

## Appendix: Parcels market developments

**Royal Mail faces a very competitive and dynamic parcels market.** The UK domestic parcels market is highly fragmented with 16 major national carriers. Royal Mail Group has a market share of 38% by revenue and 52% by volume (including large letters used for fulfilment).

- The market is operating effectively. There is competition based on price, and different service levels for all customer segments. There are high levels of innovation. Barriers to entry and exit to the parcels market are relatively low.
- As well as strong and effective competition from end-to-end carriers, there are also access style services, such as Hermes' offering of injection to hubs or depots.
- E-retail has disrupted traditional supply chains. New models are emerging such as Click and Collect, use of same day delivery for consumers, and Amazon's delivery network.

**The parcels market has evolved considerably in the last five years,** driven by changing consumer needs and preferences. We anticipated and prepared for these changes.

- E-retail is continuing to mature as consumers become more comfortable with online shopping and e-retailers improve their offerings and technical capabilities.
- E-substitution of media (books, music and films) is reducing the number of small parcels, whilst numbers of larger parcel from clothing and footwear retailers are growing rapidly.
- Evolving e-retailer and consumer demands and expectations are driving innovation and improvements to carriers' (including Royal Mail) offerings.

**An up-to-date USO is vital for e-commerce.** E-commerce rests on two services: broadband and post. Whilst extensive investment is still needed to develop a truly universal network for broadband, the UK already has a highly specified postal USO.

- The USO enables businesses selling goods online to operate just as effectively from a village in rural North Wales as a business in the centre of London. Royal Mail is the only provider to deliver to every address in the UK at no additional cost. This provides a UK delivery backbone that, in particular, supports consumers and SMEs.
- Royal Mail provides a comprehensive range of services supporting SMEs and consumers across the UK.

**Since 2012, there have been a number of significant market developments.** These have impacted the market to a greater degree than we expected. The challenges to Royal Mail are increasing.

- The rapid growth of Amazon Logistics, along with significant investment by carriers since 2013, has reversed the previous trend for growth in capacity utilisation. Coupled with the short-term nature of pricing decisions and length of customer contracts, this spare capacity has resulted in significant downward pricing pressure.
- eBay is establishing its own pick-up/drop-off (PUDO) network in the UK, in partnership with Argos and Sainsbury's. eBay buyers can now pick up their purchases at one of 750 stores.
- Hermes and Yodel have built significant parcelshop networks increasing competition for

consumer and small business parcels.

- Technology is enabling disintermediation of parcel carriers.

**The impact on Royal Mail of this increased competition is downward pricing pressure. In 2014-15, UK parcels revenue growth did not fully compensate for the decline in letters revenue.** The level of uncertainty in the market is growing.

## Royal Mail faces a very competitive and dynamic parcels market

1.1. **Approximately [8] domestic parcels were sent in the UK in 2013<sup>1</sup>.** The market is comprised of Business to Business (B2B), Business to Consumer (B2C) and Consumer sent (C2X) parcels. The majority of B2B and B2C parcels are bulk parcels, and C2X are single-piece<sup>2</sup>. Each segment has its own user needs.

- The bulk parcels segment is comprised of businesses that send large volumes of parcels to other businesses (B2B) and consumers (B2C)<sup>3</sup>. These customers typically receive individual bespoke rates based on the profile of the parcels they despatch (volume, size, fall to ground, weight etc).
- Single piece parcels are typically sent by consumers to other consumers or SMEs that are sending only a handful of parcels per week. Generally, they pay full retail tariffs, but sometimes receive discounts through promotions or resellers.

1.2. **Growth in the total market, estimated at c.4% per annum (excluding the impact of Amazon Logistics), is driven mainly by B2C/C2X.** These segments combined comprise around two thirds of market volume. Fuelled by e-retail, they are estimated to be growing at a combined rate of 4.5% to 5.5% per annum. B2B parcels are estimated to be growing at approximately the same rate as GDP<sup>4</sup>. All segments are experiencing considerable competitive pressures and change. But particularly B2C/C2X, where Royal Mail Group predominantly operates.

