



Future Development of the Postal USO Team
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MAIL USERS' ASSOCIATION RESPONSE TO OFCOM'S CONSULTATION: REVIEW OF THE UNIVERSAL POSTAL SERVICE AND OTHER POSTAL REGULATION.

Mail Users' Association (MUA) provides this response to Ofcom's consultation. It is not confidential and may be published in full and attributed to Mail Users' Association.

However, please note that the comments below represent the general views of MUA, rather than the opinion of each and every MUA member; some MUA members may make their own, specific responses.

As well as reviewing the consultation document, we are grateful to [x] and [x] of Ofcom for engaging with MUA and presenting on the Consultation to our meeting on 13th March 2025.

BACKGROUND

MUA is the UK's only independent association of business users concerned wholly with commercially related postal matters. Its members are drawn from a wide range of business interests including direct mail, banking and finance, communications, publishing and postal related industries. Collectively, it is estimated MUA members generate more than 10% of annual postal traffic in the UK, and represent a category of large volume mailers otherwise referred to as *Super Users*.

MUA's primary objective is to secure a healthy and cost effective set of postal services for all business users and their customers. Members believe this will be achieved in a competitive market, where service providers are:

- customer focused in their approach to the products and services they offer.
- able to offer cost-effective services at realistic prices the market can bear.
- flexible in their approach to customers whose needs are continually changing;
and,
- able to provide reliable, high quality services on a continual basis.



1. INTRODUCTION

- 1.1 MUA members recognise the need for USO reform, given that it has largely remained unchanged since 2011. During this time Ofcom estimates in its consultation that letter volumes have decreased from 14.3 billion in 2011-12, to anywhere between 9 billion to 6.6 billion letters in 2023-24 (members would note this figure is not clear from the consultation document¹).
- 1.2 Members also agree Royal Mail's present situation on the face of it appears to be financially tenuous given these declining letter volumes, and that maintenance of the present regime will only serve to drive up the average cost of sending a letter to levels even higher than are being experienced at the present time.
- 1.3 However, MUA does not believe the circumstances in which Royal Mail now finds itself are solely down to the decline in letter volumes (which has been reasonably predictable over the past 15 years at between 6-8% year-on-year), but rather that the financial and operational problems being encountered are equally down to Royal Mail's network and operations being both inefficient and inflexible. A series of poor decisions taken at senior management level concerning the challenges the business faces with its industrial relations, a failure to address inefficiencies in the business, and a reliance instead on well above inflation prices increases (which have only served to perpetuate further letter volume decline), have also been contributory factors.
- 1.4 MUA members would also note, Royal Mail's half-year revenue figures for 2024-25 (up by 12.7%), would appear to offer an alternative narrative on the national carrier's financial argument for change. Whilst it is difficult to assess the levels of cross subsidies between letters and parcels (given they largely share the same pipeline/network), the figures are otherwise at odds with Royal Mail's continuing failure to provide an acceptable level of quality of service to mail users, over the latter period of the existing regulatory regime.
- 1.5 MUA members were therefore encouraged by the announcement of Ofcom's review of the USO. However, since the publication of the Regulator's Summary of Responses to its 'Call for Inputs' document (CFI), it has become apparent that rather than a full review of the USO and the various options it set out in its preliminary CFI document, Ofcom has chosen to defer primarily to the proposals put forward by Royal Mail, the USO provider.
- 1.6 Since Ofcom put in place its previous regulatory regime in 2011-12, it has relied on an expectation of developing competition and monitoring of Universal Service provision through reporting requirements to drive service quality, moderate pricing behaviour and drive efficiency improvement. To date this approach has not worked. Competition has not developed, service provision has seriously deteriorated, prices (other than the single controlled price) have increased greatly

¹ MUA would note a discrepancy in the figures quoted on page 9 (para 1.22) of 9 billion, and page 16 (para 2.16) of 6.6 billion letters sent in 2023-24



more than inflation, and efficiency improvement has been negligible. Indeed, if efficiency is a measurement of Quality of Service, it has gone into reverse.

