



# Review of postal users' needs

An assessment of the reasonable needs of users in relation to the market for the provision of postal services in the United Kingdom

Statement

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## Section 1

# Summary

- 1.1 In October 2011, the Postal Services Act 2011 ("the Act") gave Ofcom the responsibility and powers to regulate postal services in the UK.<sup>1</sup> Our primary duty under the Act is to carry out our functions in relation to postal services in a way that we consider will secure the provision of a "universal postal service". The universal service is defined by the Act, together with the Universal Postal Service Order<sup>2</sup> and the designated universal service provider conditions imposed on Royal Mail as the designated universal service provider. Key features of the universal service are the delivery and collection of mail everywhere in the UK at affordable and uniform prices, every working day (and on Saturdays for letters).
- 1.2 The Act requires us to carry out an assessment of the extent to which the postal market is meeting the reasonable needs of users of postal services within eighteen months of our taking responsibility for postal regulation, i.e. by 31 March 2013. This statement is the conclusion of the review we have carried out to meet that requirement.
- 1.3 We have concluded that the postal market is currently meeting the reasonable needs of users and is highly valued by residential users and businesses across the UK. Therefore, we have decided not to change the scope of the universal service. However, our research also indicates that while users generally are satisfied with the current services available, different users rely on post to varying degrees, and users' needs and preferences are evolving. For example:
- Users would like more convenient options for the delivery of parcels. Given the steps Royal Mail is taking in this area and the competitive nature of this part of the market, we think that these consumer benefits are more likely to be delivered through innovation by Royal Mail and other postal operators than through additional regulation; and
  - Some users indicated that there may be less need for next-day delivery (First Class), and others are less reliant on collections and deliveries six days a week, including Saturdays. At the same time however, over half of our research participants indicated that they would continue to use First Class, and nearly half of businesses believe their First Class mail should arrive next day.<sup>3</sup> Contrary to businesses, residential users attributed a high value to deliveries and collections six days a week.<sup>4</sup>
- 1.4 It is important for Ofcom to continue to understand the needs of users of postal services and how these needs may change in the future. This is an issue which we will keep under review as the postal market develops to meet users' evolving needs.

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<sup>1</sup> See: [http://www.legislation.gov.uk/ukpga/2011/5/pdfs/ukpga\\_20110005\\_en.pdf](http://www.legislation.gov.uk/ukpga/2011/5/pdfs/ukpga_20110005_en.pdf).

<sup>2</sup> The Postal Services (Universal Postal Service) Order 2012, SI 2012/936.

<sup>3</sup> Over 80% of residential users agree they will always need to send things by post. Of those, 57% say they would use First Class. In addition, 46% of businesses say all/most of the post they send First Class has to arrive next day.

<sup>4</sup> Some businesses valued Saturday collections and deliveries, but this is offset by other businesses which do not value this aspect of the universal service.

## Methodology and consultation

- 1.5 We conducted extensive consumer research to inform our view of users' needs. The research considered the postal service generally, and several specific aspects of the current universal service, to test whether they remain appropriate. To inform our analysis of whether needs are reasonable, we have considered where possible the costs and benefits of certain aspects of the universal postal service. In October 2012, we published a consultation document setting out the results of our research and our analysis.<sup>5</sup>
- 1.6 We are grateful to those stakeholders who responded to our initial findings and questions set out in our consultation document.
- 1.7 The responses to our consultation expressed a range of views on our research, and on the specification of the universal service obligation. Generally, the majority of respondents were supportive of the current service and tended to prefer the status quo, including Royal Mail and some consumer representatives. Some stakeholders were open to change, including Consumer Focus and other postal operators. The views of respondents are summarised in this document, and we explain how we have taken account of these views in reaching our conclusions.

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<sup>5</sup> Our consultation document and all reports commissioned for this review are available at <http://stakeholders.ofcom.org.uk/consultations/review-of-user-needs/>.

## Section 2

# Introduction

2.1 This section outlines the objective of this statement and the structure of the remainder of the document.

### Objective of this statement

2.2 The Postal Services Act 2011 (“the Act”) requires Ofcom to make an order describing the universal postal service (“the Order”). The first Order came into force on 1 April 2012. Before modifying the Order or making a new one, Ofcom must carry out an assessment of the extent to which the market for the provision of postal services in the United Kingdom is meeting the reasonable needs of users of those services.

2.3 The Act requires us to carry out our first assessment of the reasonable needs of users within 18 months of the vesting of the responsibility for postal regulation in Ofcom, which happened on 1 October 2011. This means that we must conclude our assessment by 31 March 2013.

2.4 To undertake the review of postal users’ needs, Ofcom commissioned extensive market research, both through focus groups (qualitative research) and surveys (quantitative research) to understand the benefits of the service to users. We also undertook a high level cost analysis of key features of the universal service. In our consultation we outlined the test used to determine the extent to which we think the reasonable needs of users are being met in respect of specific aspects of the universal service. We set out in more detail the scope and methodology of our review in Section 4.

2.5 As part of our process of gathering evidence, we sought the views of stakeholders through our consultation on the review of postal users’ needs, which closed on 18 December 2012.

2.6 This statement presents:

- The issues highlighted in the responses submitted to our consultation; and
- Our conclusions on the extent to which the market for the provision of postal services is meeting the reasonable needs of users of those services.

### Structure of this statement

2.7 The remainder of the document is structured as follows:

- Section 3, Legal and regulatory framework, outlines the legal framework of our review, including our duties in relation to the regulation of postal services in general and this review in particular. This section also summarises the scope and characteristics of the universal service, and the notification from Royal Mail as to how it meets its obligation in practice;
- Section 4, Approach to our review, summarises our approach to the scope of the review and the assessment of “reasonable needs”;

- Section 5, The acceptability of the current service to users, summarises evidence from our qualitative and quantitative research about users' views on the service overall, responses from stakeholders, and our assessment of the reasonable needs of users in general;
- Section 6, More convenient packet services, summarises the evidence from our research and the responses from stakeholders on packet services, and gives our conclusions on the issue of more convenient packet services;
- Section 7, Next day delivery, summarises the evidence from our research and the responses from stakeholders on the need for next day delivery of post, and gives our assessment on the need for this aspect of the service;
- Section 8, Number of collection and delivery days, summarises the evidence from our research and the responses from stakeholders on the need for six collection and delivery days a week for letters, and presents our conclusions;
- Section 9, Other issues considered by the review, summarises the evidence from our research and the responses from stakeholders on collection and delivery times, delivery to the door, and additional characteristics of the universal service, and our conclusions on all these issues; and
- Annexes 1 and 2 summarise our measurement of the benefits and costs, the consultation responses concerning our scope, approach and methodology, and our consideration of the points made by respondents.

## Section 3

# Legal and regulatory framework

## Introduction

- 3.1 The Act, which received Royal Assent on 13 June 2011, introduced a new regulatory regime for postal services<sup>6</sup> in the United Kingdom, including transferring regulatory responsibility for the postal services sector from Postcomm to Ofcom.
- 3.2 The Act sets the framework for our review of the reasonable needs of users of postal services. This framework is set out in Part 3 of the Act, which came into force on 1 October 2011. Its provisions give effect to Directive 2008/6/EC of the European Parliament and of the Council of 20 February 2008, which amends Directive 97/67/EC, with regard to the full accomplishment of the internal market of Community postal services (“the Postal Services Directive”).
- 3.3 The Act also replaced the existing licensing regime in the postal sector with a general authorisation regime. This means that postal operators may provide postal services without the need for any licence or authorisation but that the provision of those services may be subject to regulatory conditions that Ofcom may impose under Part 3 of the Act.<sup>7</sup>

## Duty to secure provision of a universal postal service

- 3.4 Section 29(1) of the Act provides that Ofcom must carry out its functions in relation to postal services in a way that it considers will secure the provision of a universal postal service. Section 29(2) of the Act provides that Ofcom’s power to impose regulatory conditions is subject to the duty imposed by section 29(1) of the Act.

## The universal postal service

- 3.5 Section 30(1) of the Act requires Ofcom to make a universal postal service order setting out a description of the services that Ofcom considers should be provided in the United Kingdom as a universal postal service, and the standards with which those services are to comply.
- 3.6 The universal postal service must comply with certain minimum legal requirements set out in national and EU law. The Postal Services Directive obliges all EU Member States to ensure that a universal postal service encompassing a minimum range of specified services is provided.
- 3.7 The requirements of the Postal Services Directive are reflected in section 31 of the Act, which sets out the services which, as a minimum, must be included in the universal postal service in the UK. Those services are known as the ‘minimum requirements’ and comprise (in summary):

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<sup>6</sup> The expression ‘postal services’ is defined in section 27(1) as meaning the service of conveying postal packets from one place to another by post, the incidental services of receiving, collecting, sorting and delivering postal packets, and any other service which relates to, and is provided in conjunction with, any of those services. ‘Postal packets’ is defined in section 27(2) as meaning a letter, parcel, packet or other article transmissible by post.

<sup>7</sup> The types of conditions we can impose are those in sections 36, 38, 39, 41, 42, and 48 to 51 of the Act.

- At least one delivery of letters every Monday to Saturday, and at least one delivery of other postal packets<sup>8</sup> every Monday to Friday;
  - At least one collection of letters every Monday to Saturday, and at least one collection of other postal packets every Monday to Friday;
  - A service of conveying postal packets from one place to another by post at affordable, geographically uniform prices throughout the UK;
  - A registered items service at affordable, geographically uniform prices throughout the UK;
  - An insured items service at affordable, geographically uniform prices throughout the UK;
  - The provision of certain free services to blind/partially sighted people; and
  - The free conveyance of certain legislative petitions and addresses.
- 3.8 The minimum requirements of the Act comply with, and in some aspects exceed, the requirements of Article 3 of the Postal Services Directive. For example, while the Postal Services Directive requires the collection and delivery of postal items not less than five working days per week, the minimum requirements of the Act require the delivery and collection of letters six days per week in the United Kingdom, from Monday to Saturday; and while the Postal Services Directive requires tariffs to be “affordable”, the UK legislation requires them to be “uniform” as well as affordable.
- 3.9 The first universal postal service order made under the provisions of the Act was made on 26 March 2012: The Postal Services (Universal Postal Service) Order 2012 (SI 2012/936). A copy of that order was annexed to Ofcom’s Statement of 27 March 2012, *Securing the Universal Postal Service – Decision on the new regulatory framework*.<sup>9</sup> That Statement also set out the regulatory conditions to which Royal Mail, as the designated universal service provider, is subject.

### **Legal requirement to review the reasonable needs of users of postal services**

- 3.10 The legal requirement to conduct a review of the reasonable needs of users of postal services is set out in section 30(3) of the Act, which provides that:

“(3) Before making or modifying a universal postal service order, OFCOM must carry out an assessment of the extent to which the market for the provision of postal services in the United Kingdom is meeting the reasonable needs of the users of those services.”

- 3.11 This requirement did not apply to the making of the first universal postal services order but Ofcom must, pursuant to section 30(4) of the Act, conduct an assessment

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<sup>8</sup> The terms ‘letters’ and ‘postal packets’ are defined for the purposes of Part 3 of the Act in sections 27(2) and 65(1) of the Act.

<sup>9</sup> Ofcom, *Securing the Universal Postal Service – Decision on the new regulatory framework*, 2012, <http://stakeholders.ofcom.org.uk/consultations/review-of-regulatory-conditions/statement/> . The first universal postal service order is at Annex 6, <http://stakeholders.ofcom.org.uk/binaries/consultations/review-of-regulatory-conditions/statement/annex6.pdf> and [http://www.legislation.gov.uk/ukxi/2012/936/pdfs/ukxi\\_20120936\\_en.pdf](http://www.legislation.gov.uk/ukxi/2012/936/pdfs/ukxi_20120936_en.pdf).

of users' reasonable needs within 18 months of the coming into force of the new legal regime for the regulation of postal services on 1 October 2011.

- 3.12 Ofcom has an additional power, under section 34 of the Act, to review at any time the extent to which the minimum requirements set out in the Act reflect the reasonable needs of users of postal services in the UK. Such a review may consider whether the requirements imposed by section 31 of the Act could be altered so as better to reflect those needs. Ofcom must send a copy of any review conducted under section 34 of the Act to the Secretary of State. Following such a review by Ofcom, the Secretary of State may amend section 31 by order (subject to affirmative resolution procedure).

## General duties

- 3.13 Section 3 of the Communications Act 2003 (the "2003 Act") provides that it shall be our principal duty, in carrying out our functions, 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.
- 3.14 This principal duty applies also to functions carried out by us in relation to postal services.<sup>10</sup> Section 3(6A) of the 2003 Act provides that the duty in section 29(1) of the Act (to secure the provision of a universal service) takes priority over our general duties in the 2003 Act in the case of conflict between the two where we are carrying out our functions in relation to postal services.
- 3.15 In performing our general duties, we are also required under section 3(4) of the 2003 Act to have regard to a range of other considerations, which appear to us to be relevant in the circumstances. In this context, we consider that a number of such considerations appear potentially relevant, including:
- The desirability of promoting competition in relevant markets;
  - The desirability of encouraging investment and innovation in relevant markets;
  - The vulnerability of children and of others whose circumstances appear to Ofcom to put them in need of special protection;
  - The needs of persons with disabilities, of the elderly and of those on low incomes;
  - The opinions of consumers in relevant markets and of members of the public generally;
  - The different interests of persons in the different parts of the United Kingdom, of the different ethnic communities within the United Kingdom and of persons living in rural and in urban areas; and
  - The extent to which, in the circumstances of the case, the furthering or securing of the matters mentioned in section 3(1) is reasonably practicable.

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<sup>10</sup> Section 1(1) refers to such functions as may be conferred on Ofcom by or under any enactment. The reference to 'communications matters' in section 3(1) also refers generally to matters in relation to which we have functions, and similarly the reference to 'relevant markets' means markets for any of the services, facilities, apparatus or directories in relation to which we have functions: section 3(14) of the 2003 Act.

- 3.16 Section 3(5) of the 2003 Act provides that in performing our duty to further the interests of consumers,<sup>11</sup> we must have regard, in particular, to the interests of those consumers in respect of choice, price, quality of service and value for money.
- 3.17 Pursuant to section 3(3) of the 2003 Act, in performing our general duties, we must have regard, in all cases, to the principles under which regulatory activities should be transparent, accountable, proportionate, consistent and targeted only at cases in which action is needed, and any other principles appearing to us to represent the best regulatory practice.
- 3.18 In this regard, we note Ofcom's general regulatory principles<sup>12</sup> including in particular the following in the present context:
- Ensuring that our interventions are evidence-based, proportionate, consistent, accountable and transparent in both deliberation and outcome;
  - Seeking the least intrusive regulatory mechanisms to achieve our policy objectives; and
  - Consulting widely with all relevant stakeholders and assessing the impact of regulatory action before imposing regulation upon a market.
- 3.19 Finally, we have an ongoing duty under section 6 of the 2003 Act to keep the carrying out of our functions under review with a view to ensuring that regulation by Ofcom does not involve the imposition of burdens which are unnecessary or the maintenance of burdens which have become unnecessary.

## Impact assessment

- 3.20 As this document is not making any proposals for changes to the regulatory framework, we have not carried out an impact assessment.

## The current universal service

- 3.21 The current scope of the universal postal service is described in the Order published in March 2012<sup>13</sup>, the first universal postal service order made under the Postal Services Act 2011. As explained in our December 2011 consultation on the review of the regulatory conditions and our March 2012 statement on the new regulatory framework, the approach adopted to the first Order was to describe the essential features of the universal service, without substantively changing the scope of the current universal service.
- 3.22 In summary, the Order stipulates that the universal postal service shall comprise:
- At least one delivery of letters every Monday to Saturday and of other postal packets every Monday to Friday to the home or premises of every individual in the UK and to such delivery points as approved by Ofcom;

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<sup>11</sup> Under section 405 of the 2003 Act as amended, references to consumers in a market for a service include, where the service is a postal service, addressees.

<sup>12</sup> See our website: <http://www.ofcom.org.uk/about/what-is-ofcom/statutory-duties-and-regulatory-principles/>.

<sup>13</sup> *The Postal Services (Universal Postal Service) Order 2012*, S.I. 2012/936, [http://www.legislation.gov.uk/ukxi/2012/936/pdfs/ukxi\\_20120936\\_en.pdf](http://www.legislation.gov.uk/ukxi/2012/936/pdfs/ukxi_20120936_en.pdf).

- At least one collection of letters every Monday to Saturday and of other postal packets every Monday to Friday;
  - The provision of certain ‘end-to-end services at affordable prices’, which are defined in Schedule 1 to the Order – see Table 3.1;
  - The provision of certain ‘free end-to-end services’, which are defined in Schedule 2 to the Order – see Table 3.1; and
  - The provision of certain ‘addressee services’, which are defined in Schedule 3 to the Order – see Table 3.1.
- 3.23 In our Statement of 29 September 2011 on the transition to the new regulatory framework for postal services,<sup>14</sup> we provisionally designated Royal Mail as the universal service provider with effect from 1 October 2011. In practice, Royal Mail is currently the only postal operator capable of fulfilling this role. As the designated universal service provider, certain regulatory conditions are imposed on Royal Mail to require it to provide the universal service. We consulted on those conditions at the same time as consulting on the scope of the first Universal Postal Service Order in our December 2011 consultation on the Review of Regulatory Conditions. Our statement of 27 March 2012 on Securing the Universal Postal Service contained our decision on the new regulatory framework and imposed certain regulatory conditions on Royal Mail with effect from 1 April 2012, including the Designated Universal Service Provider conditions (the “DUSP conditions”).
- 3.24 The DUSP conditions require Royal Mail, as the designated universal service provider, to provide services matching those described in the Order. The Order sets out a description of the services that should be provided in the UK as a universal postal service and the standards with which those services are to comply. This differs from the previous regulatory regime in that the Order and the DUSP conditions set out a description of the universal service specifying its core features rather than listing the names of Royal Mail products within the scope of the universal service, as had been the case under the previous regulatory regime.
- 3.25 The DUSP conditions, which are included at Annex 7 to our 27 March 2012 statement on Securing the Universal Postal Service,<sup>15</sup> specify in greater detail the services that must be provided by Royal Mail as designated universal service provider. For instance, they include obligations relating to the provision of sufficient access points, performance targets that Royal Mail must meet in respect of each of the specified services and they require Royal Mail to notify and publish certain information, including delivery and collection times and performance data in respect of the performance targets.
- 3.26 Royal Mail provides a number of different services and products in order to meet its regulatory obligations to provide the universal service. Royal Mail is required by DUSP condition 1.10.1 to notify Ofcom of the brand names of the services it provides with a view to meeting its obligations under the DUSP conditions 1.6 (end-to-end

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<sup>14</sup> Ofcom, *Postal regulation: Transition to the new regulatory framework – Statement*, September 2011, <http://stakeholders.ofcom.org.uk/binaries/consultations/postal-regulation/statement/statement.pdf>.

<sup>15</sup> Ofcom, *Annex 7, Statutory Notification: designated USP conditions*, March 2012, <http://stakeholders.ofcom.org.uk/binaries/consultations/review-of-regulatory-conditions/statement/annex7.pdf>.

services) and 1.7 (addressee services). The services which Royal Mail has notified for those purposes are summarised in Table 3.1.

**Table 3.1: Royal Mail services provided to meet the characteristics of the universal service, according to Royal Mail<sup>16</sup>**

Order/Condition	Royal Mail service provided
<b>End-to-end services at affordable prices for single piece items</b>	
<p><u>Priority services</u></p> <ul style="list-style-type: none"> <li>To arrive next day (required to be 93% of mail next day by DUSP condition)</li> <li>Paid for by stamp, meter, and other reasonable means</li> <li>Offer Certificate of Posting and proof of delivery</li> </ul>	<ul style="list-style-type: none"> <li>Royal Mail First Class without and with Royal Mail Signed For</li> </ul>
<p><u>Standard services</u></p> <ul style="list-style-type: none"> <li>To arrive within three days (98.5% of mail up to 1kg to arrive within three days by DUSP condition / 90% of packets over 1kg to arrive within three days by DUSP condition)</li> <li>Paid for by stamp, meter, and other reasonable means</li> <li>Offer Certificate of Posting and proof of delivery</li> </ul>	<ul style="list-style-type: none"> <li>Royal Mail Second Class without and with Royal Mail Signed For</li> </ul>
<p><u>Registered and insured services</u></p> <p>A. Insured and registered services for postal items weighing up to 10kg:</p> <ul style="list-style-type: none"> <li>To arrive next day by 1pm</li> <li>To include tracking and proof of delivery</li> <li>Are paid for in advance (i.e. by stamps or meter)</li> <li>The definition of insured requires compensation for theft, loss and damage, in addition to the basic compensation (up to £46) provided on some postal services.</li> </ul> <p>B. Insured and registered services for postal items weighing over 10kg</p>	<ul style="list-style-type: none"> <li>Registered and insured service up to 10kg: Royal Mail Special Delivery Guaranteed by 1pm (other than on account)</li> <li>Registered service (10-20kg): Royal Mail Signed For First Class</li> <li>Insured service (10-20kg): Royal Mail Special Delivery Guaranteed by 1pm (other than on account)</li> </ul>
<p><u>Return to sender services</u></p> <p>Conveyance of items back to the sender (where the service used is part of the universal service)</p>	<ul style="list-style-type: none"> <li>Return to Sender</li> </ul>
<p><u>Outgoing European Union services</u></p> <ul style="list-style-type: none"> <li>Service of ensuring that postal items are handed over to the postal provider in the relevant EU member state.</li> <li>Compatible with enabling the item to arrive within three days (DUSP condition specifies that at least</li> </ul>	<ul style="list-style-type: none"> <li>Royal Mail Airmail with and without International Signed For</li> </ul>

<sup>16</sup> Royal Mail, *Notification under DUSP Condition 1.10.1*, effective 1 April 2013, soon to be published on Royal Mail's website on: <http://www.royalmailgroup.com/regulation/regulation-framework>.