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<sup>1</sup> The parcels market is defined as including all "Individually addressed parcels and packets weighing up to 30kg, which do not require special handling and comprise goods that have been ordered". Definition excludes: 2-man deliveries, pallets, conditioned transport or groceries, letter mail, marketing literature and catalogues, in-house fulfilment (i.e. retailers' own networks), reseller activities (e.g. Parcel2Go), and network access parcels (included in RM figures)

<sup>2</sup> Excludes pre-paid returns which are categorised as B2C bulk parcels

<sup>3</sup> Both B2B and B2C segments contain traffic that is bulk and single piece. Triangle's market sizing does not distinguish between bulk and single piece

<sup>4</sup> Segment growth rates are RMG management estimates based on various sources including: Ci Research, Parcel Market Analysis; Triangle Management Services / RMG, UK Fulfilment Market Measure; Verdict, UK E-retail

## EXHIBIT 1: [X]

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## EXHIBIT 2: [X]

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- 1.3. **The UK domestic parcels market is highly fragmented with a large number of nationwide competitors.** The UK market has 16 major national carriers (including Royal Mail Group) and little consolidation. In comparison, there are 12 national carriers of size in France, and 10 in Germany<sup>5</sup>.
- 1.4. **Royal Mail is the largest UK carrier by volume and revenue.** It is estimated that in 2013 Royal Mail Group (Royal Mail and Parcelforce Worldwide combined) had a parcels market share of 38% by revenue and 52% by volume<sup>6,7</sup> (including larger letters used for fulfilment).

## EXHIBIT 3: [X]

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- 1.5. **Business models vary across these carriers,** with many of Royal Mail Group's competitors using owner-drivers or "lifestyle couriers". Lifestyle couriers are paid on a piece rate (i.e. per item delivered). They also have to provide their own vehicles and pay for fuel and uniforms from their remuneration. This model reduces overall capital expenditure needs and operating costs. It means that a greater degree of these carriers' cost bases is variable. This model enables these carriers to price aggressively in order to win business.
- 1.6. **Barriers to entry to the parcels market are relatively low.** All a company needs to provide an end to end parcel network is the ability to collect and deliver traffic, transport the traffic between a collection/delivery depot and a central hub, sort the traffic at this central hub and keep track of the items throughout the process. Many of the elements of this pipeline can either be subcontracted or provided by numerous likeminded companies. Additionally, recent technological advancements such as the use of smartphones as PDAs ("bring your own device") and parcel data management platforms such as Metapack have reduced IT barriers. New entrants to the market have grown quickly. For example:
- HDNL (since rebranded Yodel) was originally established as the logistics division of Shop Direct Group, which provided significant volume and gave it scale. It demerged in 2008 and is now a standalone parcels company. By 2013, Yodel had 7% market share<sup>8</sup>.
  - APC Overnight (Alternative Parcel Company) was created in 1994, and has since grown 35% year-on-year. APC Overnight now collects and delivers over 2mn parcels per month through 115 member depots.

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<sup>5</sup> DPI Europe Ltd., 2015

<sup>6</sup> Triangle Management Services / RMG, UK Fulfilment Market Measure, 2013

<sup>7</sup> This measure cannot be compared directly with other countries, however, due to measurement differences. Our market measurement methodology includes bulk LL (large letters) which most other methodologies exclude

<sup>8</sup> Triangle Management Services / RMG, UK Fulfilment Market Measure 2013

1.7. **E-retail has disrupted traditional supply chains** and is blurring the distinction between the major parcels market segments. There are several examples of this:

- **The e-retail boom is driving strong growth** and also more intense competition in B2C parcels. Carriers which were historically focused on B2B distribution are moving into B2C. [X]
- Low barriers to entry for online retailers mean **many individuals and smaller businesses now use parcel services to fulfil orders**, particularly through marketplaces such as eBay. This is the main reason why Royal Mail treats B2C and C2X together by referring to “B2C/C2X”.
- **Alternative delivery models are replacing B2C deliveries** (to homes) **with B2B style deliveries** (to retailers’ stores, i.e. Click and Collect, or third party businesses such as Collect+ and Duddle).
- Increasing numbers of **e-retailers are now offering Same Day as a premium delivery option** for consumers, e.g. Argos, Amazon.

### **The parcels market has evolved considerably in the last five years**

1.8. Developments in the market have been driven by changing consumer needs and preferences. We anticipated and prepared for these changes. **E-retail is continuing to mature**, as consumers become more comfortable with online shopping and e-retailers improve their offerings and technical capabilities.

