



Federation of Small Businesses
The UK's Leading Business Organisation

Elisa Pruvost
Ofcom
Riverside House
2A Southwark Bridge Road
London SE1 9HA

Dear Ms Pruvost

Re: FSB Response to Ofcom Review of Postal Users Needs

The Federation of Small Businesses (FSB) welcomes the opportunity to respond to the above named consultation.

The FSB is the UK's leading business organisation. It exists to protect and promote the interests of the self-employed and all those who run their own business. The FSB is non-party political, and with around 200,000 members, it is also the largest organisation representing small and medium sized businesses in the UK.

Small businesses make up 99.3 per cent of all businesses in the UK, and make a huge contribution to the UK economy. They contribute 51 per cent of GDP and employ 59 per cent of the private sector workforce.

As your review correctly points out, many small businesses are reliant on universal postal services provided by Royal Mail. While overall mail volumes have fallen in recent years as correspondence is increasingly taking place online, small businesses remain a critical and loyal customer of Royal Mail. A 2010 FSB Voice of Business Panel survey found that 71 per cent of small businesses use the Post Office to send parcels or express items to customers and clients, with a majority sending these items via Royal Mail. 19 per cent of small businesses visit the Post Offices every day, while 47 per cent visit at least twice a week; with the majority of business being conducted via Royal Mail.

Unlike larger companies who tend to purchase mail services in larger volumes, many small and particularly micro firms and self-employed individuals do not find other postal providers to be suitable and are to a large extent dependent on Royal Mail. In recent years, small businesses have felt the impact of rising costs of Royal Mail services, including those subject to price controls, but particularly those outside the scope of the Universal Service Obligation. While we appreciate the need to make efficiency savings in order to sustain the financial viability of Royal Mail going forward, we are concerned that small businesses will bear the brunt of any changes to the universal service, particularly in the absence of end-to-end competition in many areas of the market, and hence, the lack of viable and affordable alternatives.

The FSB believes that many of the options Ofcom sets out in this consultation, which in effect amount to a reduced universal postal service, will, if implemented, disproportionately affect small and micro businesses. As we understand it, the options include the possible removal of the next day delivery service in favour of a single two-day service that would merge the First and Second



Federation of Small Businesses
The UK's Leading Business Organisation

class services; a reduced quality of service for First Class customers (i.e. fewer items being delivered the next day); a move to earlier collection and later delivery times; a reduction in the number of collection and delivery days, with the Saturday service potentially abolished; and changes to individual door deliveries. The FSB's own survey evidence suggests that few small businesses would support these changes. According to the 2010 FSB Panel Survey, 59 per cent of respondents opposed removing the Saturday delivery service or a move to 5 day a week mail delivery service, while 83 per cent were against replacing delivery of mail to individual doors with delivery to appointed mail boxes. We also do not believe a move to earlier collection and later delivery times is conducive to small business' needs, particularly those in rural areas, and therefore do not support this option.

The FSB believes that any changes to the universal service need to be considered by Ofcom and Government within the context of the rising cost of mail services for small businesses, many of whom are struggling in the face of weak economic demand and fragile consumer confidence. Many of our members have said that they are prepared to pay more for mail services, within reason, but only on condition that they receive an *improved* service. Small businesses will find further price increases in exchange for a reduced or diminished service to be unacceptable. This chimes with Ofcom's own research which finds, for instance, that *"Residential and business users would be willing to pay, respectively, 8p and 12p more on the price of a First Class stamp, rather than have 80% of First Class mail arriving next day (as opposed to 93% as currently)."*

On a separate note, we are concerned that the proposed options may have a detrimental impact on the viability of the Post Office network. In addition to collecting and sending mail, small businesses use the Post Office for other non-mail services including business banking. Reducing the universal postal service is likely to reduce the revenues derived by the Post Office from mail services in particular, on which many of its branches are overly dependent. In some parts of the country – particularly rural areas – this could further jeopardise the financial health of many Post Office branches and, in a worst case scenario for local businesses and communities, could result in closures.

In order to obtain a fuller picture of the options set out in this consultation, the FSB would encourage Ofcom to undertake further work on the impact on small and micro businesses specifically (with 11-49 and 0-9 employees respectively). We note from the consultation that since Ofcom is not proposing any changes to the regulatory framework at this stage, an impact assessment has not been conducted. Were any of the options to become Ofcom proposals, we would expect Ofcom to undertake a Small firms Impact test as part of its impact assessment as is commonplace and indeed mandatory for Government departments.

We trust that you will find our comments helpful and hope they will be taken into consideration.

Yours sincerely,

Clive Davenport

¹ p. 4, footnote number 10