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COMMUNICATION WORKERS UNION SUBMISSION TO OFCOM CONSULTATION REVIEW OF POSTAL USERS' NEEDS

Introduction

1. The Communication Workers Union (CWU) is the largest union in the communications sector in the UK, representing over 200,000 employees in the postal, telecommunications and financial services industries and is the recognised union for all non-management employee grades in the Royal Mail Group.
2. The CWU welcomes Ofcom's review of user needs, which is the most detailed and complete information source on public perceptions and preferences on the universal postal service our members provide.
3. The scale of the market research is large enough for meaningful conclusions to be drawn from much of the data, and it is particularly welcome that Ofcom have adopted a transparent approach of putting a significant amount of market research data in the public domain, and a high level of detail about the methodology of that research. This represents the most valuable resource currently in existence for stakeholders to engage with the regulator and contribute constructively to the debate on the ongoing nature of the universal postal service.
4. We welcome the opportunity to contribute our views on the research and Ofcom's analysis of the results at this early stage. Whilst we appreciate that no firm recommendations have yet been made, and that Ofcom would in many cases be required to consult further were changes to the universal service recommended, it is clear both from the subjects chosen for the research, and from the comments and tone of the consultation document, that even at this stage a number of issues are now the focus of Ofcom's attention. Where the CWU and other stakeholders express serious reservations on specific issues, we hope there will be a genuine space for constructive consideration of stakeholder views before the next stage of this review process.
5. The CWU believes the universal service plays a vital role in ensuring the public benefits of the postal system are enjoyed by all members of society. Since the introduction of competition, regulation has had a huge impact on the UK postal market. The reckless and poorly managed introduction of access competition by the former regulator pushed Royal Mail's ability to deliver the universal service to the brink of collapse, and for ordinary users of the service, competition in the UK postal market has so far meant higher prices and service reductions.

6. Royal Mail is the only operator capable of delivering the universal service in the UK, and despite beginning to recover financially simply cannot afford any more disastrous regulatory decisions. End-to-end competition presents a new and very real threat to the universal service, yet Ofcom has chosen stand to back and allow it to gain a foothold in the market. We believe Ofcom should be standing up for the universal service, by using the powers at its disposal to ensure competition is on fair terms, for the benefit of society, and is never allowed to destroy the universal service. We are disappointed that instead, the tone of this study shows a desire to continue down the road of service reduction.

7. We are also concerned by the regulator's approach to ascertaining Royal Mail's costs in relation to the USO, and the assessment of efficiency in Royal Mail's operations. The regulator's duties in relation to efficiency require a clear framework for its assessment. Ofcom needs also to better understand Royal Mail's business plan and whether it is achievable. An independent assessment of Royal Mail's performance and relative efficiency is needed. However, efficiency savings cannot be driven by low pay and reduced service standards. Competition between postal operators must be fair and not at the expense of living standards. We note that Ofcom's current consultation on end-to-end competition raises the issue of measuring Royal Mail's efficiency and indicates plans for a future piece of work in this area. Our submission to this separate consultation will set our views in more detail.

8. Regulation which leads to reduced services at higher prices, and threatens the very existence of the universal service is not in the interests of users of the postal service, or society as a whole.

Positive about post

9. The findings of the user needs study paint a broadly positive picture of attitudes towards the universal postal service, and the work of CWU members. In particular, the study shows that despite changes in the communications sector post retains a crucial function as part of the national communications infrastructure; that the universal service as it stands meets users' needs; and that the postal network provides social and economic benefits beyond its core communications role.

10. We are encouraged by the finding that residential and business users rely on post for a range of communication functions. Crucially the vast majority expect to do so forever: 87% of businesses and 82% of residential users agree there are some things they will always need to send by post.

11. The finding that 58% of people would feel cut off from society if they were not included in the postal service demonstrates the importance of a national universal service. The study also shows that there is high satisfaction with the universal service, with nine out of ten respondents satisfied with the current service, and 72% of respondents stating they would be negatively affected by any reduction in the current service.

