

Sent via email: futurepostaluso@ofcom.org.uk

10 April 2025

Dear Sir/Madam,

RE: Review of the universal postal service and other postal regulation

FSB welcomes the opportunity to provide a response to the above consultation.

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 5.5 million small businesses, micro businesses and the self-employed.

We welcome the acknowledgement of the importance of postal services for small businesses within the consultation, including as a vital part of their business models and a key channel of communication with consumers. We also recognise that the current status quo on letter delivery is not working for many small businesses, and that change is needed. With that said, we believe that while the proposals within the consultation do not require legislative change, they are significant for small businesses, particularly those in the retail sector who use letters the most to communicate and send small products to consumers. 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. Therefore, we welcome that at the very least as part of this review First Class letters will remain unchanged with six-day service including Saturday delivery remaining in place and protected.

However, with that said, the proposals contained within the consultation about the reduction of service for Second Class letters and reliability targets are substantial for small businesses and are likely to affect them disproportionately, including on their ability to compete in the market. A drastic reduction in frequency of Second Class letters service to 50% means that some small businesses may need to adjust their business models to send letters earlier. Some small firms will be effectively forced to shift to First Class to ensure their products arrive with customers in a reasonable time - and this could be must more pronounced if Royal Mail's current performance against the targets is replicated against new, lower delivery aims. FSB is highly concerned that this deterioration of service level in Second Class at the same time as increasing prices is a prelude to the end of Second Class altogether. This has the potential for 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. These changes do not show Royal Mail rising up to the meet the challenge; Ofcom should appropriately balance the commercial interests of Royal Mail with the needs of the customers that Ofcom must stand up for - including small businesses. The drive for growth on regulators should mean a real focus on improving the postal service, rather than downgrading it so that Royal Mail can use resources on other parts of its cost base pressure where it feels it must bend to political pressure. As these unwelcome changes land, Ofcom should monitor impact and see how small businesses adapt to the changes and continue to participate in the market.

This is why we make the following points throughout the consultation:

- Small businesses tell us that the amount of time and resources that they spend on resolving customer queries in relation to letters that arrive late or do not arrive at all is on the increase. Change is needed to make letters more reliable. This is also supported by our research which 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 services, with 35 per cent of small businesses ranking reliability as the most important aspect.¹
- We oppose the reduction in frequency of the Second Class letters service. However, if Ofcom proceeds with the changes, they must make sure that they will make the letters service more reliable, and they cannot lead to any further watering down of the USO.
- We welcome the new 'tail of mail' targets in holding Royal Mail accountable for certainty of arrival if the primary target is missed. In particular, we believe that setting the First and Second Class targets at the same level means that it will be easier for consumers and small businesses to understand, and given that tail of mail targets will be more flexible than the primary targets, we would expect Royal Mail to be held to account more in cases where they do not meet these targets particularly given that the main aim of the new targets is to incentivise service reliability.
- While we welcome that First Class letter services remain unchanged, we oppose the watering down of the national delivery target provided that the consultation highlights the importance of a competitive six day a week next day service for First Class letters, and the significant changes proposed to Second Class letters service.
- We also oppose the proposal to reduce Second Class performance target by 3.5% as it also seems counterintuitive given the substantial changes proposed for Second Class letters. While we understand that difficult decisions needed to be made to reduce the letters service, we do not think it proportionate for the performance targets to be watered down too as this would mean that there is more scope to permit an unreliable service for letters with no repercussions.

