



**Consumer
Focus**
Campaigning for a fair deal

Consumer Focus response to Ofcom's consultation on its review of postal users' needs

December 2012

About Consumer Focus

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

We operate across the whole of the economy, persuading businesses, public services and policy-makers to put consumers at the heart of what they do. We tackle the issues that matter to consumers, and give people a stronger voice. We don't just draw attention to problems – we work with consumers and with a range of organisations to champion creative solutions that make a difference to consumers' lives.

Following the recent consumer and competition reforms, the Government has asked Consumer Focus to establish a new Regulated Industries Unit by April 2013 to represent consumers' interests in complex, regulated markets. The Citizens Advice service will take on our role in other markets from April 2013.

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Introduction

Consumer Focus is pleased to be able to offer comments on Ofcom's review of postal users' needs. With this review Ofcom has fulfilled its duty under the Postal Services Act 2011 which charged it with assessing the extent to which the postal market meets the reasonable needs of users within 18 months of it taking over responsibility for postal regulation. We are very impressed with the extremely extensive and thorough quantitative and qualitative research that Ofcom commissioned as part of this review, which provides it with a substantial body of evidence to support the changes necessary to safeguard the universal service.

Summary of our response

In general we agree with Ofcom that users' needs are generally being met (or exceeded) by the current postal service, but some changes would help to ensure that their needs are met more appropriately. Ofcom has taken the sensible approach to considering the costs and benefits of the service using detailed financial information to inform its conclusions. We cannot comment on Ofcom's financial analysis but we can provide evidence on the wider consumer and social issues raised.

Consumer Focus has recently commissioned several pieces of consumer research that are relevant to this review. In general our findings either corroborate or support Ofcom's findings and should provide it with further evidence to be able to act on the conclusions that follow. In this research we took a 'back to basics' approach and re-assessed consumers' use of the postal service as a whole, in light of the changes to the wider communications market and the rise of electronic communications. We also focused specifically on consumers' knowledge of Royal Mail's key products: First Class, Second Class, Recorded Signed For, Special Delivery and Certificates of Posting. Their responses indicate that the current requirements of the universal service, especially the suite of products that Royal Mail uses to fulfil these requirements, have moved out of step with the way that consumers need (and want) to access post. These responses have prompted us to look again at some elements of the service and whether they need to be maintained according to their traditional provision or whether there is a case for considering changes. We acknowledge that with changes come risks, but in a changing world standing still can be as risky.

We will use our response to comment on the issues raised in the individual sections of the consultation. Ofcom identified seven 'core' consumer needs in its qualitative consumer research: simplicity and trust; range; speed; affordability/value for money; control; fit with the demands of modern life, and predictability. These chime with the findings from our universal service research, and we will refer to them when appropriate throughout our response.

The main points we make are:

- Section 8 (More convenient packet services): we believe Ofcom should consider whether it would be appropriate to require Royal Mail to meet **minimum density and opening hours requirements for parcel pick-up points**.
- Section 9 (Next day deliveries): our omnibus research found that consumers are confused about the features and delivery speeds of First and Second Class. Participants in our focus groups perceived that First and Second Class services have blurred and many had lost faith in First Class post. Given consumers'

views of First and Second Class and their use of First Class for reasons other than speed (although this is the only feature that distinguishes the two) we believe there is considerable merit in **merging First and Second Class** to increase the simplicity of Royal Mail's product offering. People's continued need for next day deliveries would then be met by Special Delivery, although this could be unaffordable for some consumers unless the security enhancements it provides are split from the next day guarantee.

- Section 10 (Quality of service of the next day service): what consumers want above all from a postal service is reliability and predictability: **maintaining a high Quality of Service** will help to meet this need.
- Section 11 (Number of collection and delivery days): our focus group research found that residential consumers would accept a reduction in the number of delivery days provided the service was reliable; they believed they could adapt to such changes and their concerns would be mitigated by improved parcel pick-up arrangements. However, SMEs did not believe they could function without weekday deliveries. Taken together these responses suggest that if Saturday deliveries and collections were removed from the universal service this would be acceptable to many consumers across the nations. Going forward we believe that there will be **less need to maintain the current requirements**, but we recognise that this would be a major change to the postal service. Further detailed research on the impact on all members of society, especially vulnerable consumers, would be required prior to consideration of any changes.
- Section 13 (Delivery to the door): consumers in our focus group research **valued deliveries to the door** not just for themselves but for vulnerable consumers as well.
- Section 14 (Additional characteristics of the universal service)
 - Special Delivery: we believe that Ofcom should amend the regulations governing universal postal service products to **'unbundle' the features of Special Delivery**. Royal Mail could then allow consumers to purchase only those features that they need, which would improve access to these features, raise awareness of their availability and increase affordability.
 - Certificates of Posting: our research shows that **consumers' awareness of Certificates of Posting and their role in claiming compensation is very low**; we therefore urge Ofcom not to make any decisions about Certificates of Posting without taking this low awareness into account, especially in the light of Royal Mail's proposed changes to its compensation arrangements¹.

Relevant Consumer Focus research

1. Qualitative research on consumers' needs from the future postal service²

Consumer Focus commissioned this research to investigate what motivates consumers when choosing a communication method and how they believe these choices will change over the medium-term, with an emphasis on postal services. This involved asking consumers to think beyond the products and services that are currently available to consider their needs in a more abstract manner. The major challenge for this project was to elicit views on the future without constant reference to the existing service provision. It is comparatively easy to get people to talk about postal services and their current needs but much more challenging to project into the future. This was addressed through an

¹ Royal Mail (2012) *Proposal to amend the Inland letter Post Scheme in relation to universal service packets and parcels, and compensation levels for loss and damage*

² Consumer Focus (2012) *Sense and Sustainability*

innovative programme of research comprising 28 focus groups with residential and SME consumers, including four focus groups with under 18 year olds. The focus groups were conducted in rural and urban areas across England, Wales, Scotland and Northern Ireland with residential consumers from different socio-economic and age groups and SMEs from different business sectors. This research took place between 22 February and 15 March 2012.

We are pleased that Ofcom quoted extensively from our focus group research in its consultation. When re-assessing the universal service there are different levels that can be investigated, but previous national and international research has often centred on how consumers use existing products and services. It has also often considered post in isolation despite the acknowledged impact of developing technologies on consumers' habits. When commissioning this new research we came to the same conclusion as Ofcom that it is difficult to avoid knee-jerk responses with quantitative research, especially when consumers are faced with change. Ofcom has therefore sensibly relied heavily on the more considered responses provided in its focus groups and discussions, alongside the findings from our focus group research.

2. Consumers' knowledge of Royal Mail's products

We have just published a report³ that presents several related pieces of consumer research assessing how well Royal Mail's products and their features are linked in consumers' minds.

a. Product knowledge survey

This involved a face-to-face omnibus survey with 2,054 consumers from across the UK during 18-23 August 2011. Consumers were asked which Royal Mail product they would use if they needed a particular feature of the postal service. Their awareness of Certificates of Posting was also tested.

b. Feature knowledge survey

This involved a face-to-face omnibus survey with 2,072 consumers from across the UK during 11-15 January 2012. Consumers were tested on their knowledge of the delivery time and features of Royal Mail's products.

3. High Street post offices mystery shopping⁴

Royal Mail's products are commonly sold across a post office counter, and the advice given by post office counter staff should ensure that even consumers with low awareness of these products make an appropriate choice. The quality of advice given across high street post office counters was tested via 448 mystery shopping visits to Crown and privately managed post offices across GB between 22 October and 19 November 2011. These visits assessed the responses of counter staff to posting scenarios designed to prompt staff to advise consumers about a different Royal Mail product.

This research includes two relevant scenarios. In one scenario (448 visits) the mystery shoppers needed to post an A4 envelope to London and also enquired about proof of posting for this letter. This scenario was designed to test the options counter staff presented for proof of posting. In another scenario (220 visits) shoppers enquired about the best way of sending a letter when they needed confirmation that it had been received. If asked, shoppers confirmed that it did not need to arrive until the end of the next week ie that it was not urgent and that it contained an application form ie that it was not valuable. These answers should have prompted counter staff to recommend Second Class Recorded Signed For (not Special Delivery).