12. The qualitative research in particular demonstrates some of the societal benefits of the postal service which the CWU has long championed. For example, a diabetic participant reported their postman coming to their aid having fallen unconscious, or the housebound user whose postman was their only human contact, are powerful testimony in support of the service. The research also demonstrates public understanding of the importance of post in sustaining business and supporting the economy nationwide, as well as supporting arguments we have long endorsed on the role of post among the last of nationally owned public service infrastructure.

“We were all brought up on the basis of competition, thinking it’s better for the consumer, but that hasn’t worked for other things like railways. Royal Mail is one of the last things we have that isn’t predicated on this – which is a good thing.” – Residential/small business respondent, Norwich

Research methodology

13. The CWU has concerns about a number of aspects of the research as it was carried out, and the conclusions and direction of travel drawn from it.

14. The quantitative element of the research can be divided into two strands: the direct research and the indirect preference exercises. We appreciate that the latter represents an attempt to determine drivers of consumer preference, and to develop a wider range of options than maintaining the status quo. However, it is clear that the terms of reference of preference analysis has a significant impact on the outcomes. In some instances the perception may be of preference exercises designed to produce results in line with preconceived ideas about the direction of travel for the universal service. We consider some such issues relating, for example, to the abolition of first class post in more detail below.

15. The research is also divided into quantitative and qualitative research; the former carried out through questionnaire style interviews, the latter a more interactive focus group environment. It is important to note the difference in the scale of each of these exercises in terms of participants; and secondly to appreciate the possibility of participant opinion being shaped by the means in which the focus group exercises are carried out. For example, participants in the qualitative

research were given a presentation on the increased costs of running postal services, before being asked to revise their initial views.

Measurement of benefits and costs

16. Ofcom's approach for assessing the reasonableness of user needs rests on a cost benefit analysis. We are concerned that cost information used in this analysis is not of a high enough quality to enable that assessment to be accurate, and believe it is the regulator's responsibility to ensure realistic and accurate cost information is available before further decisions or recommendations are made.

17. The remainder of our submission considers in more detail specific proposals considered during the research, and broadly follows the structure of Ofcom's consultation document.

18. We would urge the regulator however to consider the postal service as a whole at all times. There is a risk of taking too fragmented an approach, looking at discrete elements of the service in isolation from each other, when in reality synergies are common. We have attempted to identify specific areas where this issue arises throughout our submission.

More convenient packet and parcel services

19. The CWU strongly supports Royal Mail's drive to establish a leading market position in the packet and parcel sector, which clearly offers the greatest prospects for growth in the postal market of the future. The evidence in the study is a welcome addition to the body of work on user needs in this vital area. As Royal Mail's latest financial results show, success in this market plays a pivotal role in ensuring the company's ongoing financial viability and ability to deliver the universal service.

20. Decisions relating to the regulation of parcels and packets need to be taken with an understanding of their place within Royal Mail's broader operations. The majority of packet and parcel volumes are handled through the core mail network, so that suggestions for downgrading the delivery network emerging from other aspects of the study run the risk of hampering Royal Mail's ability to dominate this market.

21. It is regrettable that Ofcom's research did not better seek to identify user needs specifically relating to packet and parcel products within the universal service, or differentiating between providers. While the quantitative research posed some specific questions relating to packet and parcel services, it appears the qualitative research only touched on these services as part of broader discussions on

stamped products. It is also acknowledged by Ofcom that respondents would in some cases be describing their experiences of packet and parcel delivery by operators other than Royal Mail, and of non-universal service products [8.28]. Given the importance of the subject, it is regrettable the qualitative research sessions did not seek to inform participants of the differences between the various packet and parcel services, nor to identify whether responses related specifically to universal service products. As a result, the informational value of this research is limited.

Improving packet and parcel delivery

22. What emerges clearly from the study, and other evidence on this sector, is that users expect more convenient packet and parcel delivery options. We support any action by the regulator or Royal Mail to improve users' experiences in this area.

