

to send important items (e.g. passports) where speed is not such an issue. It also “creates a paper trail”, in that there is confirmation that an item has been received, something which was important to residential and business users.

- 14.16 Senders felt they should have the option to specify whether the letter must be signed for by the named addressee, or someone else at the address, or even a neighbour. This is not currently provided for by the current service.
- 14.17 Research carried out by Postcomm in the Customer Interest Forums<sup>186</sup> showed that users felt that Recorded Signed For was an important, frequently used service which should continue to be provided at an affordable price for everyone in the UK. They felt it gives the sender and recipient a way to hold Royal Mail accountable if the item does go missing.
- 14.18 However, Ofcom’s separate qualitative research on a consumer perspective on postal services (2012) shows that users used the terms ‘Special delivery’ and ‘Signed for/Recorded’ interchangeably and struggled to recall what the difference between them was. Very few knew how much it would cost to send a letter or package using either service, suggesting confusion around these Royal Mail services that many residential users use only occasionally. Small businesses and residential users using eBay and other trading sites were slightly more familiar with these different options. Some even made the distinction that Special Delivery Next Day is “for post that’s important and urgent” while Recorded is just “post that’s important”. However, even the more aware often continued to rely on the advice of Post Office staff and had limited knowledge about specific differences.
- 14.19 This is consistent with the discussions of Postcomm’s Customer Interest Forums, which highlighted that users apply some of the support services incorrectly. Many forum members felt that Recorded Signed For was likely to provide added protection for their mail and believed the item posted would be more likely to get to its destination safely.

### **Redelivery (including collecting from delivery offices and requesting redelivery to an address or post office)**

- 14.20 Participants in our qualitative research thought that redelivery was essential, but the research also identified that the current redelivery services available were not meeting the core needs of residential users for receiving post. Participants highlighted that delivery happens when users are often not at home. There was a perception of unpredictability of delivery days and times, which typically led to users missing deliveries, and then having to travel to a delivery office, with inconvenient opening hours.
- 14.21 However, there was little awareness of the ability to request redelivery to the address marked on the packet or (for an additional charge) have a packet sent to the local post office. Redelivery to users’ own address tended to be spontaneously suggested by workshop participants as an improvement to Royal Mail’s service.
- 14.22 These issues were particularly important for some groups and may therefore be associated with some broader social value:

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<sup>186</sup> See Section 4 for a description of Customer Interest Forums. We refer to the Forums in the remainder of this section as “Postcomm’s Customer Interest Forums”.

- users in deep rural areas, who often had a long way to travel to their nearest collection centre. They mentioned that they lose time and money travelling to the delivery office;
- specific groups of users. As well as comments from participants themselves, general public participants spoke up on behalf of other groups they perceived to be disadvantaged – elderly users, especially those on low incomes or who have an impairment. A special service with more flexibility to deliver to disabled or elderly users was suggested in several residential workshops; and
- small businesses, who cannot always maintain a manned reception.

14.23 Overall, participants called for alteration and improvement of the service to better ensure that users could receive their mail efficiently; particularly in terms of changes to delivery office hours. The research also highlighted that better communication of the existing services might help meet users' needs better.

14.24 The research results suggest that redelivery is an essential service. This is consistent with the responses to our consultation on the Review of Regulatory Conditions, where we proposed to specify redelivery as a characteristic of the universal service. We considered in our consultation that it could be argued that delivery implies that the item has been transferred to the intended address, and that this is not achieved if there has not been some reasonable effort to ensure that the item reaches the addressee. Most respondents to our consultation agreed with our proposal to specify Redelivery as part of the universal service.<sup>187</sup>

## Redirection

14.25 Participants to our qualitative research thought that redirection, which can be used to redirect mail, for instance when moving house or office location, was essential. The research identified that it meets the core needs of trust, fitting with the demands of modern life, affordability, and having a range of services. Participants also argued that this was a real need that they could not meet elsewhere. They said that some organisations do not always take notice of a change of address, so the service cannot simply be substituted by postal users taking more care to inform everyone.

14.26 Respondents also identified a role for redirections in helping protect users from identity theft and fraud – and ensure they are able to continue to receive important post even when changing addresses. This was thought to be a wide-ranging societal benefit for all.

14.27 This finding was consistent with the discussions of Postcomm's Customer Interest Forums. Redirections were also considered to be an important part of the universal service by both residential and business users. Most users felt losing this service would have a substantial impact on their lives, albeit only occasionally.

## Users felt that some services were “nice to have”

### Certificate of Posting

14.28 The research found that not everyone knew about Certificate of Posting and among those who did it was felt to be “nice to have”. Participants did not know that a

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<sup>187</sup> Ofcom, *Securing the Universal Postal Service – Decision on the new regulatory framework*, March 2012, <http://stakeholders.ofcom.org.uk/consultations/review-of-regulatory-conditions/statement/>

Certificate of Posting was used for compensation and did not trust the compensation procedure to work smoothly. Participants' perception was that Certificate of Posting will not determine who is accountable if a recipient claims not to have received their item. Recorded delivery was felt to meet this need better, although users of Certificates of Posting still went for this option as it is a free service. The product was felt to have some use for online sellers and also users on low incomes, for instance to prove that they sent information to the Benefits Department.

- 14.29 The conclusions of Postcomm's Customer Interest Forums, however, were different. Many users felt it would have a negative impact on them if the Certificate of Posting was taken out of the universal service. It was considered to be an important service because it provides proof of posting, without which neither the sender nor the postal operator could be held accountable for losses. Customers are likely to ask for a Certificate of Posting if it is sufficient for them to prove they have sent the item so as not to be responsible for its loss. While not everyone had used a Certificate of Posting, those who buy and return goods through the post rely on it frequently.

