The Communications Market 2015

Post

Contents

6.1 Key market developments in post

6.1.1 Industry metrics

Figure 6.1 UK postal services: industry key metrics

UK postal services industry	2010	2011	2012	2013	2014
Addressed letter volumes	15.6bn	14.6bn	13.5bn	12.9bn	12.7bn
Addressed letter revenues	£4.1bn	£4.1bn	£4.2bn	£4.2bn	£4.3bn
Proportion of access in total mail	44%	49%	54%	56%	56%
Letter volumes delivered by operators other than Royal Mail	11.3m	8.5m	18.0m	56.1m	158.5m
Direct mail share of total advertising spend	15.9%	14.9%	14.5%	14.1%	13.9%

Source: Royal Mail Regulatory Financial Statements, Royal Mail Wholesale, Royal Mail Group Annual Reports, AA/Warc, Nielsen. Note: Royal Mail calendar year volume figures are derived from Ofcom calculations based on financial year figures in Royal Mail's Regulatory Statements and unaudited submissions to Ofcom and are therefore not directly comparable with Royal Mail's published accounts. Royal Mail figures relate to the 'Reported Business'. Previous data are not comparable. Figures are nominal.

6.1.2 Introduction

This section summarises some analysis of the recent Royal Mail and analysts' reports on the UK parcels sector, and presents the findings of research from YouGov into consumers' preferences for retail and delivery methods. Among the key findings are:

- **The parcels market is growing, and is more competitive than the letters sector.** Figures published in Royal Mail's latest annual report estimate total parcel volume growth at approximately 4%. By volume, Royal Mail considers that it has a 52% share. In terms of estimated revenue, Royal Mail considers that it accounts for the largest share, with 38%. This compares to Royal Mail's near-99% share of the letters sector by volume, and 95% share by revenue.

- **Only one in ten consumers consider that the operator that delivers their parcel is an important factor in choosing a retailer.** A majority of consumers like to have notifications and/or tracking in place for their e-retail deliveries, but six in ten are unwilling to pay an additional fee for these features.

- **More than half expect to receive their orders within three days.** The majority of people (57%) expect that a UK retailer will be able to provide goods ordered online within three days, with a further 31% expecting their order to arrive within six days. The expectation of delivery time from a retailer based overseas is lower. One-fifth (19%) of people would expect an overseas retailer to get their orders to them within six days.

- **Forty-five per cent of consumers have not ordered on a specific occasion because of a concern over delivery.** The price of delivery is the most common issue that prevents ordering. Over half of those (55%) who had had a concern said that cost was a factor.

6.1.3 Parcels and online shopping

Although there are a currently a number of different estimates of the size of the parcels market in the UK, from different analysts, all agree that it is growing, both in volume and revenue, and that the driver of this is online retail.

The parcels market is growing, and is more competitive than the letters sector

Figures published in Royal Mail's latest annual report estimate total parcel volume growth at approximately 4%. The business-to-consumer (B2C) and consumer-originated (C2X) parcel segments are estimated to be growing at a slightly faster rate – between 4.5% and 5.5%. The volume of parcels sent from businesses to other businesses, while also increasing, is doing so more slowly.

As the market grows, operators are adding additional capacity. Over the past two years, UK Mail, DPD, Parcelforce and Hermes have all invested in new hubs and depots with the intention of increasing the volume of parcels that they can process and deliver. As well as these established operators increasing their capacity, online retailer Amazon has created its own delivery network in selected areas of the UK. Amazon Logistics uses a combination of workers directly employed by Amazon, alongside partnership with local delivery firms, to deliver parcels seven days a week in these areas. The variety of operators, the increase in capacity, and the desire of consumers for free home delivery for fulfilment of their online shopping, has had the effect of keeping prices relatively low. This competitive intensity was demonstrated by the market exit of City Link in December 2014.

The greater competitiveness of the parcels market is clear in the market share estimates that were recently published by Royal Mail.[129] By volume, Royal Mail considers that it has a 52% share. In terms of estimated revenue, Royal Mail considers that it accounts for the largest share, with 38%. This compares to Royal Mail's near-99% share of the letters sector by volume, and 95% share by revenue.

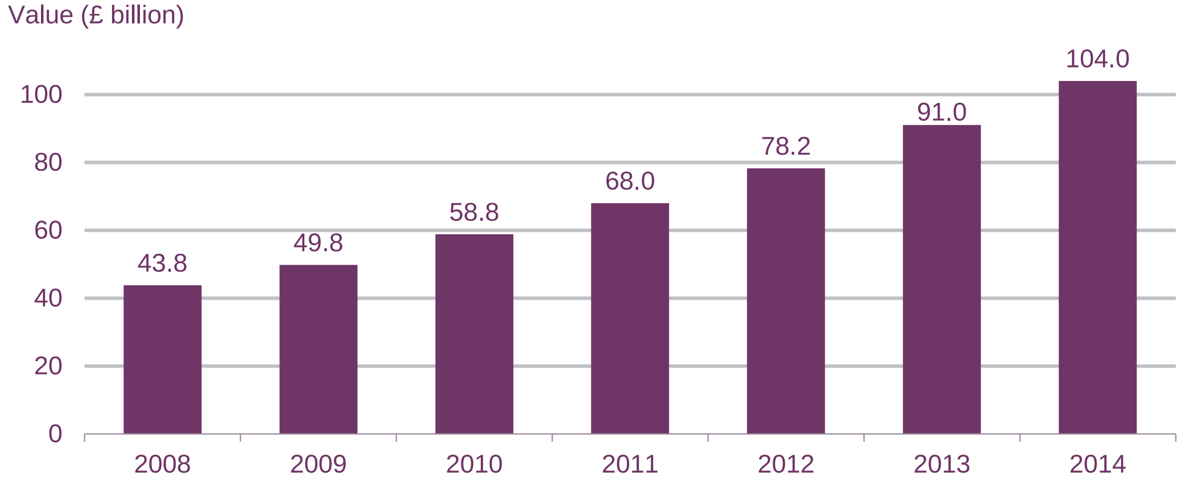
Online retail has continued to grow

In 2014, the Interactive Media in Retail Group (IMRG) put the value of the UK e-commerce sales at £104bn. This is 14% greater than the value of sales the previous year, and more than double the 2009 value. However, not all of the increase in sales tracked by IMRG may result in increased parcel volumes, as items may be fulfilled electronically as well as physically. Even when items are fulfilled physically, this may be through 'click and collect' services, enabling buyers to pick up their purchases from online retailers' high street shops.

Online retail is accounting for an increasing proportion of total retail sales. Figures from the Office for National Statistics show that 11.2% of total retail sales were made online in 2014, compared to 10.4% in the previous year.[130]Consumers in the UK are also shopping more on mobile devices; 40% of online retail sales at the end of 2014 were through mobile devices.[131]

[129] Royal Mail plc, *Full year 2014-15 annual results,* 21 May 2015
[130] Office for National Statistics, *Overview of Internet retail sales in 2014*, 23 January 2015, http://www.ons.gov.uk/ons/rel/rsi/retail-sales/december-2014/sty-overview-of-internet-retail-sales-in-2014.html, [accessed 13 July 2015]
[131] Interactive Media in Retail Group, *Mobile accounts for 40% of all online retail sales*, http://www.imrg.org/index.php?catalog=1769, [accessed 13 July 2015]

Figure 6.2 Value of UK e-commerce sales: 2008-2014



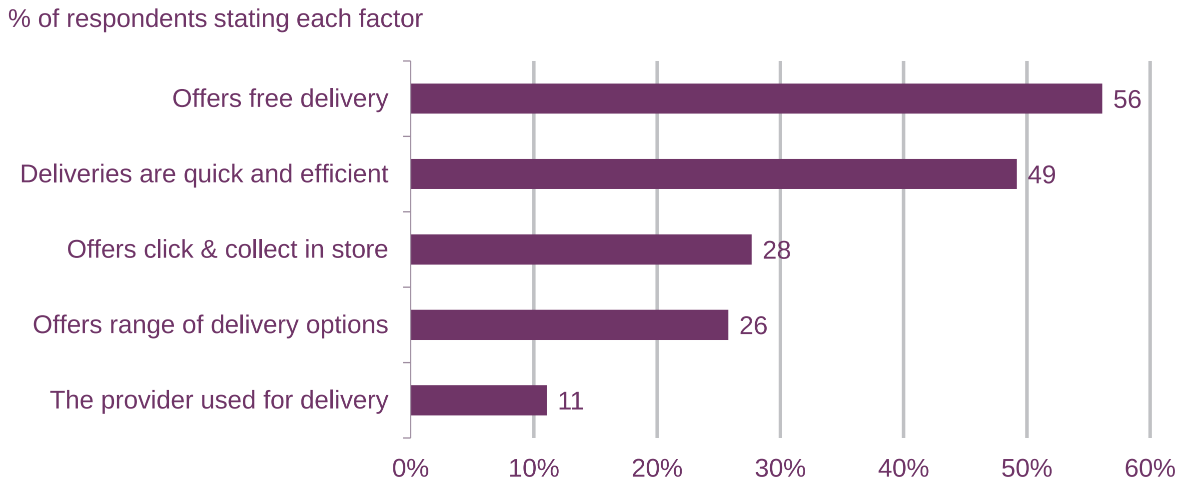
Source: Interactive Media in Retail Group, January 2014

One in ten consumers consider that the operator that delivers their parcel is an important factor in choosing a retailer

When asked to name the most important factors when choosing a retailer, over half of UK adults (56%) said that free delivery was an important factor. Around half (49%) considered that quick and efficient deliveries were important and three in ten that the offer of click-and-collect services was important.

Just over one in ten (11%) UK adults considered that the provider used for delivery was an important factor, suggesting that consumers have little preference who provides their deliveries, as long as it does not add an additional cost to their purchase and it is quick and efficient.

Figure 6.3 Delivery and fulfilment factors considered to be important when choosing a retailer



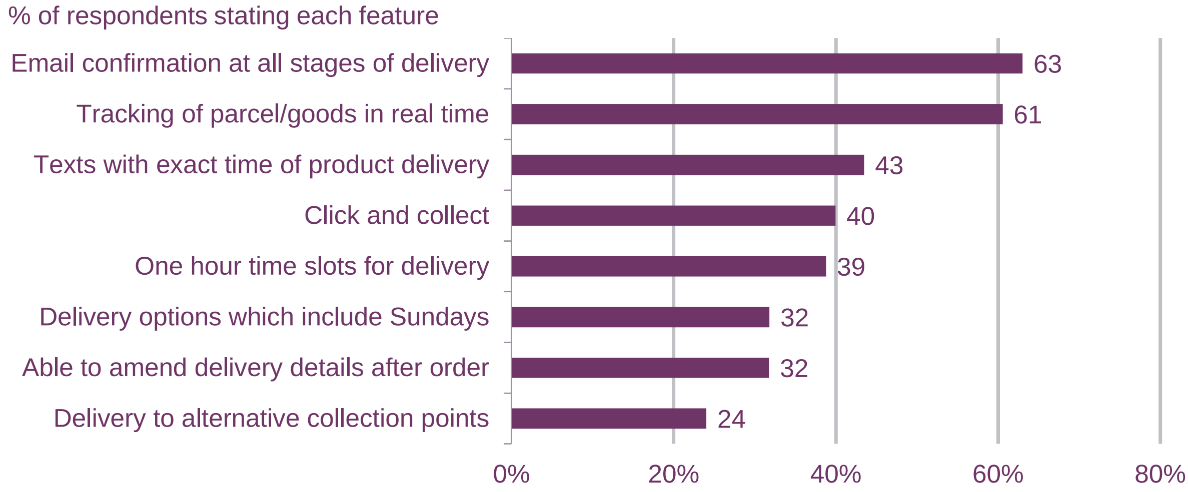
Source: YouGov, Innovations in Retailing, fieldwork March 2015.
Base: All adults 16+, 2114. Q: Which, if any, of the following do you consider to be important factors when you are choosing a retailer? Please choose all that apply.

A majority of consumers like to have notifications and/or tracking in place for their e-retail deliveries

Over six in ten (63%) of adults said that they liked to have email confirmation at each stage of delivery when awaiting deliveries from online shopping, and a similar proportion (61%) said that they liked to be able to track their parcels online. Features that provide more precise information about when items are likely to be delivered were cited by a significant majority of respondents. Around four in ten said they wanted greater certainty of the specific delivery time: 43% said that they would like to receive texts with the exact time of delivery and 39% said they liked to have one-hour time slots for delivery.

The responses summarised in Figure 6.4 suggest that consumers like to have well planned, well communicated and flexible deliveries.