<p>85% of packets must arrive within three days and 97% of packets must arrive within five days)</p> <ul style="list-style-type: none"> <li>• Paid for by stamps or other reasonable means</li> <li>• Offer Certificate of Posting</li> <li>• DUSP condition specifies that this must include registered and insured services</li> </ul>	
<p><u>Outgoing rest of the world services</u></p> <ul style="list-style-type: none"> <li>• Service of ensuring that postal items are handed over to the postal provider in the relevant non-EU country.</li> <li>• A service compatible with enabling the item to arrive within seven days; and</li> <li>• A service compatible with enabling the item to arrive within twelve weeks (72 days)</li> <li>• Paid for by stamps or other reasonable means</li> <li>• Offer Certificate of Posting</li> <li>• DUSP condition specifies that this must include registered and insured services</li> </ul>	<ul style="list-style-type: none"> <li>• Royal Mail Airmail with and without International Signed For</li> <li>• Royal Mail Surface Mail with and without International Signed For</li> </ul>
<p><u>Incoming European Union and rest of the world services</u></p> <p>For incoming EU mail, 85% of mail to arrive at UK addresses within three days of having been collected in another EU member state and 97% to arrive within 5 days of being collected.</p> <p>Mail sent from non-EU countries to be delivered within a reasonable period.</p>	<ul style="list-style-type: none"> <li>• “Extension of foreign operators’ post network into UK” i.e. Royal Mail delivers international mail to UK addresses.</li> </ul>
<p><b>Free end-to-end services</b></p>	
<p><u>Legislative petitions and addresses</u></p>	<ul style="list-style-type: none"> <li>• Petitions to Parliament, Addresses and Petitions to the Queen</li> </ul>
<p><u>Domestic and international services for blind or partially sighted persons</u></p> <ul style="list-style-type: none"> <li>• Up to 7kg</li> <li>• For certain eligible items related to blindness or partial sightedness</li> </ul>	<ul style="list-style-type: none"> <li>• Articles for the Blind and International Articles for the Blind</li> </ul>
<p><b>Addressee services</b></p>	
<p><u>Redirection services</u></p> <p>Service of redirecting postal item from one address to another, for a reasonable period of time</p> <p>Specific exceptions (e.g. not required for registered and insured items going outside of the UK)</p>	<ul style="list-style-type: none"> <li>• Redirections (up to 12 months, renewable for up to 12 months)</li> </ul>
<p><u>Poste restante services</u></p> <p>Post offices can be used as an addressee’s postal address</p> <p>Post offices will hold the mail for a reasonable period</p>	<ul style="list-style-type: none"> <li>• Poste Restante</li> </ul>

Retention services

Delay in delivering the items for a reasonable period

- Keepsafe (residential and business) – mail kept at a delivery office for up to about two months

Source: Ofcom / Royal Mail (2013)

## Section 4

# Approach to our review

4.1 This section summarises the scope and methodology of our review of postal users' reasonable needs.

### Scope of the review

4.2 The Act requires us to assess the extent to which the market for the provision of postal services in the United Kingdom is meeting the reasonable needs of the users of those services. However, to a large extent, in particular for individual users and small businesses, the postal market is effectively synonymous with the universal postal service provided by Royal Mail. A review of users' needs is also a pre-requisite under the Act for making any changes to the scope of the universal service, and this review therefore focuses on the current universal postal service, taking account of the provision of postal services by other postal operators where appropriate.

4.3 To assess the needs of users, we undertook market research to understand better their use of and needs from postal services. We wanted to have both depth and breadth of understanding of users' needs, leading us to conduct both qualitative and quantitative research. Both research strands were designed to complement each other, with the qualitative research moving beyond 'what' users say to 'why' they say it.

4.4 We engaged two independent research agencies to conduct this research. The research work strands were:

- A qualitative study, made up of deliberative sessions, asking users open questions about their use of the service, potential service improvements, and why users value particular features of the universal service. It identified and tested needs and preferences by asking them to consider hypothetical changes to the current service. It allowed respondents to consider both personal and societal needs. This research was conducted by Ipsos MORI; and
- Two quantitative surveys of residential users and businesses, conducted by TNS-BMRB, which included, firstly, questions to users about their postal usage and what is important to them and, secondly, questions to identify which features users value the most to elicit user needs ("conjoint analysis", also as part of the quantitative survey).

4.5 The qualitative research consisted of eight workshops of about 20 users in each, breakfast meetings and in-depth interviews with medium and large businesses. In total, 22 medium and large businesses and about 155 residential users participated in our qualitative research. The research was conducted in nine locations across the four UK nations, including deep rural and off-shore locations. The main workshops lasted 3.5 hours (businesses research sessions were shorter).

4.6 The quantitative study consisted of two large scale surveys:

- A residential survey consisting of face-to-face interviews with 4,085 residential users over 16 years old. Specific sub-groups were boosted to give us the ability to report on these (e.g. remote rural areas); and

- A business survey consisting of telephone interviews with 1,126 businesses. Specific sub-groups were boosted to give us the ability to report on these (e.g. high postal spend, remote rural areas).

4.7 The qualitative and quantitative strands of our research covered similar but not always identical issues, to enable us to cover as many aspects of the universal service as possible. In summary we tested the following aspects of the postal service with users (Table 4.1). More information on our research is available in Section 4 of our consultation document.

**Table 4.1: Aspects of the postal service tested in our quantitative and qualitative research**

Quantitative research	Qualitative research
Usage, including access to post boxes	Usage
Unprompted and prompted question about improvements Opinions about service changes (e.g. price changes, importance of guaranteed service, mail not delivered to door)	Spontaneous discussion about needs from the service and improvements to the service Opinions about Royal Mail's specific services, including smaller services and international services
Specific attributes tested as part of the conjoint analysis: <ul style="list-style-type: none"> <li>• Move from six days to five days for collections and deliveries;</li> <li>• Earlier collection times in rural and local post boxes;</li> <li>• Shift to later delivery times;</li> <li>• Change to First Class quality of service (80%, local mail delivered next day and national mail in two days);</li> <li>• Additional delivery slots (evening or Saturday); and</li> <li>• Price of First and Second Class service.</li> </ul>	Specific scenarios of changes to the universal service: <ul style="list-style-type: none"> <li>• Move from six days to five days for collections and deliveries;</li> <li>• Emptying boxes at the same time as deliveries made (resulting in earlier collection times);</li> <li>• Shift to later delivery times; and</li> <li>• Change to First Class quality of service – local mail delivered next day and national mail in two days.</li> </ul>
A scenario (tested separately) testing a single two-day service, with variations in quality of service and price <sup>17</sup>	Another specific scenario tested was: a single two-day service (First Class and Second Class replaced with single tier two day service )
Social benefits question	Discussion about social benefits

Source: Ofcom (2012)

<sup>17</sup> This scenario was originally intended as part of the trade-off analysis, but the pilots showed that the original trade-off exercise was too complex. We removed the two-day service scenario from the conjoint and tested it separately as it had already been tested in previous conjoint analysis undertaken by Postcomm and Consumer Focus in 2010, and we have some trend data on the use and preference for next day delivery. For references to previous research, see paragraph 4.29 of our consultation document.

4.8 We have also considered the legal requirements of the Postal Services Directive, Ofcom’s existing knowledge of the cost and benefits of postal services and practices in other countries. There were a number of other studies we drew on to inform our research, including recent research reports on postal usage from Ofcom and research on the needs of users from Consumer Focus.<sup>18</sup> Since our consultation was published, we have the benefit of further research to draw on, in addition to the responses submitted by stakeholders: a study on the affordability of universal postal services;<sup>19</sup> Ofcom “tracker” surveys of residential users on postal usage, undertaken in two waves in July-September 2012 and October-December 2012;<sup>20</sup> and a report from Consumer Focus on consumers’ knowledge of Royal Mail products.<sup>21</sup>

## Summary of our approach to “reasonable needs”

4.9 An objective of our assessment of “reasonable needs” is to check whether social welfare could be increased by increasing provision in areas which users believe are not sufficiently provided for by the postal market but are not disproportionately costly for Royal Mail to provide, and conversely to ensure that Royal Mail is not required to provide aspects of the service, the cost of which is disproportionate to the value to society.

4.10 In assessing whether the “reasonable needs” of users of postal services are being met, our general approach has been to consider the benefits to society of key features of the universal postal service and assess whether they are greater than the incremental costs of provision, and any costs of transition to Royal Mail.<sup>22</sup> That is:

- We considered hypothetical scenarios of reduced specification of the universal service. We estimated the costs that would be saved under that scenario and compared this with the benefits that would be lost to see whether the changes increase net social benefits – i.e. the total benefits to individuals and society from supplying a certain service minus the cost of supplying it; and
- We considered hypothetical scenarios of increased specification of the universal service. In practice, we did not seek further cost information for these scenarios, as previous evidence on these improvements suggested benefits may be small, and so potentially outweighed by the costs.<sup>23</sup>

<sup>18</sup> Consumer Focus, *Sense and Sustainability - A report for Consumer Focus by Accent on the Universal Postal Service*, 2012, <http://www.consumerfocus.org.uk/files/2012/07/Sense-and-sustainability1.pdf>.

<sup>19</sup> Ofcom, *The affordability of universal postal services*, March 2013, <http://stakeholders.ofcom.org.uk/binaries/post/affordability.pdf>.

<sup>20</sup> The data tables are available on: <http://stakeholders.ofcom.org.uk/market-data-research/statistics/>.

<sup>21</sup> Consumer Focus, *Getting the most from the post? – Consumers’ knowledge of Royal Mail’s products*, November 2012, <http://www.consumerfocus.org.uk/publications/getting-the-most-from-the-post-consumers-knowledge-of-royal-mails-products>.

<sup>22</sup> Most of Royal Mail’s cost data is expressed in terms of fully allocated costs, which include a portion of costs which are common to a number of other activities, rather than solely the costs that would be avoided if Royal Mail ceased providing these services, i.e. the incremental costs of that service. Our analysis of the costs and benefits of elements of the universal service uses incremental costs to assess the costs of provision because these are the costs that would be avoided if Royal Mail ceased providing these services.

<sup>23</sup> See section 4 of our consultation document for a discussion on the scope of our review. Ofcom, *Review of postal users’ needs*, October 2012, <http://stakeholders.ofcom.org.uk/binaries/consultations/review-of-user-needs/summary/condoc.pdf>.

- 4.11 The social benefit of the provision of the universal service includes the private benefits to individuals and businesses sending and receiving mail, but also the broader benefits to society as a whole which accrue, for example, by promoting inclusion and equality (we refer to the latter as the broader social value of the universal service). It is also possible that in some cases, altering the universal service may have knock-on effects on the provision of products outside the universal service that are supplied by Royal Mail or other mail providers, particularly if these products use the universal service network. We therefore considered the impact of theoretical changes on non-universal service products in our cost-benefit analysis where relevant.
- 4.12 The costs of the universal service are primarily the costs of providing services to meet the regulatory requirements, i.e. the “costs of provision”. In addition, however, there are other less tangible costs such as the costs of regulation and the potential for market distortion which may arise from current arrangements.<sup>24</sup>
- 4.13 We note that Royal Mail may incur costs in making changes to the universal service. These costs, which we refer to as “transition costs”, might include for example operational costs of re-designing the network, or costs associated with relocating resources. We consider that these costs should be taken into account when considering the costs and benefits of potential changes to the universal service, and in particular that the potential increase in net social benefits from extending or reducing the universal service must be sufficient to make it worthwhile incurring such transition costs. This implies that where there is only a marginal net benefit to society from a particular aspect of the universal service, it may be efficient not to modify the universal service if there are significant transition costs.
- 4.14 Our analysis of “reasonable needs” does not consider potential impacts of change on the profitability of Royal Mail. However, if we had identified that reasonable needs are or may be under- or over-provided for, then we would have considered whether changes may be required to the universal service described in the Order. As part of this, we would have expected to consider the impact of possible changes on the financial sustainability of the universal service.

## Summary of the measurement of benefits and costs

- 4.15 We set out at Annex 1 how we measured the benefits and the costs of aspects of the universal service, and the main results from our research and analysis. This is explained more fully in our consultation document. In summary:
- To measure the benefits to users of the universal postal service as well as specific aspects of that service, we commissioned qualitative and quantitative research. Both research strands complemented each other; in particular the qualitative research enabled us to consider in more depth the views of users. The quantitative surveys included questions aimed at eliciting users’ preferences for different aspect of the universal service (the conjoint analysis), and gave us two measures relating to the needs of users. Firstly, the measure of “utility” enabled us to see how much more users were willing to pay on the price of a First Class

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<sup>24</sup> For example, Royal Mail’s universal service products are exempt from Value Added Tax (VAT) and may compete to some extent with commercially provided products on which VAT is payable, potentially resulting in some distortion to competition. This was discussed for instance in Postcomm, *The building blocks for a sustainable postal service - Removing bulk products from the universal service and clarifying the status of other universal service products - a decision document*, August 2011, <http://stakeholders.ofcom.org.uk/binaries/post/2005.pdf>.

stamp to retain a feature of the service; and secondly, the measure of “tolerability” or “acceptability” measured the percentage of users who found a change to the service “tolerable”, i.e. who would continue to use the service. The results on users’ willingness to pay also enabled us to estimate the total private value of specific aspects of the universal service to respondents of the quantitative research. Our results on the tolerability of the service and changes to it helped inform our view on the impact of a change on social benefits.

- To measure the costs of specific aspects of the service, we asked Royal Mail to provide us with estimates of incremental costs of providing the service. These estimates were reviewed for us by external consultants. As highlighted by Royal Mail, these cost estimates are hypothetical and high-level.

## **Respondents’ comments on our approach**

- 4.16 The comments made by respondents to the consultation on our approach are summarised at Annex 2, together with our response to those comments.

## Section 5

# The acceptability of the current universal service to users

- 5.1 This section sets out our conclusion that overall the reasonable needs of users are currently being met by the postal market. In this section we present evidence and responses relating to the universal postal service as a whole, and discuss specific aspects of the universal service in the following chapters.
- 5.2 While the universal postal service as a whole has many characteristics, as we outline in Section 3, the core requirements set by the Act are the collection and delivery of letters Monday to Saturday (Monday to Friday for other postal packets), at a uniform, affordable price, everywhere in the UK. The Act also requires the universal postal service to include registered and insured services, international services, and two free services (services for blind and partially sighted people and petitions and addresses).
- 5.3 The Order and regulatory conditions issued by Ofcom require Royal Mail to provide the universal postal service according to specific characteristics. In particular, they require a Priority (next day) service, provided by Royal Mail via the current First Class service; a Standard (three day) service, provided via the current Second Class service; registered and insured services, provided via the current Special Delivery Next Day (up to 10kg);<sup>25</sup> and their international equivalents. While we do not require Royal Mail to collect and deliver the mail at specific times, Royal Mail must notify us of any changes to the times it aims to provide collection and delivery services so that we can assess the impact of any proposed changes.

## Summary of the evidence presented in the consultation

- 5.4 In our consultation we presented first our research evidence in relation to the universal postal service in general. We highlighted that, in most respects, the current service largely satisfies users' "core" needs: trust; simplicity; a range of services (because users want to be able to meet the following three "core" needs in different circumstances); delivery speed; affordability/value for money; the desired level of control<sup>26</sup> about mail delivery (such as tracking the mail); a postal service that fits with the demands of modern life; and finally for larger businesses, predictability of delivery times.
- 5.5 We found that users are generally satisfied with the service. In addition, participants in the qualitative research considered that hypothetical changes to the current service were generally acceptable. This evidence is supported by the quantitative

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<sup>25</sup> For items weighing over 10kg, the registered service is provided for via First Class with Royal Mail Signed For, and the insured service is provided for via Special Delivery guaranteed next day by 1pm. See table 3.1 in Section 3.

<sup>26</sup> For more valuable or time-sensitive items participants of the qualitative research said that a level of control is important. In practice this involves using services such as tracking the mail, or guaranteeing when it arrives, or ensuring the predictability of an arrival timeslot.

research: the least acceptable combination of changes tested was still acceptable for over eight out of ten survey respondents.<sup>27</sup>

- 5.6 We also found that there were areas where the needs of users appear to be changing, notably in relation to delivery speed and a service that fits with the demand of modern life. We discuss these issues in more detail in our assessment of reasonable needs below and in later chapters.
- 5.7 We noted that habits in communication patterns were changing and that users' overall high tolerability of changes to the postal service should be seen in that context. Our consultation identified the increase in the availability of other forms of communication, and noted that, correspondingly, both our qualitative and quantitative research showed that users were using the post less, particularly for sending and receiving official documents. Although a minority of users prefer to use postal services, users generally acknowledge a decline in use of, and reliance on, post, with a shift identified by both our qualitative and quantitative research from sending letters to using electronic media and greater receipt of packets due to purchases on the internet.
- 5.8 Our research evidence is also consistent with the general decline in letter volumes<sup>28</sup> and show that the volume of mail reportedly sent by residential users is low compared with the volume of mail sent in 2006, at an average of 1.5 items per week compared with 3.5 items per week in 2006.<sup>29</sup> While businesses are generally using post more than residential users (the mean average monthly spend for businesses is £245), a relatively small number of businesses account for much of the spend: five per cent of businesses spent over £450 a month, while 45% of businesses spent under £10 per month.
- 5.9 Users in our qualitative research identified broader social value from the universal postal service, for instance in supporting rural communities, and to some extent in supporting the elderly, because older users are more likely to rely on the universal postal service for communicating with others. However, in many cases, users thought other forms of communication, such as emails and the internet more generally, were now more important than post in generating broader social value.
- 5.10 Underlying the evidence that users are generally satisfied with the universal service, but rely less on the service than in the past, are some differences for different types of postal users:
- Among residential users, our quantitative research showed that post is more important to users aged 65+, disabled users and housebound users, and those in rural areas, deep rural and offshore areas. In particular, our qualitative research found notable differences in how older and younger residential users use postal services. Older users feel more of an attachment to post than electronic methods of communications, with some conducting their financial transactions on paper for security and safety reasons. Younger users are sending very little post except official forms, application forms and packets, and their reliance on the post is primarily from a receipt-of-goods-and-products perspective. Rural and urban

<sup>27</sup> The quantitative research shows that 92.5% of residential users and 93.9% of business users find the current service tolerable, while 86.7% and 81.7% respectively find the "least acceptable" scenario still tolerable.

<sup>28</sup> The volume of mail in the UK has fallen by about 25% between 2005 and 2011, from 22.3bn items to 16.6bn items. Ofcom, *The Communications Market Report*, 18 July 2012,

[http://stakeholders.ofcom.org.uk/binaries/research/cmr/cmr12/CMR\\_UK\\_2012.pdf](http://stakeholders.ofcom.org.uk/binaries/research/cmr/cmr12/CMR_UK_2012.pdf).

<sup>29</sup> Postcomm Customer Surveys (2006), see section 4 for full reference.

users had different core services preferences, with rural users tending to be more sympathetic to the postal service and less demanding in terms of quality of service.

- Our research found that size of business (which is linked to spend on post) is an important factor in understanding responses from businesses, with smaller businesses less likely to use, and value, post than larger businesses. Despite this, our qualitative research identified that many small businesses have not yet moved their payment systems online and are still receiving payments in the mail by cheque. Post therefore has a direct impact on cash flow, magnifying its importance to small businesses.

5.11 Post also remains important for certain types of communications, in particular personal communications and packets. For instance post is one of the most frequently used methods to send greetings.<sup>30</sup> Users' reasons for continuing to use postal services seem to be changing, with the emotional significance of post becoming relatively more important.<sup>31</sup> Most users still rely on post to send and receive packets, for instance our quantitative research shows that 35% of residential users now receive packets at least once a month, a figure which has increased from 27% in 2010. Residential users were also likely to anticipate that personal communications and packets would continue to go by post. Post also remains important for "formal" mail, although this may be in decline.<sup>32</sup>

## Responses to the consultation

5.12 The majority of respondents highlighted the importance of the universal postal service to users. There was general consensus that users' needs were being met, although some respondents considered that the scope of the universal postal service is wider than it needs to be to meet the reasonable needs of users and were open to possible changes to the universal service requirements.

### The reasonable needs of users from the current universal service

5.13 Most respondents<sup>33</sup> highlighted the importance of the current service and/or tended towards maintaining the status quo. A reduction in the current service provision was seen, by implication, as not meeting the needs of users. Apart from improvements relating to packet services, there were few suggestions from respondents that the reasonable needs of users were not being met by the current service. As discussed later in this section, the key concerns related to the impact of potential changes, in particular on vulnerable users.

5.14 Royal Mail believed that the main conclusion to be drawn from our review is that the current universal service is satisfying users' needs. Both Royal Mail and the CWU

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<sup>30</sup> Ofcom's Communications Market Report (2012) shows 58% of users use post to send greetings.

<sup>31</sup> Ipsos MORI, *Postal Services: a consumer perspective. Qualitative research with residential consumers and small business owners*, 2012, published alongside our consultation document.

<sup>32</sup> By formal mail, we mean general correspondence such as with businesses, organisations, and the Government, and bill payments/financial transactions. See paragraph 7.33 of our consultation document.

<sup>33</sup> Royal Mail, the FSB, RNIB, Age Cymru, the CWU, Intellect, the ACW, the ACS (except on the two-tier service), and Citizens Advice in so far as it believed the impact on users should be the primary consideration. The NFSP was concerned that we should consider the impact on post offices, an issue also raised by Citizens Advice, the FSB and the ACW. The ACNI also emphasised the importance of the service (but considered, too, that the research highlighted areas where the universal service requirements might be tweaked to better reflect the reasonable needs of users in the future).

argued that despite changes in the communications sector post retains a crucial function as part of the national communications infrastructure and that the postal network provides social and economic benefits beyond its core communications role.

- 5.15 Generally, individual respondents supported the status quo and/or suggested some improvements. Some individuals expressed a general lack of confidence in the services provided, arguing that there is a need for a more reliable service.
- 5.16 On the other hand, some respondents<sup>34</sup> believed that changes to the universal service requirements should be considered now or could be considered in future. Notably, Consumer Focus believed there would be considerable merit in merging First and Second Class and that there will be increasingly less need to maintain the current requirement for Saturday delivery and collection.
- 5.17 The MCF, DX Group and the DMA argued that the universal service should be kept to the minimum necessary to meet users' needs. DX Group argued that the central result of our research was that the long held beliefs about users' needs of postal services are substantially less robust than in the past, and not that, as we noted in our consultation, "the current service largely satisfies users' core needs". The MUA considered that, as price reductions could be brought about by reductions in Royal Mail's cost base resulting from changes to the characteristics of the universal service, there are large mail users ("super users") who may be prepared to sacrifice speed for lower prices and increased reliability.

### **Needs for a simple service, and a range of service**

- 5.18 Although concluding that the current universal service meets (if not exceeds) the reasonable needs of users, Consumer Focus also believed that the fact that postal users are not always able to access the features of the universal service to meet their requirements is exacerbated by users' overall low awareness of the features that universal service products provide, a point echoed by the ACNI.
- 5.19 Royal Mail particularly highlighted that one of the core user requirements is "choice" and that this would be diminished by a reduction in Royal Mail's current range of services.

### **Concerns relating to potential modifications of the existing service**

- 5.20 The main concerns of respondents related to the impact of potential changes to the universal service requirements on them or their members. In particular, Consumer Focus, Citizens Advice, the FSB, RNIB, Age Cymru, the CWU, the NFSP, the ACNI, the ACW and the ACS expressed concerns as to the impact any potential changes to the postal service may have on users in the nations and vulnerable users more dependent on the postal service than the rest of the population, such as blind and partially sighted people, older people, rural users, small businesses, and disadvantaged urban users. Citizens Advice recognised there may be a case for amending the universal service obligation to reduce costs for Royal Mail, but believed the impact on users should be the primary consideration. In particular, Citizens Advice notes that the lower tolerances for change were concentrated among people living in rural and deprived areas and older people.

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<sup>34</sup> Consumer Focus, the DMA, the ACNI, the MCF, DX Group, and to some extent the MUA in so far as large mailers may trade off speed for lower prices and increased reliability.