### **Return to Sender**

- 14.30 Most participants felt that this service was merely nice to have. However, some classed it as essential, reasoning that it is a vital way of retrieving post that has gone astray, and a way of allowing a postal user to take steps so that the same postal problem does not happen over and over again.
- 14.31 When thinking about their own mail getting sent to the wrong address, participants tended to value Return to Sender highly. If mail containing one's personal details is left at the wrong address, and there is no way that the person who has wrongly received this can alert the sender to the mistake, participants worried that there would be a danger of fraud. It is also seen as important for users leading busy lives, who will not be able to inform everyone of their movements.
- 14.32 Those who thought the Return to Sender service was merely nice to have imagined themselves receiving wrongly-addressed letters. They appreciated that it was useful to signal to the sender of a letter that the recipient is not known at the address, knowing that the sender would get that information, and stop sending post. They were concerned that without the service, they may suffer irritation by continually receiving mail addressed wrongly to the same person time after time. They acknowledged that this was at worst inconvenient, rather than a core need.
- 14.33 When we proposed in the Review of Regulatory Conditions consultation to specify Return to Sender as a characteristic of the universal service, we considered that it could be argued that delivery implies that the item has been transferred to the intended address, and that this is not achieved if there has not been some reasonable effort to ensure that the item reaches the addressee. We also considered that it is reasonable to expect Royal Mail to make provision to return the item to the original sender, who paid for the service, if the item is returned in the post.
- 14.34 Most respondents to the Review of Regulatory Conditions consultation agreed that Return to Sender should be specified as a characteristic of universal service.<sup>188</sup> Respondents supporting the provision of Return to Sender free of charge for bulk mail as part of the universal service highlighted the importance of Return to Sender to maintain accurate mailing lists and provide reassurance that a confidential or

<sup>188</sup> Ofcom, *Securing the Universal Postal Service – Decision on the new regulatory framework*, March 2012, <http://stakeholders.ofcom.org.uk/consultations/review-of-regulatory-conditions/statement/>

valuable piece of mail has been delivered (or can be returned). Consumer Focus cautioned us to consider the complex issues involved, in particular in relation to receivers' data accuracy and confidentiality. This suggests that there are some social benefits to the service, even though these were not identified as such by workshop participants, in helping the security of mail and the confidentiality of personal information.

## **Keepsafe**

- 14.35 Our qualitative research found that in most cases participants had not heard of this service. Even when the service was explained to them, participants stated that alternative arrangements could always be made if required, using a commercial product if necessary. In particular, some rural users were quite dismissive of the service, stating that their neighbours could always collect their post. Some did recognise, however, that this might not be the same for urban users.
- 14.36 These findings are supported by the discussions of Postcomm's Consumer Interest Forum. That research suggested that removing Keepsafe from the universal service would not have a negative impact on UK users. The reasons cited for this conclusion were the extremely low awareness of the service and extremely rare circumstances that users, both residential and business alike, felt such a service would be necessary.
- 14.37 Respondents to our research were either not familiar with Keepsafe or had little exposure to it. To understand the private benefits of this product in more detail, we would need to target users of these services directly. For example, it may be particularly useful for some users and bodies (such as schools) on holiday, who may benefit significantly.

## **Poste Restante**

- 14.38 Again, participants knew very little about this service. They generally thought it was "nice to have", because they felt that those who would use it are "likely to be wealthy enough to travel" and therefore would not require a universal service to provide them with this facility – they could use other services that could be provided by the market. A minority, on the other hand, reasoned that those in the traveller community or who are homeless may be relying on this service; but it was felt to be of limited use and so not as essential as others.
- 14.39 Findings from Postcomm's Customer Interest Forums were again similar to Ofcom's results. They found that respondents had never heard of this product before, with many being unable to identify a situation in which they would use it.
- 14.40 As for Keepsafe, because there is low awareness of this product in the general population, respondents to our survey had little experience of this product. To understand more about the benefits of this service we would need to carry out research with users of the service.

## **Users had mixed views on international services (Airmail, Surface Mail, and International Signed For)**

- 14.41 Participants to our qualitative research had mixed views on whether these international services currently included in the scope of the universal services were "essential" or "nice to have". The research found that Airmail did meet core user

needs, but that other elements of the international services were felt to be over delivering.

14.42 Those finding them essential felt that:

- Airmail is useful for those who want something to arrive as soon as possible. Some felt that if users were making the effort to send something abroad, they would send it “First Class”, although the difference in price between Airmail and Surface Mail would be an important factor;<sup>189</sup>
- Surface Mail is useful for businesses or users on low incomes who regularly send packages abroad to friends and family. It was felt important that there be an affordable option for such users, whose letter or packet is not particularly urgent; and
- International Signed For was felt to be most important by some, due again to users reasoning that if a user is making the effort to send something abroad, it will be important that it is received.

14.43 However, overall, Surface Mail and International Signed For were seen as much less essential than Airmail. Participants, especially towards the later stages of discussion, tended to rank the Airmail more highly and argued that if they had to make a choice between these services, their needs could broadly be met with just that service alone. Accordingly, the research found that Surface Mail and International Signed For may slightly over-deliver in relation to the core needs for simplicity, range of products, control and predictability. The research found that users considered that Airmail met their core needs in relation to all of these, and in addition the needs for affordability, trust, and speed.

## Possible regulatory implications

14.44 Each of the products and services discussed in this section is provided in order to meet the current regulatory requirements of the universal service as described in the Order and the DUSP conditions.

14.45 Some of these products and services are provided in order to fulfil the minimum range of services required by the Postal Services Directive and the Act. The Postal Services Directive requires that the universal service must include services for registered items and insured items and that the universal service must cover both national and cross-border services. These requirements are reflected in the ‘minimum requirements’ of the Act, and then in the Order and relevant DUSP conditions. The services which Royal Mail has notified us as provided in order to meet these obligations are:

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<sup>189</sup> For instance, an Airmail letter (0-20g) is £0.87, compared with a Surface mail postcard letter 0-20g (available outside of Europe only) is £0.77. A small packet abroad outside Europe (901g-1kg) is £14.08 Airmail, and £8.11 Surface Mail. See: <http://www.royalmail.com/delivery/delivery-options-international/airmail/prices> and <http://www.royalmail.com/delivery/delivery-options-international/airmail/prices>

- Special Delivery Next Day (other than sold on account), which is provided in order to comply with the requirement for a service for registered and insured items;<sup>190</sup>
- 'Airmail' which complies with the requirement to provide a delivery service with a specific standard to Europe; and
- 'Airmail with International Signed For', which complies with the requirement to provide an international outbound service for registered and insured items.