Finally, we would also like to highlight that 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. Our Small Business Index from the fourth quarter of 2024 shows that small firms' confidence levels are at -64.5 points, which is a significant deterioration from -24.4 points in the previous quarter.² Similarly, while the confidence reduction was recorded across all major sectors, for retail specifically, the confidence is second lowest out of all the sectors at -94.2 points. In addition to this, 79 per cent of small businesses in our research reported an increase in operating costs, highlighting the pressures that they are under, meaning that any additional changes that could impact on small businesses ability to compete should not be taken lightly. While the changes proposed for Second Class letters are difficult but not necessarily unexpected in terms of improving reliability, we believe

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

² Small Business Index, Quarter 4, 2024 <https://www.fsb.org.uk/resources/policy-reports/MCTRCGWM37J5HBNA2ZCTS3TJUPNM>

that some service reliability targets have been set too low, particularly as they are new targets and their purpose is to incentivise better performance.

We have not commented on every question within the consultation, only those where we can add most value.

Question 3.1: Do you agree that we have identified the reasonable needs of post users? Please provide reasons and evidence for your views.

Question 3.2: Do you agree that the market is meeting the reasonable needs of post users? Please provide reasons and evidence for your views.

While the volume of letters has reduced but the volume of parcels has increased, this masks the fact that small businesses are sending small packages through the post designed to fit as letters. This is many small business owners showing their own spirit of entrepreneurialism, and Royal Mail/Ofcom should support these - including many side-hustles starting to modernise their hobbies, solo entrepreneurs, crafts and other micro-businesses; while these are not Amazon-sized businesses, they deserve a postal service that enables them to operate. These are not currently assessed by Royal Mail/Ofcom within the published stats/evidence, and so are not catered for in the upcoming changes and could be sacrificed later altogether if this continues.

Our research shows that small businesses in the wholesale and retail sector are far more likely (80%) to send letters than those in other sectors such as professional, scientific and technical activities (60%).³ One FSB member told us that they send small pieces of jewellery using the letters service mainly because it is around three to four times cheaper than by other means such as using the small parcel service. This is particularly important to the small business owner given the price of the products that they sell, they said that if the delivery were any more expensive than many potential customers would not be willing to pay more for delivery than the product itself and therefore this would make their business model unviable. Subsequently, while we agree that it may seem that many businesses are moving their operations online, small businesses that use letters to post smaller products at a more competitive price use them to be able to compete with their larger counterparts, and thus any reduction in service can lead to them not being able to compete effectively in the market.

Small businesses are also more likely to see a disproportionate impact from letters not arriving on time, as the customer will hold the small business vendor to account for late delivery, rather than assuming that Royal Mail have let them down. The impact becomes amplified if the customer then leaves a bad review of the small business vendor, all as a result of delivery problems outside the small business's control.

One of our members highlighted that, in cases when there are issues with letters containing their products not arriving to customers by the date promised by Royal Mail, much of their staff's time is diverted to following up with Royal Mail rather than focusing on their normal businesses activities and

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

incoming orders. This is particularly important, as given the recent increase in National Insurance Contributions (NICs) and increases to the minimum wage, many small businesses will be paying their staff more to chase up any issues with orders. Our research shows that 51 per cent of small employers already say that labour costs are one of the main barriers to growing their business, and with many bracing for the changes in the Employment Rights Bill it is not surprising that 33 per cent of small employers say that they expect to reduce staff.⁴ This highlights that any unreliability in post also affects how small businesses, with only a few employees, can be further stretched beyond their means.

We agree with the premise in the consultation that despite reduced reliance by some, postal services remain important to the majority of users. In fact, our own research shows that almost two thirds (65 per cent) of small businesses have sent letters at least once a month or more in the last 12 months, and this increases to 80 per cent for those in the wholesale and retail sector.⁵ 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 again highlights that, for many small businesses, letters are a vital product and a significant part of their business models.

Our research shows that around a quarter (26%) of small businesses regard the delivery of letters six days a week as one of the most important aspects of Royal Mail letters services for their business needs in the future, with 9 per cent ranking it as the most important aspect for them in the future. Further, 25 per cent of small businesses say that the most important aspect for the future of their business with the letters service is that second class letters arrive within three days. We disagree that the majority of concerns are around bulk mail and therefore larger organisations, rather than single piece USO mail. It is also worth noting that mass bulk mail from large operators tends to be low-quality marketing, where the timing of arrival is not normally as significant.