³ Consumer Focus (2012) *Getting the most from the post?*

⁴ Consumer Focus (2012) *Are you being served?*; Consumer Focus (2012) *Getting the most from the post?*

4. Parcel deliveries in Scotland⁵

Consumer Focus Scotland has recently published a report looking at the issues around parcel deliveries for consumers in Scotland, particularly those living in rural and remote areas. This report included a survey of 1,000 consumers throughout Scotland plus eight focus groups.

⁵ Consumer Focus Scotland (2012) *Effective parcel delivery in the online era – what consumers in Scotland need*

Response to individual sections

Section 4: Scope of the review

Ofcom states that it did not include access points for larger items or premium services in its review because the size of the post office network, which serves as the access points for such services, is determined by Government. Current Government policies mean that the network constitutes about 11,500 outlets across the UK, which is considerably more than would be required under the density criteria specified in the Designated Universal Service Provider condition. As of 1 April 2012, Royal Mail Group Ltd and Post Office Ltd became separate companies linked by a 10-year Inter Business Agreement. Post offices are therefore the current, but not necessarily inevitable, access point for postal services, and an over- or exclusive reliance on the post office access criteria could become an issue in the medium term. While we understand why Ofcom did not include larger item and premium product access points in its current review, it needs maintain a watching brief on this issue to avoid any future regulatory gap.

Section 7: Acceptability of the current universal service to users

The report mentions that there are differences in the responses of consumers in rural areas and those in urban areas. This is an important and consistent demographic finding. We know that consumers in rural areas across Scotland, Wales, Northern Ireland and England are more reliant on traditional forms of communication such as post because of the limited availability of alternative forms. For example, consumers in rural areas of Scotland are much more likely to have slower broadband speeds. Only 72 per cent of telephone lines in the Highlands and Islands are able to deliver 2 Mb/s (a relatively low-speed broadband service), and the rest have even slower broadband speeds⁶. One of the reasons for this disparity is that technologies that deliver faster broadband services are generally much more widely available in urban areas than rural areas. For example, the Virgin cable network currently only passes 16 per cent of households in rural Scotland, 10 per cent of households in rural Wales and no households in rural Northern Ireland, compared to 48 per cent of all households across the UK⁷. Another key factor is that consumers in rural areas often live much further from their local BT exchange than they do in urban areas, and are therefore likely to receive a slower broadband service. This is a particularly important issue in rural Scotland, where the geography, topography and population dispersal mean that the distances which consumers live from the local exchange are often considerably further than in other parts of the country⁸. There are similar issues with take up of broadband by small businesses in Scotland and Wales. Sixteen per cent of small businesses in Scotland and 18 per cent of small businesses in Wales state that they lack fast and reliable broadband and, in Scotland, proportionally more rurally located businesses are affected by a lack of fast and reliable broadband than those located in urban areas⁹. These factors probably help to explain Ofcom's finding that consumers living in deep rural areas responded more negatively to scenarios involving a service reduction.

⁶ Analysys Mason (2009) *Telecoms connectivity in the Highlands and Islands*

⁷ Ofcom (2012) *Communications market report*

⁸ Ekosgen (2011) *Research on Broadband and Business in Scotland*

⁹ Federation of Small Businesses (2012) *Members Survey* – report of findings in Scotland

Section 8: More convenient packet services

All of the evidence that Ofcom presents points to convenient parcel delivery as an increasingly important part of the postal service for consumers. Our focus group research found that residential consumers are sending and receiving far more packets and parcels as online shopping and trade continues to grow. However, they want alternatives to the current system which many see as frustrating and no longer in line with the way they live. Many of the issues observed in this section chime with those raised in the Consumer Focus Scotland parcels report which found that consumers have to contend with inflexible delivery options and inconvenient delivery office opening hours. The report outlined specific concerns for those living in remote and rural areas who rely heavily on internet shopping and effective delivery solutions for basic goods in the absence of high street alternatives; these concerns apply to consumers in rural and remote areas across the nations. More flexible delivery solutions that fit with the needs of modern consumers would also benefit retailers and, ultimately, delivery operators themselves.

In general we do not believe that regulatory intervention is the solution to the problem of delivery convenience. Those companies that tailor their products and services to the varied and changing needs of consumers will win the increasing parcel traffic. Being the universal service provider already lends Royal Mail a competitive edge over competitor parcel operators, and we believe that it is up to Royal Mail to take advantage of its position. It has already demonstrated that it is keen to do so with the national rollout of the delivery to neighbour scheme, although we believe that Royal Mail needs to continue to look at other options. For those who do not fall into market segments that benefit from competition (such as rural and remote consumers) Standard Parcels provides a basic parcels service at a uniform price across the UK. The introduction of delivery to neighbour plus the existing redelivery/collection options we believe that regulation has played its part in ensuring a basic parcel delivery service, although this still means that consumers in rural areas who rely more on parcels delivery have the least choice of options. Regulation should only be used where the market fails to deliver but, given the rapid growth in this area, Ofcom does need to remain vigilant to any market failures, including the development of choice and competition in rural and remote areas and the risk of companies 'cherry picking' areas of dense population that are cheaper and easier to serve.

Having said that, we urge Royal Mail to recognise the importance to consumers of delivery offices (or alternative parcel collection points) having convenient locations and appropriate opening hours. Our research shows that collection from a delivery office is far and away the most common choice for consumers whose delivery was unsuccessful first time. The Consumer Focus Scotland parcel report found that of those who had been notified that an item was waiting at the delivery office 87 per cent collected their item, despite the alternative redelivery options currently available to Royal Mail consumers. This aligns closely with previous research conducted by Consumer Focus Post (Northern Ireland)¹⁰ in which 85 per cent of 1,000 consumers in Northern Ireland reported that they collect undelivered mail from the delivery office. Focus group participants in the Consumer Focus Scotland parcels report stated that redelivery to the same address was not a viable alternative because deliveries were generally made on weekdays during working hours, which was the primary reason that delivery was missed in the first instance.

However, this strong preference does not mean that collection from a delivery office is optimal, and should encourage Royal Mail to improve accessibility. If unsuccessful we would support Ofcom in considering a regulatory solution. Half of the survey respondents in the Consumer Focus Scotland parcels report stated that they had

¹⁰ Consumer Focus Post (2010) *'Sorry you were out...' The unsuccessful delivery of your mail*

encountered some difficulty when visiting their local delivery office, with inconvenient opening hours and distance cited as two of the most common reasons. The majority of respondents estimated they lived more than one mile from their local delivery office, with 23 per cent living more than three miles away. Similarly, over four in ten consumers surveyed in the Consumer Focus Post (Northern Ireland) report stated that they had experienced difficulties in accessing their local delivery office; they also cited distance to the office and opening hours as among their top difficulties.

The location of delivery offices can cause particular problems for some groups of consumers. For consumers in rural and remote areas the trip to a delivery office can mean lengthy and expensive journeys as they are often much further from consumers' homes than in urban areas. The round trip travel distance to the nearest delivery office for a random cross-section of settlements from each county in Northern Ireland is detailed in the Consumer Focus Post (Northern Ireland) report. It illustrates the lengthy journeys for consumers in rural areas, in some cases over 20 miles return trip. Some consumers in Ofcom's deliberative research reported that they could not afford the bus fares or parking meter tickets necessary for such a journey; this included the example of consumers with disabilities on low incomes who require a taxi for even a short journey. Inconvenient opening hours of delivery offices are also a well-documented concern: this issue was mentioned by 38 per cent of 16-34 year olds in the Consumer Focus Scotland parcels report, compared to 29 per cent of 35-64 year olds and only 15 per cent of those aged over 65.

Failed delivery attempts are inconvenient and costly to the consumer and Royal Mail. These problems would be improved by requirements for longer opening hours at Royal Mail's delivery offices. This is particularly true for younger consumers: the Consumer Focus Post report found that 70 per cent of those aged 25-34 would consider weekday evenings between 6pm and 8pm the most convenient opening hours of their local delivery office. However, this doesn't directly help those with mobility issues, or those who live in rural areas that are a long way from the nearest Royal Mail delivery office. We would therefore also like Ofcom to consider introducing minimum density requirements for free Royal Mail parcel collection points, similar to those that exist for access points. Royal Mail could meet this requirement via the location of its delivery offices and the use of post offices as now (although we don't believe that the paid-for Local Collect service should be consumers' only option). Alternatively Royal Mail could take advantage of third-party outlets such as local shops, provided of course that they meet mail integrity requirements.