- 5.21 Consumer Focus commented that users in rural areas across Scotland, Wales, Northern Ireland and England are more reliant on traditional forms of communication, such as post, because of the limited availability of alternative forms of communication. Consumer Focus noted that it is an important and consistent demographic finding that there are differences in the responses of postal users in rural and urban areas. The ACNI emphasised that users in Northern Ireland benefit more than users in general from the guarantee of deliveries to and from anywhere in the UK at a uniform price.
- 5.22 Consumer Focus also believed that one reason that users are not always able to access the right universal service for them comes from the way Ofcom has described the characteristics of the universal service in the Order.
- 5.23 Royal Mail noted that it is currently implementing a major transformation programme which it says is driving real improvement in cost efficiency and optimising the network. Royal Mail also stated that any major alteration to the universal service, which involved further major structural change, would disrupt this programme.
- 5.24 Royal Mail and the CWU raised concerns that the potential reductions considered in our review would impact on the provision of other aspects of the service. For instance, Royal Mail explained that if the use of aeroplanes was reduced, as considered by some of our hypothetical scenarios (resulting in some cost savings but also in a lower quality of service of First Class), then some parts of the country would no longer have access to a long distance First Class next day service. Another example is the shared usage of the delivery network for both letters and packets.
- 5.25 Consumer Focus considered it is imperative that Ofcom acts now to ensure the future sustainability of the universal service and ensure the service does not become obsolete. Other respondents also considered that the current requirements may have some areas where they are over-specified and that therefore Ofcom should make changes and/or actively communicate to Government and Parliament that the scope of the universal service exceeds what is necessary to meet the reasonable needs of users (DX Group, the MCF, the DMA).
- 5.26 Some respondents (Citizens Advice, the NFSP, the FSB, and the ACW) raised concerns that a reduction in any of the services offered by Royal Mail could have a negative knock-on effect on the viability of the post office network, and that, in turn, a reduction in the post office network would have a negative impact on vulnerable users. The ACS also commented on post box density, and suggested a test to be applied before post boxes are removed, and for the process of installing new post boxes to be streamlined.

## **Our assessment**

### **The reasonable needs of users from the current universal service**

- 5.27 As explained in Section 4, to undertake our review, we commissioned market research on the views of users on the universal postal service overall. To assess users' reasonable needs, we have also considered the benefits to society of key features of the universal postal service – this includes both private benefits and broader social value. We have considered whether these benefits are greater than the incremental costs of provision, and any transition costs of making the hypothetical changes tested.

- 5.28 As highlighted by most respondents,<sup>35</sup> the universal postal service is highly valued by residential users and businesses. Most responses tended towards not making any changes to the universal service requirements and provision. In contrast, some respondents commented that our research indicated some over-provision.<sup>36</sup> In particular, Consumer Focus provided additional research and concluded that the current universal service meets (if not exceeds) the reasonable needs of users in terms of the postal features the universal service provider is required to offer.
- 5.29 Primarily, our research shows that, despite users in general increasingly substituting post with other forms of communication, the current universal postal service is important to users. The evidence shows that users are generally satisfied with the current service; post remains important for some communications, in particular packet deliveries and greetings; post is particularly relied upon by some categories of users, such as those aged 65+ and rural users; and, finally, users identify some social benefits to post. We note that our regular postal “tracker” surveys also show high satisfaction with the service overall, at 85% of residential users.<sup>37</sup>
- 5.30 Specifically in relation to the broader social value of post, we noted in our consultation that the broader benefits to society of the universal service in terms of broader social value are very difficult to quantify. Generally, however, users identified that there are broader benefits associable with the universal service. In particular, participants in our qualitative research found that some benefits from the service were particularly related to specific categories of users: older, rural, housebound, disabled and low income users. Participants thought that post helped older users and users living in rural and deep rural areas feel connected and run their lives. Participants were also concerned about the security of housebound users, and the convenience of packet services for disabled users. Finally, participants were also concerned that post should not be too expensive for low income users. Any changes to the universal service that had an impact on these groups might affect the overall social benefits of the service.
- 5.31 Some of the responses highlighted the importance of postal services to different groups of users. We agree that not all users rely on post to the same extent and considered the impact of hypothetical changes on specific groups in our analysis of social benefits. In particular, our research found differences between the responses of users in rural areas and those in urban areas, and differences between age groups. We note the comment from Consumer Focus that the difference between rural and urban areas is an important and consistent demographic finding. Consumer Focus pointed out that postal users in rural areas across Scotland, Wales, Northern Ireland and England are more reliant on traditional forms of communication such as post because of the limited availability of alternatives, for instance they are more likely to have slower broadband speeds or no access to broadband.

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<sup>35</sup> Royal Mail, the FSB, RNIB, Age Cymru, the CWU, Intellect, the ACW, the ACS (except on the two-tier service), the ACNI, Citizens Advice in so far as it believed the impact on users should be the primary consideration, the NFSP in so far as it was concerned that we should consider the impact on post offices, and the ACNI.

<sup>36</sup> Consumer Focus, the DMA, DX Group, the MCF, the ACNI, to some extent the MUA, in so far as the MUA noted that some “super users” of post may be prepared to trade speed of delivery for lower prices and reliability of service..

<sup>37</sup> This result is based on interviews with residential users carried out in two different quarters between July and December 2012. In response to QE2 about overall satisfaction with the postal service, 83% of respondents in quarter 3 (July-September 2012) and 88% of respondents in quarter 4 (October-December 2012) are satisfied with the postal service. The data tables are available at: <http://stakeholders.ofcom.org.uk/market-data-research/statistics/>.

- 5.32 Our research results, taken together with consultation responses, therefore suggest that the reasonable needs of users are met by the current specification of the universal service. The research also shows that, while post remains important, particularly for some categories of users, the needs of users are changing over time. Overall, they tend to rely less on post for communication,<sup>38</sup> but rely more on packet services for the exchange of goods.
- 5.33 In relation to DX Group's comment about the interpretation of our own research, as we highlight in Section 7 of our consultation document, for the service as a whole, we have identified that users are generally satisfied and post remains important for some personal communications, formal mail and packets. In addition, while some users would tolerate some significant reductions in service, particularly as an alternative to price increases, this does not mean that such reductions would necessarily be socially optimal. This is because we consider all our evidence in the round, including the costs of providing the service, because we consider the broader social value of the service (which includes the reliance of specific groups of users on the service overall and aspects of the service), and also because tolerability and utility (from which we derive the monetary value of a benefit of an aspect of the service) measure two different aspects of users' preferences. We explain this in more detail in Annex 2.

### **Needs for a simple service, and a range of services**

- 5.34 Consumer Focus highlighted that one reason users do not necessarily choose the best service to meet their needs is that they have low awareness of the features of Royal Mail services. This is also a result from our qualitative research. In addition, our research found that users expressed a need for simplicity, and identified a number of areas where this could be achieved by ensuring that users have the right information available. Many users lack clarity over differences between Special Delivery and Recorded Signed For; as we discuss in relation to the next day service, there are also some misconceptions about the First and Second Class services; and, finally, users are not always aware of all the characteristics of the service, notably redelivery of items that cannot be delivered first time.
- 5.35 Post is a small expense within users' overall budgets, and therefore they have little incentive to be familiar with all of Royal Mail's service range. However, we believe that low awareness and misperceptions about service features is an important research result for Royal Mail to act upon.
- 5.36 Royal Mail argued that the research identifies that users have a "core" need for a range of services; that choice is a major factor in keeping post relevant; and that some of the hypothetical choices presented by Ofcom would reduce choice for users. While we agree choice was identified as a core need of users by the qualitative research, the need for a range of services needs to be put in context: this was identified as a need which users said would allow them to trade off between services and meeting other needs such as speed or value for money. In addition, the research also identified a need for simplicity, i.e. the ability to easily calculate what to expect from a service which would allow users to make an informed decision and plan one's usage of post. There is therefore a balancing act in meeting the needs of users – they may be prepared to trade off between choice and simplicity.

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<sup>38</sup> Our qualitative study shows that residential users' reliance is more on the receipt of 'official correspondence' and parcels; except for a few types of content where original documents need to be sent. These are important, but not frequent, occasions. Business users are sending a wide range of items, but also turning to alternative providers or means of communications.

- 5.37 Some of the individual responses emphasised the importance of the reliability of the service to users, for instance that the item should arrive next day (if First Class) or to the right address. This supports the importance to users, identified in our own and Consumer Focus's research, of a simple, predictable service. We believe, however, that the current requirements for a high quality of service target for delivery services, and a high target for all packets to be delivered to the right address or recipient,<sup>39</sup> address these concerns.
- 5.38 We also note the criticisms of Royal Mail's customer service and, while customer service is principally a matter for Royal Mail, we believe it is important that Royal Mail enables its customers to access the right services for them. We note that Royal Mail highlighted in its response its initiatives to become a more customer-focused company.

### **Concerns relating to potential modifications of the existing service**

- 5.39 As explained in Section 3, the Act requires us to assess the extent to which the postal market is meeting the reasonable needs of users of postal services before making or modifying the Order which describes the characteristics of the universal service. Any proposed changes would therefore need to be contingent on our findings as to the extent the postal market meets the reasonable needs of users.
- 5.40 Some responses highlighted the need for Ofcom to take into account the impact of any potential changes on vulnerable users and small and micro businesses. We took this into account when considering social benefits and agree any further work on changing regulatory requirements would need to take into account the impacts on vulnerable users and small businesses.
- 5.41 Part of Royal Mail's argument for keeping the current requirements was that its modernisation programme is the best way to meet the challenges of the fall in mail volumes, and the increased use of packet services. This is a different question than the one set out by the Act for Ofcom, i.e. to what extent users' reasonable needs are being met. In effect Royal Mail argues that it is able to meet the current regulatory requirements even with the current ongoing changes in postal users' behaviour, rather than whether Royal Mail should continue to be required to provide those services in order to meet users' reasonable needs, which is the question considered by Ofcom. In addition, if any changes were made to the regulatory requirements, Royal Mail would have to consider how best to meet its obligations to provide the universal service as described in the Order. However, there is nothing in regulation preventing Royal Mail from providing additional services over and above those required to be provided by the regulatory requirements.
- 5.42 We agree that if any changes to the universal service requirements were to be proposed, they would need to take into account the practical impact of specific changes on the provision of the service overall. Both Royal Mail and the CWU highlighted the synergies between different services provided by Royal Mail, and clearly this would also need to be considered. In addition, our approach to the review of users' needs is to consider the impact on society of a change to the universal service and this includes impacts on users of non-universal service products.<sup>40</sup>

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<sup>39</sup> Respectively, DUSP 1.6.1 (quality of service targets for end-to-end services) and DUSP 1.10.2 (target for postal packets deemed delivered).

<sup>40</sup> In our consultation we make clear that we consider these impacts where relevant in qualitative terms (paragraph 5.5).

- 5.43 Contrary to the responses highlighting the risks in making changes to the universal service, some respondents considered that Ofcom should act now to ensure the future sustainability of the universal service (Consumer Focus) and/or actively communicate to Government and Parliament that the scope of the universal service exceeds what is necessary to meet the reasonable needs of users (DX Group, the MCF, the DMA).
- 5.44 As highlighted above, any proposed changes would derive from our conclusions on the extent to which the needs of users are being met by the postal market, and whether we consider that changes to the characteristics of the universal service as specified in the Order are needed. We agree with Consumer Focus, however, that any changes to the universal service would require a lengthy process of analysis, dialogue, and consultation with all stakeholders, that it would take time for changes to be implemented, and that it would be likely to be controversial. We are aware that, necessarily, our scenarios for change were hypothetical, and that it could take several years for Royal Mail to make substantial changes to its network and for Royal Mail and users to experience benefits from these changes.
- 5.45 Specifically, Consumer Focus believed that part of the reason that postal users are not always able to access the features of the universal service optimally arises from the way the characteristics of the universal service are set out in the Order by Ofcom. Consumer Focus believed that the core consumer needs that Ofcom identifies in its research would be better met by a single non-priority delivery product with a high Quality of Service delivery standard, a stand-alone affordable next day service, and bolt-on security enhancements such as tracking. We discuss the issue of a next day service in more detail in Section 7, but in summary it is important for Ofcom to continue to understand the needs of users of postal services and how these needs may change in the future and this is an issue which we will keep under review as the postal market develops.
- 5.46 In response to concerns about the impact on the post office network, there is a link between Ofcom's regulatory duties and the post office network, in so far as Ofcom requires Royal Mail to provide sufficient access points to meet the reasonable needs of users, and in practice, access points for packets and value-added items are provided for by post offices.
- 5.47 However, as long as there is reasonable access to universal services, there is no reason for Ofcom to intervene and we have no evidence that there are insufficient access points for packets and value-added items to meet the reasonable needs of users at this time. We also have no evidence that there is a need to change the current regulation of access points capable of receiving larger or value added items at this time, because access to post offices is already regulated by the Government. The Government has set more detailed access criteria for access to post offices than currently exist in the regulatory condition,<sup>41</sup> and has agreed a financial settlement with Post Office Ltd to maintain the provision of post offices at current level.
- 5.48 In response to comments from the ACS on post box density, as we stated in our consultation, we committed to looking at access points for items that can fit through a post box and do not use premium services in both the Review of Regulatory

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<sup>41</sup> The requirement to provide access points to meet the reasonable needs of users is set out in DUSP 1.8, see <http://stakeholders.ofcom.org.uk/binaries/consultations/review-of-regulatory-conditions/statement/annex7.pdf> . The Government's access criteria for the post office network can be found in the Post office network report 2012, <http://www.postoffice.co.uk/sites/default/files/Post%20Office%20Network%20Report%202012.pdf>.

Conditions and in our March 2012 statement on the new regulatory framework for post.<sup>42</sup> We have published our consultation on the regulation of the provision of post boxes at the same time at this statement.<sup>43</sup> This consultation proposes to replace the current requirements regarding post box provision with a national requirement which will ensure a backstop level of consumer protection for all postal users everywhere in the UK, and increase protection in rural areas.

## Conclusion

- 5.49 Taking together our research and consultation responses, we conclude that the postal market is currently meeting the reasonable needs of users and is highly valued by residential and business users. Therefore, we have decided not to change the scope of the universal service as a result of this review.<sup>44</sup>
- 5.50 Our research also indicates that users' needs and preferences are changing to some extent, a finding we discuss in later chapters as well, and therefore it is important for Ofcom to continue to understand the needs of users of postal services and how these needs may change in the future. This is an issue which we will keep under review as the postal market develops to meet users' evolving needs.

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<sup>42</sup> As above, and Ofcom, *Securing the Universal Postal Service – Decision on the new regulatory framework*, 2012, <http://stakeholders.ofcom.org.uk/consultations/review-of-regulatory-conditions/statement/>.

<sup>43</sup> Ofcom, *Regulation of the provision of post boxes – Consultation on a proposed modification to the current regulatory obligations on Royal Mail for the provision of post boxes (DUSP 1.8)*, March 2013, <http://stakeholders.ofcom.org.uk/consultations/provision-post-boxes/>.

<sup>44</sup> After the completion of this review, we will need to make some minor amendments to the Order, though these are merely in order to take into account the comments of the Joint Committee on Statutory Instruments and clarify the current legal requirements, and to ensure that the detailed wording of the Order correctly reflects Ofcom's policy on the universal postal service as set out in our 2012 statement on the new regulatory framework (see link above). These minor amendments will not represent any changes in Ofcom's policy and will be consistent with our conclusions in this document.

## Section 6

# More convenient packet services

6.1 Section 31 of the Act requires that the universal postal service must include a service of conveying postal packets at affordable, geographically uniform prices throughout the UK. This section is concerned with postal packets other than letters. Users can send packets in the UK using the following services from Royal Mail that fall within the scope of the universal service: First Class, Second Class and Special Delivery Next Day services.<sup>45</sup> In addition to the services available to senders, Royal Mail also offers services to the recipients to ensure correct delivery of their packets.

## Summary of the evidence presented in the consultation

6.2 In our October consultation we set out our research, which indicated that some groups of residential users and businesses overall would benefit from a more convenient packet service.

6.3 In our qualitative research:

- Residential users noted that large item and packet deliveries were often not successful first time and suggested a service with more flexibility to deliver successfully first time to disabled or elderly people;
- Younger people in particular said they need postal services to be efficient, regularly updated and modern. For example, residential delivery times are during the day, and delivery offices are also (largely) only open during the day, which residential participants said was out of step with their own working lives;
- Full time workers and those with children also said that delivery office opening times were inconvenient and, crucially, out of step with other businesses which now open later throughout the evenings and weekends as standard;
- Businesses expressed the need for a fast service in some situations when it is critical that items are received by a certain time. Business participants also indicated they would like better tracking of packets and greater flexibility of delivery times and delivery office opening hours; and
- Small businesses said they would also like more control over delivery. They thought packet delivery was too unpredictable when sending items to residential users (regarding, for instance, the time of delivery, or alternative ways for the recipient to receive the packet).

6.4 In our quantitative research, respondents were asked which of a list of improvements to the postal service they would most like. One fifth (19%) of residential respondents said evening delivery of items that cannot fit through the letterbox. Weekend delivery

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<sup>45</sup> Royal Mail announced changes to its packet portfolio on 1 March 2013, to be applicable from 2 April 2013. For more information, see <http://www.royalmailgroup.com/sites/default/files/Decision%20Document%20Final.pdf>. Up until 2 April 2013, users can also send packets using Standard Parcels. From that date, Standard Parcels will be part of the Second Class service, which will therefore be available for items up to 20kg.

was also one of the most popular improvements (ten per cent).<sup>46</sup> This means that overall 29% of users most liked, as an improvement to the service, the delivery of packets at a time when they are more likely to be able to receive packets.

- 6.5 Our qualitative research also indicated that there are some areas where more convenient services could create broader social value. This relates to the role that internet shopping plays in rural communities where access to nearby services might be limited.
- 6.6 Another area of social value that was spontaneously mentioned in our qualitative research was “Providing a cost effective universal service that was accessible to all”. Some respondents to our qualitative research expressed concern that some groups, particularly those with low incomes or mobility problems, may find travelling to a delivery office too difficult.
- 6.7 We did not seek to quantify the costs of these types of service changes. Changes to the way Royal Mail handles the delivery of packets could have significant costs. For instance, evening delivery would require delivery staff to undertake a separate delivery round. However, some changes could potentially be lower cost to implement, such as extending hours for collecting packets at delivery offices.

## Responses to the consultation

### More convenient packet services

- 6.8 Generally, responses to the consultation supported the research results that users would like more convenient packet services. In particular, Consumer Focus noted that many postal users see the current system as frustrating and no longer in line with the way they live, arguing that more flexible delivery options that fit with the needs of modern postal users would benefit retailers and, ultimately, delivery operators themselves. Similarly, the CWU supported the evidence that users expect more convenient packet delivery options. The ACNI was concerned about Royal Mail’s lack of innovation and general approach to packet delivery. It noted that there is plenty of anecdotal evidence that the collection arrangements for packages that could not be delivered are too unwieldy.
- 6.9 The ACS, the CWU and RNIB noted the importance of maintaining the universal service requirements in relation to packets in order to protect those in isolated areas and blind and partially sighted people that depend on e-commerce. They highlighted the broader social value that an affordable and uniform service creates, commenting that those rural users who are often unable to receive packets or pay high premiums for delivery are often also those with limited access to shops. Consumer Focus also raised concerns in relation to inconvenient delivery office locations, in particular for postal users in rural and remote areas, for whom journeys to the delivery office can be lengthy and expensive.

### Improvements to the service

- 6.10 Both Consumer Focus and the CWU suggested improving packet services by extending opening hours of delivery offices, including opening in the evenings and weekends. Consumer Focus argued that inconvenience and costs to postal users and Royal Mail caused by failed delivery attempts would be improved by

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<sup>46</sup> When first asked without a prompt, 4% of residential respondents and 1% of business respondents said evening delivery of items that cannot fit through a letterbox.

requirements for longer opening hours at Royal Mail's delivery offices. Specifically, Consumer Focus suggested introducing regulated density requirements and opening hours for packet pick-up points, if Royal Mail does not improve its provision of packet pick up points (see also sub-section below). The ACNI made a related point, that little thought has gone into the location, opening times and customer service of delivery offices, and that Royal Mail needs to rethink how it engages with postal users in this area.

6.11 Several of the responses gave other suggestions of ways in which Royal Mail may be able to improve its packets service:

- The ACNI suggested making greater use of technology for tracking of packets so that deliveries can be made in pre set time slots, potentially for a fee and potentially providing an evening service in the future;
- The CWU noted that user dissatisfaction is often linked to poor management of delivery operations, so this should also be considered alongside other alternative options. In addition the CWU had some other suggestions for improving packet delivery – such as improved local knowledge/local knowledge databases and potential early morning large packet deliveries;
- Individual respondents also commented that more convenient packet delivery services would be preferred, such as earlier or later delivery times when people are more likely to be at home and there would be less need for redeliveries and collection from delivery offices; and
- The ACS suggested Ofcom may wish to encourage other carriers to make more use of Royal Mail for 'final mile' deliveries, to reduce the additional costs charged by other carriers for delivery to remote areas.

6.12 Royal Mail referred to several improvements it has made to its packet delivery services, including a recently completed "major refresh" of its consumer packets portfolio.<sup>47</sup>

6.13 Several stakeholders were optimistic about improvements made by the introduction of the delivery to neighbour scheme in October 2012, with Royal Mail, Consumer Focus, the CWU, the ACNI and the ACS all referencing the scheme as a sign of improved services. The ACS welcomed schemes such as this and the similar "Leave in a Safe Place" as they are particularly important for users living further away from delivery offices and post offices.

### **Regulatory intervention and other comments in the responses**

6.14 Consumer Focus stated that generally it does not consider regulatory intervention to be the solution to the problem of delivery inconvenience. Consumer Focus argued that being the universal service provider already lends Royal Mail a competitive edge over competitor packet operators, and considered that it is Royal Mail's responsibility to take advantage of its position. However, Consumer Focus also supported a possible regulatory solution, should encouraging Royal Mail to improve the accessibility of parcel pick up points prove unsuccessful.

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<sup>47</sup> As mentioned previously, Royal Mail announced changes to its packet portfolio on 1 March 2013, to be applicable from 2 April 2013. For more information, see <http://www.royalmailgroup.com/sites/default/files/Decision%20Document%20Final.pdf>.

- 6.15 DX Group noted the competitiveness of this part of the market and the many initiatives addressing collection and delivery issues, and said that it sees no need for Ofcom to intervene in this area.

## Our assessment

### Need for more convenient packet services

- 6.16 Overall, consultation responses supported the evidence from our research that users would like more convenient packet services and suggested improvements to the current service.
- 6.17 Ofcom did not seek to measure the costs of potential changes to the universal service in respect of more convenient packet services in our consultation. Possibly as a result, few respondents commented on whether potential changes were reasonable needs insofar as costs are proportionate with the benefits. However, the CWU agreed that increasing opening hours at delivery offices providing packet collection points was likely to be a relatively low cost way of meeting users' needs. The CWU also thought lower redelivery costs might benefit Royal Mail.
- 6.18 A number of respondents also commented on the broader social value associated with a universal packets service. We agree that a uniformly and affordably priced packets service creates broader social value by contributing to the accessibility of rural communities, as highlighted in our qualitative research. We consider that increased delivery convenience helps to support this social value, as it makes universal packet services more accessible.