Figure 6.4 Features of delivery that consumers like to have in place when shopping online



Source: YouGov, Innovations in Retailing, fieldwork March 2015.
Base: All adults 16+, 2114. Q: Which, if any, of the following systems do you like to have in place, as standard, when ordering online (including via your mobile)? Please choose all that apply.

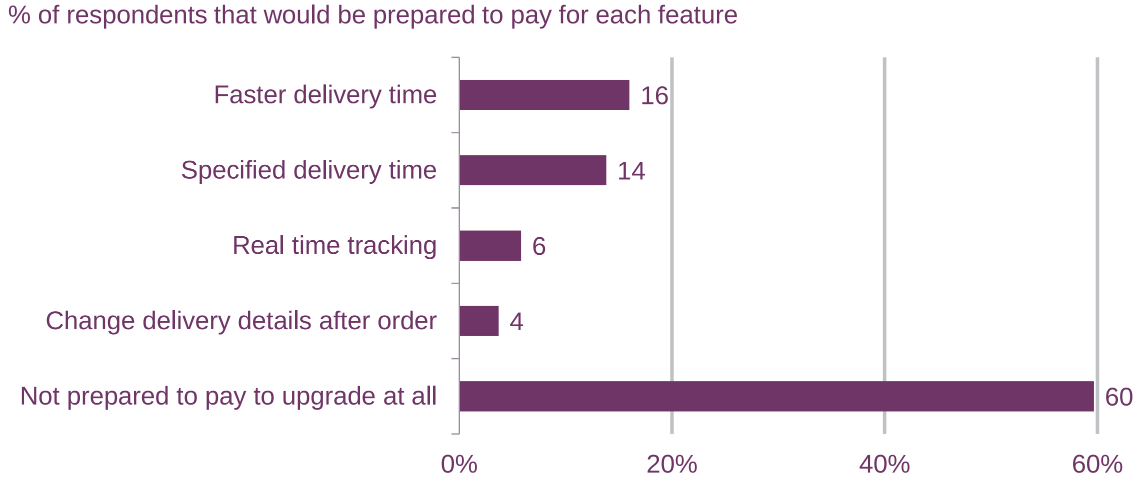
Although consumers like to have flexible and tracked delivery of their online retail goods, the majority are not prepared to pay more for them

Six in ten adults said that they would not be willing to pay an additional charge for any upgrade to the features of their online retail deliveries, despite many saying they wanted additional features to be in place for the fulfilment of their online purchases.

The feature that people were most likely to pay extra for was faster delivery time; 16% said they would pay extra for this, closely followed by specified delivery time, with 14% saying that they would pay extra for this.

As seen in Figure 6.4, just over six in ten (61%) of adults said that they like to have tracking in place on their deliveries, although only 6% were prepared to pay an additional charge for this. This suggests that recipients' willingness to pay for extra features in parcel delivery is low, but this attitude may be affected by the fact that tracking is often already provided as standard.

Figure 6.5 Appetite to pay for enhanced delivery features

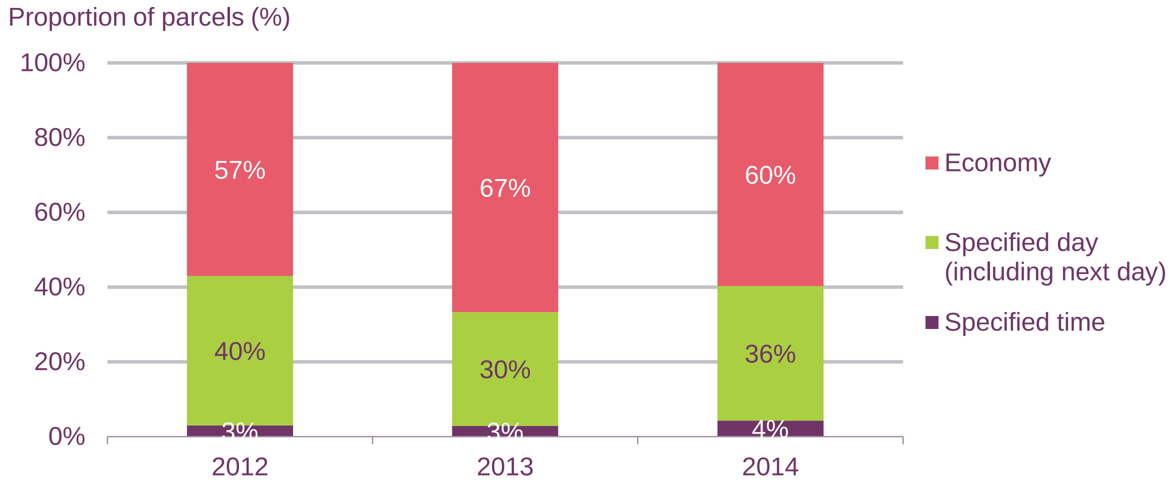


Source: YouGov, Innovations in Retailing, fieldwork March 2015.
Base: All adults 16+, 2114. Q: Still thinking of online deliveries, which of the following statements do you agree with? Please choose all that apply.

The majority of fulfilment items are sent using economy services

Sixty per cent of e-retail items are sent using economy services; this reflects consumers' preferences for free delivery and their lack of willingness to pay for additional features in delivery. Although economy services make up the majority of service types used, since 2013 the proportion of e-retail parcels sent through this type of service has fallen by seven percentage points (pp). This share has been taken primarily by specified-day services, but the proportion of parcels sent using specified-time services has also increased, although only by 1pp.

Figure 6.6 Service types used for e-retail fulfilment: 2012-2013



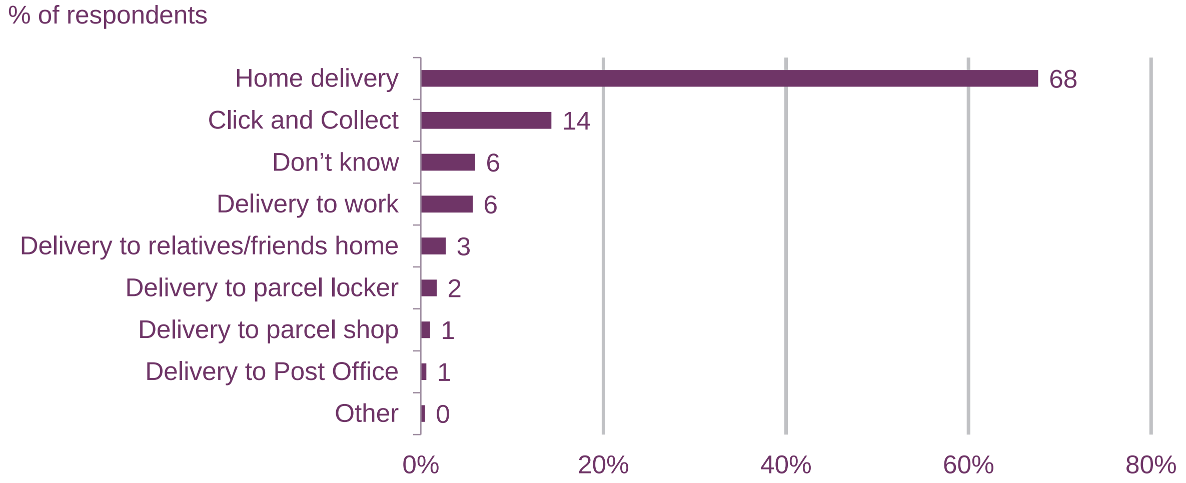
Source: Ofcom analysis of IMRG / Metapack Delivery Index, January 2012-December 2014.
Note: Specified time includes: AM, PM, before 10am, evening and school run. 'Specified day' includes same day, next day and Sunday. Proportions rebased to exclude international.

Delivery to the home is the preferred option for the majority of adults

Almost seven in ten (68%) of adults stated that delivery to the home was their preferred delivery option. For delivery options away from the home, click and collect was the preferred method; 14% said that this was their preferred option. This is lower than the proportion who considered click and collect to be an important factor in choosing a retailer (28%, Figure 6.3) and lower than the proportion who liked to have click and collect available as a delivery option when ordering online (40%, Figure 6.4).

Preferences for other delivery methods (including parcel lockers, parcel shops and post offices) was low; none of these options were the preferred delivery point for more than 2% of respondents.

Figure 6.7 Preferred delivery location for online shopping



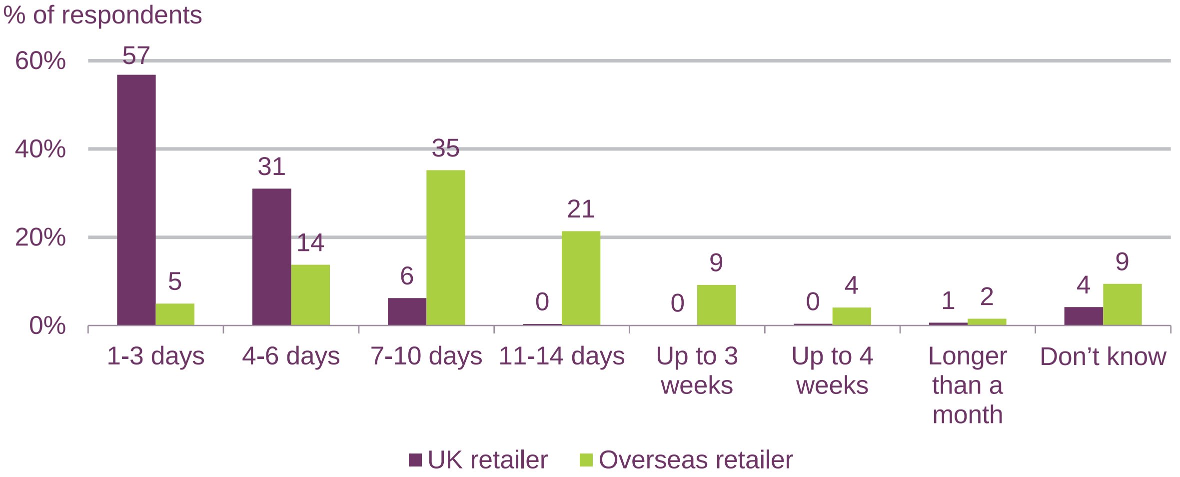
Source: YouGov, Innovations in Retailing, fieldwork March 2015.
Base: All adults 16+, 2114. Q: Now thinking about shopping online (including via your mobile) and the delivery of your purchases, in general which of the following do you prefer?

More than half of all adults expect to receive their orders within three days

The majority of adults (57%) expect a UK retailer to be able to provide goods ordered online within three days, and a further 31% expect their orders to arrive within six days. Almost all (94%) expected their orders to arrive within ten days.

The expectation of delivery time from a retailer based overseas is lower. A fifth (19%) would expect an overseas retailer to get their orders to them within six days and more than a third (35%) would expect their order to be delivered within ten days.

Figure 6.8 Delivery time expectations, UK retailers and overseas retailers



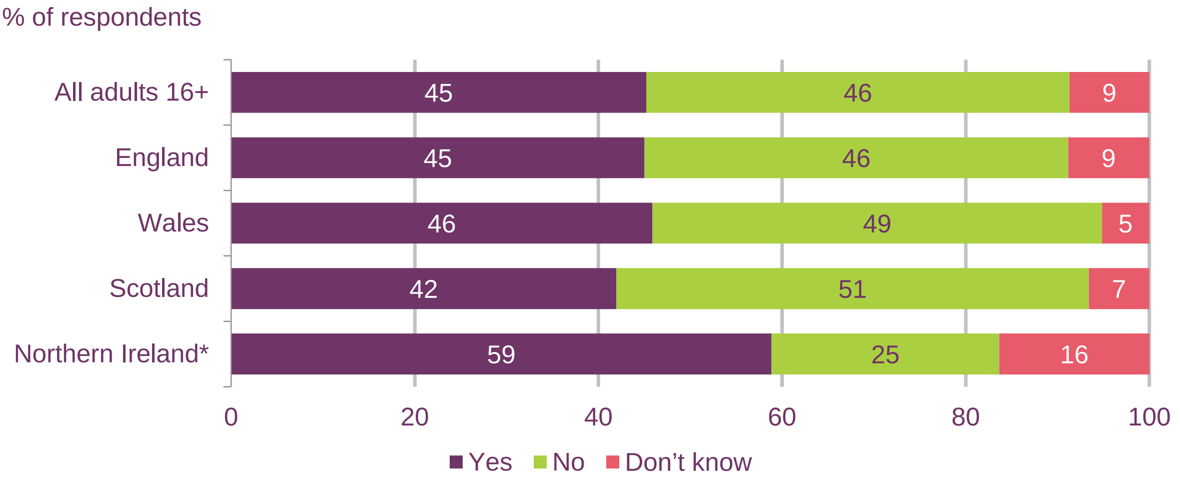
Source: YouGov, Innovations in Retailing, fieldwork March 2015.
Base: All adults 16+, 2114. Q: excluding large goods/furniture, if you were to order a product from a UK retailer/ overseas retailer (e.g. a book, DVD, dress, phone etc.), how long would you consider an acceptable time for standard delivery to your chosen address?