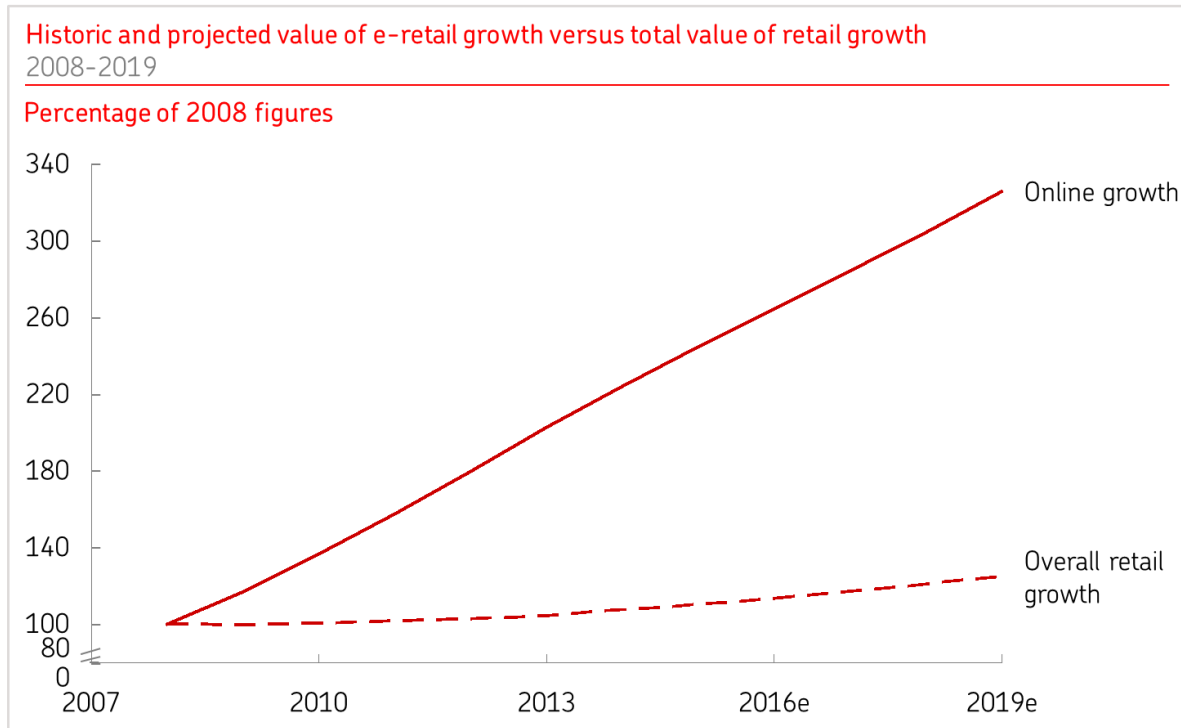
1.9. Overall online sales growth is slowing, however **online expenditure is still increasing significantly faster than the growth of total retail**<sup>9</sup>. Online spend as a proportion of total retail is forecast to grow from [X] in 2009 to [X] in 2019. Online growth from 2014 to 2019 is forecasted to be [X] in the previous five years.

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<sup>9</sup> Verdict, UK E-retail, 2015

## EXHIBIT 4: COMPARATIVE GROWTH OF E-RETAIL AND MAINSTREAM RETAIL

### E-retail growth is projected to far outstrip total retail growth



Source: Verdict e-retail in the UK 2015

- 1.10. **E-substitution has impacted the parcels sector in two waves.** The first wave was consumers buying and downloading music and computer games online. The second wave has been the streaming revolution where consumers can stream a wider range of content on-demand, cutting out a large portion of parcels.
- 1.11. **Smaller items suitable for Royal Mail's core network, such as CDs and DVDs, are declining.** Letterboxable books, CDs and DVDs are predicted to fall from [X] of home deliveries in 2014 to [X] by 2019. **Volumes of larger items such as clothing are growing** as consumers make more of these purchases online. 'Clothing & Footwear' items are forecasted to grow from [X] items in 2014 to [X] in 2019, accounting for [X] of home deliveries.
- 1.12. **Retailer and consumer activities are also driving an increase in average parcel size.** Retailers are standardising larger packaging. Consumers who want free delivery are being forced to buy more items at once. For example, Amazon has now raised the threshold for free delivery to £20. Items purchased are then consolidated in one larger parcel. In 2013, c.15% of retailers offered free deliveries with no minimum order value, down from 19% in 2012<sup>10</sup>. **Royal Mail is adjusting to these trends for larger parcels.** We have and continue to adapt our operation to accept larger parcels from contract customers. We have

<sup>10</sup> Micros, Multi-channel Retail Delivery Report, 2014

combined two small parcel formats into a single, larger size format (35cm x 45cm x 16cm) to make it easier for our consumer and SME customers to do business with us.

- 1.13. **Consumers are buying online later in the evening.** The bulk of online browsing, researching, and purchasing takes place between 8pm and midnight,<sup>11</sup> but consumers still have an expectation of next-day or two-day delivery. Retailers have responded by extending latest order times for next-day delivery. Topshop and Shop Direct have latest order times of 9pm, while Next offers ordering up to 12 midnight<sup>12</sup>. Carriers are extending their latest acceptance times (LATs) for next day and two-day delivery. Typical LATs offered to the largest retailers now range between 8pm and midnight.
- 1.14. **Consumers expect more convenient delivery options and information about their parcels.** Predicted time of delivery, alternative delivery locations (e.g. parcel shops, locker banks), real-time tracking and in-flight re-direction are all becoming common features. But consumers are not willing to pay extra<sup>13</sup>. B2C retailers are therefore under pressure to keep shipping costs as low as possible while still providing these value-added services. Additionally, retailers are also seeking to lower cost overall, putting further pressure on carriers.