### Improvements to the service

#### Improvements to packet pick up points

- 6.19 Consumer Focus and the CWU both suggested extended hours at delivery offices. We identified this as being an improvement to delivery services likely to be lower cost to implement than others suggested such as delivery notification, although we noted that we have not estimated the incremental costs of this service. The CWU agreed that this change is likely to incur relatively low costs.
- 6.20 We note that Royal Mail currently operates extended opening hours on a Wednesday evening and Saturday at just over 500 delivery offices. These offices are open until 8pm on a Wednesday and, in general, 2pm on Saturday although some open later. This represents around 40% of all delivery offices meaning that a significant proportion of offices already provide extended opening.
- 6.21 In addition, Consumer Focus suggested introducing a density requirement for packet collection points that would require a free packet collection service (i.e. excluding Local Collect which is a charged for service) from an increased number of collection points. Participants in our qualitative research thought that journeys to delivery offices could be particularly detrimental to those who suffer mobility problems and for those on low incomes. However, distance to delivery office was not an improvement that was spontaneously suggested by other participants in our qualitative research.
- 6.22 Finally, our qualitative research found that there was low awareness of the "Local Collect" service which allows collection from a post office for a fee of £1.50, and of the option of packet redelivery. These services provide an alternative to travelling to a delivery office which may be further away.

## Evening delivery

- 6.23 The ACNI and the CWU suggested that users' needs would be better met by potentially providing an evening delivery service in the future. Evening delivery was raised in our qualitative research as better meeting the preferences of some users.
- 6.24 Our quantitative research found that evening delivery increased the attractiveness of postal services but that users had only a small willingness to pay to have the option of choosing evening or Saturday delivery for an additional fee (the fee was priced at £4.50).<sup>48</sup> This is in line with evidence we submitted in our consultation that a trial Royal Mail carried out of evening delivery found only limited uptake of the service. However, we note that Royal Mail can, and does, offer an evening delivery service on a contractual basis.<sup>49</sup>

## Other improvements

- 6.25 The ACNI suggested that users' needs would be better met by providing deliveries in pre-set time slots. Royal Mail currently provides Special Delivery Next Day which guarantees delivery by 1pm and is within the scope of the universal service and Special Delivery 9am which guarantees next day delivery by 9am but is not within the scope of the universal service.
- 6.26 We did not assess the costs of pre-notification in our October consultation but we did note that some service changes would require more widespread tracking in Royal Mail's network which could have cost implications. Royal Mail currently does not track universal service mail other than Special Delivery through its network<sup>50</sup> although it does record delivery for products that require proof of delivery.<sup>51</sup>
- 6.27 The ACS suggested Ofcom may wish to encourage other carriers to make more use of Royal Mail for "final mile" deliveries, potentially by allowing Royal Mail to charge lower access prices in cities where delivery competition is limited. Royal Mail currently provides access products outside the universal service which can be priced on a zonal basis.<sup>52</sup> Royal Mail is required by Ofcom to price these products fairly and reasonably and should take into account the alignment of zonal prices with costs. However, the regulation of zonal access prices is outside the scope of this consultation.
- 6.28 Further suggestions for changes to packets services were made by the CWU. For example, it suggested that one way to improve delivery services would be to address management problems at delivery office level and potentially for Royal Mail to develop local knowledge databases. We consider these are operational matters for Royal Mail.
- 6.29 In relation to all the improvements identified, as we discuss in the following section, we believe that current and future improvements made by Royal Mail and to some

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<sup>48</sup> We recognised in our consultation that this small willingness to pay could perhaps reflect attitudes towards the £4.50 indicative fee we specified for this option.

<sup>49</sup> Since our consultation was published, we have noted however that Royal Mail offers evening delivery within the M25 for at least one company (L'Occitane, see <http://uk.loccitane.com/terms-conditions,83,1,29597,265233.htm#1>).

<sup>50</sup> Royal Mail also offers tracking on Special Delivery 9am and Royal Mail Tracked, neither of which are provided to meet its regulatory obligations.

<sup>51</sup> Recorded Signed For, available on First and Second Class mail on request.

<sup>52</sup> This means that Royal Mail can charge different access prices in different geographic zones.

extent services from other providers are a more appropriate means of ensuring more convenient packet delivery than extending the scope of regulation.

### **Regulatory intervention and developments in the packets market**

- 6.30 Consumer Focus and DX Group both argued that regulatory intervention may not be the answer to improving delivery services because of the incentives on Royal Mail to improve its services in response to competition. Consumer Focus noted in its response that regulation may still be necessary if the market fails to deliver (in particular in rural areas) and that Ofcom needs to be vigilant to prevent this.
- 6.31 We agree with this point, and at the same time as users highlighted their expectations of more convenient delivery, there are already changes taking place across Royal Mail's network which should contribute to meeting their needs. For example, there might be a diminished need for evening delivery if the delivery to neighbour initiative improves the success rate of daytime initial delivery attempts.
- 6.32 Royal Mail's response outlined changes to its packets portfolio which are currently underway. Some aspects of these changes relate to the issues raised in our consultation and in particular, Royal Mail reported that the trial of the delivery to neighbour initiative had high success rates with over 90% satisfaction from both recipients and neighbours. From 2 April 2013, Royal Mail is also extending the availability of signed for services for three-day items from 1kg up to 20kg.<sup>53</sup>
- 6.33 These changes are a commercial response by Royal Mail to a range of factors specific to the packets market. As we outlined in our consultation document, this sector is one that is experiencing growing traffic volumes and where there are alternatives to Royal Mail for some postal users: in our research we found that some respondents turned to other operators where Royal Mail was not meeting their needs although this was limited to certain types of users. This creates incentives for Royal Mail to improve delivery services in line with the rest of the market.
- 6.34 We recognise that alternatives are not available for many universal service postal users. This is particularly the case for those rural users who have less choice than those in urban areas when receiving packets as a result of restrictions on delivery to certain postcodes and surcharges by other operators. Our research also showed that some residential users did not consider using courier services because they are less well known, less well-trusted and not necessarily accessible to all.
- 6.35 However, developments in this sector such as the rollout of delivery to neighbour should benefit most postal users as they are implemented across all Royal Mail's network. Furthermore, the universal service requires Royal Mail to provide a service that delivers to every address in the UK at a uniform price and these requirements provide a level of protection to all users.
- 6.36 Therefore, overall, current and future improvements made by Royal Mail are a more appropriate means of ensuring the reasonable needs of users are met in this area than extending the scope of regulation.

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<sup>53</sup> For more information, see <http://www.royalmailgroup.com/sites/default/files/Decision%20Document%20Final.pdf>.

## Conclusion

- 6.37 Our research showed that postal users would like more convenient packet delivery in respect of universal service packet products. There are a variety of ways in which Royal Mail could make packet delivery more convenient and it is currently undertaking a refresh of its packet product portfolio in addition to having introduced the delivery to neighbour service.
- 6.38 We consider that benefits for postal users are more likely to be delivered through innovation by Royal Mail and other providers than through extending the scope of regulation. We therefore do not consider it necessary at present to include more detailed regulatory requirements in relation to packet delivery services in the universal service as a result of this review.
- 6.39 Royal Mail has an incentive to make these improvements because of the increasing availability of alternatives for some postal users and the opportunities for traffic growth in this sector. Whilst not all postal users have an alternative to Royal Mail we anticipate that alternative provision for some users will create benefits for all users as delivery services are provided through a single network. For example, the delivery to neighbour initiative should benefit recipients of bulk mail products<sup>54</sup> and products within the scope of the universal service equally.

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<sup>54</sup> Royal Mail tracked customers were already able to nominate delivery to neighbour through the safeplace service.

## Section 7

# Next day delivery

- 7.1 Currently, the universal service comprises a priority, next day service, as well as a standard, three-day service, as characterised in the Order and DUSP conditions. Royal Mail has notified us that it fulfils its obligation to provide the priority service by offering its “First Class” mail service, and the standard service by offering its “Second Class” mail service. Specific targets for the quality of service of First Class (93% next day) and Second Class (98.5% in three days) are set out in the DUSP conditions.
- 7.2 In our research, in order to ascertain users’ reasonable needs, we assessed the views of participants on a hypothetical alternative scenario of a single, two-day service, as compared to the current First and Second Class services. As part of the conjoint analysis, we also tested attitudes to changes to the quality of service targets.

## Summary of the evidence presented in the consultation

### Next day delivery

- 7.3 In our consultation document we explained that there is a trend towards less reliance on next day delivery. We found that users did not necessarily use First Class for “speed” and believed that a two-day service would meet their needs for everyday items.
- 7.4 We summarise the evidence on a need for a next day service below.

**Table 7.1: Summary of the evidence on the need for next day delivery**

Users value First Class	And their needs are changing
<p><b>First Class is widely used</b></p> <ul style="list-style-type: none"> <li>Users are more likely to use First Class: 59% of residential users send all or most First Class, businesses send an average of 66% First Class when sending non-bulk mail.</li> <li>Over 80% of residential users agree they will always need to send things by post. Of those, 57% say they would use First Class.</li> </ul>	<p><b>There is a trend for a decrease in usage</b></p> <ul style="list-style-type: none"> <li>Usage of First Class stamps has decreased in recent years, a downward trend which is likely to continue.</li> <li>The proportion of respondents using First Class all/most of the time has decreased since 2010.</li> <li>Generally users expect to send less mail in future, e.g. 22% of residential users expect to send less mail in three years, vs. 11% expecting to send more.</li> <li>The downward trend in First Class usage is part of a wider trend: users increasingly substitute other forms of communication for post: email, telephones, texts, as the internet and mobile phones are increasingly available.<sup>55</sup></li> </ul>

<sup>55</sup> 80% of households have internet and 92% of users have access to mobile telephony. Smartphone ownership rose by 12% to 39% of UK adults in 2012. Ofcom, *The Communications Market Report*, July 2012, [http://stakeholders.ofcom.org.uk/binaries/research/cmr/cmr12/CMR\\_UK\\_2012.pdf](http://stakeholders.ofcom.org.uk/binaries/research/cmr/cmr12/CMR_UK_2012.pdf).

**Users say they choose First Class for speed of delivery**

- 84% of residential users say they choose First Class for speed.
- The evidence on whether mail sent First Class must arrive next day is mixed (see opposite); in particular 46% of businesses say all/most of their mail needs to arrive next day.

**High usage may be linked to perceptions of the service**

Most people use First Class as a default; they perceive it as more “secure” and showing they care; and use it if they leave posting to the last minute.

The evidence on whether mail sent First Class must arrive next day is mixed:

- Between a quarter and a third of residential users said mail had to arrive next day (in previous research studies).<sup>56</sup>
- But 46% of businesses say all/most of their mail needs to arrive next day.
- Contrary to senders, those receiving mail rarely consider it urgent. Only 9% of residential users and 15% of business users deal with all or most of the mail the day it arrives.

**Users say they need a next day service for urgent, important items**

- Participants in the qualitative research said there needs to be a next day service in “crisis” moments.
- A guaranteed next day service is very or somewhat important (81% of residential users and 84% of businesses).
- The results of the preference exercise of a two-day service against the current system show a significant minority attached to the current choice of a next day and three-day service. Even at higher prices (90p for a First Class stamp), 31% of businesses and 32% of residential users preferred the current two-tier system over a single service (slightly more expensive than the current Second Class, but quicker).

**Users recognised that a two-day service for everyday items combined with a guaranteed next day service may be acceptable**

- There was general consensus in the qualitative research that a two-day service would broadly meet users’ everyday needs. A two-day service was a spontaneous suggestion in several groups.
- Many residential users already felt they use Special Delivery to meet a “need” to get post within 24 hrs.
- Nearly six out of ten of both residential users and businesses consider a single service more attractive than the current two-tier system, at 59% and 58% respectively. At higher prices, the preference for a single two-day service is more pronounced, at 62% and 67% respectively.

**A slower, two-day service has disadvantages**

- Participants were concerned that low income users would be “priced out” of the remaining Special Delivery service.
- Businesses felt a two-day service could slow down payments to suppliers.

**A slower, two-day service could still be attractive**

- Our report on the affordability of universal postal services,<sup>57</sup> including the research with low income and other vulnerable consumers,<sup>58</sup> suggests that universal postal services are affordable for almost all residential consumers because of the

<sup>56</sup> Postcomm Customer Surveys 2006, 2007, 2008 and 2009 and Ofcom’s Communications Market Report. See paragraph 9.12 of our consultation document for the results, and paragraph 4.29 for the references and weblinks.

<sup>57</sup> Ofcom, *The affordability of universal postal services*, March 2013, <http://stakeholders.ofcom.org.uk/binaries/post/affordability.pdf>

<sup>58</sup> Ipsos-MORI, *Postal Services affordability*, March 2013, <http://stakeholders.ofcom.org.uk/binaries/research/post/post-affordability.pdf>.

relatively low unit cost of the most frequently used items (e.g. First and Second Class stamps) combined with users' low reliance on post.

- Businesses acknowledged that cheques are less used and their customers would adapt.

Source: Ofcom 2013

- 7.5 Looking at the costs and benefits, we found that a next day service has high<sup>59</sup> incremental costs, in particular because Royal Mail has to transport some mail by air to meet the current quality of service target that 93% of First Class mail should arrive next day. Against those high costs, the benefits appear to be changing as other communication methods can fulfil the need for “speed” for many users' everyday postal items.
- 7.6 Our quantitative research found that a high quality of service was relatively highly valued by users compared with the other attributes tested,<sup>60</sup> and our qualitative research suggests that the relative importance of a high quality of service target for First Class may reflect a need for simplicity.
- 7.7 The cost impact of the current quality of service target of 93% of mail arriving next day is medium to high,<sup>61 62</sup> depending on the two scenarios considered.<sup>63</sup> When considering the private benefits as a whole, those benefits were medium in both scenarios tested, but the results of the qualitative research suggest that these results may underestimate the dis-benefits of a lower quality of service target, and in particular of a split quality of service target for local and national mail, as this scenario did not meet the needs of users for simplicity. In addition, reducing the air network, which results in lower quality of service, exacerbates the geographical differences affecting how long it takes the mail to arrive. The broader social value of the service would be likely to be impacted by a change in the quality of service which would be unequal across the country.

<sup>59</sup> “Low” cost saving impact is £0m-£50m; “Medium” cost saving impact is £51m-£150m; and “High” cost saving impact is £151m and over.

<sup>60</sup> We tested a scenario of 80% of mail arriving next day, and a scenario of 90% of First Class post sent locally arrives within one day and 90% of First Class post sent elsewhere in UK arrives within two days. Residential and business users were willing to pay 8p and 12p respectively on the price of a First Class stamp rather than have an 80% quality of service target. Residential and business users were willing to pay 4p on the price of a First Class stamp rather than have the second scenario.

<sup>61</sup> “Low” cost saving impact is £0m-£50m; “Medium” cost saving impact is £51m-£150m; and “High” cost saving impact is £151m and over.

<sup>62</sup> These savings are reduced to some extent to retain a national next day coverage for the current next day guaranteed service (Special Delivery Next Day). They also include a later final delivery time of 5pm.

<sup>63</sup> In the first scenario, “low cost network”, less First Class mail receives a next day delivery (about 88% instead of 93%). In the second scenario, “intra mail centre standard”, only First Class mail which is being delivered in the same mail centre catchment area will be delivered next day (less than 50% of First Class would be delivered next day instead of 93%).

## Responses to the consultation

### Next day delivery

#### Need for next day delivery

- 7.8 Most respondents (Royal Mail, RNIB, Age Cymru, the FSB, Intellect, the CWU and some individual respondents) were in support of retaining the current next day delivery and two-tier service, or highlighted the importance of the impact of changes on vulnerable users (Citizens Advice and the NFSP). A minority of respondents (Consumer Focus, DX Group, the MCF, the DMA, the MUA, the ACNI, and the ACS) considered, to varying extents, that the need for next day delivery is worth reviewing in future or that the current service may over provide for users' reasonable needs.
- 7.9 When considering a hypothetical scenario of a two-day service replacing the current First and Second Class services, participants in our qualitative research said that they would still sometimes need a next day service for urgent, important mail, which would be affordable (i.e. at a price lower than Special Delivery) for low income users. Royal Mail and the CWU believed that this is provided by the current First Class service.
- 7.10 Citizens Advice, RNIB, Age Cymru, the NFSP and the FSB argued that changes, including the removal of the next day service, would have a greater impact on certain vulnerable groups of users and/or would disproportionately affect small and micro businesses.
- 7.11 Intellect was concerned that the First Class service might be curtailed and eventually discontinued by Royal Mail as too expensive to provide. Intellect considered this would have serious and lasting detrimental effects on small business users and the universal service. Intellect noted concerns in relation to potential increased switching by meter operating postal users from First to Second Class, also noting that this could lead to loss of revenue for Royal Mail and a knock-on impact on the universal service.
- 7.12 On the other hand, Consumer Focus highlighted the results of its research, and in particular that there was a lack of differentiation between First and Second Class for participants in its focus groups and that participants think that often First Class does not arrive next day. Consumer Focus also noted that its own feature knowledge survey found similar information to Ofcom on postal users' misconceptions about First and Second Class. Consumer Focus's findings indicated that postal users often use First Class for reasons other than speed, when Second Class would often suffice, for example postal users believe First Class to be more reliable and secure than Second Class. Given postal users' views of First and Second Class and their use of First Class for reasons other than speed, Consumer Focus suggested that there is considerable merit in considering a change to the current universal service characteristics to simplify the options for users.
- 7.13 The MCF and the DX Group believed, respectively, that our research showed that postal users would accept a lower specification of the universal service than the current two-tier service, and that next day delivery should be removed from the universal service. The MUA commented that if price reductions could be brought about by reductions in Royal Mail's cost base as a result of changes to the universal service characteristics, there are "super users" sending very large volumes of bulk mail which may be prepared to sacrifice speed for lower prices and increased

reliability. The DMA noted that a single speed service appears to be a worthwhile change.

- 7.14 The ACNI also commented that the fact that so many people still prioritise the purchase of First Class stamps over Second Class ones suggests there is some disconnect between postal users' perceptions and needs which could be removed through better understanding of the Second Class service by postal users.

#### Usage of First Class post as an indicator of users' needs

- 7.15 The CWU believed that the behaviour of postal users is a very good indicator of preferences, especially where price differentials are a factor. Intellect made a related point that usage indicates value to users, when it noted that the results show the value of the First Class service, even if this is due to the perception of the service rather than a need for mail to be delivered quickly. The ACS considered the current market usage to be skewed by the very small differential between First and Second Class pricing, arguing that this leads users to choose First Class when they do not really need it.
- 7.16 The CWU considered that, given that electronic communications are well established, the argument that the need for speed in communications is better met by non-postal media does not hold, as usage of First Class post remains high.
- 7.17 The CWU also considered that we have confused the needs of receivers with the needs of senders. Making a related point, Intellect noted that the proportion of businesses sending mail that they deem needs to be sent First Class is markedly higher than of the receivers of the mail.

#### The guaranteed next day service

- 7.18 Royal Mail believed that its First Class service is the affordable next day service identified by our research and that this evidence reinforces the case for making no change to the next day service. Royal Mail and the CWU noted that to retain a First Class service for crisis mail Royal Mail would have to keep the network capability to provide for next day delivery, and highlighted that retaining Special Delivery would reduce potential cost savings.
- 7.19 Consumer Focus noted that that if there was a single tier service, users' continued need for next day deliveries would then be met by Special Delivery. However, participants were concerned that this could be unaffordable for some postal users on low incomes. Similarly, Age Cymru and two individual respondents raised concerns about the cost of Special Delivery and the increased difficulty of access to a next day service for older and disabled postal users who will have to visit a post office in order to access the service.
- 7.20 The DX Group argued that even a cheaper Special Delivery service would be an express service in all but name, and that the designation of an express service in the universal service is not part of Ofcom's remit. DX Group also doubted that there would be a sufficient difference in cost to warrant the introduction of a cheaper Special Delivery service.

#### Other comments

- 7.21 Some of the responses considered how the universal service requirements could be changed. Consumer Focus and the DMA suggested that introducing a single speed

service appears to be a worthwhile change. Consumer Focus also recommended an unbundling of the special delivery security enhancements from the next day guarantee. The ACNI supported a single, slower service which may lead to price savings that could be used for continuing more important elements of the universal service, but noted that it would need to be price capped in order to protect vulnerable and less well off postal users. The DX Group believed that next day delivery is an unnecessary and costly service that should be removed from the universal service. As an alternative the DX Group suggested a new service combining elements of each of the existing services, for instance a service specifying that a proportion of the mail should be delivered within one day, whereas further proportions should be delivered within two and three days.

- 7.22 Consumer Focus also highlighted the importance of timing in considering any changes. It argued that the very factors that make a change to the universal service difficult mean that Ofcom should act now, while the ACNI believed Ofcom could amend this universal service characteristic at some point in the future. More generally, the MCF encouraged us to communicate pro-actively to Government our research findings.
- 7.23 Finally, Intellect commented that there should be more financial transparency in relation to the profitability of the universal service.

### **Quality of service target of the next day service**

- 7.24 All of the respondents commenting specifically on the quality of next day service argued that no change should be made to reduce the existing quality standards, mainly because it would not meet the needs of users for simplicity and lead to significant service differences across the UK.
- 7.25 Consumer Focus did not support any reduction in the quality of service target for next day delivery, as this would go against a key finding of their research: what postal users want above all from any future postal service is reliability and predictability. Reducing the quality of service reduces the certainty that postal users can have in the delivery day of their items. This point is echoed by Royal Mail, which noted that the current high quality levels give postal users their key need of predictability, but this would be undermined if the hypothetical changes tested were implemented.
- 7.26 In addition, Consumer Focus, Royal Mail and the CWU highlighted that the changes tested would lead to significant service differences across the UK. Consumer Focus noted that a reduction in quality of service would exacerbate the existing difference in delivery speed experienced between rural and urban areas, especially if the related Postcode Area delivery target (currently 91.5 per cent) were abolished. Consumer Focus was concerned that this would effectively lead to a local-national delivery time split. Royal Mail explained that some areas would receive less than 70% next day service performance while other areas, representing 3.5% of total mail, would see levels below 50%. The CWU believed that the hypothetical reductions in quality of service standards would cause societal inequality and damage the postal sector as a whole. The CWU considered that these options would effectively introduce a two-tier postal service across the UK and argued, in particular, that this disparity would undermine the social and economic benefits of the universal service in the affected areas.
- 7.27 Consumer Focus, the NFSP and the FSB all raised concerns in relation to the potential impact of any change on vulnerable users and small businesses.

- 7.28 DX Group noted the issue of quality of standards is indistinguishable from the need for a next day service.
- 7.29 The CWU considered that there should be similar quality of service standards applied to other operators in the postal sector. The CWU argued that this would establish commercial parity with Royal Mail and enable fair competition, as well as safeguarding the reputation and standing of post as a method of communication. In particular, where end-to-end competition is taking place, the CWU stated that the lack of parity is creating cherry picking opportunities and threatening Royal Mail's ability to provide the universal service.