- 1.7** This course of action perpetuates the view amongst MUA members that Ofcom is failing in its statutory duties as set out in section 3 of the Communications Act 2003, 'to further the interests of citizens in relation to communications matters; and to further the interests of consumers in relevant markets, where appropriate by promoting competition'²,
- 1.8** MUA members believe that whatever course of action Ofcom decides to take, it must include safeguards to protect the interests of consumers, not just the interests of the USO provider.
- 1.9** Therefore, MUA members believe if the 2nd Class USO (and hence also non-USO) delivery speed is to be reduced in the way proposed by Ofcom, the regulator must also ensure there is some compensatory benefit to customers through other changes to the current regulatory regime. MUA believes these should include:
- measures to require improved quality of service, and greater confidence that quality standards will actually be delivered;
 - assurances that Royal Mail will not have the free hand that it has now, to increase bulk mail and retail mail prices at rates substantially above that of inflation; and,
 - an obligation on Royal Mail to provide better information on when mail will be delivered.

2 OFCOM'S PROPOSALS

MUA has carried out extensive discussions amongst its members on matters relating to the future of the USO, and the following points have been raised by members in support of/or concerns with, the proposals Ofcom has put forward.

2.1 Postal Users Needs Assessment

- 2.1.1** MUA members generally consider Ofcom has identified the reasonable needs of individuals/households (i.e. recipients of mail) in respect of 2nd Class non/priority mail. However, certain sectors of the market have been highlighted as possibly being under-represented:

² Communication Act 2003 – 3. General duties of Ofcom 3.1 (a) & (b)



- the growing Electoral Sector – business senders of postal voting mail packs which need to be sent 1st Class (with the provision of 1st Class response items, due to the tight timelines.
- SME's and large senders of mail using Retail RM products, and their significant role in funding the USO.
- the need for business users to be offered an Economy Letter and Large Letter product in the Franking Channel, that would align with the Access channel and D+5 product.

2.1.2 In terms of whether the market is meeting the reasonable needs of postal users, several members commented that posting customers not surprisingly expect to receive the service they are paying for, in terms of both affordability and reliability. Mail producer members of MUA cited extortionate price increases as being a major factor in their customers migrating to digital communications over the past five years. This, linked with the appalling quality of service being provided to sending customers and suffered by receiving consumers, were seen as the two biggest factors for the acceleration in the decline in letter mail volumes. Price protection for users of mail was also highlighted in several cases, for inclusion in changes to the regulatory regime for post.

2.2 Quality of Service – New ‘Tail of Mail Targets

2.2.1 MUA entirely supports Ofcom's proposals to introduce new 'tail of mail' targets to reflect the fact that mail users increasingly value reliability over speed of delivery. Members strongly urge Ofcom to formally extend these USO service 'tail of mail' targets to Access, in recognition of the fact that almost three quarters of the addressed mailbag is now carried by Access services.

2.2.2 Furthermore, MUA members believe Ofcom has a duty to pay more attention to quality of service performance under its new regulatory regime. Royal Mail's ongoing appalling quality of service has now reached a point where it is directly responsible for postal decline and subsequently the sustainability of the USO, and in light of the considerable relaxation in delivery speeds proposed by Ofcom, it now needs to be held more accountable for its performance.

2.2.3 MUA members believe there is clear justification for Ofcom to revise its quality of service monitoring and enforcement regime, so that Royal Mail's performance is monitored more closely. Ofcom itself recognised the need for a broader quality of service regime in its Summary of Responses to the Call for Inputs document³, and at that point in time undertook to carry out more work in this area. However,

³ The Future of the Universal Postal Service – Summary of Responses to Our Call for Input and Next Steps Page 10 Para 3.13



members are extremely concerned they can find no reference to this undertaking in the present consultation.

2.3 Proposed Changes to the Delivery Frequency of 2nd Class Letters

2.3.1 MUA members support the proposal for Ofcom to remove the requirement on Royal Mail to deliver 2nd Class letters on six days per week and allow it to deliver such letters on alternate weekdays (Monday to Friday). Members do so, in the interests of Royal Mail's long-term financial sustainability and the operational benefits it would afford. As already discussed, affordability and reliability are the key factors for sending customers.