14.46 Other services are not specifically required by the Postal Services Directive or the Act but are provided by Royal Mail in order to meet the additional regulatory requirements of the Order or the DUSP conditions. Schedule 1 to the Order contains provisions concerning Priority and Standard delivery services, certificates of posting, return to sender services and outgoing cross-border services. Schedule 3 to the Order specifies the redirection services, poste restante services and retention services that are currently included in the scope of the universal service. The services which Royal Mail has notified us as provided in order to meet these obligations are:<sup>191</sup>

- Recorded Signed For;<sup>192</sup>
- Certificate of Posting;
- Return to Sender;
- Redirections;
- Poste Restante;
- Keepsafe; and
- Surface Mail.<sup>193</sup>

14.47 The regulatory requirements corresponding to these products in the Order and the DUSP conditions go beyond the minimum requirements of the Act and the Postal Services Directive and therefore could potentially be modified or removed by Ofcom following this consultation. As discussed in previous sections, our primary duty in relation to the regulation of postal services is to carry out our functions in a way that we consider will ensure the provision of a financially sustainable and efficient universal service. If, following this consultation, we conclude that the reasonable needs of users are not met, either because those needs are materially over-provided for or materially under-provided for, we will, if appropriate, consider whether any

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<sup>190</sup> Up to 10kg. Between 10kg and 20kg, the requirement for a registered service is met by First Class with Recorded Signed For, and the requirement for an insured service is under development.

<sup>191</sup> There is no notification regarding Redelivery. As mentioned above, delivery is deemed effected if, amongst other things, there has been first an unsuccessful attempt to deliver the item, and the universal service provider offers to the addressee a choice of redelivery or collection from a delivery office, a post office, or another collection point approved by Ofcom.

<sup>192</sup> The Order specifies that Priority and Standard delivery services must include provision of proof of delivery on application by the sender. Royal Mail has notified us that First and Second Class services with Recorded to Sign For fulfils that obligation - Recorded Signed For provides proof of delivery, if users choose to buy that element of the service.

<sup>193</sup> The Directive requires one international service, and requires a specific quality of target, which can only met by Airmail.

modification to the Order and/or the conditions is necessary. If we consider that changes to the Order and/or conditions should be made as a result of our findings in order to align the universal service with the reasonable needs of users, we will consult separately on any such changes.

*Question 14.1. Do you have any views on the results from the research?*

*Question 14.2. Do you have any further evidence on needs of users in relation to recorded delivery (or Recorded Signed For), Redelivery, Redirection, Certificate of Posting, Return to Sender, Keepsafe, Poste Restante, Airmail, Surface mail, and International Signed For?*

*Question 14.3. Do you have any further evidence on the costs of provision of these services?*

*Question 14.4. Do you have any views as to whether any of these services (or any of the features of these services), currently specified as characteristics of the universal service, meets the reasonable needs of users, over-provides for the needs of users, or under-provides for the needs of users?*

*Question 14.5. If so, do you have any views about which characteristics of the universal service should be modified in order to meet better the reasonable needs of users of postal services?*

More generally, on the whole of the document:

*Question 14.6. Do you think that there are any other reasonable needs of postal users that are not currently being met by the postal services market? If so, please explain what you think that need is, why it is not being met and provide any supporting evidence.*

*Question 14.7. Do you consider that any aspect of the current universal service (as specified in the universal postal service order and the designated universal service conditions) is no longer necessary either because (a) users' reasonable needs are being adequately met by the wider postal services market and regulation is no longer necessary or (b) there is no reasonable need for that aspect of the service?*

*Question 14.8. Is there, in your view, any aspect of the current universal service (as specified in the universal postal service order and the designated universal service conditions) that you think should be modified or amended so as better to meet the reasonable needs of users of postal services?*

*Question 14.9. Do you have any other observations on any of the points raised in this consultation document?*

*Question 14.10. Do you have any further evidence on the needs of users from the universal service?*

## Annex 1

# Responding to this consultation

## How to respond

- A1.1 Ofcom invites written views and comments on the issues raised in this document, to be made **by 5pm on Tuesday 18 December 2012**.
- A1.2 Ofcom strongly prefers to receive responses using the online web form at <http://stakeolders.ofcom.org.uk/consultations/post>, as this helps us to process the responses quickly and efficiently. We would also be grateful if you could assist us by completing a response cover sheet (see Annex 3), to indicate whether or not there are confidentiality issues. This response coversheet is incorporated into the online web form questionnaire.
- A1.3 For larger consultation responses - particularly those with supporting charts, tables or other data - please email [Run@ofcom.org.uk](mailto:Run@ofcom.org.uk) attaching your response in Microsoft Word format, together with a consultation response coversheet.
- A1.4 Responses may alternatively be posted to the address below, marked with the title of the consultation.
- Elisa Pruvost  
Floor 2  
Dept Consumer Policy  
Riverside House  
2A Southwark Bridge Road  
London SE1 9HA
- Note that we do not need a hard copy in addition to an electronic version. Ofcom will acknowledge receipt of responses if they are submitted using the online web form but not otherwise.
- A1.5 It would be helpful if your response could include direct answers to the questions asked in this document, which are listed together at Annex 4. It would also help if you can explain why you hold your views and how Ofcom's proposals would impact on you.

## Further information

- A1.6 If you want to discuss the issues and questions raised in this consultation, or need advice on the appropriate form of response, please contact Elisa Pruvost on 020 7981 3000.