23. In particular, the research identified a need for receivers of packets and parcels to be able to do so at times which fit around their working lives. Almost a third of users said this would be their most preferred improvement to the postal service.

24. We support the extension of opening hours in delivery offices to allow greater flexibility for users to collect oversized packets outside of working hours. As noted by Ofcom this offers a relatively low cost option for Royal Mail to improve the service, and may serve to reduce redelivery costs.

25. We also support delivery in the evenings and at weekends, which the quantitative research so clearly identifies as user needs (8.29). Ofcom's attractiveness analysis of consumer willingness to pay a premium for evening delivery is deeply limited due to the arbitrary and seemingly overpriced £4.50 premium attached. It is unclear why this level of premium, which is double the total price of sending a 500g packet first class, was chosen, but this element of the research needs revisiting if it is to be relied on.

26. The study refers to trials of evening deliveries, which are one option for improving packet and parcel services. While these trials did raise operational issues, for example around safety and security, our experience was that managerial attitudes to the trial were a factor in the low success rate.

27. It is important to note that since the research was carried out, Royal Mail has been granted the regulatory freedom to begin delivery to neighbour, the impact of which is therefore not reflected in the research. It is to be hoped this scheme will significantly improve user experiences of parcel and packet delivery, although the regulator and business must take a realistic position on this impact the scheme

has on delivery times. It may be fruitful to examine further options for voluntary delivery to private property other than letterboxes, which is practiced by some of Royal Mail's competitors.

28. Evidence from our members is that where there is dissatisfaction with current services, many of the issues arise from poor management of delivery operations, which should also be considered alongside options such as longer collection office opening hours. Our members consistently report problems with packet deliveries being delayed as a direct result of unrealistic delivery operation revisions.

29. We also believe other options for improving packet and parcel deliveries exist which it may also be of value to assess user demand for. For example, better use of delivery workers' local knowledge could also improve parcel deliveries, despite the increase in absorptions leading to a loss of local knowledge. Local databases currently used for various operational procedures could be annotated to reflect best delivery times for individuals. Similarly, where mechanisation has reduced IPS workloads in delivery offices, management could consider early morning large packet deliveries which would be likely to find more customers at home, rather than seeking to reduce staffing levels.

The Universal Service

30. There are a number of crucial social and economic benefits to maintaining packet and parcel services within the universal service. This is reflected in the protection this element of the service is given under s.31 Postal Services Act 2011, which stipulates a service of postal packet delivery at affordable and nationally uniform prices, and which cannot be altered without legislative change.

31. Currently Royal Mail meet this requirement by offering first class delivery of packets up to 20kg, second class delivery up to 1kg, 3-5 day delivery of parcels up to 20kg, and special delivery up to 10kg. Royal Mail are now consulting on changes to the range of packet and parcel services provided under the universal service, with the objective of simplifying pricing, moving towards a more size based price structure, and increasing the weight limit on second class packets.

32. We believe these products broadly satisfy the spirit of the legislative requirement, and represent a minimum standard which should be maintained, without which the societal benefits may not be met.

33. Packet and parcel services outside the universal service do not carry the requirement for affordable or uniform pricing. As a consequence there is significant evidence that users in rural, off-mainland or isolated locations are

subject to intense price discrimination. In many cases, Royal Mail's universal service products offer the only remotely affordable option for people living in those areas. Consumer Focus Scotland's recent report 'Effective parcel delivery in the online era' cites consumers buying a £25 mobile phone being charged £45 for delivery, and island inhabitants simply being refused delivery by private operators.

34. The social consequences without affordable and uniform universal service delivery would be the isolation of those communities to which it is not profitable to deliver packets and parcels. Since these are often the very communities where physical retail presence is minimal, there is a particular social benefit to the universal service.