### An up-to-date USO is vital for e-commerce

- 1.15. **E-commerce rests on two services: broadband and post.** Whilst extensive investment is still needed to develop a truly universal network for broadband, the UK already has a highly specified postal USO. It enables businesses selling goods online to operate just as effectively from a village in rural North Wales as a business in the centre of London. Without the Universal Service, it is likely that the market would not deliver affordable and accessible parcel drop-off and delivery services throughout the whole of the UK. Only the USO provides a high quality uniformly priced next day service right across the UK.
- 1.16. The UK was one of the early adopters of internet commerce. Penetration rates are high. **Internet shopping has developed very substantially in recent years.**
- The UK has the highest share of online retailing in the world – and a one third share of the entire European e-commerce market.
  - The UK's B2C e-commerce turnover increased by 14.7% in 2014 reaching €127bn – this is considerably higher than our nearest European rivals Germany (€71bn) and France (€57bn).
  - The UK is also the global leader in terms of consumer spend on the internet – UK consumers spend close to £2,000 per head online every year.
- 1.17. To go to the next stage of e-commerce adoption, e-commerce needs an infrastructure to connect all businesses, large and small, and all consumers, wherever they may be. No matter where you live in the UK, the **USO should have product features that are now commonplace in the market.** Almost 9/10 Scottish businesses report that they encounter an additional surcharge for delivery due to their geographic location. Many providers will not serve Northern Ireland. 33% of online retailers apply some form of delivery exclusion to

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<sup>11</sup> Barclays, Last Mile Report, 2014

<sup>12</sup> Company websites as of 28 August 2015

<sup>13</sup> Ofcom, Communications Market Report, 2015

Northern Ireland postcodes. Royal Mail, on the other hand carries post for the same price to every part of the UK. Royal Mail does not surcharge for deliveries to more remote areas. The UK requires a modern high quality parcels and letters USO to meet consumer needs.

- 1.18. Royal Mail Group provides a range of products and services that play a critical part in supporting SMEs and consumers across the UK. **Our scale and USO mandate makes Royal Mail the only provider to deliver to every address and consumer in the UK at no additional cost.** This provides a UK delivery backbone that, in particular, supports consumers and SMEs. The network has enabled the e-commerce revolution, and ensured reliable collections and deliveries to connect rural and vulnerable groups which competitors are not obliged to do. Other operators can and do exit the market, but due to the USO we are there to deliver.
- 1.19. Approximately half of Royal Mail's domestic parcels revenue is generated by single-piece services, with a [X] coming from small contract services users (c.20k customers). **Just 6% of UKPIL's<sup>14</sup> parcel revenue is generated by our largest parcels customer.** In general, Royal Mail's share of the larger customers is low. [X]
- 1.20. There are significant differences between the features of the letters and parcels markets: in letters, mandated access enabled competitors to carry approximately 53% of volume. In contrast, **in parcels, around half of all volumes are already carried by end to end competitors.** In addition, some end-to-end providers also enable competing carriers to access their networks through aggregator models which do not require upstream sortation. The largest customers e.g., Next with Hermes, directly inject volumes into carriers' depots and large customers inject traffic directly into the central hubs of many if not all nationwide carriers. In summary there is already a self-regulating access market for parcels. Royal Mail is already mandated by the USO to carry Access Large Letters used for goods such as DVDs. For parcels of all sizes, including small ones, Hermes offer aggregator services for DPD and Whistl.

### Since 2012, there have been a number of significant market developments

- 1.21. These developments have impacted the parcels sector. **The challenges to Royal Mail are significant and increasing. Amazon introduced Amazon Logistics, their own logistics and delivery capability, in 2012.** [X]

1.22. [X]

### EXHIBIT 5 [X]

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[X]

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- 1.23. **The rapid growth of Amazon Logistics has coincided with a series of capacity investments by other large parcel carriers.** Market sorting capacity has grown by c.300mn parcels, an estimated [X] as carriers have sought to capture e-retail growth.