This is a relatively straightforward solution that takes advantage of Royal Mail's reach across the UK, and is supported by consumers' responses in our focus group research. The ability to collect a parcel at a pre-specified location, for example a local pub or corner shop, was considered appealing. Residential consumers are interested in premises where the opening hours are such that are not fighting against time to reach them. For example, many urban residential consumers say that although a 6.30pm closing time might seem reasonable it only works if they can guarantee finishing work at 5.30pm and that their evening commute will take no longer than an hour; for many, these are not guarantees they can make. Alternative collection possibilities for packets would also help allay consumers' concerns about reducing the number of daily deliveries (see Section 11). Consumers could continue, in theory, to receive parcels the day after delivery should the item be deemed sufficiently urgent (or desirable).

Section 9: Next day delivery

The current options for consumers who need next day delivery are First Class (target of 93 per cent of items delivered the next working day) or Special Delivery (target of 99 per

cent of items delivered the next working day with a refund for delay). Of the two, First Class is much more widely used. However, Ofcom’s quantitative research found that only a small proportion of those who use First Class need their post to arrive the next day. So why do consumers use First Class when Second Class would often suffice? Ofcom’s quantitative and qualitative research found that consumers had misperceptions about both the speed and features of First Class and Second Class. We recorded very similar responses in our feature knowledge survey, which found that consumers believed that First and Second Class differed in their features, not necessarily their speed.

First Class and Second Class delivery speed misperceptions

Consumers were aware that First Class provides a faster delivery time than Second Class. Two-thirds of consumers (62 per cent) correctly believed that First Class provides next working day delivery and two-fifths (39 per cent) correctly believed that Second Class provides three-day delivery. However, almost one-third of consumers believed that these products provide two-day delivery (29 per cent for First Class and 35 per cent for Second Class).

Figure 1: Consumers’ knowledge of the standard time it takes from posting to delivery for First Class and Second Class



* Correct response for First Class

** Correct response for Second Class

Our focus group research uncovered the same lack of differentiation between First Class and Second Class post. Moreover, participants said that they no longer trust First Class: the expectation is that First Class post should be delivered the next day and this often does not happen.

‘It’s all just Second Class now isn’t it? There are some times I use a First Class stamp and it gets there in three or four days and other times I put a Second Class stamp on and it gets there the next day. What’s that about?’

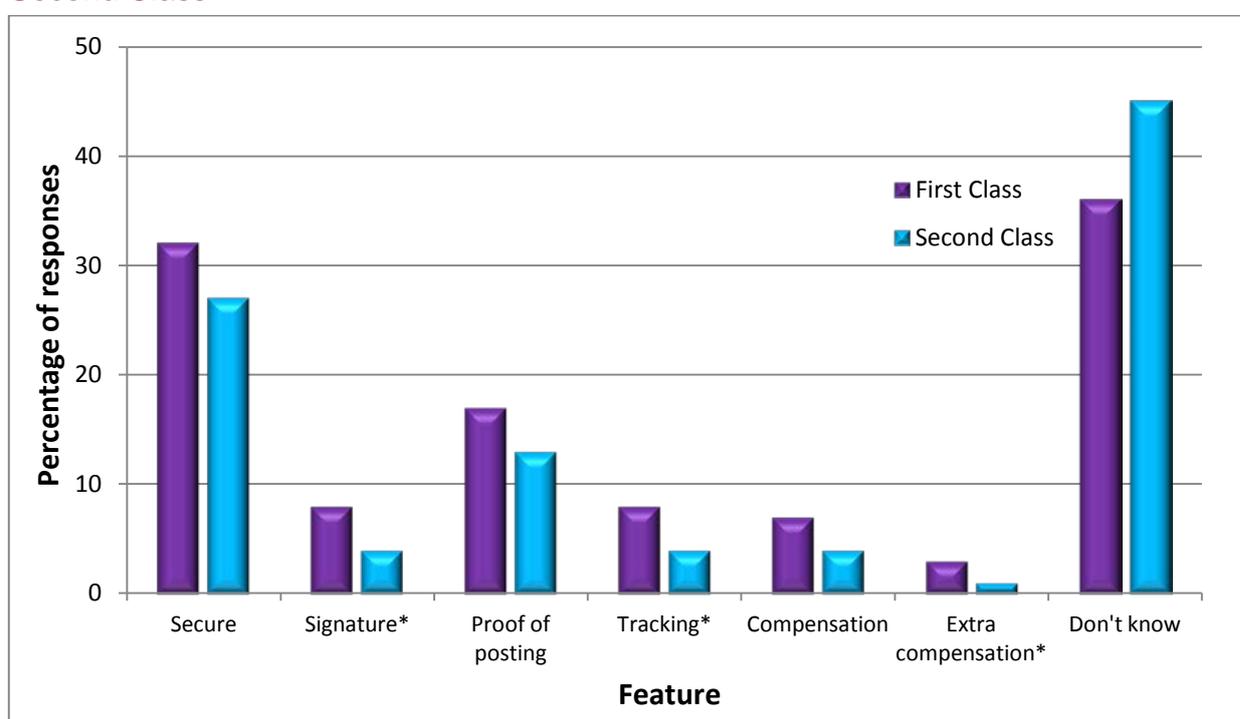
Residential Consumer, Newton Abbot, over 60

‘There isn’t any difference in First Class and Second Class mail anymore. We sent out a batch of letters and some of the Second Class ones got there first.’

First Class and Second Class features misperceptions

These results suggest that consumers use First Class for reasons other than next day delivery. Ofcom's research findings suggest that consumers believe First Class to be more reliable and secure than Second Class. This is supported by the findings from our feature knowledge survey in which consumers were asked about which features they believed were offered by different postal products. For every feature presented, a greater percentage of consumers believed that First Class offered these features than Second Class, even though the only difference between First Class and Second Class is their delivery times. Consumers were also more likely to believe that items will be secure/arrive safely with First Class (32 per cent) than with Second Class (27 per cent).

Figure 2: Consumers' knowledge of the features provided by First Class and Second Class



* Feature not provided by either First or Second Class

These findings converge on the conclusion that consumers use First Class for reasons other than speed when Second Class would often suffice. Many participants in Ofcom's deliberative workshops preferred the idea of a single, two-day service to the current First/Second Class distinction, but believed a next-day service is still necessary (although Special Delivery is too expensive). Participants in our focus groups perceived that the quality of existing services has deteriorated and many had lost faith in First Class post. First and Second Class services have blurred and signed for services seem to be the only assured way of getting an item to its destination on time. Participants said that they are increasingly turning to Special Delivery for an item that needs to arrive the following day.

'I find it unreliable. I always have to send Special Delivery if I want it to get there.'

SME Consumer, London

Given consumers' views of First and Second Class and their use of First Class for reasons other than speed (although this is the only feature that distinguishes the two) we believe there is considerable merit in merging the two products to increase the simplicity

of Royal Mail's product offering. However, participants in Ofcom's qualitative research provided examples of occasions when they continued to require a next day delivery service. Participants were concerned that couriers wouldn't provide a next day service at affordable prices to all rural consumers; continuing to require a next day service as part of the USO would remove this concern. This need for speed could be met by Special Delivery, which takes advantage of the air network required to meet the First Class Quality of Service delivery target. Currently the price of Special Delivery starts at £5.90 because it bundles tracking, enhanced compensation and a signature on delivery with next day delivery. Participants in Ofcom's qualitative research believed that this solution would be unaffordable to those on low incomes; this suggests there is a need for a range of products to meet the key consumer needs for affordability and control. The solution comes from a recommendation in our product knowledge report: that the features of Special Delivery should be unbundled so that consumers can access a next day service without needing to pay for additional security enhancements. We will raise this issue again in Section 14.