35. There is also a significant economic benefit for the country as a whole to ensuring these areas are able to participate in the e-commerce revolution. Residents of these communities are business owners as well as consumers, and many would be unable to flourish without affordable delivery options. There are potentially very large employment and commercial opportunities for these communities in e-commerce, which can only be achieved thanks to the universal service.

Next day delivery

36. Arguably the strongest signal of Ofcom's future intentions emerges from their consideration of possible changes to the two-tier first and second class postal service. Ofcom state that there is a trend towards less reliance on next day delivery, and that a majority of users preferred a slower single-tier service at a price between first and second class.

37. Ofcom tested a single-tier system against the current service, at a range of service and price levels, as well as examining preferences when compared with the current service at higher price levels. Close examination of the results of the complex preference analysis reveals a more mixed picture than that presented by Ofcom, while the direct research results demonstrate the popularity of the two-tier service.

38. Ofcom consider the cost savings of abolishing first class would be relatively high. The putative savings would derive from restructuring of the mail centre estate, removing or reducing the need for the air network, and remove the need to stream mail at the processing stage.

39. The CWU believes Ofcom's analysis of user needs in this area is not borne out by the research findings, and rather reflects a focus on cost reduction based on

low quality information and a lack of understanding of the realities of the postal service.

The primary evidence of two tier system meeting user needs

40. The study clearly shows first class to be a popular option among all users, with users stating speed of delivery as the reason for this without hesitation. 59% of residential users use first class all or most of the time. 84% of these users cite speed of delivery as the reason for using first class. Only 3% of those users said they did not know why they used first class so regularly. 66% of business mail is sent first class, and 76% of high first class users cite speed of delivery as the reason.

41. We believe that consumer behaviour is a very good indicator of preferences, especially where price differentials are a factor. This study shows that first class post remains popular with all users.

Ofcom's arguments for change

42. Broadly, the argument presented by the regulator is that users' preference for first class is based on irrational considerations, rather than actual needs. Balanced against perceived cost savings of degrading the service, the conclusion is that reasonable need would be met by a single-tier two day service.

43. One cited argument is that the need for speed in communications is better met by non-postal media, more so than in the past. Given the now well established role of electronic communications in society and business, it is not clear how Ofcom feel this argument could justify the high usage of first class in the present day.

44. Another argument relied on heavily is evidence that the receivers of post do not report needing to deal with the majority of their post on the day they receive it. This line of reasoning confuses the needs of receivers with the needs of senders.

45. In fact, the study paints a picture of user needs which is consistent with the reality of consumer preferences. 46% of business users say all or most of the post they send first class needs to arrive next day.

46. This significant demand for next day services is acknowledged to some extent in Ofcom's analysis. It is accepted that were the proposed single-tier system to be introduced, there would be a need for a next day service at a price lower than special delivery, which did not carry the same tracking options and guarantees. We suggest that is precisely the service currently offered under first class.

47. Heavy emphasis is placed on the results of the preference analysis to justify the single-tier system. There are a number of complexities to these results, which undermine the case for such a radical downgrading of the service. At current prices, business users prefer the current service to a single tier two day service, even when that is priced at only 3p more than current second class. Ofcom do not present evidence for that level of pricing, which is a very modest increase on the current cost of second class. Given the high importance of price in consumer preferences, a preference analysis based on price points which reflect operational realities is required to truly understand consumer preferences.

48. Similar problems arise in the pricing levels presented to participants in the preference analysis at higher prices. Consumers were asked to choose between a two tier system with first class at 90p and second class at 60p, or a single-tier two day service priced at 63p. The gap in price between the fastest delivery options presented to research participants in this second exercise was therefore 27p (30% of the first class price) rather than 7p (11.7% of the first class price) in the first exercise. It is not clear why such a dramatic increase in first class prices was used as the test level, and given recent substantial price increases following the removal of price controls from Royal Mail does not seem to be based on real world commercial predictions. Unsurprisingly, at these price levels there is a shift in preference towards the single tier system, although a third of users would still prefer the current arrangement. Without any adequate explanation of the reasons behind the price structures used in the preference exercise, there may be a perception of research having been designed to deliver support for a predetermined position.

