

Date: 10th April 2025

Response to Ofcom's Consultation on Universal Postal Service and Related Postal Regulation

The Delivery Group submits its response to Ofcom's Consultation Document regarding the review of universal postal service and related postal regulation, issued on 30th January 2025. This response is non-confidential and may be shared publicly with attribution to The Delivery Group.

Universal Service Obligation (USO) Changes

The Delivery Group acknowledges the necessity of changes to the USO for Royal Mail to continue servicing the USO to the expected standards. In light of these changes, we would like to see a clearer quality standard, ensuring that for the first time in four years, Royal Mail meets the required quality levels.

Parcel Services

We are pleased that Ofcom is not proposing changes to the USO for parcels and the inclusion of tracked services within the USO, as stated in section 2.43. Adding tracked parcels to the USO would negatively affect the competitive parcels market.

Quality of Service

Over recent years, Royal Mail has repeatedly fallen short of the regulatory standards set by Ofcom, facing penalties in 2023 and 2024 for failing to meet its delivery targets in 2022/23 and 2023/24. Ofcom has acknowledged the consistently voiced consumer demand for reliable postal services and highlighted Royal Mail's persistent failure to meet those expectations. To address this, Ofcom has proposed new 'tail of mail' targets alongside the existing 'on-time' performance metrics for First Class and Second Class USO services. These new targets aim to guarantee the reliability customers require.

The Delivery Group fully supports the introduction of these 'tail of mail' targets and considers them a necessary enhancement to the current regulatory framework. It is worth noting that the Quality of Service (QoS) failures are not confined to USO services. QoS performance for Access has been consistently below the 95% target since 2020, with pre-pandemic being the last time this target was met for Standard Mail. Economy Mail is the only service that has been meeting the contractually agreed target levels in the last four years for Access.

In 2023/24, over 70% of addressed mail was sent via Access services, meaning the majority of UK consumers rely on these, not USO letters. As a result, Royal Mail's poor QoS performance for Access services has been a significant driver of consumer dissatisfaction and delays. Our clients would like certainty that items are going to arrive when expected after the last four years of consistently below-target quality levels. Initially, when discussed, a three-day service with alternate day delivery was a concern for some of our clients. However, we are pleased that Ofcom is proposing a 'tail of mail' target to be provided for D+3. The Delivery Group would also like the same tail to be provided for both D+2 and D+3 Access services. This approach would acknowledge the vital need for reliability in both Access and USO services for consumers and posting customers alike.

Access services require QoS reporting on a monthly basis, as per contractual obligations. The Delivery Group urges Ofcom to adopt a more proactive and regular review process, enabling swift action to improve service quality and ensuring better outcomes for mail recipients. At present, Ofcom evaluates QoS performance annually, after the full-year results are released. Investigations then take several months, with consequences for Royal Mail implemented long after customers have endured the impact of poor service.



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If quality was reviewed by Ofcom on a more timely and regular basis, actions could be taken sooner to ensure a better service for the recipients of mail. Investigations 12 months after the fact are counterproductive, and often the processes and efficiencies have changed for Royal Mail by the time of the review. The Delivery Group would like to see Ofcom take action more frequently and decisively.

Margin Squeeze

The Delivery Group opposes Ofcom's proposal to rely solely on margin squeeze controls as the pricing regulation for Access services. Given the history of substantial price hikes imposed by Royal Mail, these increases have often occurred twice within a single year and have consistently exceeded the rate of general price inflation during those periods.

The Delivery Group would like Ofcom to reevaluate its stance and explore the implementation of additional pricing constraints for Access services. Pricing regulation is crucial to prevent anti-competitive pricing practices, which could negatively impact the market. The Delivery Group requests that Ofcom review the current pricing regulation. Supporting these measures, we can ensure a stable and competitive environment that will subsequently benefit users. Royal Mail's poor quality of service (QoS) has also not deterred excessive price increases, as Royal Mail faces no direct pricing restrictions nor any QoS targets mandated by Ofcom for Access services.

Regulation Retention of D+2 and Introduction of D+3 Regulation

The Delivery Group is pleased to see that Ofcom proposes that D+2 access services should remain regulated. If D+2 were to be deregulated, the Delivery Group would have concerns that this could harm both competition and user interests. By maintaining D+2 as a regulated service, we see this as a means to help maintain a fair and competitive market. This is crucial to prevent anti-competitive pricing practices by Royal Mail, which could negatively impact our competition in this market and subsequently affect end users.

