



DELIVEREDEXACTLY

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18th December 2012 Dear Elisa,

Review of postal service users' needs

DX is glad to be able to contribute to Ofcom's research into the needs of users of the postal service in the United Kingdom. We wish to praise Ofcom for commissioning such a substantial and comprehensive piece of research and for publishing the results and conclusions so transparently.

1. Introduction

We are concerned that Ofcom is misrepresenting the findings of its own research.

It seems to us that the central finding of this research is that long held beliefs about users' needs of postal services are substantially less robust than in the past. This contrasts with Ofcom's conclusion that "the current service largely satisfies users' core needs". We fail to understand how Ofcom could have reached this conclusion when the weight of evidence is that the service would continue to meet users' needs even with dramatic changes to it.

The use of post as a primary communications medium has diminished to such an extent that users realise that features such as six day collection and delivery and separate standard and priority mail services no longer have the relevance they once had and that less highly specified services would still be acceptable to the vast majority of them.

The users having now been given the opportunity to state their needs of the postal service it is evident that the current definition of the universal service exceeds them by a considerable margin and, therefore, cannot be said to "meet" their reasonable needs.

Whilst we appreciate that the broad definition of the universal service is currently a matter for Parliament we urge Ofcom to ensure that it



communicates the findings of the research to politicians and Government actively and explicitly, in order that political decisions are made on the basis of proper evidence and do not result in the provision of unrequired services with the associated economic inefficiencies.

Whilst we note Ofcom's statement in 3.10 that "the minimum requirements of the Act comply with and, in some aspects, go further than the requirements of Article 3 of the Postal Services Directive" we would add that Ofcom has in turn mandated a universal service that exceeds the requirements of the Act, with the result that the UK's universal service obligation considerably exceeds the requirements of the Directive.

We would also like to point out that a universal service obligation should be considered as a baseline provision and that there is no reason why a universal service operator shouldn't provide a higher level of service if it sees commercial sense for doing so. For instance, were Ofcom to mandate the provision of a single-tier service it would still be possible for Royal Mail to offer a priority service if it were commercially viable to do so. Such a service need not be universal in that Royal Mail might not provide national next-day coverage or uniform pricing but it could well meet the reasonable needs of most people.

Unless there is an urgent need for regulatory intervention Ofcom should mandate a baseline universal service where necessary and allow market forces to determine the services provided above this baseline.

2. More convenient packet services

It is peculiar that the consultation should first discuss the provision of more convenient packet services when relatively little private utility is associated with changes to these services. Ofcom has classified the impact of the introduction of a chargeable evening or Saturday delivery as "low" for both business and residential users and it would have been consistent with this classification to have discussed other changes to the universal service before this one.

We further note that Royal Mail launched a "deliver to neighbour" default for undeliverable items during the period of Ofcom's research and we wonder if this might have resulted in a change of opinions among the respondents. Royal Mail's initiative demonstrates that businesses are able to provide service enhancements as a result of market forces and that regulatory intervention is unnecessary.

DX has its own network for delivering packets and parcels to residential addresses and we are therefore very familiar with the difficulties which arise for both the carrier and the recipient as a result of homes being vacant during



the normal working day. The resultant frustrations are evidenced by Ofcom's research which shows that 29% of users said that they most liked improvements to the service that resulted in deliveries of packets at times (evenings and weekends) when they were likely to be able to receive. However, as Ofcom goes on to say, users are not willing to pay for this improvement, suggesting the conclusion that the problem might not be as great as it first appears. This conclusion is reinforced by Royal Mail's pilot of evening deliveries in the London area which was discontinued due to lower than expected demand.

In the light of this evidence there are no grounds for Ofcom to intervene by placing additional requirements on the designated universal service provider. We are sure that Royal Mail, in common with its competitors, is subject to sufficient motivation from its customers looking for improved service and from its own need to reduce the cost of failed deliveries that it will evaluate all options to make deliveries more convenient for its users.

There are a number of current initiatives in the market which are seeking to address this issue. These include networks of collection points and parcel lockers and service improvements such as predicted delivery times with the ability to reschedule deliveries in a number of ways. Even Royal Mail pre-notifies some deliveries by email!