We agree that speed of delivery is not as important as reliability, and that reliability is the most important factor in future for businesses. However, it is still worth noting that it is a trade-off and not an improvement on the services provided. Our research shows that out of small businesses that use Royal Mail's letters services, 62 per cent say that reliability (for both First and Second Class letters) is one of the most important aspects of the service, with 35 per cent ranking reliability as the single most important factor. If a delivery service is not reliable this can have a significant impact on a smaller business compared to a larger one, as they will simply not be able to look at alternatives due to restrictions in availability of resources.

In terms of other issues outlined within the assessment, we recognise that in many cases businesses have started to move their communications online, however we would still like to highlight that not all small businesses, and certainly not all customers, have access to reliable broadband which enables this. Our research shows that a third (33%) of small businesses consider their broadband

⁴ Employment Bill will wreak havoc on our already fragile economy, say small firms, 2025

<https://www.fsb.org.uk/media-centre/press-release/employment-bill-will-wreak-havoc-on-our-already-fragile-economy-say-small-firms-MCPC3QTBZ3NF55GDIT373VN2XVI>

⁵ Data collected as part of Small Business Index Q1 2024 (unpublished)

speeds to be insufficient for their current needs, rising to 40% when considering their future needs.⁶ In addition to that, almost half (47%) of small businesses experience unreliable data connectivity, which rises to 59% of SMEs in rural areas. This means that, despite growth in access to broadband overall, it is worth considering that some areas could be disproportionately impacted by connectivity issues, causing delays in some businesses and individual consumers moving online.

Finally, we support Ofcom's view that small businesses will always need to use a postal service that is reliable, affordable and frequent. However, while we note that the consultation says that most users are willing to accept a reduction in frequency of delivery of non-priority letters, we are aware that this is based on the premise that they will nonetheless arrive on time, rather than not arriving on time or at all, which would be far more detrimental. Therefore, we do not think that the current market over-caters to the needs of small businesses, as for that to be the case it would need to be working effectively, particularly if they use the service to send products that they sell.

Question 5.1: Do you agree with our proposals and impact assessment on changes to the delivery frequency of Second Class letters so that those items would be delivered every other day from Monday to Friday, and would not have to be collected, processed or delivered on Saturdays? Please provide reasons and evidence in support of your views.

We recognise the challenges around the financial sustainability of the current universal service, and the need to cater for users as their needs change. We also agree that the core principles of the USO must be preserved, such as universality, affordability and uniform pricing, and this is something that small businesses would also expect. We do not welcome the proposals to reduce the frequency of delivery of Second Class letters, especially if performance continues to deteriorate to the end of a review period, which should take place no longer than 12 months following any changes, and especially if this spells the end of Second Class letters as a viable product for small businesses.

While we recognise that in most cases it will in reality mean only a day's delay for non-priority mail, these changes may have a disproportionate impact on SMEs which may mean that they will need to send items earlier or switch to sending items via a faster service to ensure that they arrive on time and are able to fulfil business needs. This highlights the importance of ensuring that any changes that are taken forward work for small businesses and deliver on their aims to improve the letters services, so that small businesses do not spend their valuable time and resources adjusting their operations needlessly. This is particularly important as small businesses are under increasing cost pressures in terms of both employment and the wider economic environment. Similarly, as we have mentioned above, many of those relying on letters are in the retail sector, and we would not like to see any decision taken lightly with regard to this, given their already stretched resources.

Finally, we would like to highlight that we do not think that a reduction in service should be used as a method to buy time for further legislative changes to the USO down the line, and this is why we would like to see assurances that there will not be further watering down of the USO in the future.

Question 6.1: Do you agree with our proposal to set the First Class national D+1 performance target to 90%? Please provide reasons and evidence for your view.