2.4 Proposed Changes to USO Quality of Service Targets

2.4.1 MUA opposes strongly Ofcom's proposed changes to the headline target for 1st Class mail from 93% to 90% delivered next day, and its proposals to change the headline target for 2nd Class mail from 98.5% to 95% delivered within three days.

2.4.2 Customers are being expected to pay premium and frequently significantly increased rates for 1st Class services⁴, and they expect to get the service they are paying for. Paradoxically, members would be looking to Ofcom to be proposing increasing quality of service targets, in circumstances where Royal Mail is being given more time to deliver mail, rather than lessen them. In short, whilst members are prepared to embrace the concept of alternate day delivery as a means of marginalising the costs associated with a declining mailbag, they see no reason why this should be at the expense of service performance.

2.4.3 Although Ofcom's regulatory regime does not include setting quality of service targets for Access mail, MUA members are hugely concerned that Royal Mail will use the proposed reduction in service targets for 1st and 2nd Class mail to impose reduced service targets for Access mail, which is the great majority of all mail.

2.4.4 Royal Mail's proposed course of action (as in moving to alternate day delivery) must surely be expected, at the very least, to achieve existing quality of service targets in the future, and in these circumstances, members consider it is unacceptable for up to one in ten letters not to be delivered on time (meaning more than a million letters a day do not get the service standard paid for), to still be delivered out of specification.

⁴ Mailmark 1st Class unsorted business mail have just seen an exorbitant 61% increase in price from 93.4p to 150.5p.



2.5 Proposed Changes to the Access Condition

- 2.5.1** MUA gives its full backing to Ofcom's proposed decision for the new Access D+3 service to be regulated alongside the existing D+2 service. Were the D+3 service not to be regulated, there would exist the potential for Royal Mail to play off its D+3 Access and D+3 Retail products against its competitors.
- 2.5.2** Members are also aware Royal Mail is pushing to remove D+2 Access from regulation and strongly urge Ofcom not to deregulate the D+2 service, believing that with the removal of the margin squeeze control this product may be priced out of the market, and/or being offered on less favourable terms than any equivalent retail services. Royal Mail has already indicated that the D+2 service will continue at a rate of £1.20 per pack which is over twice the price of the current service. After recent price increases for Business Mail of c. 14%, customers wishing to continue using this service will be forced to endure a further rise of over 100%. Its removal from the regulated area would also be likely to make it VATable, raising additional cost challenges for customers such as financial institutions unable to reclaim VAT, but still needing to use the D+2 service, in order to meet FCA financial regulations.
- 2.5.3** MUA members similarly support the premise that Ofcom also expects 'Regulating D+3 access to lead to greater confidence for users to invest in their systems to allow the uptake of D+3 access services and that this, in turn, should contribute to Royal Mail achieving the forecast net cost savings from the proposed move to an alternate weekday delivery model⁵.'
- 2.5.4** MUA members are in full support of Ofcom's proposal to impose a margin squeeze test on the new D+3 service, to prevent Royal Mail from charging its retail services at a similar or lower level than the charge it requires from downstream access operators for equivalent access to its network⁶. This will serve to protect access providers and their customers from anti-competitive pricing and support effective competition in the bulk mail market.
- 2.5.5** MUA also fully supports Ofcom's proposal that the existing performance reporting requirements for the D+5 service should similarly be applied to the new D+3 product. However, members would argue performance reporting across the raft of D+ services will be a critical factor for customers in making decisions about which service to use, and how that service will fall of earth, with a view to being able to plan for call centre resourcing etc. It is therefore extremely important for this reporting activity to be available from point of product commencement, and members see no reason why Royal Mail would not be able to provide this in a similar way to the information Royal Mail already provides to access customers for D+2 and D+5 services.