## Confidentiality

- A1.7 We believe it is important for everyone interested in an issue to see the views expressed by consultation respondents. We will therefore usually publish all responses on our website, [www.ofcom.org.uk](http://www.ofcom.org.uk), ideally on receipt. If you think your response should be kept confidential, can you please specify what part or whether all of your response should be kept confidential, and specify why. Please also place such parts in a separate annex.

- A1.8 If someone asks us to keep part or all of a response confidential, we will treat this request seriously and will try to respect this. But sometimes we will need to publish all responses, including those that are marked as confidential, in order to meet legal obligations.
- A1.9 Please also note that copyright and all other intellectual property in responses will be assumed to be licensed to Ofcom to use. Ofcom's approach on intellectual property rights is explained further on its website at <http://www.ofcom.org.uk/about/account/disclaimer/>

## Next steps

- A1.10 Following the end of the consultation period, Ofcom intends to publish a statement in March 2013.
- A1.11 Please note that you can register to receive free mail Updates alerting you to the publications of relevant Ofcom documents. For more details please see: [http://www.ofcom.org.uk/static/subscribe/select\\_list.htm](http://www.ofcom.org.uk/static/subscribe/select_list.htm)

## Ofcom's consultation processes

- A1.12 Ofcom seeks to ensure that responding to a consultation is easy as possible. For more information please see our consultation principles in Annex 2.
- A1.13 If you have any comments or suggestions on how Ofcom conducts its consultations, please call our consultation helpdesk on 020 7981 3003 or e-mail us at [consult@ofcom.org.uk](mailto:consult@ofcom.org.uk) . We would particularly welcome thoughts on how Ofcom could more effectively seek the views of those groups or individuals, such as small businesses or particular types of residential consumers, who are less likely to give their opinions through a formal consultation.
- A1.14 If you would like to discuss these issues or Ofcom's consultation processes more generally you can alternatively contact Graham Howell, Secretary to the Corporation, who is Ofcom's consultation champion:
- A1.15 Graham Howell  
Ofcom  
Riverside House  
2a Southwark Bridge Road  
London SE1 9HA
- Tel: 020 7981 3601
- Email [Graham.Howell@ofcom.org.uk](mailto:Graham.Howell@ofcom.org.uk)

## Annex 2

# Ofcom's consultation principles

A2.1 Ofcom has published the following seven principles that it will follow for each public written consultation:

### Before the consultation

A2.2 Where possible, we will hold informal talks with people and organisations before announcing a big consultation to find out whether we are thinking in the right direction. If we do not have enough time to do this, we will hold an open meeting to explain our proposals shortly after announcing the consultation.

### During the consultation

A2.3 We will be clear about who we are consulting, why, on what questions and for how long.

A2.4 We will make the consultation document as short and simple as possible with a summary of no more than two pages. We will try to make it as easy as possible to give us a written response. If the consultation is complicated, we may provide a shortened Plain English Guide for smaller organisations or individuals who would otherwise not be able to spare the time to share their views.

A2.5 We will consult for up to ten weeks depending on the potential impact of our proposals.

A2.6 A person within Ofcom will be in charge of making sure we follow our own guidelines and reach out to the largest number of people and organisations interested in the outcome of our decisions. Ofcom's 'Consultation Champion' will also be the main person to contact with views on the way we run our consultations.

A2.7 If we are not able to follow one of these principles, we will explain why.

### After the consultation

A2.8 We think it is important for everyone interested in an issue to see the views of others during a consultation. We would usually publish all the responses we have received on our website. In our statement, we will give reasons for our decisions and will give an account of how the views of those concerned helped shape those decisions.

## Annex 3

# Consultation response cover sheet

- A3.1 In the interests of transparency and good regulatory practice, we will publish all consultation responses in full on our website, [www.ofcom.org.uk](http://www.ofcom.org.uk).
- A3.2 We have produced a coversheet for responses (see below) and would be very grateful if you could send one with your response (this is incorporated into the online web form if you respond in this way). This will speed up our processing of responses, and help to maintain confidentiality where appropriate.
- A3.3 The quality of consultation can be enhanced by publishing responses before the consultation period closes. In particular, this can help those individuals and organisations with limited resources or familiarity with the issues to respond in a more informed way. Therefore Ofcom would encourage respondents to complete their coversheet in a way that allows Ofcom to publish their responses upon receipt, rather than waiting until the consultation period has ended.
- A3.4 We strongly prefer to receive responses via the online web form which incorporates the coversheet. If you are responding via email, post or fax you can download an electronic copy of this coversheet in Word or RTF format from the 'Consultations' section of our website at [www.ofcom.org.uk/consult/](http://www.ofcom.org.uk/consult/).
- A3.5 Please put any parts of your response you consider should be kept confidential in a separate annex to your response and include your reasons why this part of your response should not be published. This can include information such as your personal background and experience. If you want your name, address, other contact details, or job title to remain confidential, please provide them in your cover sheet only, so that we don't have to edit your response.

## Cover sheet for response to an Ofcom consultation

### BASIC DETAILS

Consultation title:

To (Ofcom contact):

Name of respondent:

Representing (self or organisation/s):

Address (if not received by email):

### CONFIDENTIALITY

Please tick below what part of your response you consider is confidential, giving your reasons why

Nothing	<input type="checkbox"/>	Name/contact details/job title	<input type="checkbox"/>
Whole response	<input type="checkbox"/>	Organisation	<input type="checkbox"/>
Part of the response	<input type="checkbox"/>	If there is no separate annex, which parts?	

If you want part of your response, your name or your organisation not to be published, can Ofcom still publish a reference to the contents of your response (including, for any confidential parts, a general summary that does not disclose the specific information or enable you to be identified)?

### DECLARATION

I confirm that the correspondence supplied with this cover sheet is a formal consultation response that Ofcom can publish. However, in supplying this response, I understand that Ofcom may need to publish all responses, including those which are marked as confidential, in order to meet legal obligations. If I have sent my response by email, Ofcom can disregard any standard e-mail text about not disclosing email contents and attachments.