Section 10: Quality of service of the next day service

We understand why Ofcom has included reducing the Quality of Service required for next day delivery as an option in its review due to the cost saving that would be made if the total air network were removed, which would lead to a Quality of Service of 88 per cent. However, we do not support any proposal to reduce the Quality of Service for next day delivery. High Quality of Service targets mean that the postal service better meets the core needs for simplicity, control and predictability that Ofcom's research identified. Reducing the Quality of Service reduces the certainty that consumers can have in the delivery time of their items. This view is supported by a key finding from our focus group research: that what all consumers want above all from any future postal service is reliability and predictability. They want to know that each item will be delivered when it is meant to be. Moving forward, and particularly if consumers are going to accept changes, for example in the number of collections and deliveries (see Section 11), they demand that the future service is one that is reliable and predictable.

'Reliability. That's all you want is reliability at the end of the day.'

SME Consumer, Marchwiell

If there is to be a reduction in the number of collections and deliveries, residential and SME consumers expect the quality of service to be strictly monitored and subject to regulation. This is seen as the 'pay back' for a reduction in service frequency. It suggests that Quality of Service standards for services included within the USO therefore need to remain at a reasonably high level as deterioration in both service quality and frequency would not be seen as acceptable. A fall in the Quality of Service to 88 per cent would also exacerbate the existing difference in delivery speed experienced between rural and urban areas, especially if the related Postcode Area delivery target (currently 91.5 per cent) were abolished. Reducing the Quality of Service target effectively leads to a local-national delivery time split; this was the one future scenario that participants in Ofcom's qualitative research did not find acceptable.

Section 11: Number of collection and delivery days

Our focus group research found no strong need for consumers to be able to send and receive post on a Saturday, especially as Royal Mail is not currently required to deliver parcels on a Saturday. Residential consumers accepted that six days delivery and collection a week might not be sustainable and therefore settled on a compromise of deliveries on three or four days a week. All residential consumers across age and social groups and across the nations believed this would be acceptable for less urgent mail

such as letters and greetings cards, as long as the service was reliable so they knew exactly how long it would take and when delivery would take place. They believed they could adapt to this in the way they have become used to changes in arrangements for collection of refuse and recycling. Our research suggests that residential consumers' concerns about losing a day of collections and deliveries would be mitigated by the ability to collect parcels at local, convenient locations with extended opening hours, as mentioned above – this would fit better with need for postal service to be in line with modern life.

However, unlike residential consumers, few SME consumers in our research could envisage a time when they do not need to receive daily deliveries and collections throughout the week. Those working in manufacturing, legal firms, charities dealing with vulnerable members of society and independent financial advisors all struggled to see how they could get by without a daily delivery and collection service.

'Daily collections, if they got rid of daily collections that would be a nightmare.'

SME Consumer, Marchwiel

Taken together the responses of both groups suggest that consumers are moving towards needing fewer days of delivery and collection. Saturday deliveries and collections could be over-providing for the reasonable needs of users, and we believe that if deliveries and collections on a Saturday were removed from the universal service this would be acceptable to many consumers across the nations. However, this would be a major change to the postal service and it is important to consider the impact on vulnerable consumers in particular. Ofcom's qualitative research revealed that small businesses that operate six or seven days a week were concerned about the impact on their business, both in terms of their ability to fulfil orders and their ability to receive post for use over the weekend. They also found that residents who work full time were concerned that Saturdays are the only day that they have to engage with the postal service.

Another issue that would arise if Saturday deliveries and collections were removed is that it is likely that delivery offices would be closed over the entire weekend. This conflicts with consumers' preference to collect undelivered items from delivery offices, and would be especially inconvenient for those who work full time during the week. If Royal Mail chose to keep delivery offices open on Saturdays as a collection point only this would remove some of the cost savings associated with the removal of Saturday deliveries and collections. In reality, any discussion of the number of days of delivery and collection can only remain theoretical at the present time. We are aware that the Government has indicated it will not change the minimum requirements of the universal service as specified in the Postal Services Act 2011 (of which the number of days of delivery and collection is one) within the lifetime of this Parliament, and of course any move to reduce deliveries and collections to fewer than five days per week would require legislative changes at the European level. Going forward, we believe that there will be less of a need to maintain this requirement, but further detailed research on the impact on all members of society would be required prior to consideration of any changes.

Section 12: Collection and delivery times

The responses from residential consumers in our focus group research suggest changes to delivery and collection times would not be a big concern: when pressed none of the residential consumers involved could offer good reasons why delivery times would need to be earlier. However, SME consumers would like a move to earlier deliveries and later collections as they say that recent moves in the opposite direction have made life more

difficult for them. This represents one of the few areas where we found that the opinions of residents and SMEs diverged.

Currently, Royal Mail offers two services for those consumers (primarily businesses) who wish to collect their post at a time that suits them, rather than waiting for deliveries. Early Collect allows post to be collected from a delivery office between 6am-8.30am Monday-Saturday but costs £241.67 (excluding VAT) per month or £2,900 (excluding VAT) per year. Mail Collect allows collection only after 8.30am but is free. Given these options we are inclined to conclude that regulation to specify delivery and collection times is not justified. We believe the current requirement for Royal Mail to publish its collection and delivery times, plus changes to these, is sufficient to meet the reasonable needs of consumers. However, given the dissatisfaction expressed by SME consumers on this point Royal Mail should consider ways to address their concerns (which could be as simple as increasing awareness of the availability of the two collection services).

Section 13: Delivery to the door

One of the parts of the current postal service that participants in our focus groups research appreciated was that Royal Mail delivers to the doorstep across the UK. Consumers valued deliveries to the door not just for themselves but for vulnerable consumers as well. Not all consumers believed that Royal Mail would continue to be the universal service provider but, regardless of who delivers the post in the future, the majority of residential consumers wished to see continued delivery to the individual's home. They went so far as to say that they believed there should be regulation to ensure that doorstep deliveries are not lost.

We would therefore not support a move by Ofcom to approve delivery to alternative locations. Of course, we have no objection to delivery companies offering non-doorstep delivery points as an alternative that recipients can choose to use. We are aware that lockerbanks in central locations are extremely popular in other European countries. For example, DHL has installed thousands of Packstations in cities across Germany, and recently Amazon has collaborated with ByBox to offer lockerbank deliveries to some recipients. However, this option does not and should not replace default delivery to the door. Given the strong preference for continued doorstep deliveries by UK consumers shown in our research and Ofcom's research there would need to be a big cultural shift before UK consumers would accept this proposal.

Section 14: Additional characteristics of the USO

In its qualitative research Ofcom asked consumers for their thoughts on several USO products. We have relevant evidence to present about two of these products.