⁶ <https://www.fsb.org.uk/resources/policy-reports/lost-connection-MCOAISK53GFFHZPZIUYAK4SR3JU>

We do not agree with this change.

It is surprising to see a reduction to the quality targets, given the efficiencies that will be delivered by the proposals to change the frequency of Second Class letter delivery. Reliability – knowing that a letter will arrive at the time it is meant to arrive – is of utmost importance to small businesses, as we have outlined above with reference to FSB's survey data. Our view is that if the frequency of deliveries is being reduced, then the quality targets must not be watered down at the same time.

Question 6.2: Do you agree with our proposal to set the First Class PCA D+1 performance target to be 3% lower than the national target (i.e. for the PCA target to be 87% to align with our proposed 90% national target)? Please provide reasons and evidence for your view.

We are not comfortable with the national target being relaxed, and have made that point above. Also, we do not necessarily agree that the difference between the national and PCA level target should be doubled from the previous one of 1.5% to 3%, as there is a risk that there would be a bigger difference in the service in some local areas. There is also a risk that they may not be sufficiently incentivised if the gap is too large.

We agree with the decision not to add additional dispensation for failure of six PCAs in any given year.

Question 6.3: Do you agree with our proposal to introduce a new First Class 'tail of mail' target of 99.5% at D+3? Please provide reasons and evidence for your view.

We agree that it would be suitable to provide certainty of arrival for those that miss the target and for Royal Mail to ensure that mail does get delivered. However, it may have been reasonable to have the 99.5% target at D+2 instead, as that would still be an increase of 100% in terms allowing additional delivery time for First Class, and also would highlight the importance and availability of next day delivery for First Class letters. The consultation itself states that setting the window to be as narrow and as predictable as possible are important factors in ensuring a reliable service, and given that the tail of mail target is new, if it is too generous it would risk disincentivising next day letter delivery.

Question 6.4: Do you agree with our proposal to set the Second Class D+3 performance target to 95%? Please provide reasons and evidence for your view.

We oppose this, as we believe that reducing the level by 3.5% seems counterintuitive given the substantial changes proposed for Second Class letters. As we have mentioned above, our research shows that more than 6 in 10 (62%) small businesses say that reliability is one of the most important aspects of Royal Mail letters services, with 35 per cent of small businesses ranking reliability as the most important aspect. Therefore, while we understand that difficult decisions need to be made to reduce the letters service and ensure the sustainability of the USO, we do not think it proportionate for the performance targets to be watered down at the same time, as this would mean that there is more scope to permit an unreliable service for letters with no repercussions for Royal Mail.

Question 6.5: Do you agree with our proposal to introduce a new Second Class 'tail of mail' target of 99.5% at D+5? Please provide reasons and evidence for your view.

We recognise that one benefit of this is that the target is similar to First Class tail of mail, which means that it would be easier for consumers and small businesses to understand. Also, given that the tail of mail targets are more flexible than the primary targets, we would expect Royal Mail to be held to account more in cases where they do not meet these targets particularly given that the main aim of the new targets is to incentivise service reliability.

We recognise that maintaining higher standards of service is costly. However, given that the proposals seek to reduce services in order to increase efficiencies, we would like to see these targets met without any additional cost to businesses. This is particularly important as many of them are likely to need to adjust their business models in order to reflect the proposed changes.

Question 7.1: Do you agree with our proposal to regulate D+3 access services, subject to a margin squeeze control and the other protections outlined above? Please provide reasons and evidence for your views.

Question 7.2: Do you agree with our proposal to change the specification of D+5 access services to remove Saturday as a delivery day? Please provide reasons and evidence for your views.

Yes, we think that it would make sense to align this with Second Class letters to help ensure reliability and deliver greater efficiencies. We also believe that it would help to support better reporting and appropriate action from Royal Mail on reliability.

Yours sincerely,

Paul Wilson
Policy Director
Federation of Small Businesses

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