Ofcom seeks to publish responses on receipt. If your response is non-confidential (in whole or in part), and you would prefer us to publish your response only once the consultation has ended, please tick here.

Name

Signed (if hard copy)

## Annex 4

# Consultation questions

A4.1 While this consultation document contains a number of specific questions, we are not seeking to limit the issues on which respondents may wish to comment. We have included a number of specific consultation questions throughout this document and we would like you to consider these when responding. We have set out these questions below for ease of reference. However, we are not seeking to limit the issues on which respondents may wish to comment. Respondents are invited to include representations on any issues which they consider to be relevant.

### Section 5 Methodology used to consider whether users' needs are "reasonable"

*Question 5.1. Do you have any views on our approach of using a comparison of the costs and benefits to assess the reasonable views of users?*

*Question 5.2. Do you have any views on the extent to which costs and benefits of elements of the service may change over time?*

### Section 6: Measurement of benefits and costs

*Question 6.1. Do you have any views on our approach to the monetisation of the private benefits?*

*Question 6.2. Do you have any views on our approach to estimating the high-level, theoretical cost savings?*

### Section 7: The acceptability of the current universal service to users

*Question 7.1. Do you have any views on the results presented on general satisfaction and use of post?*

### Section 8: More convenient packet services

*Question 8.1. Do you have any views on the results presented in relation to packet delivery services?*

*Question 8.2. Do you have any further evidence on the costs and benefits of more convenient packet services, currently and in the longer term?*

*Question 8.3. Do you have any views as to whether the current provision of packet services by the postal market meets the reasonable needs of users, over-provides for the needs of users, or under-provides for the needs of users?*

*Question 8.4. If so, do you have any views about which characteristics of the universal service should be modified in order to meet better the reasonable needs of users of postal services?*

## **Section 9: Next day delivery**

*Question 9.1. Do you have any views on the results presented in relation to next day delivery?*

*Question 9.2. Do you have any further evidence on needs of users in relation to next day delivery, currently and in the longer term?*

*Question 9.3. Do you have any further evidence on the costs of provision of next day delivery?*

*Question 9.4. Do you have any views as to whether next day delivery meets the reasonable needs of users, over- provides for the needs of users, or under-provides for the needs of users?*

*Question 9.5. If so, do you have any views about which characteristics of the universal service should be modified in order to meet better the reasonable needs of users of postal services?*

## **Section 10: Quality of service of the next day service**

*Question 10.1. Do you have any views on the results presented in relation to quality of service for First Class post?*

*Question 10.2. Do you have any further evidence on needs of users in relation to a high quality of service for First Class post, currently and in the longer term?*

*Question 10.3. Do you have any further evidence on the costs of provision of a high quality of service for First Class post?*

*Question 10.4. Do you have any views as to whether a high quality of service meets the reasonable needs of users, over- provides for the needs of users, or under-provides for the needs of users?*

*Question 10.5. If so, do you have any views about which characteristics of the universal service should be modified in order to meet better the reasonable needs of users of postal services?*

## **Section 11: Number of collection and delivery days**

*Question 11.1. Do you have any views on the results presented?*

*Question 11.2. Do you have any further evidence or views on the needs of users in relation to the number of collection and delivery days per week, currently and in the longer term?*

*Question 11.3. Do you have any further evidence or views on the costs of provision of one collection and delivery day?*

*Question 11.4. Do you have any views as to whether six collection and delivery days meet the reasonable needs of users, over- provide for the needs of users, or under-provide for the needs of users?*

## Section 12: Collection and delivery times

*Question 12.1. Do you have any further evidence on needs of users in relation to existing collection times?*

*Question 12.2. Do you have any further evidence on needs of users in relation to collection on delivery?*

*Question 12.3. Do you have any further evidence in relation to the needs of users for existing delivery times?*

*Question 12.4. Do you have any further evidence on the impact of earlier collection or collection on delivery on the costs of provision of the universal service?*

*Question 12.5. Do you have any further evidence on the impact of later delivery times on the costs of provision of the universal service?*

*Question 12.6. Do you have any views as to whether collection and delivery times meet the reasonable needs of users, over- provide for the needs of users, or under- provide for the needs of users?*

*Question 12.7. If so, do you have any views about which characteristics of the universal service should be modified in order to meet better the reasonable needs of users of postal services?*

## Section 13: Delivery to the door

*Question 13.1. Do you have any views on the evidence presented in relation to delivery to the door or any additional evidence on this point?*

*Question 13.2. Do you have any views as to whether delivery to the door meets the reasonable needs of users, over- provides for the needs of users, or under-provides for the needs of users?*

*Question 13.3. If so, do you have any views about which characteristics of the universal service should be modified in order to meet better the reasonable needs of users of postal services?*

## Section 14: Additional characteristics of the universal service

*Question 14.1. Do you have any views on the results from the research?*

*Question 14.2. Do you have any further evidence on needs of users in relation to recorded delivery (or Recorded Signed For), Redelivery, Redirection, Certificate of Posting, Return to Sender, Keepsafe, Poste Restante, Airmail, Surface mail, and International Signed For?*

*Question 14.3. Do you have any further evidence on the costs of provision of these services?*

*Question 14.4. Do you have any views as to whether any of these services (or any of the features of these services), currently specified as characteristics of the universal service, meets the reasonable needs of users, over- provides for the needs of users, or under-provides for the needs of users?*

*Question 14.5. If so, do you have any views about which characteristics of the universal service should be modified in order to meet better the reasonable needs of users of postal services?*

### **General questions on the whole of the document**

*Question 14.6. Do you think that there are any other reasonable needs of postal users that are not currently being met by the postal services market? If so, please explain what you think that need is, why it is not being met and provide any supporting evidence.*

*Question 14.7. Do you consider that any aspect of the current universal service (as specified in the universal postal service order and the designated universal service conditions) is no longer necessary either because (a) users' reasonable needs are being adequately met by the wider postal services market and regulation is no longer necessary or (b) there is no reasonable need for that aspect of the service?*