Special Delivery

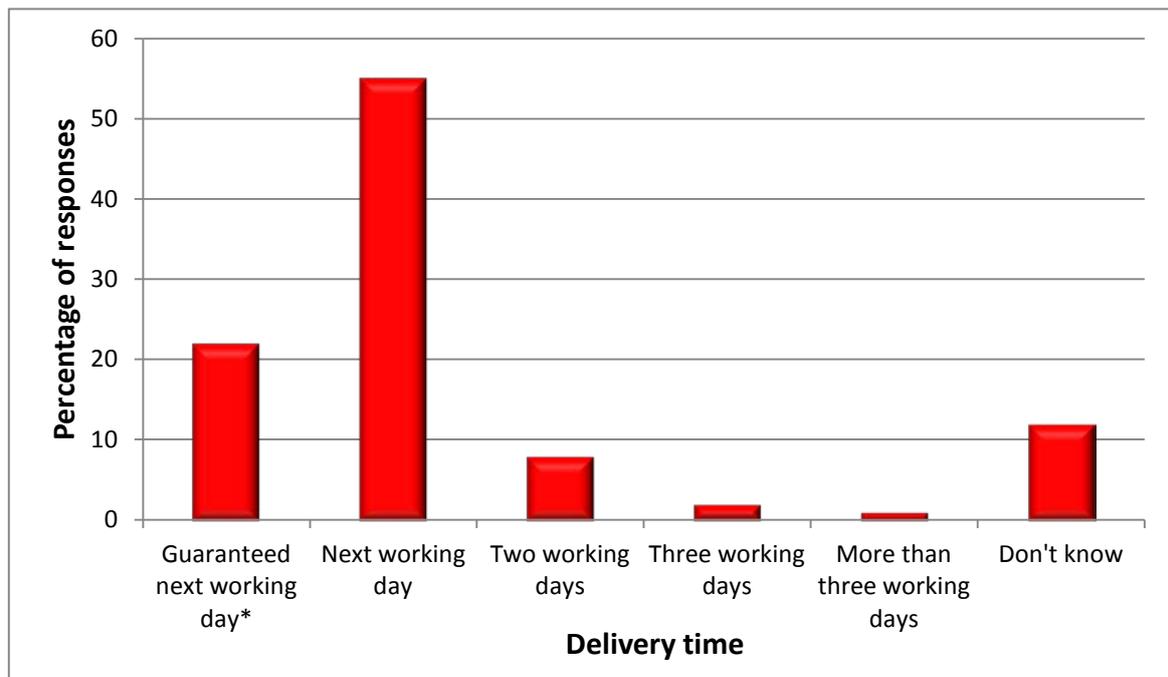
Ofcom's qualitative research found that although consumers felt Special Delivery met their core needs for trust, speed and control they were concerned that, if this was the only way to achieve next day delivery in the future, it would be too expensive. Some consumers also stated that it bundles too many features and that it would be better if these were separated out. We believe that this is one of the most important findings from Ofcom's research. Based on the findings of our own research, one of the recommendations in our product knowledge report was that Ofcom should amend the regulations governing universal postal service products to 'unbundle' the features of these products (especially Special Delivery). This would pave the way for Royal Mail to allow consumers to purchase only those features that they need. We found that consumers are not aware of the delivery time associated with Special Delivery, nor its

features and how these differentiate it from Recorded Signed For. Details of these findings are presented on page 15.

Special Delivery delivery speed misperceptions

Although most consumers in our feature knowledge survey knew that Special Delivery provides a next day delivery service (77 per cent), the majority were not aware that this is guaranteed.

Figure 3: Consumers' knowledge of the standard time it takes from posting to delivery for Special Delivery



* Correct response

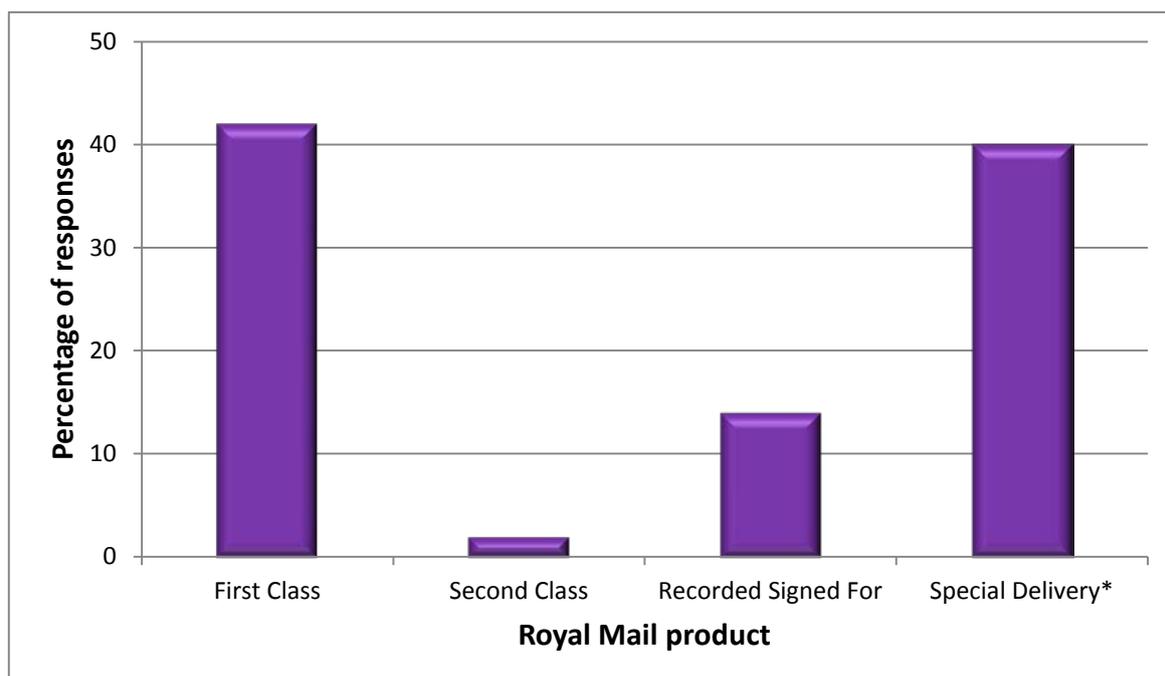
Less than a quarter of consumers (22 per cent) believed that Special Delivery provides guaranteed next working day delivery by a specified time. Conversely, 11 per cent of consumers believed that Special Delivery takes two working days or longer.

This low level of awareness is reflected in the finding from our product knowledge survey that consumers are not sure which product to use to ensure next day delivery.

Guaranteed next working day delivery misperceptions

Our product knowledge survey asked consumers which product they would choose to ensure a letter arrived the next working day, and found that their choice was split between First Class and Special Delivery. A slightly higher percentage of consumers would choose First Class (42 per cent) to ensure that a letter arrived the next working day than would choose Special Delivery (40 per cent).

Figure 4: The product consumers would be most likely to use to make sure a letter arrived the next working day



* Optimal product

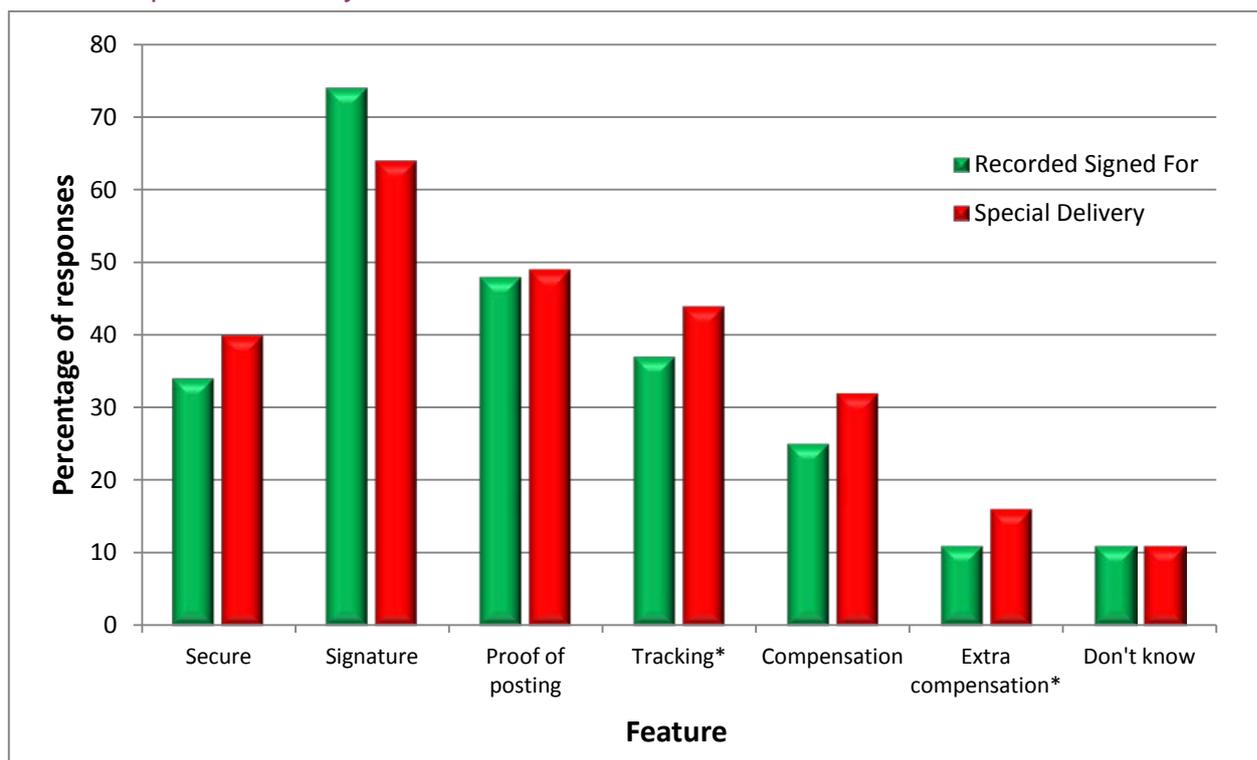
Given that consumers do not seem to believe that First Class items will necessarily arrive the next day, why did consumers not choose Special Delivery when considering guaranteed next day delivery? Although both products offer next day delivery this is only guaranteed with Special Delivery, and consumers can claim enhanced compensation in the event of delay if they use this product. However, consumers' relatively low awareness of the delivery speeds of the two products is likely to push consumers towards using First Class as the substantially less expensive product.