Ofcom's assessment highlights that while there is uncertainty around how the market would react to the introduction of D+3 access services, significant volumes could remain on D+2 access, at least in the short term. This continued regulation is essential to address the risk of D+2 access being offered on less favourable terms than equivalent retail services and to prevent a margin squeeze on the price of the service. Royal Mail's proposal to continue offering D+2 access on a commercial basis, if deregulated, would not provide the same level of protection for access operators and their customers.

Given the potential impact on competition and the need to protect users, Ofcom's decision to retain regulation of D+2 access services is a prudent measure. This approach ensures that D+2 continues to be offered, allowing access customers to adapt to a modified access market while safeguarding against anti-competitive practices.

We are also pleased that the new D+3 service will be regulated. This regulation will help maintain a fair and competitive market, ensuring that Royal Mail offers D+3 access on fair and reasonable terms, conditions, and charges. By regulating D+3, Ofcom supports effective competition in the bulk mail market and provides greater confidence for users to invest in their systems to adopt these services, ultimately benefiting end users.



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We are also pleased that First Class services have been added to the Relevant Retail Services for D+2. This will prevent anti-competitive pricing by Royal Mail with their First Class pricing using their monopoly position to gain a larger share of the market for people who wish to continue to use First Class or the alternative D+2 with access. The Delivery Group strongly believes that First Class should be part of the relevant services with the introduction of the D+2 service and D+3 becoming standard, and we are pleased to see this within the Ofcom proposal. The key features of the two services are intrinsically the same – Monday to Saturday delivery, with delivery the day after being presented to Royal Mail.

The Delivery Group would like to see Retail Unsorted Services added to relevant services. Royal Mail offers these unsorted services at such a low price that it is often difficult for access to effectively compete with the sorted services we have access to. Access providers provide unsorted services to our clients but are required to present these items as sorted mailings when given to Royal Mail. It is not comprehensible to The Delivery Group that Royal Mail can offer an unsorted service to end brands at the same price as access sorted service when Royal Mail needs to sort the mail items once received and move them to the relevant IMCs and delivery offices. The fact Royal Mail can do this shows clear evidence of Royal Mail taking advantage of the fact this service is not currently included in the relevant retail services.

D+5 Removal of Saturday

The Delivery Group agrees with the proposal to remove Saturday from the specification for this service. However, the version of the Access Letters Contract (ALC) provided by Royal Mail to Access customers, as part of Contract Change Notice 114 on December 19, 2024, does not include amendments to the terms for the D+5 Economy service to allow Economy mail to be delivered on weekdays (instead of working days), thereby excluding Saturday deliveries. If Ofcom decides to remove Saturday delivery from the specification for D+5 access, Royal Mail will be required to issue a new Contract Change Notice following Ofcom's decision, providing at least 70 days' notice.

We acknowledge Ofcom's review of rebranding the "D+X" terminology for Access services to "H+X," where H represents the handover day to Royal Mail—an adjustment initially proposed by the MCF. Additionally, Ofcom has suggested refining the definitions of "D+2 Access" and "D+5 Access" to clarify service speeds, while introducing a new definition for "D+3 Access." We have no objections to this proposal from Ofcom.

Large Letter Economy Service

While Ofcom has stated that there appears to be no current market demand for D+5 access for Large Letters, The Delivery Group wishes to express support for a review of the Economy service for Large Letters. It is worth noting that brands frequently approach The Delivery Group to enquire whether such a service can be offered through Access. However, upon engaging with Royal Mail on this matter, we have consistently been informed that the necessary capabilities to support this service are not available within the IMCs.

Given the planned differentiation between D+2 and D+3 services and the deferral process at the delivery office, we strongly encourage Ofcom to explore the feasibility of introducing an Economy service for Large Letters. Such a review would align with the interests of posting customers and address the inquiries we regularly receive from brands seeking this

USPA Conditions 5.3 & 5.4

These conditions are designed to ensure that Royal Mail does not use the information it receives from Access operators to gain a competitive advantage over them. They have been in place since the time of Postcomm as the postal



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regulator and were continued by Ofcom in 2012. In 2022, as part of its Review of Postal Regulation, Ofcom considered whether there was a need to reform these conditions but concluded they should remain unchanged.

This means these conditions have been unchanged since implementation in 2012 during which time the UK mail market has changed significantly. The conditions were originally set to protect the initial development of Access in competition with Royal Mail's Retail services when Access was first introduced. However, Access now constitutes 70.7% of all addressed mail and 83% of bulk mail.