DX is grateful to Ofcom for providing insight into the desire of consumers to have more convenient packet services. We note that this is an extremely competitive part of the market and we fully expect market forces to result in the optimum solutions for all stakeholders. We see no need for Ofcom's intervention.

3. Next Day Delivery

Ofcom's "analysis seems to suggest that costs of a next day service are high and the benefits of a next day service would appear to be diminishing over time as the use of other communication methods can fulfil the need for "speed"".

There is no legislative requirement for a next day service.

It is therefore evident that Ofcom needs to give serious regard to changing the definition of the universal service in order to remove the obligation for an unnecessary and costly service.

An important initial observation is that Royal Mail's First Class service has never been a next day service for all of the mail sent using it because the specification mandates that only a proportion of the mail sent using it must arrive next day.



The current Priority and Standard services are essentially differentiated on the basis of a maximum transit time that must be bettered by a specified proportion of the mail sent. In the case of Royal Mail's Second Class product, normally described as a three day service, a considerable proportion of the mail is already delivered within two days. In the same way, a single two day service would undoubtedly deliver a proportion of the mail within one day. It is therefore possible to envisage a new service that specifies that a proportion of the mail (perhaps between neighbouring postcode areas or within an SSC?) should be delivered within one day, whereas further proportions should be delivered within two and three days.

The key point is that a new service, by combining elements of each of the existing services, could continue to meet the reasonable needs of consumers.

We appreciate the comments of some respondents that there would be a requirement for a cheaper Special Delivery type service if there was no longer a First Class service although we note that these comments were in the context of the respondents' perceptions of the needs of other people and not their own. We further note that even the current Special Delivery service does not guarantee next day delivery to all UK addresses. It seems to us that even a cheaper Special Delivery type service would be an express service in all but name and we do not believe that the designation of such a service within the universal service is part of Ofcom's remit. We also doubt that there would be sufficient difference in cost to warrant the service's introduction.

4. Quality of Service of the Next Day Service

Ofcom says that its research suggests that the relative importance of a high quality of service target may reflect a need for simplicity rather than speed. Ofcom also points out that users' views seemed to be influenced by perceptions of the current system and that these perceptions might be wrong in that some users assume that the next day service level is higher than it actually is.

We find it strange that Ofcom seems to have greater reservations about reducing the quality of the next day service than it does about removing next day delivery altogether. Ofcom even tries to discredit (10.2) its own quantitative research and show preference to its qualitative research, which is the reverse of normal research practice. Ofcom is almost certainly placing too much importance on the dis-benefits supposedly identified by the qualitative research.

This issue is inseparable from the above discussion about the need for a next day service and should be further considered in that light.



5. Number of collection and delivery days

In the light of Ofcom's analysis it does not appear possible to conclude anything other than the reasonable needs of users are being over-provided for by the current six day obligation on collection and delivery. Apart from the fact that UK legislation mandates over-provision relative to EU legislation and the practice in many other countries, the cost/benefit analysis also clearly demonstrates over-provision.

Ofcom identifies a clear difference in requirements between businesses who do not value Saturday deliveries (presumably deliveries of their inbound mail because they are closed on Saturday) and consumers who do.

Ofcom and its stakeholders need to take a broader view of the need for collection and delivery on predetermined days and the following factors are pertinent:

- Royal Mail currently does not deliver to a large number of businesses on Saturdays. Ofcom needs to determine what the true situation is because this fact by itself should lead to a reduction in the universal service obligation;
- In terms of deliveries it is reasonable to expect the required service to differ between business and residential addresses. (More properly, the difference is probably between addresses that are unoccupied on a particular day and those that are occupied. Many businesses are unoccupied on Saturdays and most residences will be occupied with a considerably higher probability than on weekdays.)
- There is no need for the five delivery days for businesses to be the same five days as for residential addresses. For instance, deliveries to businesses could take place Monday to Friday whilst deliveries to residential addresses could take place on Tuesday to Saturday. It is likely that many businesses are currently being delivered to using motor vehicles whilst residential deliveries are on foot, suggesting the existence of largely separate delivery networks.
- A number of businesses are operated from residential addresses and might be disadvantaged by the cessation of deliveries on Mondays. Ofcom needs to determine the cost of this dis-benefit and consider whether special measures would need to be implemented. It might be the case that this is not a problem because they would benefit from Saturday deliveries instead.
- Collections do not have to follow the same patterns as deliveries. For instance, collections from businesses or in business districts might take place Monday to Friday whereas consumers might be better served by a six day pattern including Sunday or a five day pattern



including Saturday. It would also be conceivable to mandate a higher service level for collections at some facilities such as main post offices and sorting offices.