Forty-five per cent of consumers have had a concern about delivery that has prevented them placing an order

Across the UK, about the same proportion of people had experienced a concern about delivery as had had no concerns (45% vs. 46%). This was the same when comparing across the UK nations, with the exception of Northern Ireland, where almost one in six (59%) had not completed an online order due to a delivery concern.

As Figure 6.10 shows, the main concern is with the price of delivery. As some retailers use delivery providers which charge a surcharge for delivering to Northern Ireland, this may partly explain why those in Northern Ireland are more likely to have abandoned an order because of factors related to the delivery process.

Figure 6.9 Whether delivery concerns have ever stopped an order being made



Source: YouGov, Innovations in Retailing, fieldwork March 2015.
Base: All adults 16+, 2114, England, 1771, Wales, 104, Scotland. 178, Northern Ireland, 61. Q: Have you ever not ordered a product because of concerns over the delivery?
**Note: Base size for Northern Ireland is <100.*

The price of delivery is the most common issue that prevents consumers from ordering online

The most common reason consumers gave for not completing an online order, due to issues with delivery, was the cost of delivery being too high; more than half of those (55%) who had concerns said that this was a factor. The time taken to deliver was the second most likely reason, with over half (51%) of those who had abandoned an order because of delivery issues citing this as a reason.

One-fifth (21%) of those who had not completed an order due to delivery issues said that they had been put off by a poor experience with a retailer or delivery company. Although not directly comparable, this is higher than the 3% of online shoppers in the 2013 research who decided not to complete an online order because they did not want to use the delivery operator provided by the retailer.[132]

Figure 6.10 Delivery concerns that have stopped an order being made

Source: YouGov, Innovations in Retailing, fieldwork March 2015.
Base: All adults 16+ who have not ordered a product due to delivery concerns, 954. Q: Why did your concerns regarding delivery stop you from ordering the product? Please choose all that apply.

[132] Research by Kantar Media, published in Ofcom: *The Communications Market Report 2013*, p.387

6.2 The postal industry

6.2.1 Introduction

This section explores some of the significant developments and trends in the UK postal sector. It includes information on volumes, revenues, access and end-to-end competition, and stamp prices. It also gives a brief overview of the applications of letter mail and how mail fits into some of the wider sectors that may affect the demand for letters.

Key points in this section include:

- **Letter revenues grew slightly (by 0.4%) in 2014.** Addressed letter revenues increased by £18.5m to £4.3bn in 2014 (0.4%). Revenue from Royal Mail accounted for the majority of letter revenues, although the proportion of revenues taken by other operators, both access and end to end, has risen from 3.6% in 2010 to 4.7% in 2014.

- **Letter volumes fell by 1.5% in 2014.** Letter volume decline slowed in 2014, falling by just 1.5%. The volume of mail handled end to end by Royal Mail fell by 3.7% to 5.4 billion items. Access volumes continued to decline, falling by 1.2% to 7.1 billion. This is the second consecutive year that access volumes have fallen.

- **Operators other than Royal Mail delivered 158.5 million items in 2014.** Although this is a large proportional increase, it represents a small part of the total letters market. For the first year since the postal market in the UK was liberalised, volumes delivered by competitors to Royal Mail accounted for more than 1% of total letter volumes. However, in June 2015, Royal Mail's main end-to-end competitor, Whistl, announced that it was permanently ceasing its end-to-end operations.

6.2.2 Addressed letter revenues

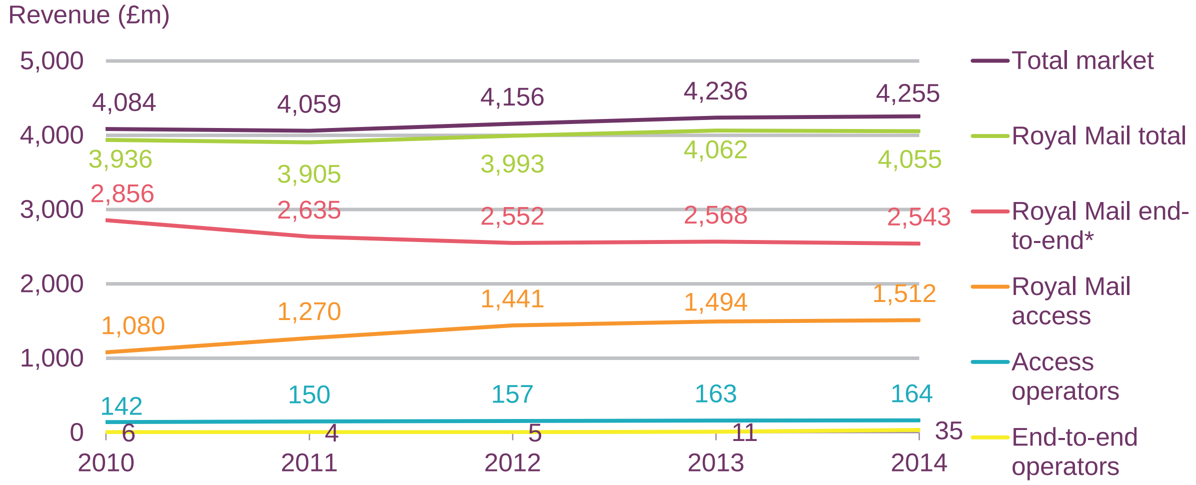
Letter revenues grew slightly (by 0.4%) in 2014

Addressed letter revenues increased by £18.5m to £4.3bn in 2014, up by just 0.4%. Revenue from Royal Mail accounted for the majority of letter revenues, although the proportion of revenues taken by other operators, both access and end to end, rose from 3.6% in 2010 to 4.7% in 2014.

Royal Mail's addressed letter revenue was broadly stable, with a slight decline of 0.2%, as a £25m fall in its revenue for retail end-to-end products was largely offset by an increase of £18m in its access revenue. Over the previous two years, Royal Mail had increased its revenues at a faster rate, mainly due to price increases, but increases in 2014 have been more modest.

Letter revenues from operators other than Royal Mail increased in 2014, with a 1.3% increase in access revenues and a 23.8% increase in revenues from end-to-end operations.

Figure 6.11 Addressed letter revenues: 2010-2014



*Source: Royal Mail Regulatory Financial Statements, operator returns to Ofcom, Ofcom estimates. Royal Mail calendar year revenue figures are derived from Ofcom calculations based on financial year figures in Royal Mail's Regulatory Statements and unaudited submissions to Ofcom and are therefore not directly comparable with Royal Mail's published accounts. Royal Mail figures relate to the "Reported Business". *Royal Mail end-to-end is an Ofcom calculation and refers to Royal Mail total letters revenues excepting access. Royal Mail access revenues are as per its Regulatory Financial Statements and include a small amount of parcels. The effect of this is that Royal Mail's access revenues are slightly overstated and its end-to-end revenues are slightly understated. Prior data are not comparable. Figures are nominal.*

6.2.3 Addressed letter volumes

Letter volumes fell by 1.5% in 2014

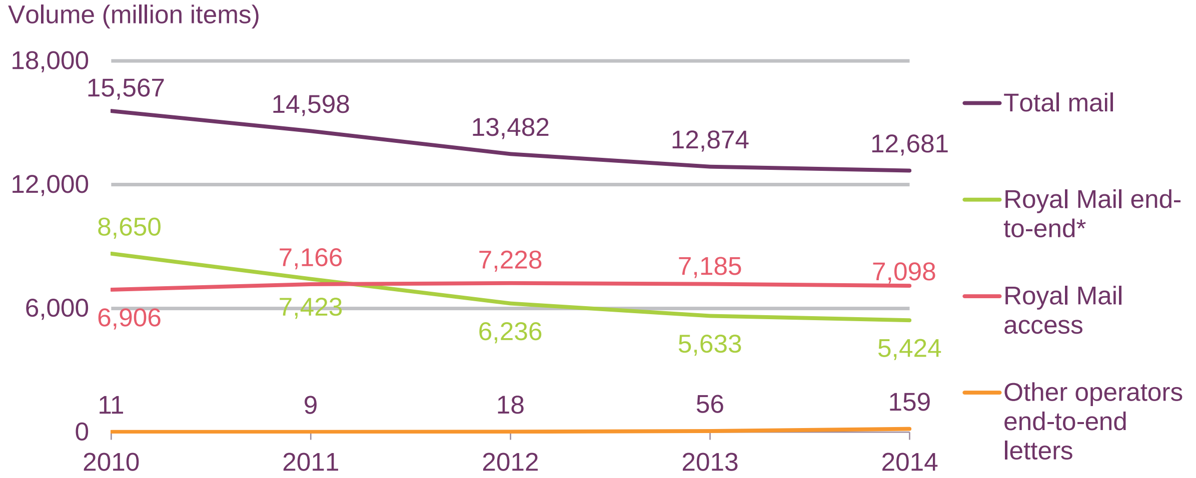
Letter volume decline slowed in 2014, falling by just 1.5%. The slower rate of decline may be partly due to the better economic conditions in the UK during 2014, and may have also been affected by the volume of election-related items sent during the Scottish referendum and the European Parliament elections.

The volume of mail handled end to end by Royal Mail fell by 3.7% to 5.4 billion items, while the number of items delivered by other operators almost tripled to 159 million. Although this is a large proportional increase, it represents only a small part of the total letters market. But for the first year since the postal market in the UK was liberalised, volumes delivered by competitors to Royal Mail accounted for more than 1% of total letter volumes. In 2014, operators other than Royal Mail carried 1.2% of total letter volumes entirely through their own networks. However, Royal Mail's main competitor, Whistl, announced in June 2015 that it would permanently cease its end-to-end operations. End-to-end competition in the UK is discussed in more detail in section 6.2.4.

Access volumes continued to decline, falling by 1.2% to 7.1 billion. This is the second consecutive year that access volumes have fallen.

Between 2010 and 2014, total letter volumes have declined by 18.5% and in 2014 there were 2.9 billion fewer addressed letter items than in 2010.

Figure 6.12 Addressed letter volumes: 2010-2014



*Source: Royal Mail Regulatory Financial Statements, operator returns to Ofcom, Ofcom estimates. Royal Mail calendar year volume figures are derived from Ofcom calculations based on financial year figures in Royal Mail's Regulatory Statements and unaudited submissions to Ofcom and are therefore not directly comparable with Royal Mail's published accounts. Royal Mail figures relate to the "Reported Business". *Royal Mail end-to-end is an Ofcom calculation and refers to Royal Mail total letters volumes excepting access. Royal Mail access volumes are as per its Regulatory Financial Statements and include a small amount of parcels. The effect of this is that Royal Mail's access volumes are slightly overstated and its end-to-end volumes are slightly understated. Prior data are not comparable.*

6.2.4 Addressed letters competition

Within the postal sector, there are two main forms of competition: end to end and access.

Access competition is where the operator collects mail from the customer, sorts it and then transports it to Royal Mail's inward mail centres, where it is handed over to Royal Mail for delivery. Royal Mail is subject to a regulatory condition requiring it to offer access to its inward mail centres for letters and large letters. This enables other operators to offer letter postal services to larger business customers without setting up a delivery network. Access has been the predominant form of competition in the UK since the first access contract was signed in 2004.

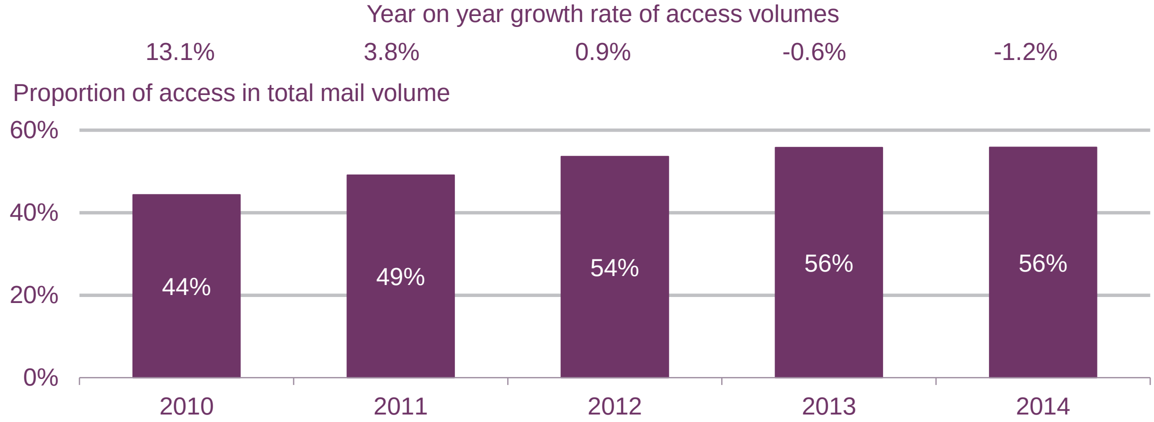
End-to-end competition is where an operator other than Royal Mail undertakes the entire process of collecting, sorting and delivering mail to the intended recipients.