The need for protections has evolved; the current need is for new Access services to be developed to offer customers increased choice. These conditions have been used by Royal Mail to block or deter requests for new Access services by justifying excessive costs, which Royal Mail claims are necessary to establish IT systems for a new Access service that will be entirely separate from Royal Mail systems. This is despite Royal Mail already having such systems in place to offer its own existing service, with which the new Access service would directly compete. Essentially, Royal Mail is using these conditions to defend against the development of competition.

The Delivery Group asks Ofcom to consider reviewing this condition with a view to relax the condition to provide greater options of services for end users.

Requirement for Fair and Reasonable Terms

USPA Condition 3 currently mandates that D+2 and D+5 access services are provided on "fair and reasonable terms, conditions, and charges." Ofcom proposes extending this requirement to the new D+3 access services. The Delivery Group supports this proposal, as it would be unreasonable for this requirement to apply to D+2 and D+5 but not to D+3, which is expected to be used for much of the mail currently using D+2 (and potentially some of the mail currently using D+5).

The Delivery Group asks Ofcom to be more specific in its definition of "fair and reasonable terms, conditions, and charges" and to be more explicit about what is acceptable, with fully enforceable regulatory powers for any breaches. Ofcom states that "this regime supports commercial negotiations between Royal Mail and Access operators when agreeing the terms and conditions of access" and considers it "preferable for access to be established through commercial negotiations," with Access customers having the option to bring any disputes to Ofcom on a case-by-case basis.

We believe Ofcom has overlooked the significant disparity in negotiating power between Royal Mail and Access customers, with Royal Mail being in a monopoly position. The terms of the Access Letters Contract (ALC) are heavily skewed in Royal Mail's favour, with essentially no customer-requested changes to the ALC, while there have been numerous Royal Mail-instigated changes.

The Delivery Group urges Ofcom to reconsider its position on this matter and, as a possible way forward, to establish a Code of Practice similar to that already established in the telecoms market for access.

Implementation Period

Royal Mail has advised that upon Ofcom publishing a statement in Summer 2025, it intends for any regulatory changes to come into effect on the day that statement is published. This approach is intended to give Royal Mail the flexibility to begin changing its operating model as soon as possible. However, The Delivery Group would like to request that Ofcom propose an implementation period for these changes. This will allow the full supply chain to be ready to proceed, having clear time scales to work towards.

Currently, we have been unable to provide specific dates and times for the completion of development for the proposed amendments and the introduction of the D+2 and D+3 services. The implementation of D+2 will require a new



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indicia design and additional amendments within the Mailmark barcode of items. Additionally, we have our own internal processes that need to be reviewed, and mail producers and originators will need to change their internal processes to accommodate the new service standards.

Royal Mail have sent D+2 product implementation for USO reform in the 1st of April – whilst it is positive they are looking at an implementation period – all they have done is suggested bringing the dates forward for the product to be used - this does not detract from the fact we need time to develop systems to complete implementation and the new agreement to use the D+2 service from 2nd June this only shortens this development available . It also runs the risk of client choosing to migrate only to find out when the Ofcom decision is made that D+2 will not be regulated as per Royal Mail's response. This would mean they have migrated – changed products, envelopes etc unnecessarily as the addition of VAT will make the service no viable for them to be using as opposed to Royal Mail First Class Mail – again highlighting the risk of uncompetitive advantage if D+2 is not regulated.

Given these considerations, we believe it would be prudent to have an agreed implementation period. This will ensure that all stakeholders in the supply chain have adequate time to prepare and adapt to the new regulatory changes, ultimately leading to a smoother and more efficient transition.

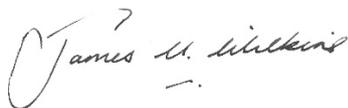
Pilot Schemes

The Delivery Group acknowledges the significance and complexity of the proposed operational changes outlined by Royal Mail and recognises the necessity of running pilot programmes to ensure these changes can be implemented effectively. While there are some contractual and regulatory considerations that may present challenges, we understand the importance of these pilots in supporting a smooth and efficient transition to the proposed model.

We note that the pilots are set to cover approximately 4% of delivery points, as indicated by Royal Mail, and we appreciate Ofcom's commitment to monitoring their impact on consumers. It is essential that these pilots are conducted responsibly and with minimal disruption to consumers, particularly as they offer the potential to accelerate the implementation of any regulatory changes that may be introduced.

The Delivery Group supports this initiative, provided that the pilots remain transparent, and their outcomes are reviewed comprehensively to address any potential issues. We also encourage continued collaboration with stakeholders to ensure that the benefits of these changes are realised while safeguarding the experience of consumers during the process.

Yours sincerely,



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