*Question 14.8. Is there, in your view, any aspect of the current universal service (as specified in the universal postal service order and the designated universal service conditions) that you think should be modified or amended so as better to meet the reasonable needs of users of postal services?*

*Question 14.9. Do you have any other observations on any of the points raised in this consultation document?*

*Question 14.10. Do you have any further evidence on the needs of users from the universal service?*

## Annex 5

# International Comparisons

## Introduction

- A5.1 This annex compares the universal service requirements of other European countries with that of the UK, to put the universal service requirements on Royal Mail in context with its European counterparts.
- A5.2 The information presented in this annex is based on desk research and a small scale email survey of six European countries: Denmark, France, Germany, Ireland, the Netherlands and Spain. We are relying on the information provided to us and that is in the public domain and we are therefore unable to verify its accuracy.
- A5.3 In the case of Germany, the comparisons made are not with the duties that are currently placed on the designated universal service provider, but with the contents of the Postal Universal Service Ordinance,<sup>194</sup> which sets out the specifications of the universal service. It should be noted, however, that the Ordinance is not currently enforced on any of the postal operators as there is no legally designated universal service operator. In circumstances where the regulator determines that the market is no longer providing a universal postal service, it can then require a postal operator to offer the universal service as set out in the Ordinance.

## European Union requirements

- A5.4 The Postal Services Directive<sup>195</sup> obliges all European Union (EU) Member States to ensure that a universal postal service encompassing a minimum range of services of specified quality is provided. Article 3 of the Postal Services Directive states that Member States must provide a universal service which offers, at a minimum:
- i) one collection and one delivery guaranteed not less than five working days per week;<sup>196</sup>
  - ii) delivery and collection services for postal items up to 2kg and postal packages up to 10kg;
  - iii) services for registered items and insured items; and
  - iv) delivery services for postal packets up to 20kg received from other Member States.
- A5.5 Articles 16 and 17 of the Postal Services Directive also require Member States to set and publish quality of service standards.

<sup>194</sup> <http://www.iuscomp.org/gla/statutes/PUDLV.htm>, accessed 11 September 2012

<sup>195</sup> Directive 97/67/EC on common rules for the development of the internal market of Community postal services and the improvement of quality of service, as amended by Directive 2002/39/EC and Directive 2008/6/EC

<sup>196</sup> Save in exceptional circumstances or in exceptional geographic conditions.

## Days of delivery and collection

A5.6 As has been noted above, the Postal Services Directive requires all Member States to provide collection and delivery services not less than five working days a week. Figure A5.1, below, presents the number of collection and delivery days in all the Member States.

**Figure A5.1: Collection and delivery days of EU member states**

6 days per week (required by national law)	6 days per week (provided above the national legal requirements)	5 days per week
Denmark, France, Germany, the Netherlands, UK <sup>197</sup>	Estonia, Italy, Latvia, Lithuania, Malta, Slovenia	Austria, Belgium, Bulgaria, Cyprus, Czech Republic, Finland, Greece, Hungary, Ireland, Luxembourg, Poland, Portugal, Romania, Slovakia, Spain, Sweden

Source: Copenhagen Economics (2010)<sup>198</sup>

## Universal postal services

A5.7 The Postal Services Directive requires that the universal service within Member States, as a minimum, offer national delivery and collection services for postal items up to 2kg and for postal packages up to 10kg.<sup>199</sup> However, the Postal Services Directive does not specify whether the mail needs to be delivered next day (“D+1”), in two days (“D+2”), in three days (“D+3”), or any other type of service.<sup>200</sup>

A5.8 With respect to the weight of postal items, the UK, in addition to Denmark, France, Germany, Ireland, the Netherlands and Spain (the countries we contacted for our small-scale survey) have all elected to reflect the 2kg minimum requirement, without going further.

A5.9 Conversely, in relation to the weight of postal packets, only the Netherlands, among the countries surveyed, has set a 10kg limit. All other surveyed countries, namely Denmark, France, Germany, Ireland and Spain, in addition to the UK, have chosen to surpass the obligation and have set the limit at 20kg.<sup>201</sup>

A5.10 As regards to services, Figure A5.2, below, illustrates which services are within the universal service obligations in the UK and in the various countries surveyed.

**Figure A5.2: Services within the universal service obligation**

	D+1	D+2	D+3	D+5	General Delivery

<sup>197</sup> The universal service obligations in the UK require collection and delivery of letters six days per week (Monday to Saturday), but only five days per week (Monday to Friday) for postal packets.

<sup>198</sup> Copenhagen Economics, *Main developments in the postal sector (2008-2010)*, 29 November 2010

<sup>199</sup> The terms ‘postal items’ and ‘postal packages’ have been used as those are the terms used in the Directive. Some countries use different terms, such as letters, packets or parcels.

<sup>200</sup> In each case, “D” refers to the date of collection of the postal item from the access point.

<sup>201</sup> 20kg is the maximum permissible upper limit for parcels covered by the universal postal service set in Article 3(5) of the Directive.

					Service
Denmark	✓		✓		
France	✓	✓ <sup>202</sup>	✓		
Germany					✓ <sup>203</sup>
Ireland					✓ <sup>204</sup>
the Netherlands	✓				
Spain			✓	✓	
UK	✓		✓		

### Registered, insured and guaranteed services

A5.11 The provision of registered and insured services is a minimum requirement of the Postal Services Directive.

A5.12 In the UK, Royal Mail is required to provide such a service that guarantees next day delivery by 1:00pm.<sup>205</sup> In contrast, none of the countries included in our small-scale survey require a guaranteed service in their universal service obligations.

### Quality of service of next day services

A5.13 The requirement within the Postal Services Directive to set quality of service ('QoS') standards does not set a minimum level, the only criterion being that the standard 'guarantee a postal service of good quality'<sup>206</sup>.