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<sup>14</sup> UKPIL, comprising Royal Mail and Parcelforce businesses

- 1.24. **New capacity** and the removal of significant parcel volume from this segment of the market have combined to **put downward pressure on price as carriers seek to fill their networks**. Traditional B2B carriers are now moving to capture more B2C traffic, further blurring segment lines in the parcel market. For example, [REDACTED]
- 1.25. **The short-term marginal cost of using the spare capacity is very low**, so carriers are generally incentivised to reduce prices in an attempt to utilise their spare capacity. Therefore, overall, there is now downward pressure on prices. Furthermore, **the nature of contracts in the parcels market is short term**. This means that bulk parcels customers are able to use carriers to negotiate against each other, and can stop using Royal Mail at little to no notice. This further adds to the uncertainty. **The speed with which new business models emerge has accelerated**, further contributing to uncertainty and change.
- 1.26. **Parcel shops have grown rapidly since 2012 as carriers seek to provide convenient access to their services**. They typically offer long opening hours, pick-up and drop-off capabilities, and returns services. Competitor parcel shops such as Collect+ and myHermes, are, on average, open approximately 100 hours per week<sup>15</sup>. Other services they offer include doorstep collections, returns, and alternative deliveries<sup>16</sup>. The total number of parcel shops now exceeds the total number of Post Office branches,<sup>17</sup> giving consumers wide choice and convenience on the high street.

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<sup>15</sup> Triangle 2014 UK Alternative Delivery Market Study

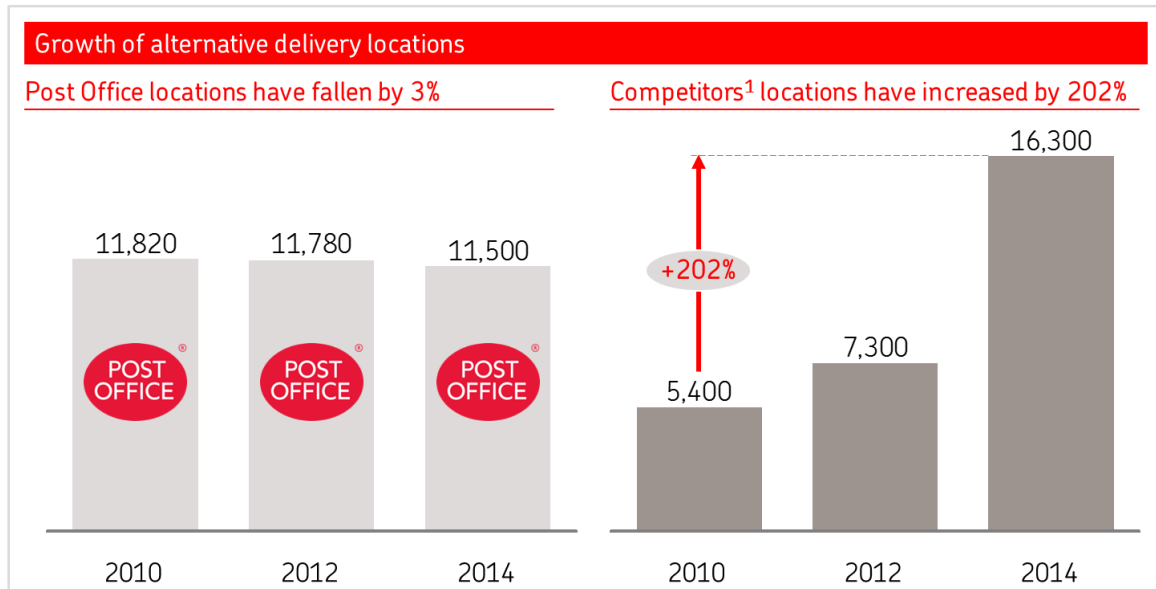
<sup>16</sup> Company websites, RMG analysis

<sup>17</sup> Company reports, news articles, RMG analysis. As of August 2015, c.18K parcelshops vs 11.5K Post Office locations



## EXHIBIT 5: NUMBER OF DELIVERY LOCATIONS FOR POST OFFICE VERSUS ALTERNATIVES

There has been a rapid growth in alternative delivery locations, up 202% in 4 years. Competitors now have more delivery locations than the Post Office



<sup>1</sup> Competitors include Collect Plus, myHermes, UPS Access Point, DHL, and others

Source: Apex European parcel shops and locker networks; Triangle alternative market; Verdict collection point strategies; competitor press releases; CEP research, post and parcel

1.27. [X]

1.28. **Retailers are also growing their Click and Collect services quickly.** Consumers can have online purchases delivered to the store for collection at their convenience, rather than to their home where they may miss the delivery. Although home delivery is still the UK consumer's preferred option,<sup>18</sup> Click and Collect grew by [X] in 2014, driven mainly by clothing and footwear, and now comprises [X] parcels [X]. Click and Collect is forecast to continue growing at [X]. Click and Collect saw a surge at Christmas 2014 as concerns over the parcel industry's ability to manage delivery expectations drove volumes to this channel. However, Click and Collect is not a low cost delivery option. Some companies are experimenting with charging for the service, as evidenced by John Lewis introducing a £2 charge for orders under £30, noting that the current free service was unsustainable<sup>19</sup>.