Access mail volumes declined for the second year in a row

For the second consecutive year, access mail volumes declined, falling by 1.2% to 7.1 billion items. Last year, the decline in the volume of access mail was at a slower rate than mail volume decreases overall, so the proportion of access in total mail continued to rise. This year, however, the rates of decline for access mail and total mail were similar, so the proportion of access within total mail has remained the same.

The greater rate of decline in access volumes in 2014 is partly due to Whistl's end-to-end operations. The majority of Whistl's delivered volumes came from converting its access customers to its end-to-end products in the areas in which it was delivering, so as its end-to-end volumes grew, the volumes being carried through access agreements fell.

Figure 6.13 Proportion of access in total mail: 2010-2014



Source: Royal Mail Regulatory Financial Statements, Operators' returns, Ofcom estimates

Operators other than Royal Mail delivered 158.5 million items in 2014

The number of letters delivered entirely through the networks of operators other than Royal Mail almost tripled in 2014, increasing by 183% to 158.5 million items. For the first time since the UK letters market was opened to competition, the share of volume accounted for by other operators was greater than 1%. Other operators' share by volume in 2014 was 1.2%.

However, it is unlikely that this growth will continue. The majority of the increase in delivered volumes, as in the previous year, was due to Whistl (formerly TNT Post UK) which began delivering letters end to end in West London in April 2012. Whistl began to roll out services more widely, extending its network to deliver to 2 million addresses in London, Manchester and Liverpool. [133] It announced in June 2015 that it would close down its end-to-end operations after its investment partner, LDC, announced that it would not fund Whistl's further roll-out, citing "ongoing changes in UK postal market dynamics and the complexity of the regulatory landscape".[134]

As well as carrying out end-to-end delivery, Whistl is also an access operator. It had been converting its access customers to its delivery products, using its end-to-end network to deliver in the areas where it had rolled this out and using access products to provide a UK-wide service.

In January 2014, Royal Mail introduced changes to its access pricing and terms. It stated that these changes were "an important part of Royal Mail's commercial response to changing market conditions, including the expansion of direct delivery [end-to-end] competition".[135] Royal Mail's price notifications included a 1.2% price difference between its price plans that included forecasting future volumes and those that did not. An operator delivering in some areas and using access products to retain UK-wide coverage would not be able to use price plans that involved forecasting without revealing its expansion plans to its competitor. The notifications also included changes to the prices for delivering to its access zones, including substantial cuts in charges in competitive zones.

[133] Equivalent to 7.4% of UK households. Post NL, *Annual Report 2014*, February 2015, http://www.postnl.nl/en/Images/2014-postnl-annual-report_tcm9-22091.pdf.

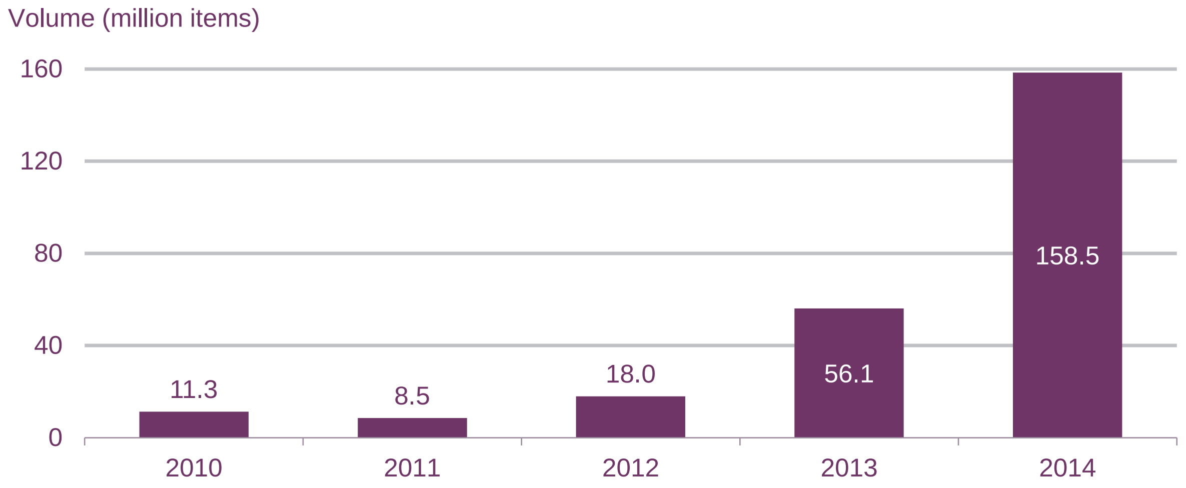
[134] Post NL, *LDC concludes discussion with PostNL on investment in Whistl UK E2E operations*, 30 April 2015, http://www.postnl.nl/en/about-postnl/press-news/press-releases/2015/april/ldc-concludes-discussion-with-postnl-on-investment-in-whistl-uk-e2e-operations.html

[135] Royal Mail Group, *Ofcom investigation into Access contract changes*, 9 April 2014, http://www.royalmailgroup.com/ofcom-investigation-access-contract-changes

Following Royal Mail's price notifications; Whistl lodged a complaint with Ofcom and halted further roll-out of its network. Ofcom is currently conducting a Competition Act investigation into the proposed changes and is also conducting a review of access pricing terms and conditions. The withdrawal of Whistl from end-to-end delivery has left Royal Mail without any competition on a significant scale for the delivery of letters. As a result, Ofcom is undertaking a fundamental review of the regulation of Royal Mail.

Other smaller-scale end-to-end operators increased their volumes in 2014. CFH Docmail Ltd, a downstream access, hybrid mail[136] and print company, which delivers in Bristol, Bath and Edinburgh, saw an increase in its delivered volumes for the second year running. City Cycle Couriers, which offers next-day and same-day services in some postcode areas in Plymouth, more than tripled its volumes and extended to another postcode area in Plymouth in July 2015.

Figure 6.14 Other operators' end-to-end letter volumes: 2010-2014



Source: Ofcom analysis of operators' returns

6.2.5 Uses of letter mail

Almost half of letter mail is business mail

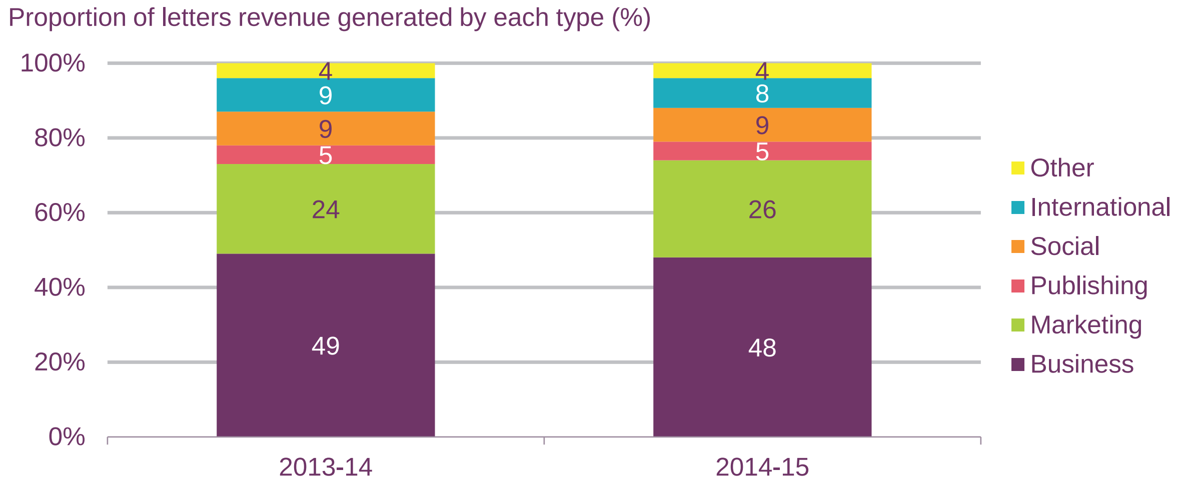
Business mail, primarily transactional mail such as bills and statements, accounts for 48% of the letters sector by revenue. Marketing mail, such as addressed direct mail, accounts for 26% of revenue. Social mail, typically sent by consumers to other consumers, makes up 9% of Royal Mail's letters revenue. (Figure 6.15)

The contribution that each type of mail makes to the overall letters revenue is relatively unchanged year on year. The only shifts are a 2pp increase in the share of revenue accounted for by marketing mail, and a reduction of 1pp each in international and business mail.

The remainder of this section gives a brief overview of the relationship between the postal sector and other sectors for which consistent data are available: advertising and publishing.

[136] Hybrid mail is mail which is delivered through a combination of electronic and physical means. Typically, the mail will be created and transmitted electronically, before being printed and delivered close to the intended destination.

Figure 6.15 Letter revenue, by type of mail: 2013-14 to 2014-15



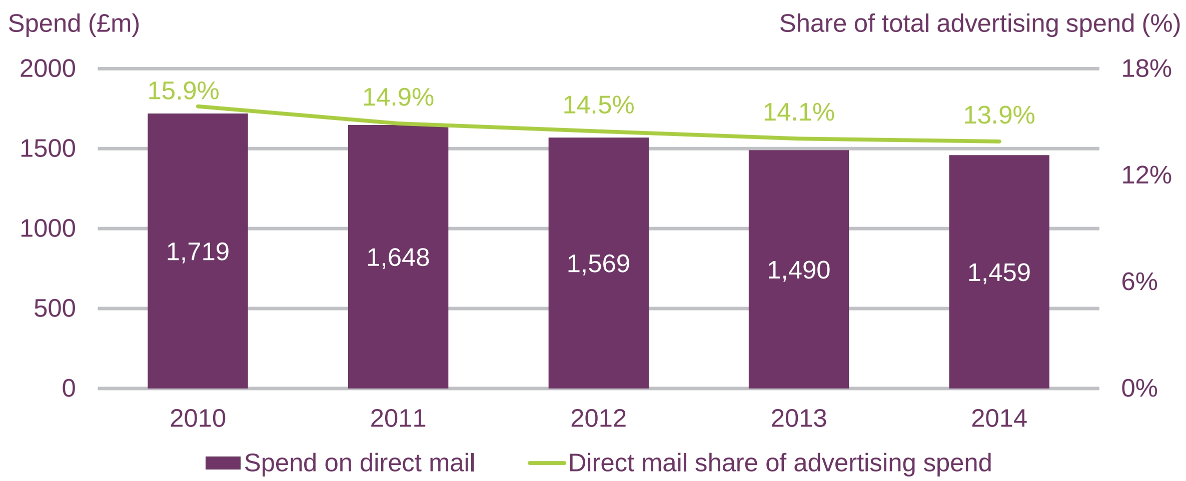
Source: Royal Mail plc, full year 2014-15 results, and Royal Mail plc, full year 2013-14 results
Note: relates to Royal Mail revenue and not the total market, so accounts for c.95% of total revenue

Advertisers spent £1.5bn on direct mail advertising in 2014

In 2014, £1.5bn was spent on direct mail advertising; a 2.1% decline on 2013. These figures represent both spend on post and the production of direct mail. Between 2010 and 2014, spend on direct mail has fallen by 15.2% in nominal terms.

The proportion of total advertising spend accounted for by direct mail has also fallen each year. In 2010, direct mail accounted for 15.9% of total advertising spend. By 2014, this had fallen by 2pp to 13.9%, as internet and mobile advertising take an increasing share of total advertising.

