

Federation of Small Businesses Consultation response:

Review of postal regulation – pricing and affordability

5 December 2025

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To whom it may concern,

RE: Review of postal regulation – pricing and affordability

FSB welcomes the opportunity to provide a response to the above call for input.

FSB is a non-profit making, grassroots and non-party political business organisation that represents members in every community across the UK. Set up in 1974, we are the authoritative voice on policy issues affecting the UK's 5.7 million small businesses, micro businesses and the self-employed.

We are fundamentally opposed to the proposals within this consultation to potentially remove the safeguard cap for Second Class letters and replace it with a more targeted approach. Safeguard cap may not be the only way to address affordability risk, but it is the most reliable method by which to ensure that those that need an affordable service are able to access it, particularly those with fluctuating income and reliance on letters, such as small businesses. Our 2024 research shows that many small businesses still rely on letters, with almost two thirds (65 per cent) of small businesses reporting to have sent letters at least once a month or more in the previous 12 months, and this increases to 80 per cent for those in the wholesale and retail sector. On a more frequent basis, our research shows that around a third of small businesses (31%) have sent letters at least once a week in the last 12 months, increasing to 50 per cent for those in the wholesale and retail sector. This highlights that, for many small businesses, letters are a vital product and a significant part of their business models.

As Ofcom looks at this issue, we would ask that they consider the economic impacts of any decisions on the millions of small and medium businesses in the UK. Keeping Royal Mail's letter services affordable for small businesses promotes competition within a variety of sectors, allowing small businesses to send correspondence to customers and potential customers at affordable prices, and even allowing small businesses to send small items as letters to customers. Ofcom cannot simply to assume that small businesses can afford what some domestic consumers can afford. We believe that it would be detrimental to economic growth if Ofcom were to remove the safeguard cap on second class letters.

We raised concerns previously about the current reform of the USO on the reduction of frequency of delivery Second Class letters and watering down targets, as leading to significant implications for small businesses that sell their products online via letters and use them to communicate with customers. We also highlighted that given our research shows, that more than 6 in 10 (62%) small businesses say that that reliability is one of the most important aspects of Royal Mail letters services¹ and if Ofcom proceeds with the changes, they must make sure that they will make the letters service more reliable, and that it should not lead to any further watering down of the USO. Therefore, we are disappointed that Ofcom is consulting on changes which will in no doubt have an impact on small businesses ability to continue to use letters. We believe that instead savings to ensure financial sustainability of Royal Mail should be made within parcels which are competitive

¹ Data collected as part of Small Business Index Q1 2024 (unpublished)

product or efficiencies could be made within network operations rather than within the universal service that many rely on.

We have not responded to every question in this call for input, only those that we are able to provide a valuable perspective on.

Questions

Question 2.1: Do you agree with our proposed objectives for this review? Please state your reasons and provide evidence to support your view.

Question 2.2: Do you agree with our planned approach to this review? Please state your reasons and provide evidence to support your view.

We disagree with your proposed objectives for the review. We believe that universal service should remain affordable to all including SMEs. The consultation states Royal Mail is a near-monopolist in the provision of letters and therefore protection is unlikely to be provided by competitive markets, this means that it would be likely that it could become unaffordable to those that need it if a cap or similar intervention is not maintained. Letters allow small businesses to communicate and send their products at a competitive price, and therefore, enable them to compete in the market alongside larger and more established businesses. Without availability of an affordable universal service, their ability to compete in the market could be jeopardized. Small businesses are less likely to have financial reserves than larger businesses and also are less likely to be able to negotiate better deals, which means that they are often not in a position to consider alternative providers for products and services that they offer.

The objectives also state that there must be cost recovery in place if a safeguard cap or any other intervention is taken forward. In the event of a targeted scheme being put in place, it would be businesses and residential customers that would shoulder additional costs. We are therefore opposed to a targeted scheme, because we do not think that costs should increase for those small businesses that rely on letters services. Further cost increases would further disincentivise use of letters, particularly given the reform of the USO that is already taking place in scaling back Second Class letter delivery. Therefore, while we do recognise that any costs incurred must be balanced with the sustainability of the universal service and also help to retain the incentives for Royal Mail to operate efficiently, we are of the firm view that the essential services that are already getting significantly scaled down that should not be used to balance those costs. In fact, there are other areas that Royal Mail could focus on that could provide far more scope for efficiencies and savings to be made for example competition in parcels and transformation of network and operations.

Question 3.1: Do you agree that our approach to assessing the affordability of universal postal services should be similar to the approach we have taken previously? Please state your reasons and provide evidence to support your view.