1.29. **Third-party disintermediation is disrupting traditional carrier-shipper relationships.** In general, disintermediation means a party other than the carrier or the shipper taking a role in the fulfilment value chain. A third party may disintermediate carriers in a number of different ways:

- by offering software that chooses which carrier a shipper uses
- by consolidating traffic from a number of small shippers in order to obtain a better price from carriers
- by removing traffic from the addressable segment by bringing deliveries in-house.

<sup>18</sup> IMRG Consumer Delivery Survey, 2014

<sup>19</sup> John Lewis press release, July 2015

- 1.30. Example 1: **Carrier Management Systems (CMS)** such as Metapack are online platforms that **help senders manage the shipping process**. These platforms integrate the major players and postal providers, as well as other smaller carriers and consolidators, and the single point of IT integration enables shippers to switch carriers easily without any contact between the two. This can have a major impact on carriers when used by large retailers. In 2013, [X]
- 1.31. Example 2: **Online resellers** (e.g. ParcelMonkey and Parcel2Go) **have emerged**, offering online virtual distribution solutions using buying power to negotiate rates with different carriers. Their online platforms display comparative pricing and service level information across a range of carriers, enable home collection, and allow consumers to pay postage and print labels from home. Consumers have a much wider choice than in the past, and are able to select a carrier based on lowest cost.
- 1.32. Example 3: **Disintermediation is particularly common within marketplaces**. While information on the scale of marketplaces as part of the wider e-retail market is not openly available, we estimate that [X] B2C items shipped for delivery in the UK are sold on marketplaces.
- **eBay is the largest UK marketplace**, shipping more than [X] parcels annually. It is actively working to make its platform and services “stickier” to sellers. eBay has been developing solutions to allow marketplace sellers to buy postage through eBay’s own online channel – effectively an eBay-controlled reseller service. This has the impact of diverting parcels that would have previously gone to Royal Mail.
  - **eBay is also establishing its own pick-up/drop-off (PUDO) network** in the UK, in partnership with Argos and Sainsbury’s. eBay buyers can now pick up their purchases at one of 750 stores. Drop-off facilities for sellers (‘Click and Drop’) are currently under trial in ten stores. To support Click and Drop, eBay has a bulk contract with a parcel carrier; this changes eBay from a single piece to a bulk provider of shipping capabilities.
  - **eBay is also attempting to disintermediate in export shipping** with its Global Shipping Programme (GSP). eBay offers UK sellers’ products on overseas eBay sites, but when a sale is made the seller need only ship as far as a consolidation point in the UK. eBay then ships items in bulk to destination countries (currently limited to the busiest lanes).
  - [X]
- 1.33. Given the overall pace of change in the market and the increasing use of technology, Royal Mail is closely monitoring the market for new developments. **Royal Mail could face several potential threats in the future**.
- Potential rapid expansion of **same-day B2C models** (through Amazon selling its services to other retailers, **couriers becoming cheaper**, or new entrants such as Uber entering the market)
  - **Continued disintermediation** due to an increase in the number of players in the value chain, causing destruction of margin
  - **A new entrant in the market** in the form of an overseas player acquiring or building a network in the UK (e.g. Deutsche Post/DHL is currently aggressively building a B2C parcel network across Europe, and has entered Slovakia and

Austria in 2015 to date).

1.34. [~~8~~]

## Appendix: Royal Mail innovation and improvements

### **We are investing in our parcels business to improve efficiency and foster innovation through technology:**

- Royal Mail has significantly improved its quality of service, complaint levels and customers satisfaction in the last 3 years.
- Services have been improved across the value chain from ordering and shipping systems through to our delivery methods and focus on achieving first time delivery from the introduction of Delivery to Neighbour.
- We are also continuing to invest through our Parcels Transformation Programme. This will include the introduction of a form of visibility/tracking on the majority of our parcels and the infrastructure to turn this into external customer and internal operational data to drive further improvements and efficiencies.
- The pace of innovation has quickened very considerably. As discussed in Chapter 2, we have delivered more than 30 product and service innovations for our customers (most of these relating to parcels).