## Our assessment

### Reasonable need for next day delivery

#### General assessment on the need for next day delivery

- 7.30 Whilst responses from organisations were divided over whether there should be changes to the requirement for a next day delivery service, a majority of respondents were in favour of retaining the current next day service. Our assessment of whether the requirement for next day delivery is a reasonable need of users is informed by the balance of benefits and costs. The benefits are derived from the research evidence and, in part, the differing views of respondents may be a reflection of the fact that there is a wide evidence base available, sometimes pointing in different directions.
- 7.31 When considering the benefits of the service to users and to society in general, as highlighted in table 7.1, we think that there is a variety of evidence, some of which indicates users continue to need a next day service, and some of which indicates that those needs are shifting over time. A key factor in balancing the evidence overall is the fact that different groups of users may have different needs, which means they may benefit particularly from the service.
- 7.32 In that respect, we note there is still a significant minority of users who consider that their letters have to arrive next day, and a majority of residential users who agree that they will always send things by post said they would use First Class.<sup>64</sup> In addition, large businesses, which send more mail, are more likely to consider their First Class letters have to arrive next day, and there is a significant minority of users valuing a two-tier service. We discuss these last two points in more detail below.
- 7.33 The proportion of businesses saying their mail should arrive next day broadly increases with size of business: for instance, 71% of businesses with over 251 employees consider that their First Class letters should arrive next day, compared

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<sup>64</sup> Our quantitative research shows that 46% of businesses agree that all or most of their First Class letters have to arrive next day. In addition, 33% of residential users said that their letters or cards need to arrive the next working day, see question QA.5 in the detailed data tables of our 2011 omnibus survey: <http://stakeholders.ofcom.org.uk/binaries/research/post/post-omnibus-data-tables.pdf> and the methodology on <http://stakeholders.ofcom.org.uk/binaries/research/post/post-omnibus-methodology.pdf>. Some of these results were published in our Communications Market Report 2012. There is no statistical difference in the responses of residential users on whether their letters need to arrive next day, apart from those aged 65+, 75+, and disabled users, who were more likely to say that none of their letters needed to arrive next day.

with 41% of businesses with one or two employees.<sup>65</sup> Conversely, larger businesses were a lot less likely to consider that none of the First Class letters sent need to be there next day: 4% of businesses with over 251 employees compared with 30% of businesses with one or two employees.

- 7.34 Larger businesses are less likely to send First Class mail than small businesses as a proportion of their mail,<sup>66</sup> so this indicates that, when they do so, they often consider that it is important that the letter should arrive next day. Large businesses send more mail than small businesses by overall spend on post, so overall the benefits of a next day service are likely to be higher for those businesses.<sup>67</sup> We also note 58% of businesses in the financial and business services sector say all or most of their mail should arrive next day.
- 7.35 In addition, in our quantitative surveys, a third of users chose a two-tier service over the different price options of a single two-day service, so there continues to be a significant minority of users who consider a two-tier service is important. In particular, when we tested the option of a two-tier service at a hypothetical higher price level (90p for First Class and 60p for Second Class) over the options of one single two-day service (at either 63p or 70p), there are still 32% of users who would choose the two-tier system. Of those choosing a two-tier service at the higher price level, 46% said they would send all or most of their mail First Class at these prices, suggesting that in many cases these users have a preference for retaining a next day service. In addition, those for whom a guaranteed next day service is extremely/very important were more likely to favour the two-tier service at higher price levels than those for whom a guaranteed service is not important (who were more likely to favour a one-tier option at either current or higher prices).<sup>68</sup> This suggests that the two-tier service is preferred by those who want greater choice and good quality of service.
- 7.36 The research result that a significant minority of users prefer the two-tier service applies across specific groups of residential users, and is particularly marked for rural and deep rural users in Scotland, Wales and Northern Ireland.<sup>69</sup> We also note that the RNIB and Age Cymru explained how older users and blind and partially sighted users may benefit most from this service and would be impacted most by its removal.
- 7.37 When considering the costs of providing the next day service, we also estimated the transition costs of making a change to a single class of service. Royal Mail would incur high<sup>70</sup> transition costs in making changes to the current First Class service as a result of changes to its transport network and the mail centre network. Therefore, Royal Mail would not realise the cost savings from a change to the speed of delivery immediately, because these cost savings would be offset to some extent by transition costs over a period of time.

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<sup>65</sup> 41% of businesses with one or two employees, 62% of businesses with 3-10 employees, 60% of businesses with 11-50 employees, 67% of businesses with 51-250 employees, and 71% of businesses with over 251 employees consider that their First Class letters should arrive next day.

<sup>66</sup> Those with 251 employees or more say they send an average of 55% of mail First Class, compared with businesses with one or two members of staff sending an average of 70% of their mail First Class.

<sup>67</sup> We estimated the total private benefits across residential and business users by multiplying average utility by volume of First Class mail used by each group in 2011-12. See paragraph 6.12 of our consultation document.

<sup>68</sup> 38% of those who considered a next day guaranteed service extremely/ very important chose the two-tier option at the higher price levels, compared to 22% of those who considered a next day service not very/ not at all important.

<sup>69</sup> Respectively 42%, 40% and 40% of rural and deep rural users in Scotland, Wales and Northern Ireland chose a two-tier service over one of the two options for a single, two-day service.

<sup>70</sup> I.e. £151m and over.

- 7.38 We note Intellect's concern that meter users may switch to the Second Class service if Royal Mail uses its commercial freedom to increase its meter First Class prices, and Intellect's statement that ceasing to provide a First Class service would be detrimental for small business users. Importantly, Royal Mail cannot cease to provide a next day service that meets the characteristics and standards set out by the Order and DUSP conditions unless Ofcom makes changes to the regulatory requirements. In addition, it seems to us that, if indeed most meter users chose to switch and use the Second Class service to meet their mailing needs, this would indicate that a three-day service is sufficient to meet their everyday needs.

### Usage of First Class post as an indicator of users' needs

- 7.39 One of the points raised by the CWU in respect of the need for First Class is that, given the fact that electronic communications are now well-established, the argument that the need for speed in communications is better met by non-postal media does not hold, as usage of First Class remains high. This seems to rely on an assumption that e-substitution has reached a steady state. However, research into the predicted usage of post tends to indicate that usage of post for communication is likely to continue to decrease. In addition, as we discuss in our consultation, the usage of First Class may not necessarily reflect a need for speed, but the value placed on other features of the postal service. Ofcom's separate qualitative research on a consumer perspective on postal services (2012) also found that users' reasons for continuing to use postal services seem to be changing, with the emotional significance of post becoming relatively more important. For example, some postal users linked sending and receiving cards with positive emotions and experiences.<sup>71</sup>
- 7.40 The CWU also argues that we confuse the needs of receivers with the needs of senders. Our research related to both senders and receivers, and we agree they can have different perspectives on the service.<sup>72</sup> We think it is relevant that far fewer of those receiving post open it immediately, compared to those who think the post must be there next day. This indicates that those receiving post often do not consider the communication as urgent, and therefore senders, the vast majority of whom will be businesses, may not, in fact, need to send an item for next day delivery: they may prefer to do so for other reasons, such as making the item look more "important". We also note this relative mismatch between receivers and senders' preferences in relation to Saturday delivery.
- 7.41 The CWU made the point that purchasing decisions are normally a good predictor of preferences, especially where price differentials are a factor. Intellect and the ACS make related comments on First Class usage and the influence of the price differential on users' choice between First and Second Class. In this case we believe that purchasing decisions do not always necessarily reflect needs. In particular, users have a low awareness of the relative differences between First and Second Class, and can base their purchase on factors other than speed, such as using First Class to show they care about the item or the recipient. Certainly, users are currently willing to pay a 10p premium for the First Class service, and undoubtedly their purchasing

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<sup>71</sup> This research was carried out separately from the deliberative research carried out for the review of users' needs. It consisted of ten workshops of 1.5 hours in five locations across the UK complemented with telephone interviews with hard to reach and small businesses, carried out in late April and early May, at the time of Royal Mail price rises. Approximately 95 residential users and 15 small business users took part in the research. Ipsos MORI, *Postal Services: a consumer perspective. Qualitative research with residential consumers and small business owners*, 2012, published alongside our consultation document.

<sup>72</sup> This is sometimes explicitly discussed in the qualitative research, for instance when participants discussed packet services (section 5) or Return to Sender service (section 8).

behaviour would be influenced by a higher premium.<sup>73</sup> Therefore, while users clearly value First Class, and more generally the trend in First Class volumes is a relevant factor in our assessment, we think a more reliable indicator of the need for next day delivery than solely purchasing decisions is the proportion of letters they consider has to arrive next day.

### The guaranteed next day service

- 7.42 Our research identified that users retain a need for an affordable guaranteed next day service for urgent, important items. We received no evidence from consultation responses to the contrary; indeed Consumer Focus's research supports this research result.
- 7.43 DX Group commented that even a cheaper Special Delivery type service would be an express service in all but name and did not believe that the designation of such a service within the universal service is part of Ofcom's remit. In response to this comment, we note that it is not necessary for the purposes of this review for Ofcom to seek to define "express services" or to seek to identify the precise boundary between the outer limits of the widest possible universal postal service permissible under the terms of the Postal Services Directive, on the one hand, and express services, on the other. It is clear that a universal service can include a next-day delivery service: that has always been the understanding in the UK and is common practice in other EU Member States. It is equally clear that the universal postal service must include services for registered items and insured items (see Art. 3(4) of the Postal Services Directive).
- 7.44 However, we note the wider point made by Consumer Focus, and indeed respondents to the Review of Regulatory Conditions, including DX Group, that currently the Order requires insured and registered services which combine several features, including a guarantee next day by 1pm, tracking, and proof of delivery.
- 7.45 Consumer Focus in particular argued that we should "unbundle" the features of Special Delivery, so that Royal Mail could allow users to purchase only the features of Special Delivery they need, e.g. additional insurance, and that this would increase the affordability of this service. We note that Royal Mail could offer a number of services which separate the features of Special Delivery Next Day to meet its customers' expectations, as there is nothing in the Order that prevents Royal Mail from doing so.<sup>74</sup>
- 7.46 However, the information provided by Royal Mail indicates that this would not necessarily make an "unbundled" service cheaper. Royal Mail indicated that an unbundled product that included a guaranteed next day delivery without the additional features of Special Delivery Next Day would have a very similar cost

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<sup>73</sup> For instance, we included questions to be able to understand their price sensitivity in relation to other questions, specifically in relation to the next day preference exercise. Without these questions, we would not be able to understand whether they chose the two-tier option because they want a next day option (First Class) or because they want the cheapest service available (Second Class). Unsurprisingly, at higher prices, including a higher price differential (90p for First Class and 60p for Second Class), there is a clear trend in residential and especially business users saying they would shift towards Second Class. See responses to questions Fx2 in the residential and business data tables (breakdown by usage of class of post).

<sup>74</sup> Royal Mail has commercial freedom to provide services over and above the current universal service requirements, although services which do not meet the characteristics of the universal service may be subject to Value-Added Tax (VAT). VAT policy is a matter for Her Majesty's Revenue and Customs (HMRC).

structure to the existing Special Delivery Next Day product and as a result the costs would not be expected to be materially lower.

- 7.47 In relation to the concerns about affordability, participants in our workshops were concerned that, if a two-day service were introduced, the alternative for next day delivery for urgent, important items, currently Special Delivery, might be too expensive for people on low incomes. Royal Mail believed that First Class is the affordable next day service that our research identified as wanted by users, and that a next day service for “crisis mail” would require it to retain its current next day network and would be unlikely to result in more affordable prices.
- 7.48 We believe that in general the guaranteed next day service (currently Special Delivery) is likely to be affordable. Our research shows that users only use Special Delivery when really necessary. In addition, our report on the affordability of universal postal services concluded that the evidence collected indicated that universal postal services were affordable for both residential users, including low income and other vulnerable consumers, and businesses, including small and medium businesses.<sup>75</sup> The report also found that some users in the qualitative consumer research identified higher cost universal postal services as an issue.<sup>76</sup> However, in these cases, users can generally manage these costs as their need to use such higher cost services is infrequent. We consider that users would be likely to continue to need Special Delivery only for urgent, important mail, and would be able to use a slower service for everyday items, which may have the option of signature on delivery.<sup>77</sup>
- 7.49 In response to Royal Mail’s point (echoed by the CWU) that removal of the next day delivery would remove Royal Mail’s ability to provide the guaranteed service to all parts of the UK, we were able to take this point into account as the cost estimates separately identified the costs that would be incurred if Royal Mail continued provision of Special Delivery in the hypothetical scenario of a two-day service.<sup>78</sup> Based on our calculations we find that cost savings from moving to a single tier service would be reduced by between 15% and 22% if Royal Mail re-introduced the capability to provide a next day service for Special Delivery and incoming international mail.<sup>79</sup>

### Need for next day packet delivery

- 7.50 The majority of next day packets are handled through the core Royal Mail network, a synergy highlighted by the CWU. More generally, the rise in online shopping raises the question of whether there is a corresponding increase in the benefits of next day packet delivery, balancing the costs of the current next day service.

<sup>75</sup> Ofcom, *The affordability of universal postal services*, March 2013, <http://stakeholders.ofcom.org.uk/binaries/post/affordability.pdf>.

<sup>76</sup> Ipsos-MORI, *Postal Services affordability*, March 2013, <http://stakeholders.ofcom.org.uk/binaries/research/post/post-affordability.pdf>.

<sup>77</sup> Royal Mail currently provides signature on delivery with First Class and Second Class, and so this relies on the assumption that signature on delivery would also be available on a single, two-day service.

<sup>78</sup> Technically, there is currently a guaranteed next day service only to the majority of the UK, rather than all parts of the UK. Royal Mail does not deliver Special Delivery items next day to a small number of remote locations, where it is not reasonably possible to do so. See Royal Mail’s website for more information: <http://www.royalmail.com/personal/uk-delivery/special-delivery#faq-19350056-19350051>.

<sup>79</sup> The estimates of reduction in cost savings aggregate the impact of re-introducing Special Delivery and incoming international mail. We assume that the reduction in costs savings would be lower if Royal Mail only re-introduced the capability to provide Special Delivery next day.

7.51 Research evidence on next day and packet services can only be seen as indicative due to a small base of respondents, but with this proviso, generally the research shows that:

- Both residential and business users who receive packets (at least once a month) are more likely to deal with their mail on the day it arrives than those who do not receive packets: 64% of residential users and 83% of businesses who receive packets open some mail on the day of arrival, compared with 49% of residential users and 61% of business users who do not receive packets. We believe that this is at least partly due to the fact that packets have been ordered by the recipient for a purpose, and/or have positive associations, especially for residential users.<sup>80</sup>
- Residential users who say they will always need to send packets are as likely to say they would use First Class for all or most items as those who say they will always need to send items generally by post, i.e. 57%.
- Residential users who receive packets and send packets are slightly more likely to choose the current two-tier system than the UK average: 32% of residential users overall chose the current two-tier system, against 36% of those who receive packets and 32% of those who send packets, but this does not appear to be a strong difference. This difference is even less strong when considering the same scenarios with higher prices. There are no clear differences in the views of business users sending and receiving packets on the two-tier system.<sup>81</sup>
- Residential users who receive and send packets are slightly more likely to consider a guaranteed next day service as extremely important: 18% overall consider this extremely important, compared with 22% who receive packets and 22% who send packets. This is the same pattern for business users: 31% of businesses consider the guaranteed next day extremely important, compared with 32% who receive packets and 37% who send packets.

7.52 An industry-wide measure, the IMRG/Metapack index, shows that next day packet services are 28% as a proportion of overall services used in October 2012, compared with 43% economy services.<sup>82</sup> However, the proportion of next day services decreased between October 2011 and October 2012 compared with economy services: in October 2011, 37% of services were next day, compared with 38% economy. The report suggests the smaller proportion of next day and specified day services used in October 2012 may be due to an increasing amount of economy orders now being tracked, with the facility to have signature on delivery, and that these additional features may reduce the need for more premium services where delivery speed or predictability is not an issue.<sup>83</sup> This would suggest that, at least in some instances, using a next day service corresponds less to a need for speed than

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<sup>80</sup> The delivery of goods ordered online was often associated for users with pleasant experiences such as purchasing gifts or treats either for themselves or other people. Ipsos MORI, *Postal Services: a consumer perspective. Qualitative research with residential consumers and small business owners*, 2012, published alongside our consultation document

<sup>81</sup> We noted in particular that those who send packets/ parcels and for whom mail is critical to customer communication but not core to business are more likely to choose a two-tier option, at both current and higher prices. However, this is not statistically significant, and is not the case for businesses who send packets/parcels and for whom mail is core to their businesses.

<sup>82</sup> The *IMRG MetaPack UK Delivery Index Report* defines economy services as “No assured delivery lead time, no specific delivery day or time-slot”.

<sup>83</sup> *IMRG MetaPack UK Delivery Index Report*, November 2012, [http://www.metapack.com/files/reports/IMRG\\_MetaPack\\_Delivery\\_Index\\_Nov\\_2012.pdf](http://www.metapack.com/files/reports/IMRG_MetaPack_Delivery_Index_Nov_2012.pdf).

a need for control and predictability. We note that Royal Mail is introducing signature on delivery for the replacement service for Standard Parcels, which will be part of Royal Mail Signed For Second Class.<sup>84</sup>

- 7.53 Our qualitative research sought views from users in relation to their use of both letters and packets, but the need for next day delivery of packets was not identified as a separate need from letters – in contrast to discussions on the need for Saturday delivery for instance, or Recorded Signed For. Again, therefore, the research did not identify that packet users expressed more of a need for next day delivery than letter users.
- 7.54 However, our research did not focus on the needs of packet users as opposed to letter users. If we were to look at the continued need for a next-day postal delivery service again in future, we may want to consider more specifically whether there are any differences in the need for next day delivery for letter and packet users.

### Other comments

- 7.55 Consumer Focus, the DX Group and ACNI raised the question of what requirements, if any, should replace the current requirement for next day delivery, or how best to regulate this hypothetical new service. We note these comments but, in light of our conclusions below, there is no need to address these questions now. However, the review has also indicated that users' needs and preferences are changing, and therefore it is important for Ofcom to continue to understand the needs of users of postal services and how these needs may change in the future. This is an issue which we will keep under review as the postal market develops.
- 7.56 We also note the comments from Intellect that there needs to be more financial transparency in relation to the profitability of the universal service. Ofcom consulted on the new regulatory financial reporting framework in October 2011,<sup>85</sup> and made a decision on this framework in March 2012.<sup>86</sup> In our statement, we explained the reasons for our decisions about publication and disclosure of all the statements and information required under the new framework. This took into account stakeholders' responses, including Intellect's, which made similar points in response to our October 2011 consultation.

### **Reasonable need for a high quality of service**

- 7.57 Our research showed that users value a high quality of service, particularly because it meets the need for simplicity. The evidence provided by Consumer Focus – that users above all want reliability and predictability from any future postal service - supports our research. In addition, there were no responses arguing that the current

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<sup>84</sup> For more information, see

<http://www.royalmailgroup.com/sites/default/files/Decision%20Document%20Final.pdf>.

<sup>85</sup> Ofcom, *Annex 6 – Regulatory financial reporting*,

<http://stakeholders.ofcom.org.uk/binaries/consultations/securing-the-postal-service/annexes/Annex6.pdf>, published with our consultation on the economic regulation of post, *Securing the Universal Postal Service*,

<http://stakeholders.ofcom.org.uk/binaries/consultations/securing-the-postal-service/summary/condoc.pdf>, October 2011.

<sup>86</sup> Ofcom, *Annex 3 – Regulatory financial reporting*,

<http://stakeholders.ofcom.org.uk/binaries/consultations/review-of-regulatory-conditions/statement/annex3.pdf>, published as an annex to our statement on the regulation of post, *Securing the Universal Postal Service*, March 2012. For Intellect comments, see paragraphs A3.353, A3.355, and A3.72, and for our explanation, see paragraphs A3.342 to A3.401.

high quality of service of the First Class service over-provides for the needs of users, although DX Group highlighted that this issue is indistinguishable from the need for next day delivery, and one individual respondent argued the quality of service should be improved. We believe that this shows that universal services should continue to have high quality of service targets, regardless of the number of days allowed for the item to arrive, to meet the needs of users for simplicity and predictability.

- 7.58 We discussed in our consultation the fact that reducing the First Class quality of service by removing the air network would exacerbate the geographical differences affecting how long it takes the mail to arrive, and concluded that the broader social value of the service would be likely to be impacted by a change in the quality of service which is unequal across the country. Responses by Consumer Focus, Royal Mail, and the CWU support the point that a reduction in the quality of service would in effect exacerbate a differentiation in service between remote and other areas. We therefore continue to consider that such differentiation would have the effect of reducing the broader social value of the universal postal service.
- 7.59 Notwithstanding our conclusions if, in theory, we were to consider these scenarios, we agree in principle that it would be important to consider the impact on vulnerable users and small businesses.
- 7.60 While respondents opposed lowering the current quality of service of the next day service, there were some users who expressed the view in workshops that the quality of service should be higher, a point also made by one individual respondent to the consultation. We do not believe, however, that we should increase the quality of service of First Class, as this target is already challenging for Royal Mail, and users wanting higher quality of service can, and already do, use the registered and insured service (for which the target is 99% by 1pm next day).
- 7.61 We agree with DX Group that the issue of the quality of service target for the next day service is by necessity linked with the service itself, but would highlight that the value to users of each may result from different needs, one for predictability, and the other for actual speed. Of course, a need for a fast service would also require a high quality of service, as otherwise a high proportion of items would not arrive next day.
- 7.62 The CWU would also like to see quality of service standards, similar to those imposed on Royal Mail, applied to other operators in the postal sector. The CWU also made this point in its response to our consultation regarding our approach to end-to-end competition in the postal sector.<sup>87</sup> We address this point in our assessment of the responses to the draft guidance on end-to-end competition, published at the same time as this document.<sup>88</sup>

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<sup>87</sup> Ofcom, *End-to-end competition in the postal sector – Draft guidance on Ofcom’s approach*, October 2012, <http://stakeholders.ofcom.org.uk/consultations/e2e-guidance/>.

<sup>88</sup> Ofcom, *End-to-end competition in the postal sector: Ofcom’s assessment of the responses to the draft guidance on end-to-end competition*, March 2013, <http://stakeholders.ofcom.org.uk/consultations/e2e-guidance/statement/>. For the final guidance, see: Ofcom, *End-to-end competition in the postal sector: Final guidance on Ofcom’s approach to assessing the impact on the universal postal service*, March 2013, <http://stakeholders.ofcom.org.uk/consultations/e2e-guidance/>.

## Conclusion

- 7.63 While the evidence on whether users need a next day service does not always point in the same direction, taking all the evidence and responses in the round, on balance, we consider that there are still important benefits to users in retaining the current next day service in the universal service. Against that, while the costs of provision are high, so are the transition costs, which reduce potential cost savings were the next day service not to be provided. Accordingly, we have concluded that there is still currently a reasonable need for a next day delivery service to be included in the universal service. We have therefore decided to retain the requirement for a priority next-day service to be provided as part of the universal postal service.
- 7.64 In addition, users value the high quality target attached to the next day universal service because it meets their needs for a simple, predictable service. We have therefore decided to retain the current quality of service target of the next day service.
- 7.65 We also note that the needs of users in relation to the next day service are evolving over time, along with changes in the way they communicate with each other. It will be important for Ofcom to continue to understand the needs of users of postal services and how these needs may change in the future. This is an issue which we will keep under review as the postal market develops to meet users' evolving needs.