Related to this, consumers in Ofcom's qualitative research were confused about the differences between Special Delivery and Recorded Signed For. We have clear quantitative evidence of consumer confusion around these products.

Recorded Signed For and Special Delivery features misperceptions

Consumers' responses when asked about the features that Recorded Signed For provides were very similar to their responses to Special Delivery. They were almost as likely to believe that Recorded Signed For provides a particular feature as Special Delivery, including tracking and extra compensation which are not features of Recorded Signed For.

Figure 5: Consumers' knowledge of the features provided by Recorded Signed For and Special Delivery



* Features not provided by Recorded Signed For

Looking at the responses in more detail, the majority of consumers knew that both Recorded Signed For and Special Delivery provide a signature on delivery; the fact that more consumers believed that this is provided by Recorded Signed For (74 per cent) than Special Delivery (64 per cent) indicates the strong link between Recorded Signed For and a signature in consumers' minds. These results also indicate that consumers are unaware that Special Delivery provides more features than Recorded Signed For:

- Less than half of consumers (44 per cent) believed that Special Delivery provides tracking (compared to 37 per cent for Recorded Signed For)
- Only 16 per cent of consumers believed that Special Delivery provides extra compensation for valuable items (compared to 11 per cent for Recorded Signed For)

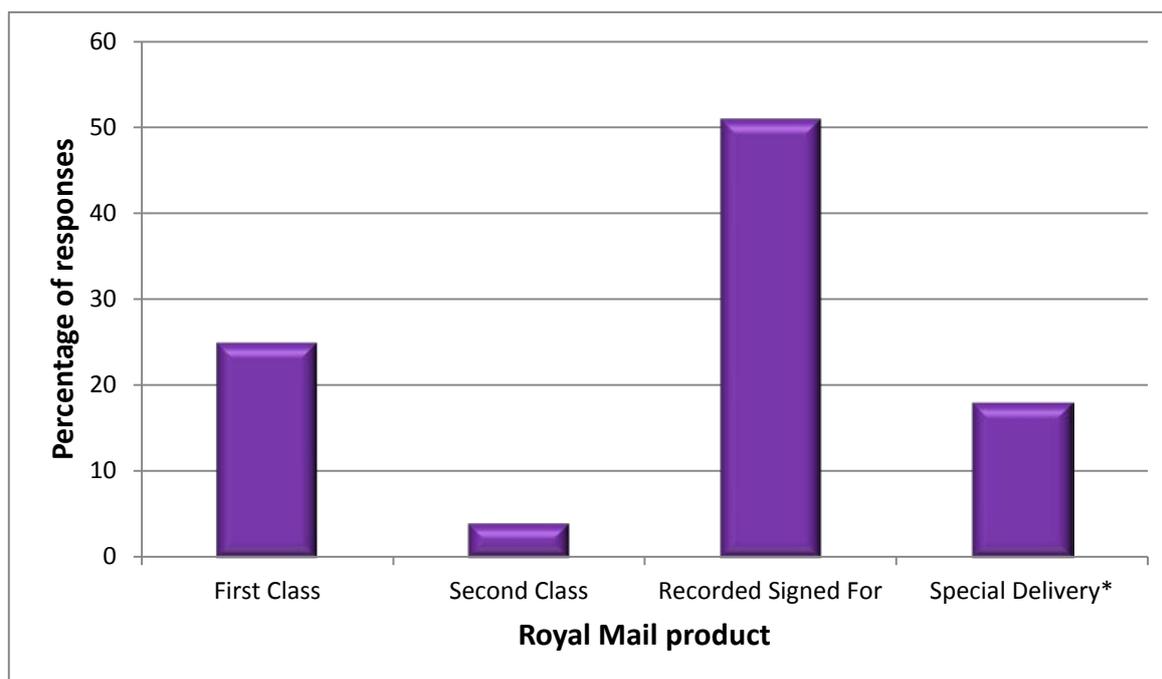
Over half of consumers did not believe that either Recorded Signed For or Special Delivery provides proof of posting. Around 1 in 10 consumers stated that they did not know what these products provide (11 per cent for Recorded Signed For and 14 per cent for Special Delivery).

These results help to explain why our product knowledge survey found that consumers chose a suboptimal product to send a letter securely.

Sending a letter securely

Consumers were most likely to choose Recorded Signed For when sending a letter securely, even though this product offers fewer security enhancements than Special Delivery.

Figure 6: The product consumers would be most likely to use for sending a letter securely



* Optimal product

Fewer than one in five consumers (18 per cent) chose Special Delivery even though this is the most suitable product for sending items securely; consumers were in fact more likely to choose First Class (25 per cent) to send a letter securely than Special Delivery (18 per cent).

Taken together these findings suggest that consumers' suboptimal product choices are related to their low awareness of their features. When consumers need next day delivery they are slightly more likely to choose First Class even though delivery speed is not guaranteed, which is probably related to their low awareness that it is guaranteed with Special Delivery (and compounded by the substantial price difference). They also demonstrated low awareness of the features offered by Special Delivery and how these differentiate it from Recorded Signed For, which explains our finding that they were most likely to choose Recorded Signed For when sending a letter securely.

There are several actions that could be taken to improve this situation. Ofcom's findings support the recommendation in our product knowledge report that Royal Mail considers changing the names of its USO products to make it clearer which features they provide. It would also meet consumers' core need for simplicity if products had 'did what they said on the tin' names. In its recently published consultation on changes to parcel products and compensation levels¹¹, Royal Mail has taken some steps to act on this recommendation. It has proposed changing the name of Recorded Signed For to Royal Mail Signed For to reduce consumer confusion around this product. However, it has also proposed changing the name of Special Delivery Next Day to Royal Mail Special Delivery Guaranteed by 1pm which does not, in our view, achieve the aim of clarifying the features it provides.

We recognise that re-naming Special Delivery is more problematic, since it bundles several security features with guaranteed next day delivery. However, this issue would be overcome if Ofcom implemented our recommendation that it amend the universal service

¹¹ Royal Mail (2012) *Proposal to amend the Inland letter Post Scheme in relation to universal service packets and parcels, and compensation levels for loss and damage*

product portfolio to unbundle the features of Special Delivery. This would then allow Royal Mail to offer consumers the option to purchase only those features that they need as a bolt-on to a delivery service. As discussed, this would allay consumers' concern that if First and Second Class were merged Special Delivery would not necessarily be affordable for all consumers who needed a next day delivery service. It would help to ensure that the universal service meets consumers' core need for affordability, as consumers could fulfil a need for fast delivery speeds while not having to pay for potentially unnecessary security enhancements. However, regardless of whether Ofcom acts to merge First and Second Class we believe that unbundling the features of Special Delivery would be beneficial to consumers. A wider spread of options would meet consumers' needs for a range of services while allowing their needs for speed and control to be met separately.

Up-selling in post offices

However, even if consumers' knowledge of postal products is sparse they should be guided towards choosing the correct product when they visit a post office. If the advice that counter staff give is accurate and appropriate to consumers' needs this could help to mitigate the fact that consumers' spontaneous knowledge of these products is low, at least for those products that are posted across the counter. This solution of course depends on the quality of the advice given by post office counter staff. This was assessed in Consumer Focus mystery shopping designed to test the product advice given across high street post office counters.