We appreciate that Ofcom lacks the authority to make these changes but we applaud your recognition of the need to research user needs in respect to delivery and collection days and we encourage you to use this research as the basis of an on-going dialogue with all stakeholders about the future universal service.

6. Additional Characteristics of the Universal Service

6.1 Special Delivery Next Day

We note that this service is not mandated as part of the universal service but is one that Royal Mail deems to meet the requirement for registered and insured services, presumably the insured one. Consistent with our previously expressed views we believe that Ofcom exceeds its remit by mandating the provision of services with features such as D+1 routing, target delivery times and tracking. In effect, Ofcom is mandating the provision of an express delivery service when such services are explicitly excluded from the definition of the universal service. It is a matter for Royal Mail and other market participants to decide whether they should offer these features in addition to the universal service. It is certainly the case that the cost of such features is not attributable to the cost of the universal service.

6.2 Redelivery and/or Return to Sender

If a delivery fails then the operator has to do something with the undelivered item. In essence, the operator can do one of three things:

- Redeliver (collection from office, redelivery to address, redelivery to alternative address etc.)
- Return to sender
- Destroy the item

Whilst it seems reasonable that an operator could make customised arrangements with commercial mailers which reflect their specific requirements in respect to undelivered mail this is permissible because the mailers are buying services which are outside the universal service.

However, it is both impractical and unreasonably complicated to offer these options separately from universal service products and redelivery and return to sender must therefore be included as mandatory features of the universal service products.



6.3 Certificate of Posting

It does not appear unreasonable to mandate the provision of a certificate of posting as a feature of universal services and neither would it be unreasonable for Royal Mail to make an additional charge for its provision.

6.4 Redirection Services

All operators want to be able to deliver mail correctly and in a multi-operator market there is a need to ensure that they have access to redirections data. Ofcom needs to mandate the provision of a redirection service that ensures that all operators receive the data. The service must be funded by the users.

6.5 Keepsafe

Keepsafe is of the nature of a temporary redirection and should be regulated as such.

6.6 Poste Restante

It does not appear to us that Poste Restante is a service in its own right. It is really just a delivery address for postal items used by people who cannot receive mail at a permanent address. We believe that Poste Restante continues to be used by international travellers, mostly for the collection of packages. We also suspect that Royal Mail has to provide it because of the UPU regulations governing international mail (although we wonder whether this isn't now really a matter for the Post Office). It therefore seems reasonable that one of these businesses should continue to provide Poste Restante and it is also reasonable that they should be able to charge for it.

6.7 International Services

Discussion of international services is complicated by the existence of UPU regulations, of which we do not have detailed knowledge but suspect have the effect of obliging the universal service operator to provide international services. We wonder whether rather than mandating particular services it would not be more appropriate to oblige the universal service operator to fulfil the requirements of these regulations.

7. Summary

We applaud Ofcom for commissioning such a valuable piece of research into consumer needs from the universal service. The research provides a clear base for redefining the universal service so that it better meets consumer needs in an economic manner and also for launching a dialogue about the legislative changes that are necessary to allow this redefinition in some areas.

Ofcom needs to obtain further information about Royal Mail's practices in



regard to business collections and deliveries in order to determine whether the current universal service obligation does not exceed the current level of provision.

Ofcom needs to have a more enlightened view of the possible nature of the universal service, one in which the obligations might be different for business and consumer customers.

Most importantly, Ofcom must realise that the purpose of the universal service obligation is to ensure the provision of a minimum level of service. There should be no need to oblige an operator to provide this service if it is already provided by the market and the operator should be encouraged to provide a higher level of service where this is commercially viable. The principle needs to be that regulatory intervention is only necessary where there is a genuine risk of market failure.

Yours sincerely,

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