## Section 8

# Number of collection and delivery days

- 8.1 As the designated universal service provider, Royal Mail must currently collect and deliver letters six days a week from Monday to Saturday, and packets five days a week from Monday to Friday. This is a minimum requirement of the Act, which reflects, and in part exceeds, the Postal Services Directive, which requires a collection and delivery of post five working days a week.
- 8.2 We considered it appropriate in the context of seeking the views of users of the postal service to ask their views on the number of collection and delivery days, to gauge whether we should report to the Secretary of State under our powers under section 34 of the Act.<sup>89</sup>
- 8.3 As the number of collection and delivery days per week is specified in the Act, Ofcom has no power to amend this aspect of the universal service. Only the Government and Parliament can make changes to the minimum requirements.<sup>90</sup> The Government has made clear that it has no intention of reducing the minimum requirements of the universal service during the life of this Parliament.<sup>91</sup>

## Summary of the evidence presented in our consultation

- 8.4 Participants in our qualitative research found that reducing the number of collection and delivery days per week from six to five would be acceptable if collections and deliveries were to stop on Saturdays, but not if they were to stop on a weekday, Monday to Friday. The removal of collections and deliveries of letters on Saturdays would only be acceptable provided users of postal services could still access packet services on Saturdays. Participants in our qualitative research were concerned, however, about the impact of the hypothetical removal of Saturday collections and deliveries on “full time workers” and small businesses.
- 8.5 Residential and business users in our quantitative research had different views on the value of Saturday collections and deliveries. Residential users value six days a week collection and delivery (they were willing to pay 12p on the price of a First Class stamp to retain either Saturday or one weekday collections and deliveries), but businesses only value collection and delivery Monday to Friday (they were willing to pay 14p on the price of a First Class stamp to retain a weekday collections and deliveries). Businesses did not value collection and delivery on Saturday. Accordingly, because total private benefits are the sum of the value of the service for

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<sup>89</sup> Under section 34 of the Act, Ofcom may at any time review the extent to which the minimum requirements set out in the Act reflect the reasonable needs of users of postal services in the UK.

<sup>90</sup> This requirement can be amended by the Secretary of State by Order subject to approval from Parliament by affirmative resolution (subject to any changes proposed retaining uniformity of provision in relation to the minimum requirements).

<sup>91</sup> Baroness Wilcox stated: "As I said during Committee, and as my colleague the Minister for Postal Affairs has said in the other place, the Government have no intention of reducing the minimum requirements of the universal service during this Parliament." HoL Report - 17.05.11 - Hansard vol.727, col. 1319 - <http://www.publications.parliament.uk/pa/ld201011/ldhansrd/text/110517-0002.htm#11051758000723>

both residential and business users, the total private benefits are high for collections and deliveries Monday to Friday, but low for Saturday collection and deliveries.<sup>92</sup>

- 8.6 We therefore found that the reliance of users on Saturday collections and deliveries appears to be diminishing, in particular for businesses, but also that the benefits of the delivery of post on Saturday may be particularly high for certain categories of users, in particular “full time workers”, pointing to the continuing importance of Saturday collections and deliveries. Against this research evidence, our assessment indicates that the costs of providing collection and delivery on Saturday are relatively high.<sup>93</sup>

## Responses to the consultation

### Need for six day a week collections and deliveries

- 8.7 Generally, there was no consensus among respondents as to whether there is a need for Saturday collections and deliveries, with some respondents preferring no changes (Royal Mail, RNIB, the FSB, the CWU, the majority of individual respondents<sup>94</sup>), often because of a concern that some groups users may be disproportionately affected. Citizens Advice and the NFSP were also concerned about the impact of changes more generally.<sup>95</sup> Others were open, to varying degrees, to the idea that there may be some need for change in future (Consumer Focus, the ACNI, the MUA,<sup>96</sup> DX Group, the MCF).
- 8.8 In particular, Royal Mail noted that users were concerned about the potential impact on “full time workers” and the importance of Saturday delivery to small businesses. The CWU noted that the quantitative research showed reducing the number of collection and delivery days yielded the highest dis-benefit of any proposed changes and that the qualitative research showed that users considered the Saturday service to be essential. The FSB, the NFSP and an individual business considered that small and micro businesses may be affected disproportionately and would be concerned about loss of the ability to receive post on Saturday.
- 8.9 On the other hand, Consumer Focus’s research suggested that if Saturday deliveries and collections were removed from the universal service this would be acceptable to residential users, particularly as this is not currently required for packets. Furthermore, residential users believed they could adapt to changes and that any concerns about losing a day of collections and deliveries would be mitigated by the ability to collect packets at local, convenient locations with extended opening hours, as well as a general reliability of services. However, Consumer Focus’s research also

<sup>92</sup> We estimated the total private benefits across residential and business users by multiplying average utility by volume of First Class mail used by each group in 2011-12. See paragraph 6.12 of our consultation document.

<sup>93</sup> “Low” cost saving impact is £0m-£50m; “Medium” cost saving impact is £51m-£150m; and “High” cost saving impact is £151m and over.

<sup>94</sup> Out of the four individual responses considering the number of collection and delivery days, three responses supported the current requirement for six collection and delivery days, and one individual respondent argues that removing Saturday collection and delivery would cut the costs involved in running the postal service and would be adapted to quickly by users.

<sup>95</sup> The NFSP was concerned about the impact of reductions to the universal service, including fewer collection and delivery days, on mail volumes and therefore on the financial viability of post offices. Citizens Advice considered that the direct and indirect impact on users should be the primary consideration, but did not comment on this aspect of the universal service specifically.

<sup>96</sup> In so far as the MUA noted that “super users” may be prepared to accept a reduced universal service delivery specification at a reduced price.

indicated that small and medium businesses were much more reliant on daily deliveries and collections throughout the week. Consumer Focus considered that taken together the responses of residential and small and medium business users suggested that users are moving towards needing fewer days of delivery and collection, and Saturday deliveries and collections could be over-providing for the reasonable needs of users.

- 8.10 The ACNI noted that the research indicates that postal users are less reliant on the postal service and the six day service may need to be reduced as a result of changing trends. The ACNI supported the Government's intention not to make changes during the current Parliament, but believed this review provides some useful pointers to likely future outcomes. DX Group and the MCF argued that postal users would accept a lower universal service specification that the current six days a week collections and deliveries.

### **Linkages between the number of collection and delivery days and other aspects of the service**

- 8.11 Royal Mail believed that removing the obligation of delivering and collecting letters on Saturday would reduce the choices for postal users, particularly in relation to packets. Royal Mail said that in practice, because it delivers letters on Saturday, it also delivers packets on that day. Royal Mail highlighted that it is more likely to achieve successful deliveries of packets on Saturday, and believes that, as the volumes of packets increase, a six day a week collection and delivery service will become more important to its customers. The CWU similarly noted that there is a link between the growth of packet deliveries and residential users having a greater preference for Saturday delivery than business users.
- 8.12 The CWU noted that the effect of any proposals must be considered in the round. The CWU commented that reducing delivery days in conjunction with other service reductions would lead to a very significantly reduced service, which would require users to plan their posting more carefully than now to be able to predict the day their mail would arrive. The CWU argued this would go against users' preference for simplicity and clarity.
- 8.13 Consumer Focus also noted that if there is to be a reduction in the number of collections and deliveries, its research shows that residential and small and medium businesses would expect the quality of service to be strictly monitored and subject to regulation, as a 'pay back' for a reduction in service frequency. Consumer Focus argued that this suggests that quality of service standards for services included within the universal service therefore need to remain at a reasonably high level as deterioration in both service quality and frequency would not be seen as acceptable.

### **Difference in the needs of businesses and residential users**

- 8.14 The MUA suggested that, due to differing needs, the universal service for delivery to business addresses could be different to that provided to residential addresses. They also noted that Royal Mail already follows this practice on a widespread basis and therefore has already introduced a de facto five day delivery service for many users.
- 8.15 DX Group made a similar point, arguing that Ofcom and its stakeholders need to take a broader view of the need for collection and delivery on predetermined days, noting that Royal Mail does not deliver to a large number of businesses on Saturdays. DX Group suggested that it is reasonable to expect the required service to differ between business and residential addresses. Similarly, DX Group commented that collections

do not have to follow the same patterns as deliveries, noting that it would also be conceivable to mandate a higher service level for collections at some facilities such as main post offices and sorting offices.

- 8.16 The DMA was surprised that businesses were not concerned about six days a week collection and delivery, a point echoed by Intellect. The DMA suggested that as residential users appeared to value delivery on a Saturday, businesses should be taking note of this and be more responsive to what their customers want.

### Other comments

- 8.17 A few respondents<sup>97</sup> noted that the number of collection and delivery days is a requirement of the Act, and that Government has indicated it has no intention to make change to the minimum requirements of the Act during this Parliament. As pointed out by Consumer Focus, this means that any discussion on the number of collection and delivery days can only remain theoretical. The MCF and DX Group nonetheless encouraged Ofcom to communicate its findings proactively, and the DMA believed that the research indicates that the legislation needs to be reviewed to allow for changes to the universal service.
- 8.18 Consumer Focus noted that, going forward, that there would need to be further detailed research on the impact on all members of society, especially vulnerable users, prior to consideration of any changes.
- 8.19 The CWU argued that the research results show that the differing priorities of business and residential users make a reduction in delivery days impractical, if the needs of both sets of users are to be met.

## Our assessment

### General assessment of the evidence

- 8.20 While users overall identified benefits to collections and deliveries Monday to Friday, our research raised the question of whether the value to users of collections and deliveries of letters on Saturdays is diminishing. Generally, there is no consensus among respondents as to whether there is a reasonable need for Saturday collections and deliveries, with some respondents<sup>98</sup> preferring no changes ( and others open, to varying degree, to the idea that there may be some need for change in future.<sup>99</sup>
- 8.21 On the one hand, there is evidence from our research that users find Saturday collections and deliveries less important than they used to be. At an aggregated level, the private benefits of Saturday delivery appear low, and participants in our qualitative research indicated that delivery and collection of mail during the working week would be acceptable as long as they could continue to access packet services conveniently. Against that, the costs of providing an additional collection and delivery of both letters and packets are high.
- 8.22 On the other hand, the benefits of the delivery of post on Saturday may be particularly high for certain categories of users, indicating a continuing need to some

<sup>97</sup> Royal Mail, the CWU, Consumer Focus, DX Group

<sup>98</sup> Royal Mail, the CWU, RNIB, the FSB, three individual respondents and, to the extent changes to the service may have negative impacts, the NFSP and Citizens Advice.

<sup>99</sup> Consumer Focus, the ACNI, the MUA, DX Group, the MCF and one individual respondent.

extent. The overall low value of Saturday collections and deliveries derives from the fact that business users, which use post far more than residential users, do not value Saturday collections and deliveries. However, residential users generally valued six day a week collections and deliveries as the most important feature of the universal service tested. Any change to the Saturday collections and deliveries of post would therefore disproportionately affect residential users against business users.

- 8.23 Workshop participants were also concerned about the impact on “full time workers”, who feel Saturday is the only real day they can use postal services and receive deliveries. Removing Saturday collections and deliveries would only be acceptable if delivery offices were open later into the evening and all day Saturday.
- 8.24 In addition, there is evidence from the qualitative research that some small business users do value this element of the universal service, and we noted in particular the link for small businesses with packet services: those reliant on sending out goods and services to postal users wanting to receive a packet on a Saturday considered that to meet this customer expectation they would need to use a courier, thereby increasing the overall costs of their service. The quantitative research does not find that small businesses would be most concerned, but this could be because participants in the qualitative research had more opportunity to discuss the impact on their business, such as the ability to offer a Saturday delivery of packets. This is also supported by the FSB, which notes that according to the 2010 FSB Panel Survey, 59% of respondents opposed removing the Saturday delivery service or a move to five day a week mail delivery service.
- 8.25 Our research results are supported to some extent by the findings of the research conducted by Consumer Focus, and its conclusions, which suggested that the needs of users may be evolving over time. Consumer Focus suggested that if Saturday deliveries and collections were removed from the universal service, this would be acceptable to many users across the nations and believed that, going forward, there will be less need to maintain the current requirements. Consumer Focus, however, recognised that this would be a major change to the postal service, and that this discussion remains theoretical at the moment, given the Government’s commitment not to change the number of collection and delivery days set out in legislation.

### **Linkages between the number of collection and delivery days and other aspects of the service**

- 8.26 We consider that there are important linkages between the delivery of letters and the delivery of packets on Saturday. We recognise, as pointed out by Royal Mail, that workshop participants saw Saturday as a valuable day to receive packets. However, this should be put in the context of other research results. Users did express concerns that Saturday was the only day for “full time workers” to use postal services and receive deliveries. However, participants also said that the inconvenience of losing Saturday delivery would be reduced if delivery offices provided greater flexibility for collecting post such as longer delivery office opening hours. In addition, the results of our quantitative research do not show that those receiving packets are more affected than the rest of the population when presented with the scenario of Monday-Friday collections and deliveries. In that scenario, there is the same impact on the acceptability of the service for those receiving packets as for the general population.<sup>100</sup>

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<sup>100</sup> The acceptability of the current service among all residential users is 92.5% of respondents, and without a Saturday collection and delivery is 91.3% of respondents, i.e. a reduction of 1.2% in those

- 8.27 The universal service obligation on Royal Mail to deliver on Saturday relates only to letters, not packets, so the importance of Saturday for receiving packets does not necessarily lead to the conclusion that the requirement to deliver letters on Saturday should continue – indeed some participants of the workshops suggested replacing the requirement to deliver letters with a requirement to deliver packets. Importantly, Royal Mail could choose to continue to provide Saturday deliveries for packets (and indeed letters) to meet its customers' expectations, for as long as it is profitable, even if it were no longer required by law to collect and deliver letters on Saturday. As we highlighted in our consultation document, this requirement is set by legislation and is a matter for Government and Parliament.
- 8.28 We consider that the universal service, and hypothetical changes to it, should be considered in the round. The CWU argued that reducing delivery days in conjunction with other service reductions would lead to a service which would not meet the needs of users for simplicity and clarity. Consumer Focus highlighted that deterioration in both quality of service and service frequency would not be seen as acceptable to users. The link between different elements of the universal service is an important consideration, and a point made by some participants in the qualitative research when discussing hypothetical changes to collection and delivery times. Some participants argued that such a change, in conjunction with other changes, may make the service overly complicated, and would result in a letter taking up to a week to arrive, which would not meet their need for a speedy service.

### **Difference in the needs of businesses and residential users**

- 8.29 One of the key results of our research into the reasonable need for collections and deliveries six days a week is the difference between how much residential and business users value Saturday collection and delivery. While this difference does not come through in the qualitative research, it is marked in the quantitative research.
- 8.30 Previous research suggests this is because businesses, as receivers, are sometimes not open on Saturday to receive mail, a point also made by the MUA.
- 8.31 The results could be seen as more surprising from the point of view of businesses as senders. Indeed, the DMA was surprised that businesses were not concerned about the Saturday delivery and urged businesses to respond to customers' preference, as residential users valued Saturday delivery. As senders, some businesses (such as in the leisure industry) may well value the ability of sending mail so that it arrives on a Saturday, and small businesses raised the concern that they would need to use courier services if they wanted their customers to receive a packet on Saturday. Intellect suggested that businesses which send mail to customers would value Saturday deliveries more (we address Intellect's methodological point in Annex 2).
- 8.32 The concern of small businesses about their ability to send mail to their customers to arrive on Saturday was not reflected in the quantitative research in the overall valuation of businesses of Saturday collection and delivery. This could have a number of explanations:
- It could be partly because respondents had more opportunity in the qualitative research to discuss the impact on their business of hypothetical changes, such

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finding the service acceptable. The acceptability of the current service among residential users who receive parcels/ packets is 95.7%, and without a Saturday collection and delivery is 94.6%, i.e. a reduction of 1.1% in those finding the service acceptable.

as the ability to offer a Saturday delivery of packets via Royal Mail, as opposed to using another operator or courier.

- It is also possible that, if the packet is not time critical, it is sufficient for businesses to know that there are other ways for their customers to retrieve a packet sent via Royal Mail (from a neighbour, from the delivery office, via redelivery to their address or to another location nearby).
- Finally, as discussed in Annex 2, the evidence that businesses in general did not value Saturday collections and deliveries does not mean that no business user values this aspect of the service. Some business users valued Saturday collection and delivery, but this is offset by other businesses which preferred not to have Saturday collection and delivery.

8.33 As for large senders, previous research on the needs of large mailers found that some mailers preferred not to have their mail delivered on a Saturday because they are not open for recipients of the mail to respond or take action.<sup>101</sup>

8.34 DX Group argued that Ofcom and its stakeholders need to take a broader view of the need for collection and delivery on predetermined days, and in particular highlighted that it would be reasonable to expect different delivery requirements for business and residential addresses, and that collections could follow different patterns than deliveries. The MUA noted that members have discussed the viability of delivering only to businesses Monday to Friday, so that the universal service for delivery to business addresses could be different to that provided to residential addresses. The MUA members commented that Royal Mail already, in practice, provides a Monday to Friday delivery service for many business users. We noted that, although Royal Mail does not deliver mail to some business addresses on Saturday because the delivery staff have no access (for instance, the premises are shut) or the customer has asked Royal Mail not to deliver the mail, this forms a small minority of total addresses.

## Conclusion

8.35 Overall, residential users value Saturday collections and deliveries, in particular users who are largely at work or in education during Monday to Friday said Saturday is the only real day they can use postal services and receive deliveries. At the same time, the research shows that some users, in particular business users, are less reliant on collections and deliveries six days a week, specifically on Saturdays. However, the question of whether Saturday deliveries and collections of letters on Saturday should continue to be required as part of the universal postal service is a matter for Government and Parliament, not Ofcom. The Government has said that it does not intend to change the minimum requirements, including the six days a week collection and delivery requirement, during this Parliament. While we note the other comments made by respondents, any issue relating to the implementation of any changes to this requirement can therefore only be theoretical at this stage, and is not an issue for Ofcom to address in this review.

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<sup>101</sup> TNS-BMRB, *Bulk mailer needs from a sustainable universal postal service in the UK*, 2010, <http://stakeholders.ofcom.org.uk/binaries/post/1179.pdf>.

## Section 9

# Other issues covered by our review

### Collection and delivery times

- 9.1 Times of collection and delivery are not currently regulated directly as part of the universal postal service. However, as the designated universal service provider, Royal Mail is required to notify Ofcom of the latest specified delivery time for each class of address and the specified collection times from post boxes, any changes it intends to make to those times, and any reclassification of addresses or post boxes which results in the latest delivery time becoming later or the specified collection time earlier.
- 9.2 We considered a hypothetical scenario for changes to collection times which would bring collection times forward, allowing Royal Mail to collect from some post boxes at the same time as making deliveries (“collection on delivery”), and a change to delivery times which would delay final delivery times to 5pm in all areas.<sup>102</sup>

### Delivery to the door

- 9.3 Currently, Royal Mail is obliged to deliver letters and packets to the homes and premises of every resident or business in the UK – this is the current “delivery to the door” requirement. Royal Mail can also deliver to alternative points approved by Ofcom, such as to a neighbour, and may deliver to an alternative point on request (e.g. a box on the roadside). Ofcom can grant exceptions to the requirement for delivery and collection of post every working day if there are difficulties of access or risks to health and safety, although these exceptions are very rare.
- 9.4 In our quantitative research with residential users we tested, as alternatives to delivery to the door, delivery to a secure weatherproof box at the edge of a property or block of flats or a secure locker in a central location which could also accommodate items which were too big to be posted through a letterbox.

### Other characteristics of the universal service

- 9.5 Royal Mail offers a wide range of services to fulfil its regulatory obligations, some of which are not widely known about.<sup>103</sup> We asked participants in our qualitative research to place the services provided by Royal Mail to fulfil its regulatory obligations on a spectrum between “essential” and “nice to have”.

## Summary of the evidence presented in the consultation

### Collection and delivery times

- 9.6 Our quantitative research indicated that collection times are relatively unimportant for residential users in terms of driving current posting decisions, as choice of post boxes is driven by location rather than collection time. Collection times are more

<sup>102</sup> In our research we also asked respondents about the impact of final delivery times at 6pm but this scenario was not included in our cost assessment.

<sup>103</sup> We list these services in a later subsection. The description of all these services is mostly based on Royal Mail’s website, see <http://www.royalmail.com/atoz>.

important for some business users (larger businesses tend not to use post boxes) although few businesses cite collection times as driving their current posting habits.

- 9.7 Participants in our qualitative research were positive about the idea of moving collections, particularly from low volume boxes, onto delivery primarily because they could understand why it would be more efficient. However, some participants did note the impact this change could have on the speed of mail and some businesses noted that this would require them to travel further to post their mail, potentially adding to their costs.
- 9.8 Our quantitative research found that collection at 12 noon from rural and local boxes was equivalent to an increase of 2p for residential users and 6p for businesses on the price of a First Class stamp, meaning that users would be willing to pay a price of 62p to 66p for a First Class stamp in order to retain existing collection times. The total private dis-benefit<sup>104</sup> of a change to collection times was medium.<sup>105</sup>
- 9.9 On delivery times we found that despite indications that most mail is non-urgent, when asked which of a list of improvements to the universal service they would choose, earlier delivery times was the most popular change for both residential users and businesses. This apparent anomaly might be explained by the deliberative research which found that initial reactions were to retain current delivery times or revert to the earlier delivery times that used to exist when Royal Mail operated a second daily delivery round. However, on reflection and consideration of actual usage patterns, most residential users accepted changes to delivery times and said once the early morning slot was gone it made no difference at what point in the day the post arrived so long as it was there in the evening when they got home.
- 9.10 Businesses were more concerned about changes to delivery times. A number of small businesses were very concerned that later deliveries would have a real detrimental impact on their business, preventing them from performing some same day transactions. Medium sized businesses were more likely to be concerned that later deliveries would affect their ability to turn things around quickly in general and could put more pressure on their business or result in delays to goods and services.
- 9.11 Many larger businesses already benefit from Royal Mail's "firms' delivery" practice which aims to ensure that post is delivered early in the day, to allow these businesses more time to process their mail.<sup>106</sup> Our research found that this was something they valued and that they might suffer detriment if it was changed, because a later delivery adds another day on to the process of responding to mail. On the other hand some large businesses were less concerned about immediate impact on their own operations (feeling that they were able to negotiate their own early morning delivery times outside of the regular postal 'round').
- 9.12 Our quantitative research found that later delivery (final delivery by 5pm) was equivalent to a 4p increase in the price of a First Class letter for residential users and business users. This means users would be willing to pay 64p for a First Class stamp in order to retain current delivery times. The total private dis-benefit of a change to delivery times was medium.<sup>107</sup>

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<sup>104</sup> We estimated the total private benefits across residential and business users by multiplying average utility by volume of First Class mail used by each group in 2011-12.