⁵ Review of the Universal Postal Service and other Postal Regulation - Page 126 Para 7.47

⁶ Review of the Universal Postal Service and other Postal Regulation - Page 129 Para 7.68



2.6 Future Access Pricing

- 2.6.1** MUA continues to maintain that price increases should be directly linked to service performance, as the absence of some type of price constraint has led to an exploitation by Royal Mail of Access and Retail customers with prices increases well above inflation, and at a frequency far in excess of acceptable levels. Over the same timeframe, Royal Mail has continued to provide appalling quality of service performance, choosing instead to pay Ofcom's comparatively inconsequential fines, when compared with the costs associated with the business putting quality performance right.
- 2.6.2** MUA would point out Ofcom's assumption that 'the access share of the total bulk mail letters market has grown from 84% in 2021/22 to 86% in 2023/24'⁷, and that in light of this it does not appear to Ofcom that Royal Mail's pricing regime is having adverse consequences for postal users, is short-sighted in the extreme. The fact is it does not take into account the amount of future business being lost, as many businesses encourage their customers to move away from paper-based information, in favour of digitalised alternatives, as a direct result of price increases and poor quality of service, thereby perpetuating further structural decline in the bulk mail market.
- 2.6.3** MUA also does not agree with Ofcom's statement that this suggests its current regulation is supporting competition in the bulk mail market. It is instead the case that there are now several fewer operators offering bulk mail services than there were when Ofcom became the postal regulator, meaning there is less competition and less choice for mail users.
- 2.6.4** MUA therefore strongly urges Ofcom to reconsider its position with regard to non-intervention on access pricing, in favour of a form of pricing constraint which is linked to service performance and efficiency improvement.

2.7 Future Quality of Service Regime

- 2.7.1** MUA continues to maintain it is of paramount importance in Royal Mail's new alternate day delivery model to receive improved provision of information to customers on when their mail is due to be delivered (through use of Royal Mail's Mailmark barcoding technology). Without such information it will make it difficult for many large users to plan their business operations, and this will be likely to negatively impact their use of mail.
- 2.7.2** MUA recognises the cost arguments put forward by Ofcom concerning the mandating of Mailmark scanning at point of delivery⁸. However, members

⁷ Review of the Universal Postal Service and other Postal Regulation - Page 138 Para 7.103

⁸ Review of the Universal Postal Service and other Postal Regulation - Page 141 Para 7.118



consider the provision of walk visibility reporting is well within Royal Mail's capabilities now that the majority of bulk mail items contain Mailmark barcodes.

2.7.3 At the very least, members would urge Ofcom to make an unequivocal statement in its decision document that, as and when Royal Mail is permitted to move to an alternate day delivery model, it should make every endeavour to provide better mail delivery information to its customers, thereby allowing them to adapt their own business practices⁹.

2.8 Impact of Ofcom's Proposals on Financial Sustainability

2.8.1 Having considered the assessments Ofcom has made of the impact of its proposals on the financial sustainability of the USO, and with reference to the following statements:

- 'Our (Ofcom) estimate is that the potential savings for financial year 2025/26 could be £250m to £425m. Realising the savings quickly will be a very significant operational challenge, involving changes to every aspect of Royal Mail's delivery pipeline'¹⁰ and,
- 'The cost savings alone would not be sufficient to ensure the financial sustainability of the USO. In addition to our (Ofcom's) proposals for reform, Royal Mail must also achieve significant growth in parcels, manage effectively the decline in letter volumes, and improve its efficiency by adapting its network to volume and workload changes'¹¹.

2.8.2 MUA members are extremely concerned with Royal Mail's ability to address the significant challenges it faces, over and above the implementation of its alternative day delivery model. To date Royal Mail has struggled to manage effectively the decline in letter volumes, choosing instead to rely on short term revenue gains from price increases in inelastic markets, and it has failed to achieve any substantial efficiency gains, due to senior managements poor handling of employee relations.

2.8.3 This leads members to the conclusion that Ofcom's proposals for reform, in terms of returning the USO to long term financial sustainability, are interim measures designed principally to support Royal Mail, not mail users (posting customers or recipients), before the sustainability of the USO will again need to be re-evaluated.