A5.14 Figure A5.3, below, compares the QoS standard set for the D+1 service in 30 European countries, including 26 EU Member States, Iceland, Liechtenstein, Norway and Switzerland. As highlighted above at Figure A5.2, Spain has no D+1 service included in its universal service and therefore has no corresponding D+1 standard.

<sup>202</sup> This D+2 service is within the scope of the universal service obligation but not explicitly requested by the regulatory framework.

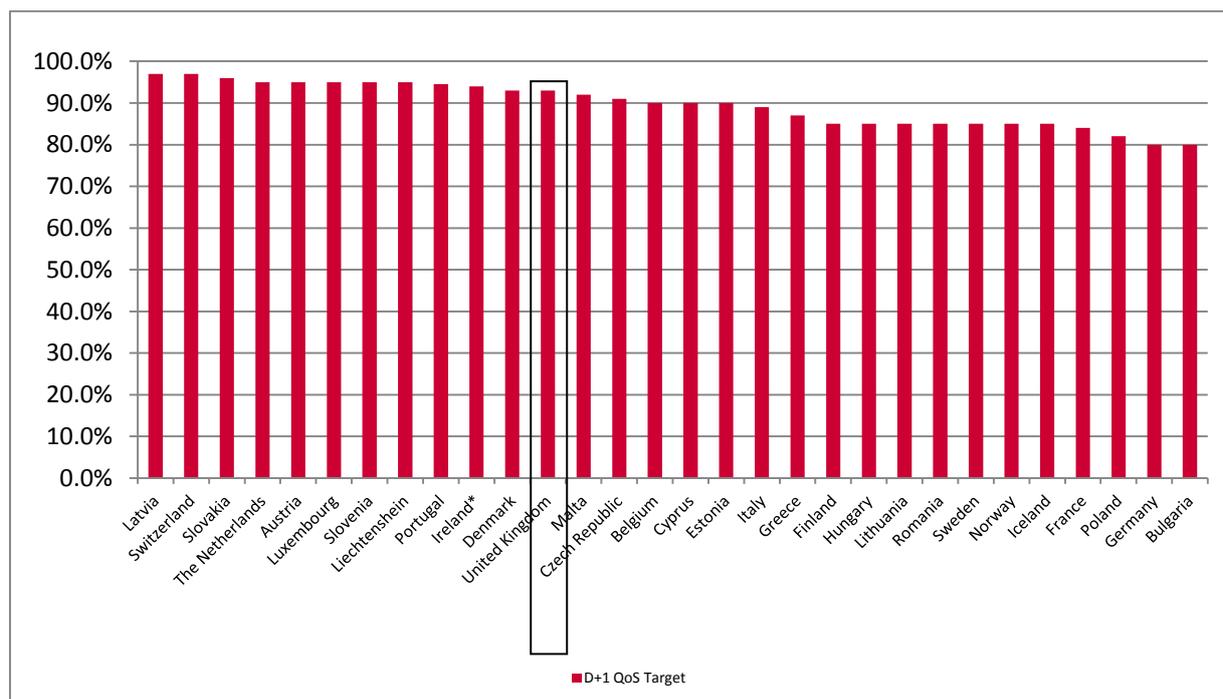
<sup>203</sup> In Germany the Postal Universal Service Ordinance requires a delivery service with quality of service targets of 80% arriving D+1 and 95% arriving D+2.

<sup>204</sup> In Ireland the universal service obligation requires a general delivery service. The quality of service performance of this service in 2011 was 83% arriving D+1 and 98.2% to arrive D+3.

<sup>205</sup> This requirement arises from The Postal Services (Universal Postal Service) Order 2012, Schedule 1, Paragraph 4.

<sup>206</sup> The Postal Services Directive, Article 16

**Figure A5.3: QoS Standards for the D+1 service in 2009**



Source: Copenhagen Economics (2010)<sup>207</sup>

## Other services

A5.15 The services outlined below are those not required by the Postal Services Directive but which are important to consider when comparing the universal service obligations in the UK with other European countries.

### Delivery of periodicals, bulk mail and direct mail

A5.16 A number of European countries, including Denmark, France and Germany have a requirement within their universal services for the postal operator to deliver periodicals, such as newspapers and magazines, bulk mail and direct mail. No such obligations are within the current UK universal service obligations, as bulk mail was removed from the universal service in 2011.

### Postal services for blind or partially sighted users

A5.17 The UK, Denmark and Ireland include within their universal service obligations the requirement to offer certain mail services free of charge to blind or partially sighted users.

A5.18 Similarly, the Netherlands also include a requirement to convey postal items which primarily contain text in code intended for blind people free of charge.

<sup>207</sup> Copenhagen Economics, *Main developments in the postal sector (2008-2010), Part B: Country Fiche Appendix*, 29 November 2010. Although Ireland has a general delivery service rather than solely a D+1 service, a D+1 standard is specified within its universal service obligations for the general delivery service.

## Response of some universal service providers abroad to declining volumes

A5.19 Countries around the world are experiencing declines in mail volumes. Below we describe briefly how some universal service providers are responding to declining mail volumes.

### Denmark

A5.20 In 2007 Post Danmark implemented an X/Y distribution model. As part of this system, every address was designated as X or Y. National newspapers and D+1 post are delivered to every address every day, regardless of the addresses designation as an X or Y. However, non-priority mail, i.e. D+2 and D+3/4 post, magazines, advertising mail and weeklies, are only delivered on alternate days, with the day depending on the designation of the address. Y addresses receive non-priority mail on Mondays, Wednesdays and Fridays; X addresses receive non-priority mail on Tuesdays, Thursdays and Saturdays.

A5.21 This X/Y distribution model allows Post Danmark to fulfil its universal service obligations of delivering post 6 days per week and reduce its delivery costs significantly. Post Danmark has more recently introduced another money-saving measure known as 'soft Mondays'. This measure has involved substantially reducing the volume of non-priority mail that is delivered on Mondays, allowing a further reduction the number of employees that work on Mondays. One example of how it has reduced volumes is by not delivering weekly papers on Mondays.