<sup>105</sup> "Low" is £0m-£50m; "Medium" is £51m-£150m; and "High" is £151m and over.

<sup>106</sup> Royal Mail also offers non-universal products that provide timed delivery or early collection of mail from a delivery office or mail centre.

<sup>107</sup> "Low" is £0m-£50m; "Medium" is £51m-£150m; and "High" is £151m and over.

- 9.13 However, as mentioned above, our qualitative research found that, for most groups, needs would often be met by earlier collection times and later delivery times. The relatively high importance given to collection and delivery times in the quantitative research compared with the qualitative research might reflect an overestimate of how much users would be affected by changes to collection and delivery times.<sup>108</sup> It may also be the case that the quantitative results represent an initial reaction, which is higher than the conclusion reached after a deliberative discussion. For this reason it is important not to consider the quantitative research on its own.
- 9.14 We also estimated cost savings available from changes to collection and delivery times and found that savings would be low<sup>109</sup> both for collecting on delivery from low volume boxes and from moving delivery times to later in the day.

### Delivery to the door

- 9.15 The majority of residential users are strongly against mail being delivered to the boundary of the property or a central location instead of mail being delivered to the door. Of all respondents, 50% said they were strongly opposed to the idea of a letterbox at the edge of their property, with 58% in total being opposed to the idea, and only 11% supporting it. For a secure locker in central location, 77% were strongly against this, with 83% in total being opposed to the idea, and only 5% being in favour of it. Given users have a strong preference for delivery to the door, and alternative delivery points are unlikely to meet postal users' needs, we did not seek detailed information on the costs of delivery to the door.

### Other characteristics of the universal service

- 9.16 Participants identified the following Royal Mail services as “essential”: First Class, Second Class, Special Delivery Next Day, Recorded Signed For (which provides signature on delivery as an add-on to First and Second Class mailings), redelivery services for packets and items requiring a signature (which include the option of collection from the delivery office – see Section 6 on packet services), and Redirection.
- 9.17 Some participants in our qualitative research, largely residential users, also identified some services as potentially “nice to have”, as opposed to “essential”. The qualitative research was conducted among a broad cross-section of residential and small business users with varying levels of exposure to some of these services. It is likely that views on whether a service is “nice to have” would differ among the users of these services. The following services were identified as “nice to have”:
- **Certificate of Posting** is a receipt which provides proof of posting to an address. It is free of charge and available from Post Office counters. It can be used in connection with compensation claims for lost or damaged items. It should not be confused with the receipt automatically given at the post office, which simply reflects the financial transaction;
  - **Return to Sender** is the service whereby the customer receives a letter with the correct address but the wrong name, and can return it by writing "return to sender" or "not known at this address" on the envelope and putting it back in a

<sup>108</sup> For example, the quantitative research found some large businesses expressed a high willingness to pay to retain current collection times although most large businesses do not use a post box.

<sup>109</sup> “Low” cost saving impact is £0m-£50m; “Medium” cost saving impact is £51m-£150m; and “High” cost saving impact is £151m and over.

post box or returning it to a post office. Royal Mail then, where it is able to identify the sender, delivers the letter back to the sender;

- **Keepsafe** is a service through which Royal Mail holds UK customers' mail for up to about two months at their local delivery office, and delivers it on their return;<sup>110</sup> and
- **Poste Restante** is a service which allows users to have mail delivered to a post office. The address of the post office is therefore used as the customer's postal address.<sup>111</sup> It is currently required to be free of charge.

9.18 We considered existing information on the fully allocated costs of each of the services for which we hold this information, to indicate the magnitude of costs and compare this to the results of our research. Based on confidential Royal Mail data on fully allocated costs, we consider that, in each case, the incremental costs of the following services are likely to be low:<sup>112</sup> Certificate of Posting, Keepsafe and Poste Restante. As for Return to Sender, the regulatory requirement for there to be a Return to Sender service applies only to postal items which were originally conveyed via a universal postal service and delivery has not been effected. However, such items form the minority of items sent back via Royal Mail's Return to Sender service: the majority of Return to Sender items are originally sent by bulk mailers, as bulk mail constitutes the majority of the mail.<sup>113</sup>

9.19 The universal postal service also includes international postal services. Participants in our qualitative research felt that an international service is essential. The research identified a range of views in relation to the international products currently available:

- **Airmail** is the "priority" delivery service for postal items going abroad. The delivery of Airmail items takes within three to five days to Europe, and within five to seven days to the rest of the world. Airmail was seen as the most essential of the international services;
- **Surface Mail** is the "standard" delivery service for postal items going abroad. Surface Mail is lower cost than Airmail, but delivery takes longer, depending on where the item is sent: for instance, up to two weeks to Western Europe, but up to eight weeks to deliver items to Australasia. Overall, Surface Mail was seen as less essential than Airmail; and
- **International Signed For** is an add-on to Airmail and Surface Mail. Royal Mail notified us that Airmail and Surface Mail with International Signed For provide the international outbound services required by regulation, which include the requirement to convey registered and insured items. International Signed For provides a signature on delivery, standard compensation, and offers the option to purchase additional compensation. Overall, International Signed For was seen as less essential than Airmail.

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<sup>110</sup> The maximum single period for the Keepsafe service is 66 days, see:

[http://www.royalmail.com/sites/default/files/Keepsafe\(Social\)\\_Agreement\\_Apr12.pdf](http://www.royalmail.com/sites/default/files/Keepsafe(Social)_Agreement_Apr12.pdf)

<sup>111</sup> For further information on Poste Restante, see

[http://www.royalmail.com/sites/default/files/RoyalMail%20UKPostScheme\\_April2013.pdf](http://www.royalmail.com/sites/default/files/RoyalMail%20UKPostScheme_April2013.pdf).

<sup>112</sup> "Low" cost saving impact is £0m-£50m; "Medium" cost saving impact is £51m-£150m; and "High" cost saving impact is £151m and over.

<sup>113</sup> Ofcom, *Annual monitoring update on the postal market - Financial year 2011-12*, <http://stakeholders.ofcom.org.uk/binaries/post/monitoring-update2011-12.pdf>.

## Responses to the consultation

### Collection and delivery times

- 9.20 The CWU noted that early morning deliveries were the most popular postal improvement suggested. It used this to emphasise user dissatisfaction with the gradual reduction of service standards, a point that was reiterated by RNIB and several individual responses.
- 9.21 Consumer Focus, the FSB, the CWU, and the NFSP referred to the specific impacts of changes to collection and delivery times on business users, particularly those in rural areas:
- Consumer Focus noted that small and medium businesses would like earlier deliveries and later collections as they say that recent moves in the opposite direction have made life more difficult for them;
  - The CWU argued that the convergence between collection and delivery times particularly impacts on the ability of businesses to use post effectively in their operations, and is damaging in particular to small and medium businesses which broadly rely on the mainstream postal network; and
  - Similarly, the FSB did not support the potential changes and the NFSP noted that later delivery times would be most likely to adversely affect small businesses. Deliveries made as late as 5pm could result in an extra day needed to turn around documents.
- 9.22 Some respondents also commented on the impact on residential users:
- Consumer Focus noted that the residential users in their focus group research were unconcerned about changes to delivery and collection times, and that when pressed none of those involved could offer good reasons why delivery times would need to be earlier; and
  - The NFSP noted that later collection times would require more people to travel to town centres for more urgent items, affecting vulnerable groups disproportionately and widening the gap between rural and urban provision.
- 9.23 Royal Mail and the CWU also commented on the estimates of cost savings presented in our October consultation. Royal Mail raised a concern on the cost implications of restructuring the delivery options and potential interference with their current transformation programme. The CWU argued that although Ofcom considers the cost savings of the proposed delivery time changes to be low, the changes would require a fundamental restructure of the entire delivery operation and that due to the labour intensity in Royal Mail's operations, there would be significant business costs in implementing change.
- 9.24 The NFSP argued that bringing collection times forward would have a knock on effect on the Special Delivery service as collection time for this product is linked to the final collection time for other mail.
- 9.25 Consumer Focus noted that currently Royal Mail offers two services for those postal users (primarily businesses) who wish to collect their post at a time that suits them, rather than waiting for deliveries. Consumer Focus described the Early Collect and

Mail Collect options, stating that given the options available, it was inclined to conclude that regulation to specify delivery and collection times is not justified.

- 9.26 Some respondents commented specifically on a potential change to the regulation of collection and delivery times. Consumer Focus believed that the current requirement for Royal Mail to publish its collection and delivery times, plus changes to these, is sufficient to meet the reasonable needs of postal users. It considered, however, that given the dissatisfaction expressed by small and medium businesses on this point Royal Mail should consider ways to address their concerns (such as increasing awareness of the availability of the two collection services). The DMA believed that potential changes to collection and delivery times appear to be worthwhile.
- 9.27 Age Cymru suggested that consideration should be given to the option of a combined mail delivery and collection service.

### **Delivery to the door**

- 9.28 Of the respondents commenting on this aspect of our research (Consumer Focus, RNIB, the FSB, the DMA, the ACNI, the ACW, the CWU, and four individual respondents), all but one considered that there should be no change to the practice of delivering mail to the door of homes and premises. Only one response, from an individual, focused on the potential cost savings of a change to the delivery of mail to the door. The ACNI noted postal users' resistance to central collection points, but considered that every scenario may need to be reconsidered in the future.<sup>114</sup> The DMA noted that although delivery to the edge of properties or to a central delivery point works in other countries, this would represent a significant cultural change and a different attitude to using post.
- 9.29 Consumer Focus, RNIB and one individual respondent highlighted the importance of delivery to the door for specific groups in society, such as the elderly and those who are blind and partially sighted, with Consumer Focus and RNIB quoting their research or responses from their members. The FSB also provided additional evidence supporting delivery to the door, showing that, according to the 2010 FSB Panel Survey, 83 per cent of respondents were against replacing delivery of mail to individual doors with delivery to appointed mail boxes.
- 9.30 While Consumer Focus was opposed to delivery to these alternative locations, it noted that it has no objection to delivery companies offering non-doorstep delivery points as an alternative that recipients can choose to use. Similarly, an individual respondent commented that a central point (e.g. a locker) could be offered that could be accessed out of working hours to meet the needs of people who are at work when their mail is delivered.

### **Other characteristics of the universal service**

- 9.31 Consumer Focus, the ACNI, DX Group and two individual respondents made specific comments in relation to the additional products mentioned in the review. We consider comments in relation to Special Delivery in Section 6 on the need for next day delivery.

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<sup>114</sup> We note the recommendation that "new build houses and apartment blocks should include quick and easy drop off points, and that Government, Royal Mail, and the building industry should look to best practice elsewhere for pointers", but this is not a matter for Ofcom.

- 9.32 Both the ACNI and Consumer Focus referred to a lack of customer awareness and understanding in relation to these products. They noted that a number of products are rarely used or postal users are using products which do either much less or much more than they want or expect. Consumer Focus suggested that this could be improved by changing names of products and (in relation to Special Delivery) unbundling some features, while the ACNI argued that choices need to be simpler and clearer. The individual responses complemented this, arguing that many of the additional services are expensive.

### Certificate of Posting

- 9.33 Consumer Focus noted the lack of users' awareness of key features of Certificate of Posting, such as the fact that it is free of charge and its role in compensation, arguing that if more postal users were aware of the existence of the product they would consider certificates of posting to be essential postal products. Consumer Focus highlighted that currently the only Quality of Service standard associated with Certificates of Posting is that they are available on request. Given low users' awareness, Consumer Focus questioned whether Ofcom should consider increased regulation of standards for Certificate of Posting. DX Group considered it reasonable to mandate the provision of a Certificate of Posting as a feature of universal services and for Royal Mail to make an additional charge for its provision.

### Other services

- 9.34 DX Group also made the following references to other additional services:
- Redelivery/Return to Sender - DX Group noted that if a delivery fails, the operator can redeliver (to a range of locations), return to sender or destroy the item. DX Group argued that while it may be reasonable to make these customised arrangements for commercial mailers with specific requirements, it is impractical and unreasonably complicated to offer these options separately from universal service products. It suggested that redelivery and return to sender be included as mandatory features of the universal service products;
  - Redirection Services and Keepsafe – DX Group argued that Ofcom should mandate the provision of a redirection service that ensures that all operators receive the data, suggesting the service should be funded by the users. DX Group considered Keepsafe is a temporary redirection and should be regulated as such;
  - Poste Restante – DX Group stated that this does not appear to be a service in its own right, and is just a delivery address for postal items used by people (most commonly international travellers) who cannot receive mail at a permanent address. However, DX Group suspected that Royal Mail provides this to meet UPU regulations, and it seems reasonable that Royal Mail or Post Office Ltd should continue to provide Poste Restante and be able to charge for it; and
  - International Services – again DX Group considered that it is likely that the universal service operator provides international services to meet requirements of the UPU regulations. DX Group suggested obliging the universal service operator to fulfil the requirements of the UPU regulations, rather than mandating particular services.

## Our assessment

### Collection and delivery times

- 9.35 In relation to collection and delivery times, the quantitative research found that the total private dis-benefits would be medium, but our qualitative research found that, for most groups, needs would be met by earlier collection times and later delivery times except for small (and some medium) businesses. Our analysis showed that changes would result in low cost savings.<sup>115</sup>
- 9.36 The relatively high importance given to collection and delivery times in the quantitative research compared with the qualitative research might reflect an overestimate of how much users would be affected by changes to collection and delivery times.<sup>116</sup> It may also be the case that the quantitative results represent an initial reaction, which is higher than the conclusion reached after a deliberative discussion. For this reason it is important not to consider the quantitative research on its own.
- 9.37 Our research also found that there may be an impact on broader social value if earlier collections affect the universality of the service by diminishing access in rural areas, or have a significant impact on small and rural businesses.
- 9.38 Some of the responses to our consultation raised concerns about the impact of changes to collection and delivery times on postal users. At a high level respondents were concerned that there has been a gradual deterioration of the service and that further changes would continue this decline. More specifically, some responses emphasised the impact of these changes on small and rural businesses, and potentially on vulnerable users.
- 9.39 Firstly, in relation to businesses, Consumer Focus, the FSB, the CWU, and the NFSP raised the impact of potential changes to collection and delivery times on small and rural businesses because these changes were thought to impact on their ability to use post effectively and respond to mail the same day. The CWU also raised a specific concern that a small window to act on correspondence the same day could be harmful to small and medium businesses which rely on the postal network.
- 9.40 These concerns were also raised in our research. In particular, small and medium-sized businesses in our qualitative research were concerned that later delivery could mean they experienced delays where they relied on the mail for fulfilment of their own orders or earlier collection could affect the ability to turn round customer orders same day. Some small and medium sized businesses pointed out that there would be an added cost of travelling to a central box. Our quantitative research also showed that the acceptability of changes to collection and delivery times was lowest for rural and small businesses.
- 9.41 We consider that the impact on small and rural businesses is an important aspect of changes to collection and delivery times, but the sub-set of users affected could be small if only a low proportion of mail was affected and if most users affected were able to use an alternative post box with a later collection time, for instance at the post office.

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<sup>115</sup> “Low” is £0m-£50m; “Medium” is £51m-£150m; and “High” is £151m and over.

<sup>116</sup> For example, the quantitative research found some large businesses expressed a high willingness to pay to retain current collection times, despite the fact that most large businesses do not use a post box.

- 9.42 Larger businesses are less likely to use post boxes and more likely to be able to purchase non-universal services such as timed delivery or early collection services,<sup>117</sup> and perhaps as a result concerns about the impact of collection and delivery times on these users were not raised in our consultation. However, concerns about delays to delivery services for large businesses were raised in our qualitative research. Large businesses said they needed early and predictable delivery times.
- 9.43 Secondly, in relation to residential users, Consumer Focus presented evidence that residential users did not appear to need earlier deliveries, which supports our own qualitative research. The NFSP was concerned that the changes could affect vulnerable and rural groups disproportionately. However, our quantitative research shows that whilst respondents aged 75+, those in socio-economic groups DE,<sup>118</sup> retired users, housebound users and those living in deep rural areas were less tolerant of changes to the final delivery and collection times than the general population, these differences were small.<sup>119</sup> We did not find a difference in our qualitative research, although in relation to collection times, some participants were concerned that rural users or those with mobility issues may struggle to get to a central post box if they require a later collection.
- 9.44 Royal Mail and the CWU commented on the estimates of cost savings resulting from potential changes to collection and delivery times that we presented and in particular, on the potential for Royal Mail to incur transition costs in implementing these proposals. We agree that the changes would incur costs to implement and we note in discussing our approach to our review that transition costs are a factor in assessing the reasonable needs of users. For example, a change that meets reasonable needs based on the annual cost savings available but would lead to very high transition costs might not be reasonable.
- 9.45 Finally, a number of respondents made comments on the appropriate regulatory intervention in respect of collection and delivery times. Consumer Focus thought that where needs are not met by the universal service, they may be met by non-universal service products offered by Royal Mail such as Early Collect. This may be the case for some postal users but we note that these services are best suited to mailers with sufficient mail volumes as these services incur a fixed fee.
- 9.46 Age Cymru suggested that consideration should be given to the option of a combined mail delivery and collection service. We note that under our proposals on the regulation of post boxes, we have clarified that users in very remote or isolated locations could approach Royal Mail if they consider their reasonable needs are not being met in relation to post box access.<sup>120</sup> In addition the regulatory conditions already require Royal Mail to establish arrangements to ensure that specific categories of postal users (for instance, disabled users) are able to post postal

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<sup>117</sup> Later delivery times would also affect these services. Early collection services at mail centres or delivery offices would either be available for collection later or a lower proportion of mail would be available.

<sup>118</sup> See Annex 4.

<sup>119</sup> Generally the impact on tolerability of making these changes, compared to the current service, is similar to the average. See table 12.2 of the consultation document on the review of postal users' needs.

<sup>120</sup> Ofcom, *Regulation of the provision of post boxes – Consultation on a proposed modification to the current regulatory obligations on Royal Mail for the provision of post boxes (DUSP 1.8)*, March 2013, <http://stakeholders.ofcom.org.uk/consultations/provision-post-boxes/>.

packets using the universal services regularly and as far as possible without significant cost to those users attributable to their difficulties.<sup>121</sup>

## **Delivery to the door**

- 9.47 Responses to the consultation support the research evidence that users in the UK have a strong preference for delivery to the door, rather than alternative delivery points. Most responses considered that there should be no change to the practice of delivering mail to the door of homes and premises at this stage.
- 9.48 Consumer Focus and an individual commented on the possibility of offering non-doorstep delivery points as an alternative that recipients can choose to use. We consider there is no need for change to the regulatory regime to enable this, as Royal Mail and other providers are free to offer such services to their customers. We note that there is at least one example of a business providing packet lockers in a number of locations (Amazon).<sup>122</sup>
- 9.49 We agree with the point made by one individual respondent that there would be cost savings from roadside delivery, although those might be offset by additional costs incurred by alternative delivery points. Given users' preference for delivery to the door, we have not sought detailed information on the costs of this aspect of the service.
- 9.50 Our research evidence, supported by consultation responses, suggests that the benefits of delivery to the door are high, and that alternative delivery points are unlikely to meet postal users' needs. We therefore conclude that no changes to the regulatory framework are needed.

## **Other characteristics of the universal service**

- 9.51 In general, we consider that the research shows that the reasonable needs of users are met in relation to the current service provided in the following areas:
- Signature on delivery (currently Recorded Signed For), redirections, and redelivery, are clearly valued by users. Given this, we have not sought detailed information on the incremental costs of services.
  - Certificate of Posting, Return to Sender, Keepsafe, Poste Restante were considered as potentially "nice to have" by respondents. However, because there is low awareness of these products in the general population, participants to our workshops had little experience of these products. This point is supported by Consumer Focus's research evidence and, as we stated in our consultation, to understand more about the benefits of this service we would need to carry out research with users of the service. It is possible that these aspects of the universal service are very important to those who use them, which means that benefits are high for a small minority of users, and increases the benefits derived overall. For instance, in relation to Return to Sender, participants tended to value it highly in relation to their own mail, for instance, if it contains personal detail. Those who thought Return to Sender was a "nice to have" service imagined

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<sup>121</sup> DUSP 1.8.4

<sup>122</sup> See Amazon's website:

<http://www.amazon.co.uk/gp/help/customer/display.html?nodeId=200966210>

themselves receiving wrongly addressed letters.<sup>123</sup> Overall, we think that neither the benefits nor the costs of these services are likely to be significant enough to justify additional consideration by Ofcom.

- Participants in our qualitative research had mixed views on whether Airmail, Surface mail and International Signed For were “essential” or “nice to have”. The research found that Airmail did meet core user needs, but that Surface Mail and International Signed For were felt to be less essential. International Signed For is meant to provide the registered and insured elements of international services required by regulation. We consider that we would need to conduct further market research and costing analysis to determine whether there is no longer a reasonable need for Surface Mail to be included in the universal service alongside Airmail, but we consider this issue less of a priority than the other aspects of the universal service considered in earlier sections of this report, given the relative scale of costs and benefits.
- 9.52 Where we received responses on the additional characteristics of the universal service, these supported continued regulation (DX Group, Consumer Focus, and two individuals).<sup>124</sup> We received no other evidence to suggest that the costs and benefits of these services are disproportionate. Given this, we consider that there is no reason for us to revisit the evidence from our consultation.
- 9.53 The ACNI raised the question of whether there are too many services provided and argues that choices should be simpler and clearer. We agree that our research shows that users have low awareness of some Royal Mail products, and Consumer Focus’s research shows that users do not always choose the best service to meet their needs. We also agree that it is important that Royal Mail enables its customers to access the right services for them.
- 9.54 Consumer Focus argued that Ofcom should make sure that at the very least Certificates of Posting are available on request. We consider that Royal Mail clearly has the responsibility to ensure that it complies with its regulatory obligations and make Certificates of Posting are available on request. We have the option of investigating and taking enforcement action if we suspect Royal Mail to be in breach of its regulatory obligations, particularly where there is evidence of customer harm.<sup>125</sup>
- 9.55 Finally, Consumer Focus suggested that we should consider whether increased regulation would help improve the current situation. It believes low postal users’ awareness means that the current standard for Certificates of Posting – simply that it should be available – is not sufficient.
- 9.56 In response, we note that the importance of Certificate of Posting is based on the fact that it is required for compensation claims for anything more than six First Class stamps, and that the use of Certificate of Posting is already to be reviewed. Royal Mail is making changes to its communication materials as part of its new product launch on 2 April 2013 so that it is more evident to users that they should request a Certificate of Posting when posting a packet. Royal Mail will also be undertaking a

<sup>123</sup> A point supported by one individual response, where the respondent complains about the amount of mail belonging to previous occupants delivered to their address. One of the issues here is that companies sending mail do not always update their databases.

<sup>124</sup> An individual respondent raised the issue of “junk mail”, and we note that users can register for the mail preference service to avoid unsolicited mail, see <http://www.mpsonline.org.uk/mpsr/>.