Figure 6.16 UK direct mail advertising spend and share of total advertising: 2010-2014



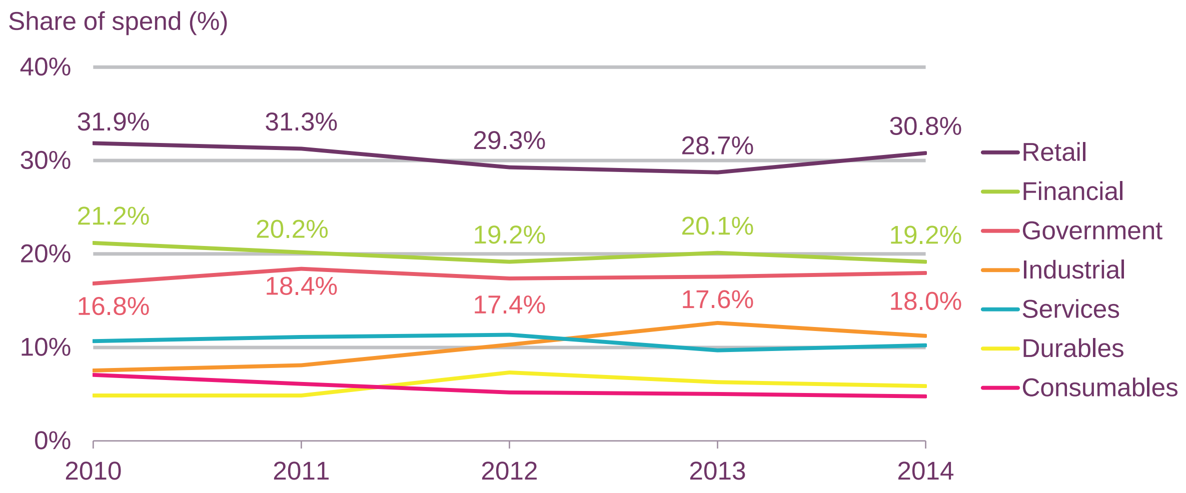
Source: AA/Warc Advertising Expenditure report / Nielsen. Figures are nominal.

The retail sector accounted for 30.8% of direct mail spend in 2014

Spend on direct mail by the retail sector was up by 5% to £449m in 2014, increasing its share of total spend on direct mail by 2.1pp to 30.8%. The only other sectors that did not reduce their year-on-year spend on direct mail in 2014 were the services sector, up 3.3% to £149m. and Government, which showed a slight increase to £262m.

With the exception of the increase in share for the retail sector, shares by sector have seen little movement over the past two years.

Figure 6.17 Share of direct mail expenditure, by sector: 2010-2014



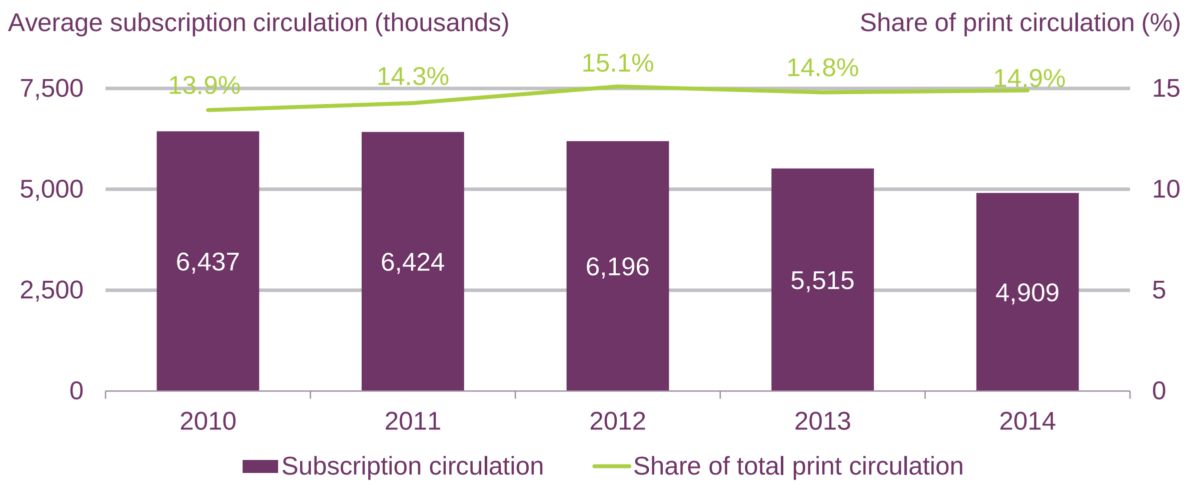
Source: AA/Warc Expenditure report / Nielsen

The volume of consumer magazine subscriptions, typically fulfilled by post, fell by 11% year on year

The net average circulation for consumer magazines fell from 5.5 million in 2013 to 4.9 million in 2014, a decline of 11%. Before 2013, circulation volumes appeared to be holding up, but 2014 is the second consecutive year in which subscription circulation has fallen by 11%.

The share of print circulation accounted for by subscriptions had increased between 2010 and 2012, but has stayed level for the past two years. This suggests that the decline in subscriptions was slower than overall print decline, but is now in line with the fall in overall circulation.

Figure 6.18 Magazine subscription circulation: 2010-2014



Source: Mediatel/ABC, 6-monthly net average circulation and subscription sales

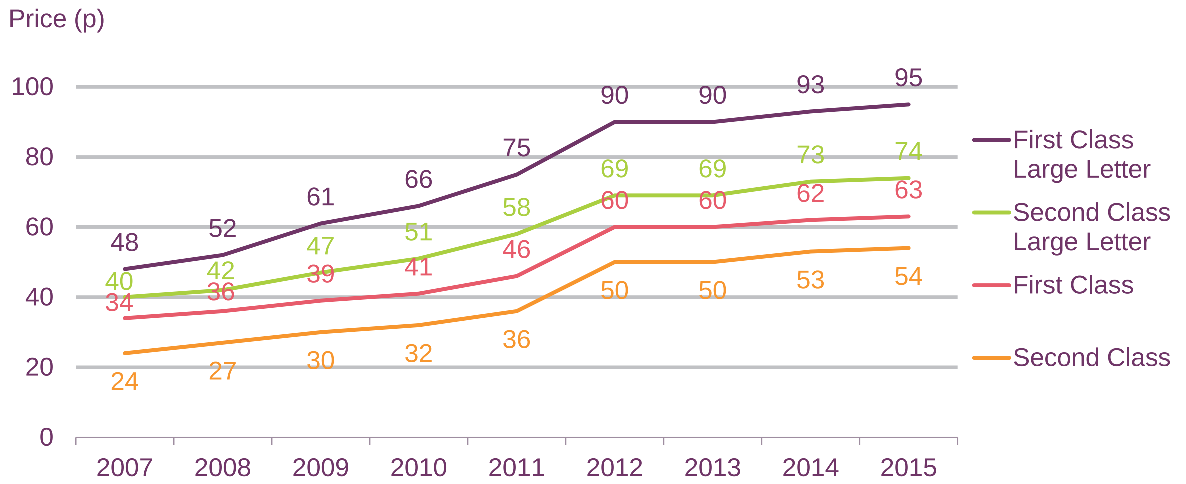
6.2.6 Stamp prices

Stamp prices increased for the second consecutive year

Stamp prices for letters all went up in April 2015. First Class standard, Second Class standard and Large Letter all went up by 1p. To send a First Class letter now costs 63p. The price for a First Class Large Letter went up by 2p to 95p.

Since the significant price increases in April 2012, and unadjusted for inflation, the price for a First Class stamp has risen by 5%, and sending a Second Class letter is 8% more expensive.

Figure 6.19 First and Second Class single-piece stamp prices



Source: Royal Mail. Figures are nominal. Prices refer to Royal Mail First and Second Class Standard and Large Letter list prices for letters up to 100g.

6.3 Post and the residential consumer

6.3.1 Introduction

This section presents some of the key highlights of our continuous research into consumers' use of, and attitudes towards, postal services in the UK. The data presented here are sourced primarily from Ofcom's Residential Postal Tracker, which has been running since July 2012.

The research included here covers the 12 months from April 2014 to March 2015

Key points in this section include:

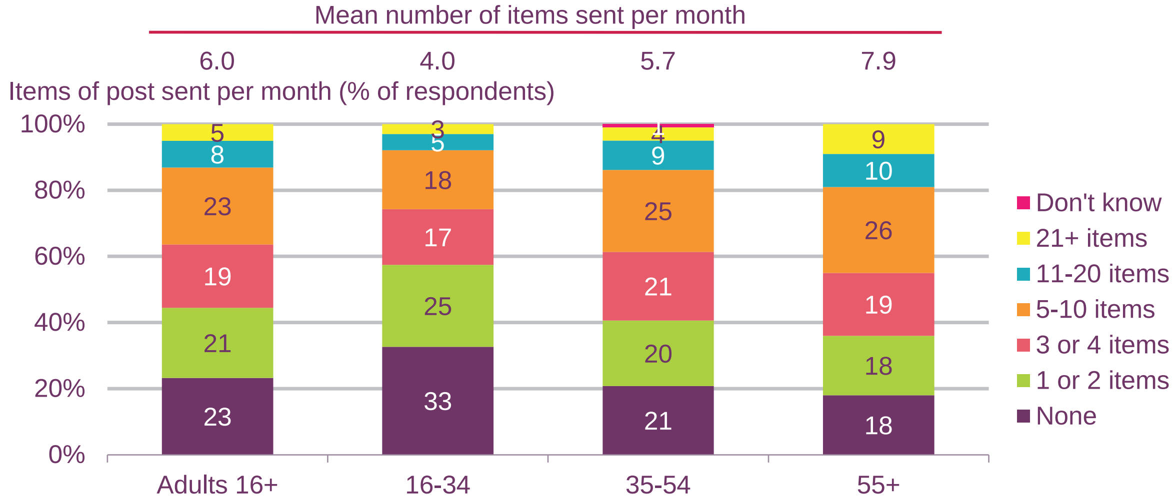
- **Older people send the most items of post per month.** The average number of items sent per month increases with age, with those aged 55+ sending an average of 7.9 items per month. This falls to 4.0 items each month among those aged 16-34.
- **The number of parcels sent per month is similar across all ages.** Adults of all ages had sent an average of one parcel in the past month, although adults aged 55+ sent fewer parcels, and they were also less likely than other age groups to have sent a parcel in the past month.
- **Consumers are more likely to send personal mail than any other category of post.** The incidence of sending personal mail increases by age, with 63% of 16-34s and 81% of those aged 55+ sending this type of post.
- **Email is the most common replacement for post across all age groups.** Almost eight in ten (77%) 16-34s who are sending less post than two years ago claim to have replaced post with email. This age group is also more likely to be using a range of alternative electronic communication methods as a replacement for post; almost half (47%) are using SMS and over a third are using voice calls on mobile phones (37%) or social networking (37%), with 16% using instant messaging.
- **More than nine in ten adults had received an item of post in the past week.** Those aged 16-34 were more likely to have received no post at all in the past week, with one in ten (11%) in this age group claiming this, compared to 6% overall. For the 12 months ending Q1 2015, the average number of items received in the past week was 8.5.
- **Almost half of all consumers who had received at least one parcel in the past week had received all of those parcels from Royal Mail.** Forty-eight per cent of all respondents who had received a parcel said their parcels had been delivered exclusively by Royal Mail; a further quarter had received parcels from Royal Mail and at least one other operator.
- **Awareness of the correct price of First and Second Class stamps is low but increases with age.** Overall, one in ten (11%) adults were able to state the price of a First Class stamp correctly when asked, rising to four in ten (13%) of those aged 55+. Only 4% overall were able to correctly state the price of a Second Class stamp, again rising to 7% among those aged 55+.
- **Younger adults consider themselves more reliant than older adults on post as a way of communicating.** Interestingly, more adults aged 16-34 (62%) and 35-54 (63%) claim to be reliant on post than those aged 55+ (49%). This is in direct contrast to findings in previous years, when older people had been found to be more reliant on post.

6.3.2 Sending post

Almost eight in ten adults claim to send post at least monthly

The majority of adults (77%) say that they have sent post in the past month, with just over a third (36%) sending five items or more. The average number of items sent each month is 6.0, but this falls to 4.0 items each month among those aged 16-34, as shown in Figure 6.20. The younger demographic is less likely to have sent post, with a third (33%) saying that they had not sent a single item in the past month. The average number of items sent per month increases with age, with those aged 55+ sending an average of 7.9 items. More than four in ten (45%) of this demographic had sent at least five items in the past month.