### **Quality of service, complaints handling and customer satisfaction**

- 1.1. Royal Mail already provides a **high quality parcel service**. Significant time and effort have been invested in recent years, both to improve our overall service level and to innovate. As a result, our quality of service has risen, complaints have fallen significantly and customer satisfaction has improved.
- 1.2. Royal Mail commissions an external market research agency to run a series of independent, continuous and large scale “End to End” Quality of Service sampling surveys. We are the only major parcel carrier to publish our Quality of Service metrics. **These show significant improvements in the delivery of many of our parcels**, for example:
  - RM48 (bulk untracked parcels) improved from [X] in 2012/13 to [X] in 2014/15
  - RM Tracked 24 improved from [X] in 2013/14 to [X] in 2014/15
  - RM Tracked 48 improved from [X] in 2013/14 to [X] in 2014/15
- 1.3. To reflect the increasing importance of parcels to Royal Mail, a composite parcels Quality of Service metric was added to our Corporate Balanced Scorecard in 2013-14. Performance against this metric is part of the short-term incentive scheme for our managerial employees. In 2014-15, **we achieved 95.0%**, narrowly missing our target of 95.3%.
- 1.4. In 2014, we introduced a First Time Delivery metric for our Tracked products. During the first quarter, our weekly performance was [X] **Since April 2015, weekly performance has not dropped below [X]**. Improvements have been driven by focusing on using Delivery to Neighbour, increased use of SMS texting and increased emphasis on improvement at a local office level.

- 1.5. We have also made significant improvements in reducing complaints. **Total complaints<sup>20</sup> have fallen [X] since 2012.** We have developed a root cause approach to complaints. This involves going directly to the source, involving local managers to enable fast and sustainable improvements. Our approach has led to improvements in the four key delivery areas, all of which impact our parcels customers:
- Loss down [X] and mis-delivery by [X] due to focus on first time delivery
  - Redirections are down [X] due to an improved customer journey
  - Use of “Something for You” cards (P739) down [X]
  - At the same time, business customer complaints have fallen [X]
- 1.6. Each month, we interview around 700 business customers of all sizes to investigate their satisfaction levels and enquire about their experience with us. Since 2011-12, we have **improved business customer satisfaction with Royal Mail from 70 to 76**, in 2014-15. We also benchmark ourselves against our key competitors. We consistently receive better customer satisfaction scores than Hermes and Yodel.
- 1.7. We also survey around 3,000 consumers each month. Royal Mail’s mean satisfaction scores from those consumers who have received a parcel from Royal Mail in the last six months have improved significantly. From 66% at the start of 2012-13, we achieved 72% at the end of 2014-15. So far this year we are averaging 74%. Our scores are also benchmarked against DPD, Hermes and Yodel. We have **consistently beaten all of these competitors** since the benchmarking began in April 2013.

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<sup>20</sup> Complaints include letters- and parcels-related complaints. Currently no reliable way to separate complaints into letters- or parcels-related

## Services have been improved across the value chain

- 1.8. In 2013, we simplified our parcel product portfolios. For businesses, we provide Guaranteed, Tracked and Standard services; and for consumers, Guaranteed, Confirmed and Standard. Business Guaranteed and Tracked services provide SMS/e-mail confirmation of delivery day to recipients. The main customer benefit of the change was to make it **easier to do business with us** by creating a simple and intuitive product portfolio based around a 'good, better, best' framework. Including the speed and basic attributes within the product name (e.g. "Tracked 24", "Special Delivery Guaranteed by 9am") makes it easier for customers to understand the value of the service they are buying.
- 1.9. We have **invested significantly in our shipping solutions** to enable customers to easily order their parcels. For larger businesses, we have built a range of Application Programming Interfaces (APIs) that allow businesses to more easily connect their shipping systems to our own and invested in improving our standalone system, DMO (Despatch Manager Online). For consumers and small businesses, we have re-engineered our online postage journey with the introduction of Click and Drop that allows easy purchase and printing of postage labels.
- 1.10. We have also **invested in our enquiry offices** to improve the customer experience for undelivered parcels. As well as training all enquiry office staff, we have refurbished 103 enquiry offices and installed a new computer system in 384 enquiry offices that enables us to find parcels quicker. We have also improved working hours and last year started opening c.100 offices on Sundays.
- 1.11. As part of the operations transformation, we introduced new delivery methods in 2008. For delivery rounds located near Delivery Offices, we now use High Capacity Trolleys. For other urban deliveries we use a park and loop system. Two post people share a van and deliver mail in short loops before returning to the van to get more letters and parcels. Often one of the post people will do van deliveries during one of the loops. Both allow more parcels to be delivered at the same time as letters, maximizing the efficiencies from joint delivery and reducing our dependency on more costly van deliveries. In 2013, we also **supplied all delivery routes with a PDA** to allow real-time capture of tracking information and signatures on delivery.
- 1.12. **Royal Mail has optimised our network to better meet customer needs and more effectively compete.** This has also improved our network utilisation.
- We are **extending the latest time that we accept parcels.** We now accept Tracked 24 items into NDC up to 23:59 for delivery to the majority of the country. We are developing solutions for posting into other Regional Distribution Centres and Mail Centres. We have also progressively moved the latest acceptance for Tracked 48 in all Regional Distribution Centres and Mail Centres to 23:59.
  - We have **opened our operation at weekends** and now collect parcels on Saturdays and Sundays for delivery on Monday and Tuesday. This allows consumers who purchase items at weekends to receive their items at the beginning of the week.
  - Traditionally, we processed all Tracked 24 volumes in Mail Centres. For customers using both Tracked 24 and Tracked 48 High Volume, they received separate collections