⁹ Such as coordinating direct mail with marketing through other media, staffing call centres to handle responses from recipients, and managing prompt order fulfilment

¹⁰ Review of the Universal Postal Service and other Postal Regulation - Page 152 In Brief section

¹¹ Review of the Universal Postal Service and other Postal Regulation - Page 152 In Brief Section



2.9 Next Steps

- 2.9.1** MUA notes Ofcom plans to publish a statement in the Summer 2025, and that ‘any regulatory changes we (Ofcom) decide to make to come into effect on the day we publish our statement’¹². This is based on Ofcom’s belief that implementing any regulatory changes immediately is appropriate as it would give Royal Mail the flexibility to begin changing its operating model for both the USO and Access at the earliest possible juncture.
- 2.9.2** Members strongly stress that this is not a realistic option for customers, given complexities associated with the upstream mail production and handling processes. Members would therefore urge Ofcom to put in place a brief implementation period and following further consultation with Royal Mail, Access Operators, and customers specify a date for ‘go live’ on any regulatory changes in its decision document.
- 2.9.3** Those Members with an Access Contract are aware of a letter from Royal Mail on 27th March, describing new transition arrangements for D+2 Access. However, while many MUA Members are involved in upstream processes, only a small number have seen the Royal Mail letter. It may be that the new transition arrangements only recently advised by Royal Mail will resolve Members’ strong concerns about the absence of an implementation period, but there has not been opportunity to gather Members’ comments on this matter.
- 2.9.4** Nevertheless, in the absence of wider discussion on these specifics, MUA members continue to believe the best way to ensure an orderly and effective change to the new Access services would be for Ofcom to revise its position and require a brief implementation period between its decisions and the effective date of those decisions
- 2.9.5** MUA is also concerned there is little or no mention in Ofcom’s consultation document of the 2nd phase of work Ofcom referenced in its CFI – Summary of Responses document¹³ Ofcom noted ‘In the second phase of work we (Ofcom) intend to issue consultations to include consideration of and proposals related to:
- **‘The broader QoS regime** – we will review our overall QoS requirements on Royal Mail and our approach to enforcement to ensure it appropriately incentivises Royal Mail’s performance and ensures the high levels of reliability that customers value.
 - **Affordability and pricing** – we will consider options to ensure the continued affordability of USO services, including more targeted interventions than the current 2nd Class safeguard cap, as well as more

¹² Review of the Universal Postal Service and other Postal Regulation - Page 163 Para 9.4

¹³ Future of the Universal Postal Service – Summary of Responses to our Call for Input and next steps Page 10 Para 3.13



broadly reviewing our approach to the regulation of the pricing of Royal Mail's services; and

- **Other issues** – we will consider other issues such as the structure of the access obligations, and the scope and definition of USO products (such as Royal Mail's proposal for an additional Special Delivery end of day product to be included in the USO).'

2.9.6 The absence of any reference to a 2nd Consultation Phase is cause for considerable concern amongst MUA members. The majority of elements sought by customers to counterbalance the degradation in service they will suffer with the implementation of an alternate day delivery, rest here (i.e. more regulatory focus on quality of service improvements and incentivisation of Royal Mail, a review of Ofcom's approach to its enforcement strategy and penalties for service failure, and a broader review of Ofcom's approach to the regulation of the pricing of Royal Mail's services).

2.9.7 MUA members would strongly urge Ofcom to reconsider its position on conducting a 2nd Consultation phase, in order to uphold its statutory duties to protect the interests of consumers of mail in these matters.

MUA thanks Ofcom for the opportunity to respond to this consultation. Members would be pleased to provide any further information if useful to Ofcom.

With best regards,

A handwritten signature in black ink that reads "Jeremy Partridge".

Jeremy Partridge
Executive Director
Mail Users' Association

This letter has been prepared in full consultation with MUA's members. However, the views expressed in it represent the collective views of MUA, and do not necessarily represent the views of any individual member.