49. In addition to our general concerns over the quality of Ofcom's cost information, the perceived savings of the single-tier proposal are unlikely to be as significant as presented. The perceived savings in the air network are likely to be undermined by its role in premium priority services. This would be particularly significant if, as suggested by the research, a new priority product was required to replace first class post.

Quality of service of the next day service

50. Ofcom examined reactions to two reductions in current quality of service standards, compared with the current requirement for Royal Mail to deliver 93% of priority items by the following day. The options tested were a reduction to an 80% target, and a split quality of service standard of 90% next day for post sent locally, and 90% within two days for other post.

51. Quantitative research showed users place a high value on the existing quality of service targets. Users were prepared to pay 4p-12p on the price of a stamp to

avoid the proposed reductions. Previous research by Postcomm and Consumer Focus also showed reduced service quality was deeply undesirable to users. Ofcom interpret this high preference as a desire for simplicity, rather than a focus on speed of delivery.

52. Ofcom's cost benefit analysis is based on medium to high savings under the proposed service reductions. The reduction to 80% would enable the removal of the air network, while the split model (which would result in an overall quality level of around 50%) would also achieve savings by restructuring of the mail centre estate.

53. Ofcom's overall conclusions are mixed; they consider cost savings to be high compared to user disbenefit, but accept the strong desire for a simple postal service would be affected, as well as some acknowledgement of social disparities as a result of their proposals.

54. The CWU believes reductions in quality of service standards under either proposed scenario would be detrimental to the needs of service users, would cause societal inequality, and damage the postal sector as a whole. It is important to note that both Ofcom's would effectively introduce a two tier postal service across the UK. In the 80% scenario, that aggregate quality standard would be met by effectively maintaining current service levels for local post in populous areas, whilst dramatically reducing service for longer distance mail. In other words a first class letter from London to Belfast would never arrive within a day. The 50% standard discriminates on the basis of proximity to mail centres. This societal disparity goes against fundamental principles of a national postal service, and undermines the social and economic benefits of the universal service in the affected areas. Ofcom's own quantitative research clearly shows that a high value is placed on the current quality of service targets. Whatever interpretation Ofcom seeks to attribute this to, the evidence from this and previous research is overwhelmingly against a degraded service.

55. Postal workers strive to provide a very high quality service; it is a fundamental driver of our members' working lives for the mail to be delivered as expediently as possible. Reductions in quality standards, especially the very substantial reductions proposed, will serve to erode the culture of high quality service. The consequential decline in standing could only be negative for Royal Mail and the postal industry overall.

56. We have significant doubts about the validity of Ofcom's cost benefit analysis, notably the savings associated with the abolition of the air network. Premium priority services, which the study shows are highly valued and well used by business, will continue to require an air network. While Ofcom acknowledge this, there seems to be an implication those priority services could be sacrificed as a

result of the reduction in quality standards. We believe that would simply not be an option commercially, so that proposed savings are not achievable, reinforcing the case for current standards meeting the reasonable needs of users.

57. The CWU would like to see similar quality of service standards applied to other operators in the postal sector. This would establish commercial parity with Royal Mail and enable fair competition, as well as safeguarding the reputation and standing of post as a method of communication. In particular where end-to-end competition is taking place, the lack of parity is creating cherry picking opportunities and threatening Royal Mail's ability to provide the universal service.

58. The evidence of user preferences, along with the social and political imperatives for a national quality postal service shows the need to maintain a high quality universal postal service.

Number of collection and delivery days

59. Royal Mail's obligation to deliver six days a week, Monday to Saturday, is enshrined in the Postal Services Act 2011. The Government have made clear there will be no reduction in this requirement until at least 2015.

60. Ofcom have nonetheless chosen to examine two scenarios for reducing the number of delivery days to five; either by eliminating Saturday delivery, or one weekday of delivery.