A5.22 The NetherlandsPostNL's approach to the decreasing volumes of post was to introduce a peak/off-peak model. In this model, mail products are divided into priority and non-priority. Priority products continue to be delivered Monday to Saturday (six days per week), while non-priority mail are only delivered every second day, on Tuesdays, Thursdays and Saturdays. This model meets the universal services obligation in the Netherlands as single item mail can still be delivered six days per week.

A5.23 PostNL has reported that this switch to the peak/off-peak model has enabled it to reduce costs, both through the closure of delivery centres and the shift from full-time postmen to part-time deliverers. Moreover, PostNL has found that the total costs of this model are less than the costs of delivering five equal days.

A5.24 Since implementing this model, however, PostNL has experienced quality issues that has resulted in additional costs and required them to temporarily stop the roll out of this model.<sup>208</sup>

A5.25 Finlandtella, the Finnish postal operator, trialled a number of innovative changes to the delivery of post.

A5.26 The study, which was conducted in spring 2010, was called 'Living Lab' and involved the frequency and methods that post was delivered being radically altered for 122 households and 17 small businesses in a rural area called Antilla. During the trial post was only delivered twice a week, and on other days post was delivered to a post locker located by a village shop. In addition, parcels were retrieved from a parcel machine rather than a postal service point in the village.

<sup>208</sup> PostNL, *Q2 & HY 2012 Results: Press Release*, 6 August 2012, [http://www.postnl.com/Images/20120806-postnl-2012-q2-press-release\\_tcm216-614249.pdf](http://www.postnl.com/Images/20120806-postnl-2012-q2-press-release_tcm216-614249.pdf)

- A5.27 Another aspect of the trial was that 1<sup>st</sup> and 2<sup>nd</sup> class letters were scanned and delivered electronically before being put back into their envelopes and delivered in paper form. The recipient was able to access the electronic versions of their mail through their PCs using the Netposti service, Itella's secure electronic postal service.
- A5.28 Another change as a result of Anttila pilot is that electronic delivery of magazines is now a standard feature in the Netposti service. There are 250 magazines from 80 different publishers that can be subscribed to and read through the service, some of them without any charge.
- A5.29 The feedback from the trial was fairly positive; many of the participants being satisfied with only getting paper mail twice a week, and the parcel machines were seen as a good channel for receiving parcels. The sending of paper mail electronically received mixed reviews.
- A5.30 Following the trial, Itella have placed parcel machines in service outlets around Finland. The number of parcel machines in use was 50 by the end of 2011, and Itella will be doubling this number by the end of 2012, covering the whole country.
- A5.31 Itella also operates parcel machines also in Estonia. There the service has fast growing popularity and according to Itella's research users are very satisfied with them. Roughly 20-30% of all parcels there are received through parcel machines. The fast and easy service with no queuing appeals to users most in the service.

## United States

- A5.32 The U.S. Postal Service ("USPS") has taken a direct approach to the fall in volumes by simply trying to cut \$20 billion in operating costs by 2015. In order to achieve this, the USPS put forward a number of proposals, one of which is to remove the universal service obligation of six-day delivery. Their proposal is to reduce the number of days of delivery from six to five by eliminating Saturday deliveries to street address, while retaining six days of delivery at Post Offices and P.O. Boxes. Its research suggests that there will be potential savings of \$3.1bn from dropping Saturday deliveries<sup>209</sup>.
- A5.33 Furthermore, the USPS has put forward a proposal to revise service standards for First Class Mail, Periodicals and Standard Mail, expected to delivery annual savings of approximately \$2.1bn. Its aim is to reduce aspects of its network and move First-Class Mail to a 2-3 days standard service<sup>210</sup>.
- A5.34 In addition, USPS has already obtained permission from the US Postal Regulatory Commission to move its 'single piece Parcel Service', which is its ground delivery service for less-than-urgent and oversize packages, from its 'market dominant product' list to its 'competitive' product list. This move allows USPS to set its own prices for the produce, rather than being restricted by an inflation-based price cap.

## Jersey

- A5.35 On 28 February 2011 the Jersey Competition Regulatory Authority agreed to amend the postal licence under which Jersey Post operates. These changes enabled Jersey Post to make a number of changes to its collection and delivery services, the most significant of which being the move to a 5-day delivery service with the removal of Saturday deliveries.

A5.36 Additional changes included:

- the removal of the weekday 5:30pm collection from all roadside boxes, to be replaced with a number of selected 'late collection boxes' that offer a 6:00pm collection; and
- the removal of the Saturday 1:00pm collection from all roadside boxes, to be replaced with a number of selected 'late collection boxes' that offer an 11:00am collection.<sup>211</sup>

A5.37 More recently, Jersey Post made a further change to delivery services by moving from a two-tier service for items of local mail to a single-tier D+1 service.<sup>212</sup>

## Annex 6

# Socio-Economic Groups

A6.1 Socio-economic group (SEG) is a social classification, classifying the population into social grades, usually on the basis of the Market Research Society occupational groupings (MRS, 1991).

A6.2 The groups are defined as follows:

- A. Professionals such as doctors, solicitors or dentists, chartered people like architects; fully qualified people with a large degree of responsibility such as senior civil servants, senior business executives and high ranking grades within the armed forces. Retired people, previously grade A, and their widows;
- B. People with very senior jobs, such as university lecturers, heads of local government departments, middle management in business organisations, bank managers, police inspectors, and upper grades in the armed forces;
- C1. All others doing non-manual jobs, including nurses, technicians, pharmacists, salesmen, publicans, clerical workers, police sergeants and middle ranks of the armed forces;
- C2. Skilled manual workers, foremen, manual workers with special qualifications such as lorry drivers, security officers and lower grades of the armed forces;
- D. Semi-skilled and unskilled manual workers, including labourers and those serving apprenticeships. Machine minders, farm labourers, lab assistants and postmen; and
- E. Those on the lowest levels of subsistence including all those dependent upon the state long-term, casual workers, and those without a regular income.