Figure 6.20 Number of items sent per month

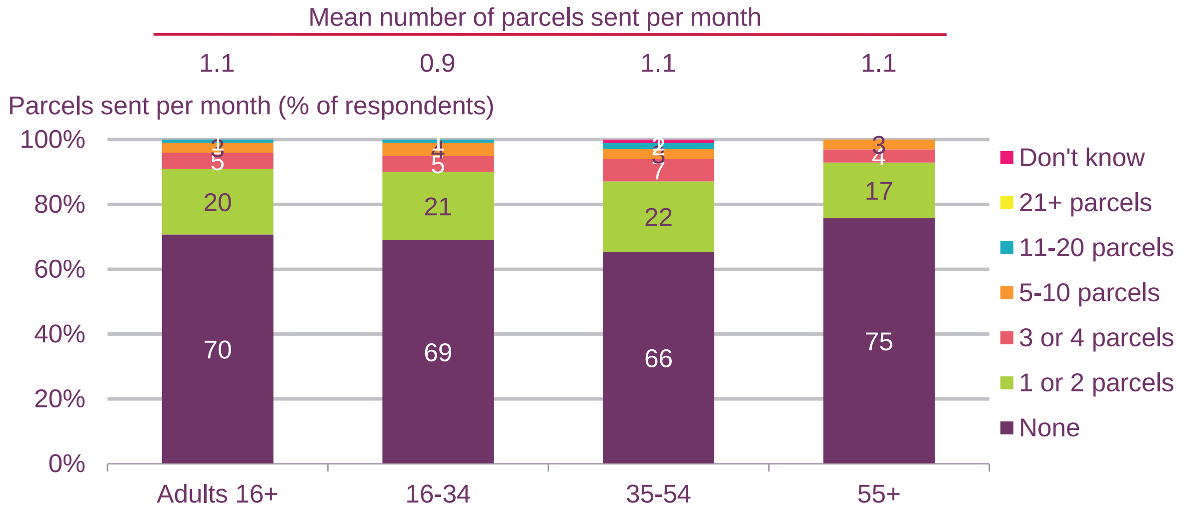


Source: Ofcom Residential Postal Tracker, Q2 2014-Q1 2015
Base: All respondents (n = 3557 adults 16+, 996 16-34, 1205 35-54, 1566 55+)
QC1. Approximately how many items of post – including letters, cards and parcels – have you personally sent in the last month?

The number of parcels sent per month is low

The majority (70%) of adults claimed not to have sent any parcels in the past month. There were no significant differences in the average number of parcels sent per month across the age groups.

Figure 6.21 Number of parcels sent per month



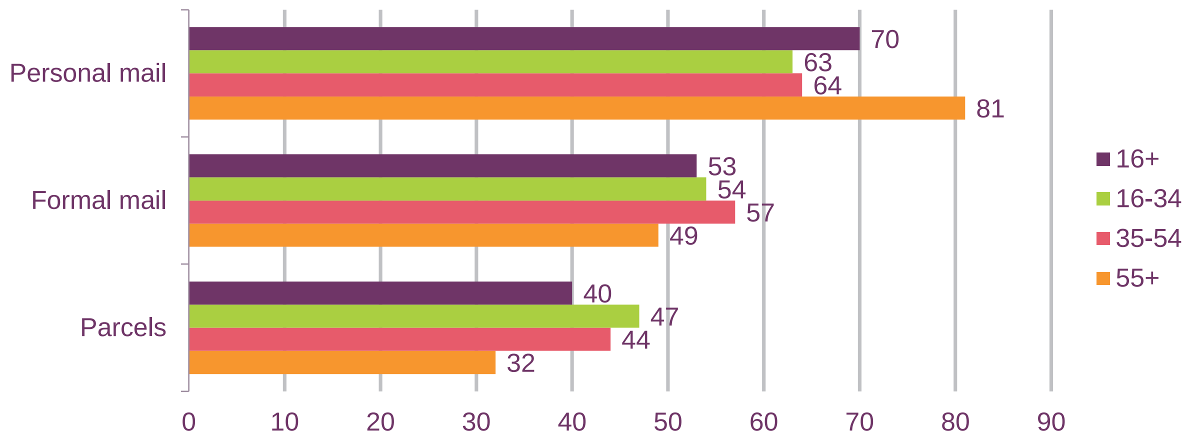
Source: Ofcom Residential Postal Tracker, Q2 2014-Q1 2015
Base: All respondents (n = 3557 adults 16+ 996, 16-34, 1205 35-54, 1356 55+)
QC2. And how many of these items sent in the last month were parcels rather than letters or cards?

Consumers are more likely to send personal mail than any other category of post

Among those adults who had sent an item of post in the past month, personal mail was the most likely category to have been sent. The incidence of sending personal mail increases by age, with 63% of 16-34s, and 81% of those aged 55+, having sent this type of post.

People aged 35-54 were the most likely to have sent formal mail, with 57% sending this category of mail in the past month. The proportion of 16-34 year olds sending formal mail, such as letters to businesses or organisations such as schools or councils, in the past month is in line with the overall adult average (54%), while just under half of those aged 55+ had sent this type of mail. As also shown in Figure 6.22, older consumers were much less likely than other age groups to have sent a parcel.

Figure 6.22 Categories of mail sent in the past month

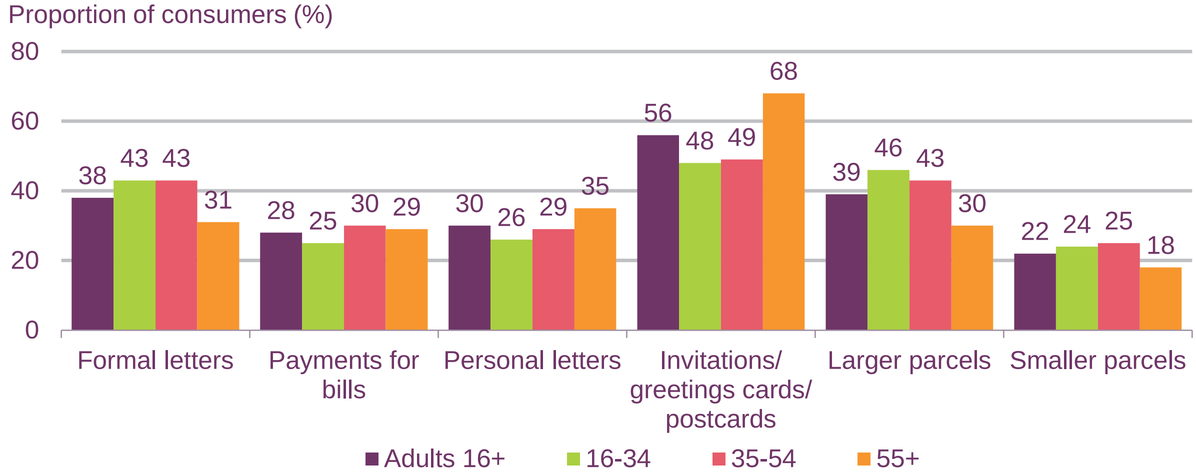


Source: Ofcom Residential Postal Tracker, Q2 2014-Q1 2015
Base: All who have personally sent any items of post in the last month (n = 2685 adults 16+, 652 16-34, 984 35-54, 1085 55+) QC5. Which of these types of mail would you say you have personally sent in the last month by post? (multicode)

Consumers across all age groups are more likely to send invitations, greetings cards or postcards than other types of mail

Looking more specifically at the types of mail that people send, Figure 6.23 below shows that invitations, greetings cards and postcards are the types of mail most commonly sent. More than half (56%) of all adults had sent these in the past month. This is particularly driven by the older age groups, with almost seven in ten (68%) of those aged 55+ having used the post for this purpose in the past month.

Figure 6.23 Types of mail sent in the past month



Source: Ofcom Residential Postal Tracker, Q2 2014-Q1 2015
Base: All who have personally sent any items of post in the last month (n = 2685 adults 16+, 652 16-34, 948 35-54, 1085 55+) QC5. Which of these types of mail would you say you have personally sent in the last month by post? (multicode)

More younger adults say they send more post now than they did two years ago – fewer say they are sending less

One-fifth (22%) of those aged 16-34 said that they were sending more post now than they did two years ago, with 17% saying that they were sending less. This is the only age group in which we see this result, and it is possibly due to factors connected to life stage. Conversely, 26% of those aged 55+ say that the mail they send has decreased, whereas 9% say that they have sent more post in the past two years.

A possible explanation for this might be that adults in the 16-34 age group are likely to have sent very little or no mail when they were younger, but as they start interacting with businesses and institutions for education, accommodation, employment and financial reasons, the amount of post that they send will increase. This is also a broad cohort, capturing a range of life stages, including mandatory school attendance and, potentially, becoming a parent and/or purchasing a property, and these types of activities tend to stabilise or tail off with age, thereby explaining the decrease. As a result, the drivers for increased mail use are difficult to determine. Our research also shows that younger people who are sending more mail now than two years ago are likely to be sending formal letters to businesses and individuals, rather than any other type of mail.

Figure 6.24 Percentage of respondents reporting an increasing or decreasing amount of post sent in the past two years

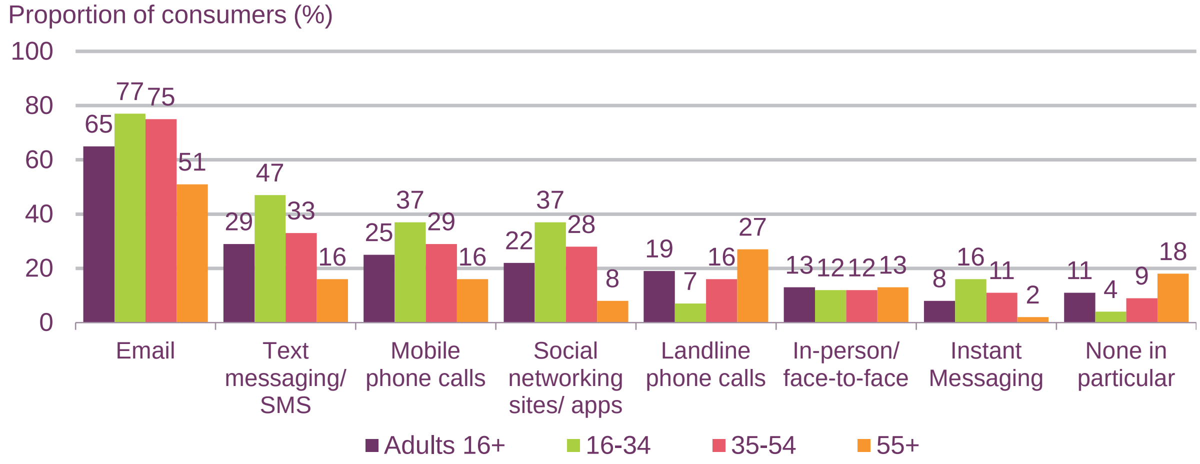
Source: Ofcom Residential Postal Tracker, Q2 2014-Q1 2015
Base: All respondents (n = 3557 adults 16+, 996 16-34, 1205 35-54, 1356 55+)
QC10. Compared with two years ago, would you say that the number of items you send through the post has increased greatly, increased slightly, stayed the same, decreased slightly, decreased greatly?

Email is the most common replacement for post

Three-quarters (77%) of those aged 16-34 who are sending less post than two years ago claim to have replaced post with email. This age group are also more likely to be using a range of alternative electronic communication methods as a replacement for post, with almost half (47%) using SMS and more than a third using voice calls on mobile phones (37%) or social networking (37%), and 16% using instant messaging.

Those aged 35-54 are as likely to have replaced post with email as the 16-34s, but their use of multiple electronic substitutes is lower, and they tend to use landline telephone calls more than those in the younger age group. Among those aged 55+ who are sending less post than two years ago, the use of email is significantly lower than for all adults, although it still accounts for half of substitution (51%) and their use of landline telephones is the highest across all the age groups.

Figure 6.25 Methods of communication used instead of post



Source: Ofcom Residential Postal Tracker, Q2 2014-Q1 2015
Base: All who say that the number of items sent by post has decreased, compared to two years ago (n = 812 adults 16+, 164 16-34, 311 35-54, 337 55+) QC13. As your use of post has decreased compared with two years ago, which, if any, of these other forms of communication are you using more instead of post? (multicode)

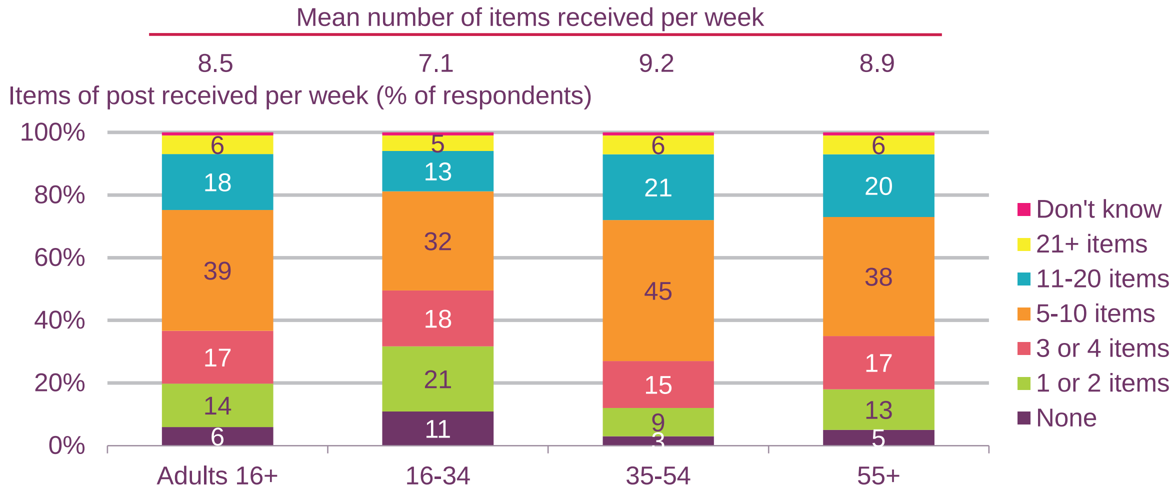
6.3.3 Receiving post

More than nine in ten adults claimed to have received an item of post in the past week

People in the UK receive more post than they send, as the vast majority of mail in the UK is sent by businesses. For the 12 months ending Q1 2015, the average number of items received in the past week was 8.5 (approx. 36.7 per month), while the average number of items sent per week was 1.4 (6.0 per month) (Figure 6.26).