each day. We have now combined this into a **single collection, processing** both products through the Regional Distribution Centre network providing customer despatch simplification.

- **Recipients can also receive and collect parcels on Sundays.** Parcelforce Worldwide offer a nationwide service on Sundays. Royal Mail is trialling Sunday deliveries within the M25. We have also opened c.100 enquiry offices across the UK on Sundays for 4 hours. We are planning to extend this to other offices to cover 50% of UK parcel volumes.
- 1.13. Royal Mail Group has been working with our retail partner Post Office Ltd. (POL) to improve the customer experience in branches and extend opening hours. To date, **5,000 branches now have extended opening hours**, 3,000 are open on Sundays, and over 1,000 branches have been transformed in the last 18 months.
  - 1.14. POL is one of the few outlets where access to a PC to print labels and pay online is not required. The service **supports vulnerable populations** who may not have the technology or internet connection at home, and has broader coverage, particularly in rural areas, compared to other parcel shops.
  - 1.15. Royal Mail relaunched its Local Collect 'Click and Collect' service with the Post Office in 2013. This provides shoppers with the **option to collect their parcels from any of 10,500 Post Office branches**. This is the largest alternative delivery network in the UK. In 2014, we developed our Local Collect application programme interface (API) and upgraded our despatch management tool. This enables all of our business customers to offer this service to their customers.
  - 1.16. Royal Mail **re-engineered its returns service** to provide tracking events in 2013. This provides a track event when the item is dropped off at a Post Office and a further scan at the Delivery Office when the item is received back for return to the retailer. In 2015, Royal Mail launched a new portal to help online retailers better manage returns while also improving the experience for their customers. The returns portal gives retailers full visibility of returned items – exactly which items are being returned, from which customer and for what reason, improving stock management. Meanwhile, consumers benefit from an improved experience with the ability to easily print off a returns label and monitor the progress of their item back to the retailer.

### **We are also continuing to invest through our Parcels Transformation Programme**

- 1.17. The pace of innovation has quickened very considerably. We have delivered more than 30 product and service innovations for our customers. They include Local Collect, Sunday parcel deliveries, Deliver to Neighbour, growth incentives, easy parcel shipping tools and development of digital apps. We are delivering high quality of service, e.g. circa 93% on first class mail. Business customer satisfaction has improved from 70 in 2011-12 to 76 in 2014-15. Underpinning these innovations is our unique position as the UK's most trusted and preferred delivery company. 83% of online shoppers say they trust Royal Mail, compared to 56% for the nearest competitor.
- 1.18. Royal Mail is undergoing one of the largest transformations in its history, to ensure we continue to be the leading provider of UK parcel delivery services. We are therefore investing in the Parcels Transformation Programme (PTP) to **fundamentally change Royal Mail's parcels infrastructure**, including its operations, IT and technology.

- 1.19. Tracking on parcels is still one of the top customer needs, yet Royal Mail is the only major national carrier still carrying untracked items. We are **developing the capability to offer some form of visibility over most of the c.1bn parcels** we deliver each year in the UK. We are doing this by investing heavily in tracking and reporting systems, based on the same technology that underpins the London Stock Exchange. We are also providing our frontline staff with over 75,000 new mobile scanning devices (PDAs), and equipping our Mail Centres with 3,000 finger scanners as well as 21 automatic parcel sorting machines.
- 1.20. The immediate benefit to customers will be the ability to know when and where their parcels have been delivered. Both senders and recipients will have better access to information and higher quality of service, and we will be able to provide new products and services to meet changing customer needs. Furthermore, losses and complaints should fall even further as RM gains visibility of its network.
- 1.21. Royal Mail will benefit from data-driven efficiency savings, better strategic planning capability (e.g. forecasting), and an accelerated ability to deploy future change.