However, in the scenario designed to test advice about Recorded Signed For we found that only a fifth of staff (19 per cent) recommended the correct product.

Table 1: The product recommended to shoppers in the Recorded Signed For scenario

	Percentage of staff who recommended the product
Second Class Recorded Signed For	19*
First Class Recorded Signed For	24
Special Delivery	45
Recorded Signed For – unspecified	16
First Class or Second Class only	12

* Correct advice

Please note that where Second Class Recorded Signed For was not recommended, some counter staff suggested more than one alternative product

The percentage of staff who recommended Second Class Recorded Signed For was slightly lower than the percentage who recommended First Class Recorded Signed For. Almost half of counter staff recommended Special Delivery (45 per cent) which would have provided unrequested features at an unnecessary expense.

This is evidence of up-selling to a more expensive product than the one required. It suggests that consumers cannot necessarily rely on post office staff to plug the gaps in their knowledge of Royal Mail's products and their features and recommend the appropriate product. This makes it even more important that consumers' spontaneous understanding of Royal Mail's products is improved, and strengthens our recommendations to change their names and unbundle their features.

The cost of unbundling Special Delivery

When considering the possibility of unbundling the features of Special Delivery Ofcom asked Royal Mail for a breakdown of the costs of the different elements. Although it was

unable to provide this breakdown Royal Mail informed Ofcom that the cost of providing a next day service without the additional features of Special Delivery would be almost as high as the cost of providing Special Delivery as is. We question why Royal Mail was unable to provide a breakdown of these costs, and how it then arrived at the conclusion that a standalone next day delivery service would cost almost as much.

We find this conclusion very surprising. Recorded Signed For currently provides a signature on delivery and partial tracking for only 95p. When bought with First Class delivery this means that consumers receive some of the features of Special Delivery with 93 per cent of items delivered next day for only £1.55. If the signature on delivery, full tracking and enhanced compensation currently provided as part of Special Delivery were removed it is difficult to believe that the costs of Special Delivery would not fall considerably. This is corroborated by the fact that Royal Mail provides First Class with 93 per cent of items delivered next day for only 60p. We therefore urge Ofcom to require Royal Mail to provide a full breakdown of the costs of providing the separate elements of Special Delivery. Ofcom must also work to develop a more complete understanding of Royal Mail's costs, particularly for universal service products. This will ensure that any decision about the future of Special Delivery is made on the basis of complete knowledge of the cost implications.

Certificates of Posting

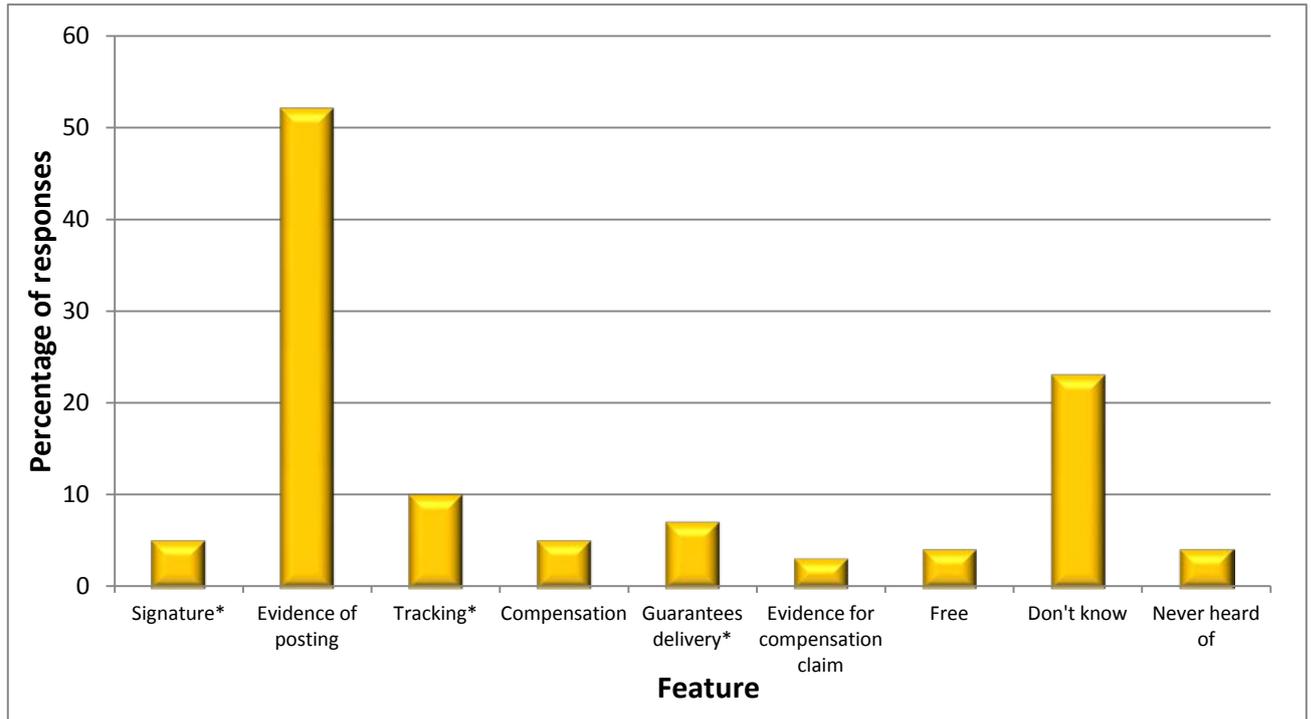
In its qualitative research Ofcom found that consumers considered these to be a 'nice to have' rather than essential product. However, we urge Ofcom to consider our research findings which suggest that these responses were made on the basis of low awareness of Certificates of Posting, their features and their role in claiming compensation in the event of loss or damage. We present these findings below.

Low awareness of Certificates of Posting

In our product knowledge survey less than half of consumers (48 per cent) said that they were aware that they can get a free Certificate of Posting from a post office that proves they have posted a letter or parcel via Royal Mail.

In our features knowledge survey we found that although around half of consumers (52 per cent) were aware that a Certificate of Posting acts as proof of posting, most were unaware that it is evidence for claiming compensation (3 per cent) – fewer than incorrectly believed it provides tracking (10 per cent).

Figure 7: Consumers' knowledge of the features provided by Certificate of Posting

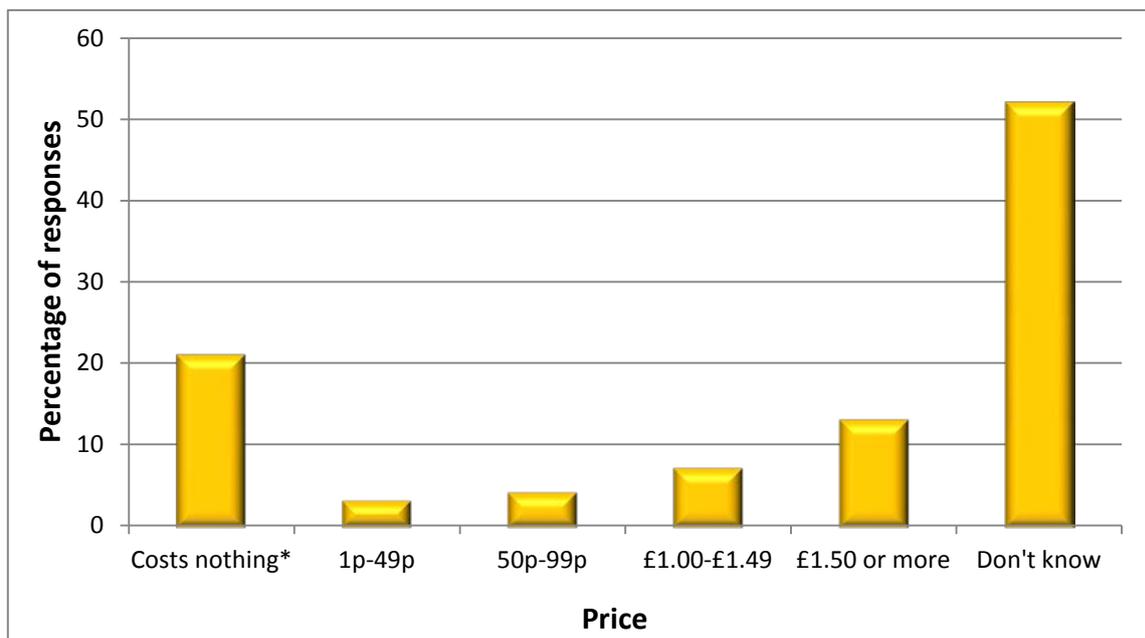


* Features not provided by Certificates of Posting

Almost a quarter of consumers (23 per cent) did not know what Certificates of Posting provide, and 7 per cent stated that they had never heard of them.