Older age groups receive more post. Those aged 16-34 were more likely to have received no post at all in the past week, with one in ten (11%) in this age group claiming this. Almost three-quarters of those aged 34-54 (72%) and two-thirds (64%) of those aged 55+ had received at least five items, compared to just half of those aged 16-34.

Figure 6.26 Number of items received per week



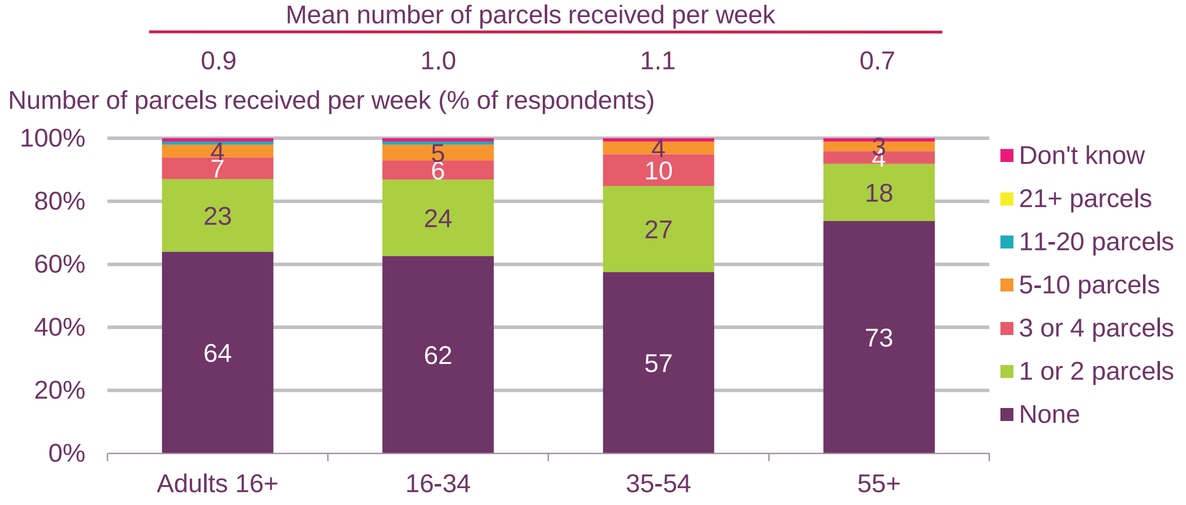
Source: Ofcom Residential Postal Tracker, Q2 2014-Q1 2015
Base: All respondents (n = 3557 adults 16+, 996 16-34, 1205 35-54, 1356 55+)
QD1. Approximately how many items of post – including letters, cards and parcels – have you personally received in the last week?

Those aged 55+ are less likely to have received a parcel in the past week

Overall, two-thirds of adults claimed not to have received a parcel in the past week. This rises to three-quarters (73%) of those aged 55+. Those aged 35-54 were the most likely to have received one or two parcels in the past week (27%). In Q1 2015, Ofcom's Technology Tracker survey indicated that those aged 55+ are much less likely than all adults to shop online.[137]

[137] 30% of those aged 16-34 and 34% of those aged 35-54 had used their internet connection to buy goods or services in the past week, compared to 20% of those aged 55+.

Figure 6.27 Number of parcels received per week



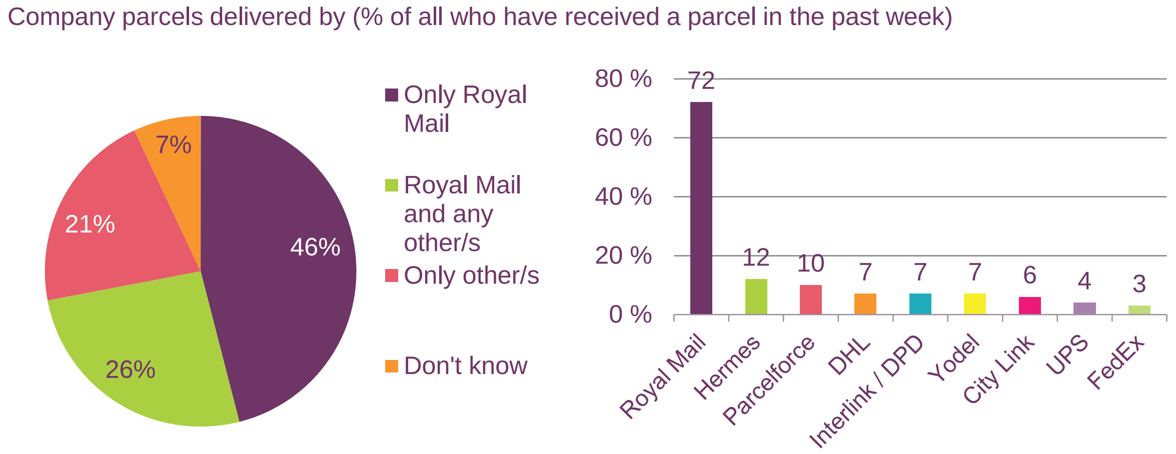
Source: Ofcom Residential Postal Tracker, Q2 2014-Q1 2015
Base: All respondents (n = 3557 adults 16+, 996 16-34, 1205 35-54, 1356 55+)
QD2. And how many of these items received in the last week were parcels rather than letters or cards?

Almost half of those who had received a parcel in the past week claimed to have received those parcels exclusively from Royal Mail

Of those who had received a parcel in the past week, the most likely company to have delivered their parcel was Royal Mail; almost half of all respondents received parcels delivered exclusively by Royal Mail. A further quarter (26%) had received parcels delivered by Royal Mail and at least one other operator.

Of those who had received parcels from other operators, 12% of consumers reported taking a delivery from Hermes, 10% from Parcelforce and 7% each from DHL, Interlink/DPD and Yodel. (Figure 6.28)

Figure 6.28 Proportion of consumers reporting delivery of parcels, by company



Source: Ofcom Residential Postal Tracker, Q4 2014-Q1 2015
Base: All who have received a parcel in the last week (n = 796 adults 16+)
QD17. Thinking of the parcels that you have received in the last week, which of these companies delivered the parcels? (multicode)
Chart shows companies mentioned by more than 1% of those receiving any parcels in the past week

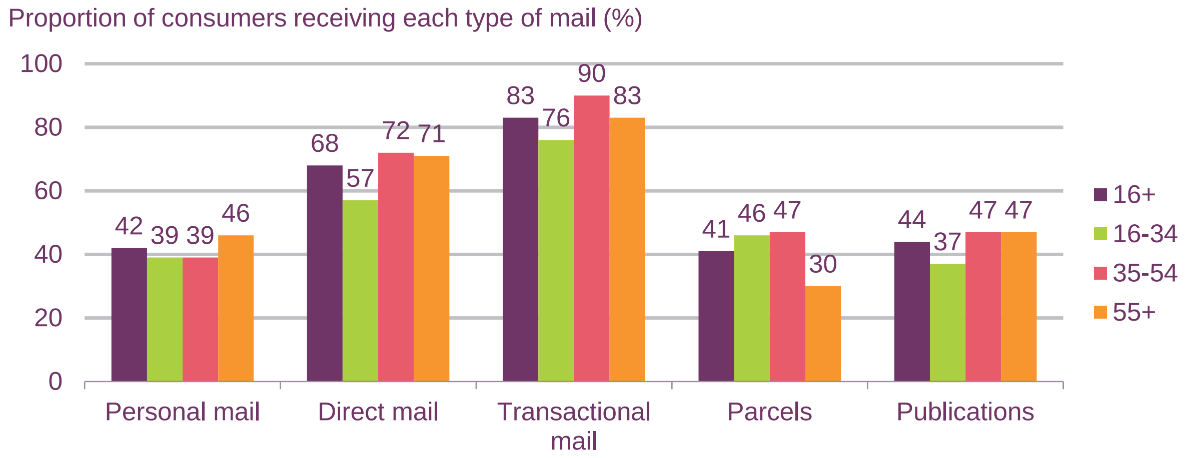
Younger adults were less likely to have received direct mail

Respondents were asked to specify the types of postal items they had received through the letter box in the past month (rather than the last week, as they had been asked in previous questions). Transactional mail (including bank statements, credit card bills, invoices etc.) was the type of mail received most frequently by consumers, across all ages, with more than eight in ten (83%) claiming to have received it in the past week. This rises to 90% among those aged 35-54.

More than two-thirds overall also claimed to have received direct mail in the past month. The age group least likely to have received direct mail in the past month were 16-34s, although more than half of this group said they had received some.

Overall, four in ten adults had received a parcel in the past month. Those aged 55+ were the least likely to have received a parcel, with only 30% claiming to have done so, compared to almost half of those aged 16-34 and 34-54 (46% and 47% respectively).

Figure 6.29 Categories of mail received in the past week



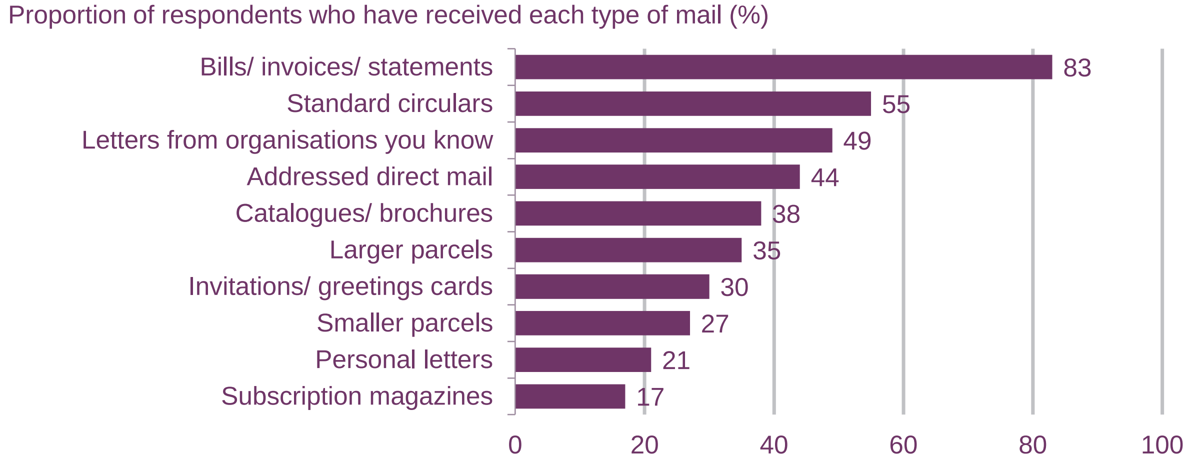
Source: Ofcom Residential Postal Tracker, Q2 2014-Q1 2015
Base: All respondents (n = 3557 adults 16+, 996 16-34, 1205 35-54, 1356 55+)
QD4. Please think about items that are addressed to you personally rather than leaflets or charity collection envelopes or bags that may come through your letterbox. Which of these types of items would you say you have personally received through the post in the last month? (multicode)

Most adults had received a bill or statement through the post in the past month

The majority of adults (83%) had received at least one bill, statement or invoice through the post in the past month – more than any other type of mail. Over half (55%) of adults had received a standard circular.

People were more likely to have received larger parcels (35%) than smaller parcels (27%), with subscription magazines the least likely type of mail to have been received by all adults (17%).