We recognise the approach taken previously has not considered SMEs, as the view was that if postal prices are affordable for residential customers, then they are also likely to be affordable for SMEs because SMEs, unlike residential customers are able to absorb at least some of their postage costs as they can pass them on to their own customers. However, we would like to highlight that given

increasing costs to businesses including due to continued increases to employment costs, there is only so much that small businesses can pass on before their products and services become unaffordable for consumers. In addition to that, our anecdotal evidence shows that particularly for smaller and low value products that small businesses send by post that there is only so much that customers are willing to pay as a proportion of the cost.

Further, it is right that the consultation acknowledges that smaller SMEs are more likely to find it difficult to absorb increased postage costs than larger SMEs, and they are also less able to benefit from economies of scale in negotiation with alternative postal operators. Smaller businesses are also impacted by fluctuations in income as well as the cost of doing business, and therefore need to be protected from price increases where possible. Small businesses just like residential customers are likely to downgrade from First to Second Class letters when prices increase to manage costs, therefore for SMEs cost is also main barrier to utilising some services more than others.

Question 3.2: Do you agree with our initial observations from our preliminary analysis of the latest ONS data and market research? Please state your reasons and provide evidence to support your view.

No.

Question 4.1: Do you have any comments on whether a targeted discount scheme could be used to address affordability concerns in post?

Question 4.2: Do you have any specific comments or evidence relating to the key elements and principles of a potential scheme set out in this section?

We do not think that a targeted discount scheme will be effective in addressing affordability concerns in post, particularly given that it could potentially lead to the replacement of the current safeguard cap protecting affordability. In our previous response to USO reform earlier this year, we raised concerns with regard to deterioration of service level in Second Class at the same time as increasing prices, and we warned that it was potentially a prelude to the end of Second Class altogether, particularly as the frequency of Second Class letters delivery is reduced and delivery targets are watered down. In light of this, we asked that no further reforms are taken place in this space that may lead to adverse impacts on small businesses.

Removal of safeguard cap can have significant implications for small businesses that sell their products online via letters and use them to communicate with their customers, particularly if they are already stretched in terms of both staff and finances. FSB's Small Business Index (SBI) Q3 shows small business confidence has fallen to -58 points in Q3 down from -44 points in Q2, and the proportion of small firms bracing for contraction, be it downsizing, closure, or a sale, in the next 12 months has risen to an unprecedented 30 per cent.² The same research found that the factors driving this pessimism around growth was predominantly the domestic economy, cited by over two-thirds of small firms (68%), followed by the tax burden (45%), labour costs (34%), and then consumer

² Small Business Index (SBI) Q3, 2025 <https://www.fsb.org.uk/media-centre/press-release/small-business-growth-hopes-plunge-chancellor-must-act-in-budget-MCJHXGO335K5HPPF27EKA3M5NIMM>

demand (28%). Therefore, as we have mentioned earlier small businesses just like any group are facing cost pressures which is why principles of affordability within the USO should apply to all users of letters, rather than some select groups.

Finally, as the consultation also suggests that a targeted scheme could lead to removal or relaxation of the existing safeguard cap, meaning that those who benefit from it now will not be able to do so any longer, and that the cost for such a scheme will be recovered from people and businesses. We are concerned that this will mean that the price of Second Class letters will be able to increase substantially for groups that are not protected by the targeted scheme, pricing them out of being able to use letters altogether. Therefore, the removal or relaxation of the existing safeguard cap would prevent small businesses who rely on Royal Mail's Second Class letters service from competing with larger businesses, with knock-on negative implications for economic growth. The consultation itself states that most letters are sent via Second Class, which we expect has only increased as many moved from First to Second Class to manage costs. Our research shows that 36 per cent of small businesses say that low delivery prices as part of Royal Mail letters services is one of the most important aspect for their business needs in the future.³

Question 5.1: Do you have any comments on our initial views set out in paragraphs 5.2-5.16 in Section 5 on whether there is a case for Ofcom to move away from its existing approach to price regulation of Royal Mail's letter services based on considerations other than affordability?

With regard to potential options to change the approach to pricing, we believe that pricing based on outcome incentives whereby Royal Mail's ability to change prices directly to outcomes on quality of service is likely to be most effective. As given in services where there is no safeguard cap, such as within First Class letters, it has been evident that while prices have substantially increased to send letters, reliability has decreased over the same period. Therefore, linking it to performance would help to ensure that reliability which is important to majority of small businesses as part of letters services is linked to performance, and is likely to provide a better incentive for Royal Mail to achieve set targets to improve financial sustainability.

Question 5.2: Do you have any comments on Ofcom's plans to examine aspects of the margin squeeze rule for access prices?

No.

Yours sincerely,

Paul Wilson
Policy Director
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For further information please contact:

³ Data collected as part of Small Business Index Q1 2024 (unpublished)

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