61. Quantitative research showed reducing the number of collection and delivery days yielded the highest disbenefit of any proposed changes, with users willing to pay 12p-14p on a first class stamp to maintain the current service. In the qualitative research, users felt this service was essential. Nonetheless, Ofcom focus on results from focus group exercises, which indicate that if offered a range of undefined and uncosted compensatory services users might accept a reduction in delivery days. The priority given by Ofcom to results of focus groups over the unequivocal quantitative data is of serious concern, given the known lobbying efforts of certain interest groups towards reducing delivery day obligations.

62. The research results also show that the differing priorities of business and residential users make a reduction in delivery days impractical, if the needs of both sets of users are to be met. While businesses place little value on Saturday deliveries, residential users value this day very highly. Clearly there is a linkage in this preference with the growth of packet and parcel deliveries, a growth market which Ofcom should seek to enable, not hold back.

63. The effect on the postal service of these proposals must be considered in conjunction with other proposals under consideration by Ofcom. Reducing delivery days in conjunction with other service reductions, such as the abolition of next day delivery, would lead to a very significantly reduced service where arrival dates would depend on the day of posting. Given the importance attributed by users throughout the research to simplicity and clarity such proposals would significantly damage the postal service.

Collection and delivery times

64. The study considers the impact of changes to current targets for collection and delivery times of post. Currently varying last collection times exist around the UK, from 4pm in deep rural areas to 7.30pm for some business boxes. Final deliveries are aimed at 3pm in urban areas and 4pm in rural areas. The study considers means of adjusting timings to allow for 'collect on delivery' in rural and local post boxes, and delaying final delivery time by two hours.

65. Ofcom consider the cost savings of these possibilities to be low. Collection costs are a small part of Royal Mail's costs, and savings from delaying deliveries are also relatively small. In reality, the changes proposed by Ofcom would represent a fundamental restructure of the entire delivery operation. Such restructures, when applied to labour intensive operations such as Royal Mail's, carry significant business costs in implementing change. The current difficulties in delivery revisions should serve to inform the regulator on the feasibility of their proposals, and it is an unfortunate feature of Ofcom's general approach that operational and industrial realities are often ignored or poorly understood.

66. The CWU has long argued that the convergence between collection and delivery times is a negative step, which particularly impacts on the ability of businesses to use post effectively in their operations. The lack of a window of time in which to receive correspondence, action it, and respond same day, is damaging in particular to SMEs which broadly rely on the mainstream postal network. This view is supported by substantial evidence from SME groups, previous research, and this study.

67. One striking result of Ofcom's research is that of all possible options for improving the postal service, early morning deliveries was the most popular. It is unfortunate that Ofcom dismiss this as nostalgia, rather than accepting that users have been deeply unhappy about the gradual reduction of service standards which the CWU has consistently argued against.

Delivery to the door

68. Ofcom considered alternatives to residential doorstep delivery; either to a secure box at the edge of private property, or a secure locker in a central location.

69. The quantitative research shows very strongly negative reactions, especially to the idea of central lockers. Older people, rural residents and people on lower incomes particularly objected. We are not surprised by these results, which reflect concerns previously expressed by the CWU around security and convenience, especially for more vulnerable users.

70. We would also stress the impact such a change would have on the societal benefits of the postal network. As discussed earlier in our submission, Ofcom's qualitative research shows postal workers are at the heart of many communities, and are the only people who visit every door in the country. The many intangible benefits of this network would be diminished without delivery to the door.

71. In addition, postal administrations worldwide are developing new income streams by exploiting their unique status as the only national network of doorstep visitors. Royal Mail's recent Positional Data Capture trial, as well as examples from other national administrations such as census functions and air quality monitoring, are being taken on by postal workers. These potential income streams are an important aspect of Royal Mail's long-term commercial options, and analysis of moves which downgrade the delivery network should take into account this loss of earnings potential.

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17 December 2012