Figure 6.30 Types of mail received in the past week



Source: Ofcom Residential Postal Tracker, Q2 2014-Q1 2015
Base: All respondents (n = 3557 adults 16+, 996 16-34, 1205 35-54, 1356 55+)
QD4. Please think about items that are addressed to you personally rather than leaflets or charity collection envelopes or bags that may come through your letterbox. Which of these types of items would you say you have personally received through the post in the last month? (multicode)

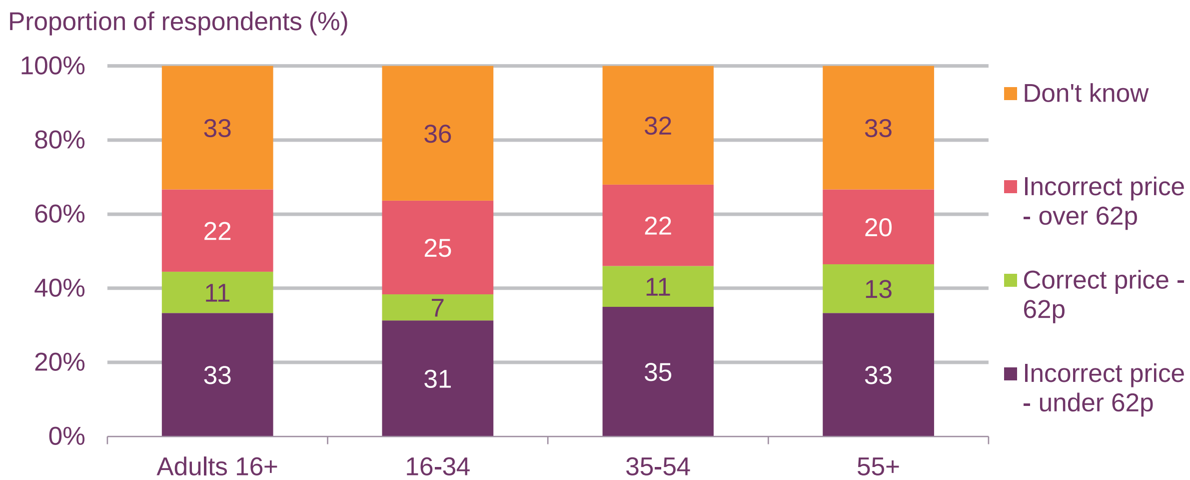
6.3.4 Awareness and perception of the cost of posting letters

Awareness of the correct price of a First Class stamp is low, but increases with age

Much lower than in previous years, just over one in ten (11%) adults were able to correctly state the price of a First Class stamp, rising to 13% of those aged 55+. Those aged 16-34 were the least likely to know the correct price of a First Class stamp (7%), with about a third in all age groups saying they didn't know. The low awareness of the price of stamps may have to do with the recent annual increase in prices.

Across all the age groups, people were more likely to estimate a price lower than the actual price than to estimate an incorrect higher price.

Figure 6.31 Awareness of the price of a First Class stamp



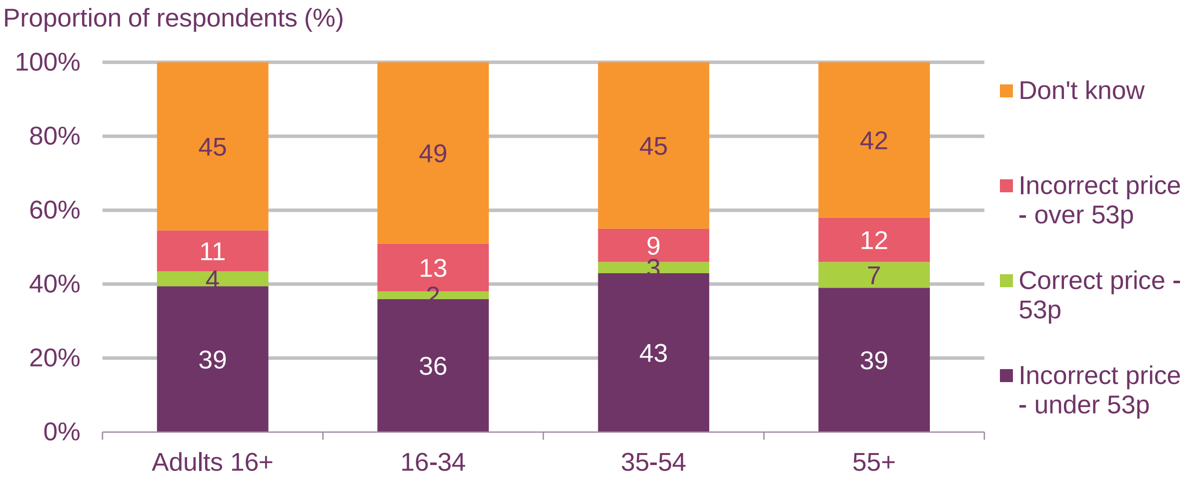
Source: Ofcom Residential Postal Tracker, Q2 2013-Q1 2014
Base: All respondents (n = 3557 adults 16+, 996 16-34, 1205 35-54, 1356 55+)
QF1. As far as you know, how much does it currently cost to send a standard letter by First Class using a stamp? (single code) Note: Our research was conducted before April 2015, when the price of a First Class stamp increased from 62p to 63p.

Few adults are aware of the price of a Second Class stamp

Awareness of the price of a Second Class stamp was also low overall (4%) although the likelihood of knowing the correct price increased with age; from 2% among 16-34s to 7% among over-55s.

More than four in ten (45%) adults overall claimed that they didn't know the price. Of those who guessed an incorrect price, people were more likely to understate the price than overstate it.

Figure 6.32 Awareness of the price of a Second Class stamp



Source: Ofcom Residential Postal Tracker, Q2 2014-Q1 2015
Base: All respondents (n = 3557 adults 16+, 996 16-34, 1205 35-54, 1356 55+) QF1. As far as you know, how much does it currently cost to send a standard letter by second class using a stamp? (single code) Note: Our research was conducted before April 2015, when the price of a Second Class stamp increased from 53p to 54p.

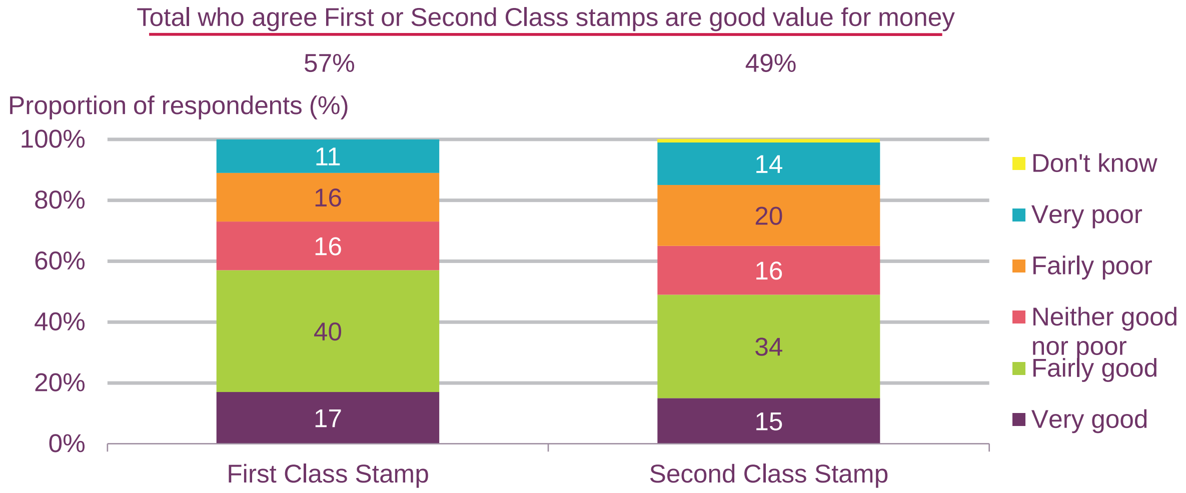
Over half of consumers consider a First Class stamp to be good value for money

More consumers consider First Class stamps than Second Class stamps to be good value for money (57% vs. 49%). The faster delivery time and small price differential between the two products is likely to be the reason for this difference.

The proportion of consumers who consider First and Second Class stamps to be good value for money is broadly unchanged year on year. In 2014, 54% agreed that First Class stamps were good value for money, and 46% agreed that Second Class stamps were good value for money.

Almost three in ten (27%) consumers said that they thought First Class stamps were poor value for money, while a higher proportion perceived Second Class stamps to be poor value for money (34%).

Figure 6.33 Perception of value for money of First and Second Class stamps



Source: Ofcom Residential Postal Tracker, Q2 2014-Q1 2015
Base: All respondents (n = 3557 adults 16+)
QF3/4. It currently costs 60p/50p to send a standard letter First/ Second Class within the UK. How would you rate the Royal Mail's First/ Second Class service in terms of value for money? (single code)

6.3.5 Attitudes to post

As with their use of post, consumers' attitudes to post differ by age

The differences in attitude are particularly notable when electronic methods of communication are considered alongside post; while 73% of 16-34s agreed that "I prefer to send emails rather than letters whenever possible", just a third (35%) of those aged 55+ agreed with this statement. Over half (52%) of 16-34s said that they "only use post if there is no alternative", and agreement with this statement falls to just over a third (37%) among over-55s.

Older adults are more likely to agree that they would 'feel cut off from society' without being able to send and receive post (64% for those aged 55+) than those aged 16-34 (38%).

Figure 6.34 Attitudes to post: proportion of consumers agreeing with each statement

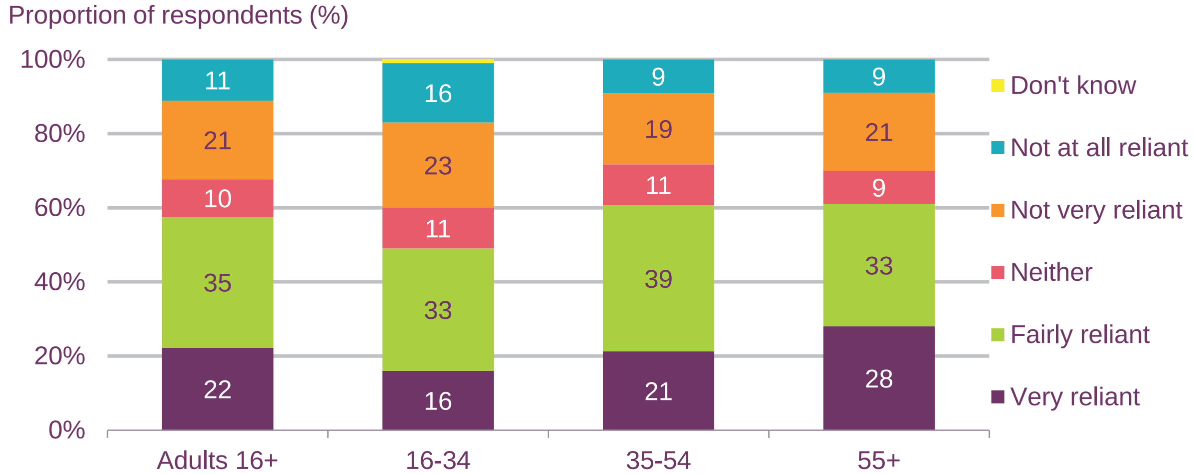
	Adults 16+	16-34	35-54	55+
I prefer to send letters or emails to companies rather than make a phone call, so that I have a written record	60	65	64	53
I prefer to send emails rather than letters whenever possible	54	73	59	35
I only use post if there is no alternative	44	52	46	37
I send fewer letters by post now due to the cost	29	26	26	35
I would feel cut off from society if I can't send or don't receive post	51	38	47	64
I only send my mail First Class if it needs to get there the next day	53	53	50	56
I trust Second Class post to get there in a reasonable timeframe	61	59	60	65

Source: Ofcom Residential Postal Tracker, Q2 2014-Q1 2015
Base: All respondents (n = 3557 adults 16+, 996 16-34, 1205 35-54, 1356 55+)
QH2A-H. Agreement with statements about sending/ receiving post

Over half of adults consider themselves reliant on letters and cards as a way of communicating

Post is still viewed as a key form of communication, with 57% of adults claiming to be reliant on it. At least half, across all age groups, said that they were either ‘very reliant’ or ‘fairly reliant’, when asked specifically about letters and cards as a way of communicating, with the exception of the 16-34s, of whom 49% considered themselves either ‘very reliant’ or ‘fairly reliant’.

Figure 6.35 Reliance on letters and cards as a way of communicating



Source: Ofcom Residential Postal Tracker, Q3 2014-Q1 2015
Base: All respondents (n = 2354 adults 16+, 675 16-34, 802 35-54, 877 55+)
QE6. How reliant would you say you are on post in terms of letters and cards as a way of communicating?