The 96 per cent of consumers who did not spontaneously choose 'It's free' from the list of features were then asked whether they knew the price of a Certificate of Posting. Over half of consumers (52 per cent) did not know the price of a Certificate of Posting, and more consumers believed that it is a paid-for product (27 per cent) than believed it costs nothing (21 per cent). Even including the responses of those consumers who spontaneously stated that Certificates of Posting are free (4 per cent), less than one quarter of consumers were aware of this (24 per cent).

Figure 8: Consumers' knowledge of the price of a Certificate of Posting



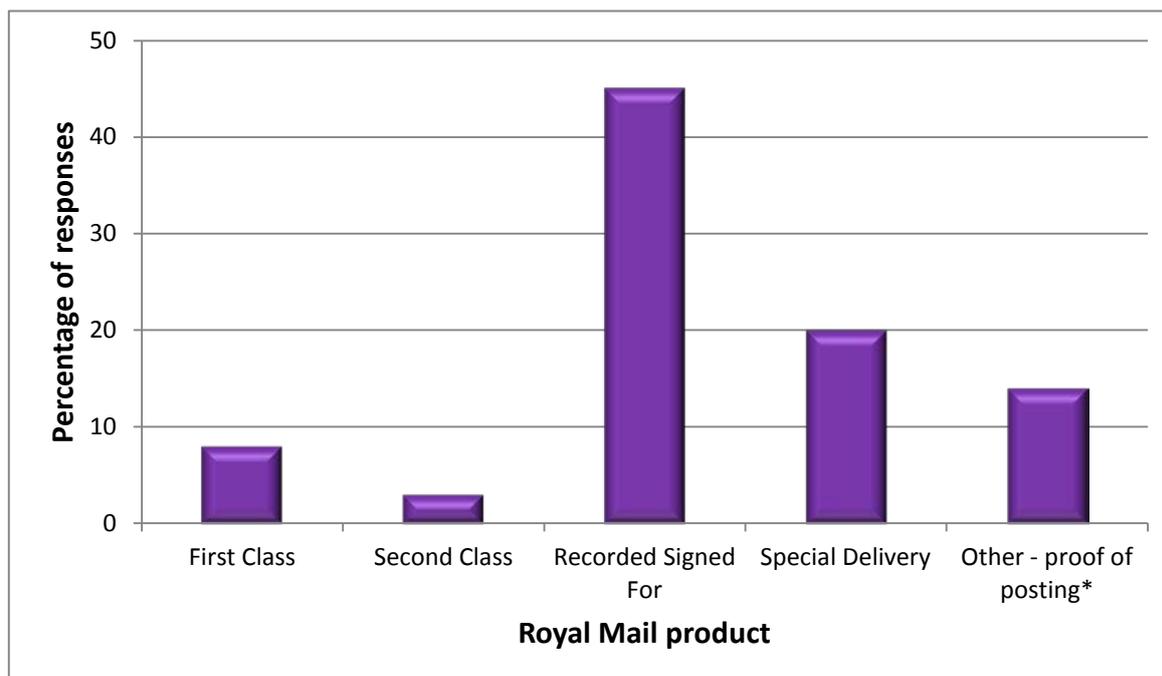
* Correct response

These responses probably explain why so few consumers in our product knowledge survey chose a Certificate of Posting when they only needed proof they had posted a letter.

Proof of posting only

The majority of consumers believed that they have to use an enhanced product to prove they have posted a letter, with 45 per cent choosing Recorded Signed For and 20 per cent choosing Special Delivery.

Figure 9: The product consumers would be most likely to use if they just wanted to prove they had posted the letter



* Optimal product

'Other' was chosen by 15 per cent of consumers. They were asked to elaborate on this response and overall 14 per cent specified that this meant a proof of posting, receipt or similar. Therefore overall fewer than one in five consumers chose the correct option of proof of posting to prove they had posted a letter. We strongly suspect that if more consumers were aware of their existence, role and price they would consider Certificates of Posting to be essential postal products, and we therefore urge Ofcom not to make any decisions about Certificates of Posting without taking this low awareness into account.

Provision of Certificates of Posting in post offices

Consumer Focus' high street post office mystery shopping exercise also included a scenario in which shoppers asked for proof of posting when sending a letter. We found that 12 per cent of high street counter staff did not offer any form of proof of posting even on request. In our product knowledge report we call on Royal Mail and Post Office Ltd to increase consumer education and access to Certificates of Posting, for example by bringing back self-completion pads of Certificates in post offices. At the moment the only Quality of Service standard associated with Certificates of Posting is that they are available on request. At the least we believe that Ofcom needs to pay more attention to ensuring that this very basic standard is met. However, we have also comprehensively demonstrated that low consumer awareness means that the existing standard is not sufficient and we believe it would be appropriate for Ofcom to consider whether increased regulation would improve this situation. Otherwise Royal Mail's compensation

arrangements requiring them as part of the claim for anything more than six First Class stamps may not necessarily be considered fair and reasonable, especially in the light of Royal Mail's proposed reduction in the maximum compensation available for loss/damage to First and second Class items from £46 to £20¹².

¹² Royal Mail (2012) *Proposal to amend the Inland letter Post Scheme in relation to universal service packets and parcels, and compensation levels for loss and damage*

Conclusions

We conclude that the current universal service meets (if not exceeds) the reasonable needs of consumers in terms of the postal features it requires the universal service provider to offer. However, the combinations of these features within the products mean that consumers are not always able to access these features optimally. This is exacerbated by consumers' overall low awareness of the features that universal service products provide. We believe that part of this problem comes from the product names that Royal Mail uses, and from the lack of information about these products provided in post offices. However, part of this comes from the current product portfolio that is set out in regulation by Ofcom. We believe that the core consumer needs that Ofcom identifies in its research would be better met by a single non-urgent delivery product with a high Quality of Service delivery standard, a stand-alone affordable next day service, and bolt-on security enhancements such as tracking. Thinking beyond the changes discussed above there is a need to review whether Royal Mail's key products are fulfilling consumers' needs. Related to this is whether consumers are able to navigate the postal service effectively. If consumers are not able to make simple decisions to access the products they require, then Ofcom and Royal Mail need to take a broad view on the reforms that are necessary to bring the service back into alignment with consumers' needs, tolerances and understandings.

Ofcom has presented this consultation with the intention of seeking stakeholders' responses to its research. Unusually, it has not presented its own conclusions or recommendations for actions. However, we urge Ofcom to make use of the extensive amount of converging evidence available to it to go beyond its theoretical position and take the opportunity to act on some of the clear conclusions that follow from its robust research. Royal Mail is operating in a world undergoing rapid external changes, and if it does not act Ofcom runs the risk that the USO will become increasingly obsolete, over-providing on some services while not meeting consumers' core needs. In all of the qualitative research discussed consumers indicated their willingness to change; in our focus group research they spontaneously recognised that they do not use the postal service enough to sustain it in its current form. Ofcom gives the example that consumers were initially reluctant to consider delivery times later in the day, but that after consideration they recognised that this would have little impact on them.

We know that the wide-ranging changes presented in this response will require a lengthy conversation with EU dimension, and that it will take time for positive changes to be implemented. We also acknowledge consumers' strength of feeling about changes to the postal service that most still value for personal contact and proof of transaction. However, it is these very factors that make it imperative that Ofcom acts now to ensure the future sustainability of the universal service – which is intrinsically tied to the needs of the consumers who depend on it every day.



Consumer Focus response to Ofcom's consultation on its review of postal users' needs

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