<sup>125</sup> Ofcom, *Enforcement guidelines*, July 2012, [http://stakeholders.ofcom.org.uk/binaries/consultations/draft-enforcement-guidelines/annexes/Enforcement\\_guidelines.pdf](http://stakeholders.ofcom.org.uk/binaries/consultations/draft-enforcement-guidelines/annexes/Enforcement_guidelines.pdf).

review of the issue of evidence requirements for compensation and will engage with Consumer Focus as part of this.<sup>126</sup>

- 9.57 DX Group pointed out that it is impractical and unreasonably complicated to offer redelivery, Return to Sender or destruction of the item separately from universal services. It may be useful to note that redelivery is not separate in the Order from delivery, but simply one way the universal service provider can fulfil its duty to deliver the item.
- 9.58 DX Group agreed that Certificate of Posting and Poste Restante<sup>127</sup> should be regulated, but considered that it would be reasonable for Royal Mail to charge for these services. We concluded in the Review of Regulatory Conditions that, to keep the universal service the same, we should specify that Certificate of Posting and Poste Restante should be free.<sup>128</sup> Whether these services should be required to be free of charge (as opposed to whether they should be provided at all as part of the universal service) is not something that we have considered as part of this review, but we have received no other evidence that this requirement should be removed.
- 9.59 In response to DX Group's comments regarding international services, we consider that it would be far less transparent to UK users to mandate Royal Mail to fulfil the requirements of the UPU regulations, rather than mandating particular international services. The needs of users may also not be exactly the same as the UPU requirements, and the UPU requirements may change without reference to the reasonable needs of users in the UK.
- 9.60 DX Group's point that other operators should have access to redirections data was addressed in our statement on the regulation of post, and the same reasoning applies to access to Keepsafe.<sup>129</sup>
- 9.61 We address the comments relating to Special Delivery in Section 7 above on next day delivery.

## Conclusion

- 9.62 We are not proposing as a result of this review to make any changes to the regulatory requirements of the services considered in this section:
- Specific collection and delivery times are not currently regulated as part of the universal service and our review has not established a need for any changes in this regard;

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<sup>126</sup> Paragraph 30,

<http://www.royalmailgroup.com/sites/default/files/Decision%20Document%20Final.pdf>.

<sup>127</sup> In relation to the point from DX Group that Poste Restante may be required by the UPU, whether a country offers the service is a decision taken at the national level. However, where provided, the Convention specifically allows UPU member countries to charge the same for the service for international items as they do for the domestic service (UPU Convention Art. 13.6.6).

<sup>128</sup> Whilst it was our clear policy position in the Review of Regulatory Conditions that Certificates of Posting should be provided free of charge, it came to our attention during the course of this review that neither the Order nor the DUSP conditions currently specify in terms that the service should be provided free of charge. We intend to rectify this situation when we next make minor amendments to the Order.

<sup>129</sup> Ofcom, *Securing the Universal Postal Service*, March 2012, <http://stakeholders.ofcom.org.uk/binaries/consultations/review-of-regulatory-conditions/statement/statement.pdf>, see paragraphs 10.210-10.223.

- In relation to delivery to the door, we conclude that no changes to the regulatory framework are currently needed; and
- In relation to the additional characteristics of the universal service, we similarly conclude that no change is needed to the current scope of the universal service. Either the benefits are clear (the requirements for signature on delivery, redirections, and redelivery), or the costs and benefits are relatively low in the context of this review and we have no evidence that they are disproportionate (Certificate of Posting, Poste Restante, Keepsafe), or there is mixed evidence and we would need detailed further analysis to assess in more detail the needs of users (international services, Return to Sender).

## Annex 1

# Measurements of the benefits and costs of aspects of the universal service

## Measurement of the benefits

- A1.1 As we explained in our consultation document, we commissioned two quantitative surveys to better understand users' needs from the postal service. These surveys included questions about which elements of the universal service are important to users, as well as an exercise aimed at eliciting users' preferences for different aspects of the universal service (this is referred to as the 'conjoint exercise').
- A1.2 The conjoint exercise provides a basis for estimating users' willingness to pay for different elements of the universal service. We have used these estimates to quantify the monetary value of the private benefits to postal users of different elements of the universal service. Our estimates of the monetary value of the private benefits to users are useful insofar as they allow a direct comparison with the incremental costs of provision. We have used this analysis, along with other qualitative evidence both on private benefits and on broader social value, to inform our assessment of whether the reasonable needs of users are being met.
- A1.3 As we noted in our consultation, the results of the conjoint exercise must be interpreted with care. In particular, respondents to quantitative surveys do not have the same amount of time or level of discussion as they are afforded in qualitative studies (surveys last generally half an hour, focus groups several hours), and hence their responses may reflect an initial reaction to the scenarios presented which may change on further reflection. For this reason, it is important to consider the results of the quantitative research alongside those of the qualitative research.
- A1.4 The conjoint exercise is used to identify the relative importance of various aspects of the postal service to users (including changes in stamp prices). The results of the conjoint exercise are used to create a number of measures by which we can assess respondents' ranking of the benefits of each individual component feature. The main measures that we used in our consultation and in this report are "utility values" and "tolerability scores".
- A1.5 The "private utility values" show how much extra users would be willing to pay for a First Class stamp to retain an element of the universal service or to improve it in some way. In order to estimate the total private benefit across all universal service users, we multiply the average utility value for residential and business users by Ofcom's calculations of the total volume of First Class mail used by each group in 2011-12.<sup>130</sup> We categorise the impact in terms of ranges, with £0-£50m classified as Low, £51-£151m as Medium and above £151m as High. The impact on businesses tends to be higher than the impact on residential users, even though the utility values in terms of pence on a First Class stamp are similar. As business users tend to send more mail, any increase in the price of the stamp costs businesses more than residential users overall.

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<sup>130</sup> We use the volume of First Class single piece letter mail in 2011-12.

**Table A.1.1: Benefits from changes to the universal service**

	Private utility (pence)		Aggregated measure of private utility (£m pa) 2011-12		
	Business	Residential	Business	Residential	Total
<b>Changes (dis-benefits)</b>					
Delivery and collection five days a week, Monday to Friday	0	12p	Low	Low	Low
Delivery and collection five days a week, Saturday + 4 weekdays	14p	12p	Medium	Low	High
Last collection 12.00 noon at rural/local & 6.30 pm at town centre	6p	2p	Medium	Low	Medium
Last collection 10.00 am at rural/local & 6.30 pm at town centre	8p	6p	Medium	Low	Medium
Post is delivered by 5.00 pm in all areas	4p	4p	Low	Low	Medium
Post is delivered by 6.00 pm in all areas	6p	4p	Medium	Low	Medium
80% of First Class arrives within one day	12p	8p	Medium	Low	Medium
90% of First Class arrives within 1 day locally / 2 days elsewhere	4p	4p	Low	Low	Medium
<b>Changes (benefits)</b>					
Post is delivered by 3.00 pm in rural areas / 2.00 pm urban	2p	2p	Low	Low	Low
Can specify evening or Saturday delivery for fee of £4.50	4p	2p	Low	Low	Low

Source: TNS-BMRB (2012) / Ofcom

- A1.6 In the conjoint exercise respondents are asked to choose between two product concepts. In doing so, respondents can indicate which product they prefer, or indicate that they would not choose either product concept. This would be the case if the service level in both options was so bad that the respondent would choose not to use the service at all – in this case both options are said to be “intolerable”. This is also used to create a “tolerability” score – we sometimes also refer to “tolerability” as “acceptability” in this document. They are distinct from private utility values which show how changes to the service affect the utility that those users who would “tolerate” the revised service derive from it.
- A1.7 The tolerability scores also provide a useful indication of whether any of the potential changes we consider would have a significant impact on certain vulnerable groups of society.

**Table A.1.2: Conjoint results - percentage of residential users who would consider a single change tolerable**

Change to the Service	Tolerability (%)	Change relative to current service (%) <sup>131</sup>
<b>Current service</b>	<b>92.5</b>	
<b>As current service but...</b>		
90% arrives within 1 day locally/ 2 days elsewhere	92.3	-0.2
Last collection at 12.00 noon at rural/local & 6.30pm at town centre	92.3	-0.2
Final delivery by 5pm in all areas	92.2	-0.3
80% of First Class mail arrives within one day	92.1	-0.4
Final delivery by 6pm in all areas	92.1	-0.4
Last collection at 10am noon at rural/local & 6.30pm at town centre	92.0	-0.5
First Class stamp price 70p	91.6	-0.9
Delivery and collection five days per week, Saturday and four weekdays	91.4	-1.1
Delivery and collection five days per week, Mon-Fri	91.3	-1.2
Second Class stamp price 60p (& 70p First Class)	91.2	-1.3
First Class stamp price 80p	91.1	-1.4
First Class stamp price 90p	90.1	-2.4

Source: TNS-BMRB (2012)

**Table A.1.3: Conjoint results - percentage of businesses who would consider a single change tolerable**

Change to the Service	Tolerability %	Change relative to current service (%)
<b>Current service</b>	<b>93.9</b>	
<b>As current service but...</b>		
Delivery and collection five days per week, Mon-Fri	93.9	0
90% arrives within 1 day locally/ 2 days elsewhere	93.4	-0.5
Final delivery by 5pm in all areas	93.3	-0.6

<sup>131</sup> Negative changes in the percentage of users who find the service tolerable with a change refer to the percentage of users who say they would stop using the service if that change was made. For example, a 0.2% decline in tolerability implies that 2 in 1000 users would stop using the service.

Final delivery by 6pm in all areas	93	-0.9
First Class stamp price 54p/70p <sup>132</sup>	92.7	-1.2
Last collection at 12.00 noon at rural/local & 6.30pm at town centre	92.7	-1.2
80% of First Class mail arrives within one day	92.6	-1.3
Last collection at 10am noon at rural/local & 6.30pm at town centre	92.5	-1.4
Second Class stamp price 41p/60p (&54p/70p First Class)	92.6	-1.3
First Class stamp price 64p/80p	91.4	-2.5
Delivery and collection five days per week, Saturday and four weekdays	91.2	-2.7
First Class stamp price 74p/90p	88.2	-5.7

Source: TNS-BMRB (2012)

- A1.8 For improvements to the universal service, our conjoint analysis also allows us to estimate how much users like services, using “attractiveness” scores. Attractiveness scores help us to differentiate between services with equal levels of tolerability.<sup>133</sup> It is only appropriate to use the attractiveness scores for assessing a potential need for improvements to the service. Scores are indexed against the current service offer, such that the current service is given an attractiveness score of 100.

**Table A.1.4: Attractiveness for residential users of the current service with the ability to specify evening/weekend delivery**

	Current service	Plus option of evening/weekend delivery (£4.50)	Plus latest delivery time one hour earlier (by 3.00 pm in rural areas / 2.00 pm urban)	Plus both evening / weekend delivery and earlier delivery
Residential	100	103.6	104.4	108
Business	100	105.3	102.4	107.8

Source: TNS-BMRB (2012)

<sup>132</sup> The business survey replicated the fact that there is currently a discount from stamp prices when single piece services are bought via meter (franking machine) or on account (“PPI”). For instance, currently, instead of 60p, postage for a First Class letter (0-100g) is priced at 44p when purchased via meter, and instead of 50p, postage for a Second Class letter (0-100g) is priced at 31p when purchased via meter. Postage Printed Impression (PPI) is an indication on the envelope that the postage has been paid and can be used by customers with an account with Royal Mail. Meter is a way of paying postage in advance, and items have a franking impression made by a franking machine licensed by Royal Mail.

<sup>133</sup> The attractiveness of a package, or of individual attributes, is calculated using utility scores from the conjoint exercise. Utilities can be added together to provide a score for the entire package. By adding together the utility values of component parts we get a measure of the total attractiveness of the final package. These attractiveness scores are used to assess preferences between packages tested. It is also possible to report the attractiveness of different packages as a summary measure.

## Measurement of the costs

A1.9 In our consultation document we explained our approach to estimating the costs of provision of certain aspects of the universal service, and our results. The aspects of the universal service for which we estimate these costs are:

- Earlier collection from low volume post boxes and removal of very low volume post boxes;<sup>134</sup>
- Later final delivery times (up to two hour delay);
- Lower First Class quality of service – low cost network;<sup>135</sup>
- Lower First Class quality of service – intra mail centre standard;<sup>136</sup>
- Single class of service with delivery within two days of posting; and
- Five day delivery and collection.

A1.10 The cost of provision is defined as the incremental cost of each aspect of the universal service considered in the above scenarios. These are the costs that would be avoided by Royal Mail if it ceased providing the relevant aspect of the universal service. In practice, however, estimation of the incremental cost of an aspect of the universal service is not a straight-forward exercise, as most of Royal Mail's cost data is expressed in terms of fully allocated costs, which includes not only the costs that would be avoided if services were to cease but also costs that are shared between those services and other services that Royal Mail already provides. As a result we needed a bespoke estimate of the incremental costs of the scenarios above.

A1.11 We also needed a bespoke estimate of the transition costs that would be incurred if these scenarios were implemented. Transition costs are the costs that are incurred in making the change, for example, the costs of relocating or decreasing resources or the costs of making changes to existing processes and systems.

A1.12 We asked Royal Mail to provide us with an estimate of incremental costs for these scenarios and the transition costs of implementing them. We asked Royal Mail for estimates of its post-modernisation costs. This is because these provide the best estimate available of the efficient costs of providing the service.

A1.13 As these specific changes have not previously been implemented in any part of Royal Mail's network, Royal Mail told us that its estimates are based on a desktop exercise and are therefore theoretical and high-level. Royal Mail highlighted to us that its analysis does not address the various practical issues that it would need to address if changes to the scope and/or specification of the universal service were proposed.

A1.14 Furthermore, Royal Mail highlighted that it is currently in the process of implementing an operational modernisation and transformation programme. While

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<sup>134</sup> We have also assessed this scenario without the removal of post boxes.

<sup>135</sup> In this scenario less First Class mail receives a next day delivery (about 88% instead of 93%).

<sup>136</sup> In this scenario only First Class mail which is being delivered in the same mail centre catchment area will be delivered next day (less than 50% of First Class would be delivered next day instead of 93%).

this programme is ongoing Royal Mail considers that it does not have the capacity to embark on another wave of radical change.

A1.15 The information provided by Royal Mail has been reviewed by our consultants Consult Sirius. We present Royal Mail estimates and Consult Sirius estimates in the table below, using the following ranges:

- Low savings: costs of provision in the range of £0-50m per annum;
- Medium savings: costs of provision in the range of £51-150m per annum; and
- High savings: costs of provision in excess of £151m per annum.

A1.16 We also estimate the costs required to actually implement the change. These are not categorised in ranges, but it is worth noting that the estimated transition costs of the scenarios of a lower quality of service (intra mail centre), a single class of service and five day delivery and collection could be higher than for the other scenarios.

**Table A.1.5: Costs of provision and transition costs (p.a.)**

	Earlier collection from and removal of post boxes <sup>137</sup>	Later final delivery (up to 2 hour delay)	Lower 1c quality of service – low cost network	Lower 1c quality of service – intra mail centre standard	Single class of service	Five day delivery and collection (no Saturdays)
<b>Royal Mail</b>						
Annual cost saving (£m)	Low	Low	Medium	High	High	High
Transition cost (£m)	[X]	[X]	[X]	[X]	[X]	[X]
<b>Consult Sirius</b>						
Annual cost saving (£m)	Low	Low	Medium	High	High	High
Transition cost (£m)	[X]	[X]	[X]	[X]	[X]	[X]

Source: Royal Mail, Consult Sirius estimates

<sup>137</sup> We have also assessed this scenario without the removal of post boxes.

## Annex 2

# Respondents' comments on our approach

## Summary of responses

### Scope of our review

- A2.1 The CWU believed that our research shows a desire to continue the evolution of the service towards service reductions.
- A2.2 In relation to packet services, the CWU regretted that our qualitative research appeared to touch on packet services only as part of broader discussions on stamped products, did not distinguish between different providers, and did not identify whether responses related specifically to services within the scope of the universal service.

### Research methodology and approach to our evidence base

#### The business sample in the quantitative research

- A2.3 The MUA, Intellect, and the FSB commented that greater focus and more in depth research of business users should be included, with the MUA and Intellect arguing that businesses generally use more post than residential users and underpin the universal service. Intellect questioned the robustness of the business sample, and in particular noted that large mailers are little represented.<sup>138</sup> The MUA urged Ofcom to carry out a piece of research into the needs of “super users” of post, businesses spending a large amount on post. The FSB suggested Ofcom undertake a small firms’ impact test.
- A2.4 Similarly, the DMA suggested that greater weighting be given to the views of respondents who have a greater influence on volumes and profitability, such as direct mailers. The MCF argued that, in making changes to the universal service requirements, we should take into account the usage of postal services by bulk mail customers.

#### Choice of the pricing points in our research

- A2.5 The quantitative surveys’ preference exercise tested a single, two-day service scenario, replacing the current First and Second Class services, currently priced at 60p and 50p respectively.
- A2.6 Our quantitative research tested preference for the current two-tier service against both of the following alternatives:
- A single tier service priced at 53p with 95% of mail being delivered within two days; and
  - A single tier service priced at 55p with 98% of mail being delivered within two days.

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<sup>138</sup> Intellect also remarked that the research should have asked businesses about their **primary** means of payment. We note that this was part of the survey, at question C11. See p 34 of our quantitative research report: 86% of businesses use stamps the most to send single items of mail.

A2.7 Our quantitative research also tested preference for the two-tier services with hypothetical higher prices, specifically First Class priced at 90p and Second Class at 60p:

- A single tier service priced at 63p with 95% of mail being delivered within two days; and
- A single tier service priced at 70p with 98% of mail being delivered within two days.

A2.8 The CWU raised several arguments questioning the price points used in designing this preference exercise. The CWU argued that without any adequate explanation of the reasons behind the price structures used in the preference exercise, there may be a perception of research having been designed to deliver support for a predetermined position. In particular:

- At current prices, business users prefer the current service to one of the single tier two day service options, when it is priced at 3p more than the current price of a Second Class stamp for a small letter.<sup>139</sup> The CWU argued that Ofcom did not present evidence for that level of pricing, which is a very modest increase on the current cost of Second Class. It recommended that given the high importance of price in users' preferences, a preference analysis based on price points which reflect operational realities is required to truly understand users' preferences.
- At higher prices, the CWU also argued that it is not clear why there was an increase in prices up to 90p for First Class, increasing the differential in price between Second Class (60p) and a single service (63p), which does appear to rely on "real world commercial predictions".

A2.9 The CWU thought the price point we suggested for an evening delivery (£4.50) service was too high relative to the price of a 500g First Class packet.

#### Approach to our evidence base: prominence of different elements of our research

A2.10 Royal Mail noted that our results on the need for next day delivery lacked a conjoint analysis.

A2.11 Both the CWU and DX Group commented on our reliance on the qualitative research. The CWU commented that it is important to note the difference in the number of participants in the quantitative and qualitative research and to appreciate the possibility of participants' opinions being shaped by exercises undertaken in the focus groups. The CWU highlighted that participants in the qualitative research were given a presentation on the increased costs of running postal services, before being asked to revise their initial views. Specifically, in relation to Saturday collections and deliveries, the CWU was concerned that we concentrated on results from focus group exercises, rather than on the quantitative survey results.

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<sup>139</sup> There are two options for the single tier service in this scenario: 32% of businesses prefer the first single tier service, at 53p (3p more than the price of a Second Class stamp for a letter weighing 0-100g), with 95% of mail arriving in two days, and 26% prefer the option of a single service at 55p, with 98% of mail arriving in two days. Forty-one per cent of businesses prefer the option of a two-tier service. Overall, at current prices, 58% of businesses prefer the option of a single tier service, and 41% the option of a two-tier service. See figure 9.3 of our consultation document.

- A2.12 In relation to the quality of service of next day delivery, DX Group commented that Ofcom seems to have greater reservations about reducing the quality of the next day service than it does about removing next day delivery altogether. It also argued Ofcom gives preference to its qualitative over its quantitative research, which is the reverse of normal research practice and that Ofcom places too much importance on the dis-benefits supposedly identified by the qualitative research.
- A2.13 DX Group argued that Ofcom had misrepresented the results of its own research. It considered the central result of our research is that the long held beliefs about users' needs of postal services are substantially less robust than in the past, and not that, as we noted in our consultation, "the current service largely satisfies users' core needs".

### Other comments

- A2.14 Intellect said that it is not clear from the methodology of the survey that business users were asked the questions correctly in relation to collections and deliveries, particularly Saturday deliveries.<sup>140</sup> Intellect noted that its members suggest that businesses, and in particular those sending many items to customers, would not agree with the evidence that businesses are generally ambivalent regarding Saturday deliveries.
- A2.15 Intellect pointed out that the research result that 66% of business mail is sent using First Class is at odds with Royal Mail's own figures on this which suggest a split of 40% First Class to 60% Second Class in terms of mail volumes (although First Class accounts for approximately 60% of total revenue). Intellect also noted the predominance of stamp users in our research, which they noted suggested that the research was unduly limited to small users.<sup>141</sup>
- A2.16 The ACW argued that Ofcom should understand in more depth the experiences of users in different areas, in order to consider better the possible impact of any changes to the universal service on the different types of postal users. The ACW requested more information on the possible impact of any changes to the universal service on the different types of postal users in Wales and suggested that Ofcom work in association with Wales-based consumer advocacy bodies such as the new Regulated Industries Unit. The ACNI was disappointed that the specific Northern Ireland issue of mail between Northern Ireland and the Republic of Ireland was not considered.

### **Cost benefit approach**

- A2.17 Royal Mail argued that while Ofcom undertook a cost versus benefit analysis of changing certain aspects of the universal service, we did not consider the revenue implications of these changes and how much this would offset any cost savings. Royal Mail commented that to consider the significant hypothetical changes considered in the review, implications for revenue need to be part of the analysis. A

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<sup>140</sup> Intellect also commented that "only 52 businesses responded to questions on Saturday delivery". This is not quite accurate. The low base of 52 businesses relate to those businesses that said that delivery reduced to five days per week (Mon-Fri) would have a significant impact on their business. This is in response to the question about which change would have a significant impact (G3), which has a respondents' base of 1126. This means that very few businesses would consider dropping Saturday collection and delivery would affect them.

<sup>141</sup> When sending post with Royal Mail, out of stamps, meter, PPI, and online postage, 86% of businesses use primarily stamps, question C11 of the business tables, <http://stakeholders.ofcom.org.uk/binaries/research/post/quantitative-oct2012/business.pdf>.

similar point was raised by the CWU when it commented that potential income streams based on being the only national network of doorstep visitors are an important aspect of Royal Mail's long-term commercial options, and argued that analysis of hypothetical changes which would downgrade the delivery network should take into account this loss of earnings potential.

- A2.18 Royal Mail stated that any potential cost savings that have been identified through the review are “theoretical and desk-top and do not take into account the feasibility considerations that would need to be addressed.”
- A2.19 The CWU was concerned that cost information used in our cost and benefit analysis was not of a high enough quality to enable that assessment to be accurate. The CWU believed that the regulator should ensure realistic and accurate cost information is available prior to any further decisions or recommendations.
- A2.20 The CWU also argued that Ofcom needs to understand better Royal Mail's business plan and whether it is achievable, suggesting that an independent assessment of Royal Mail's performance and relative efficiency is needed.

## Our assessment

### Scope of our review

- A2.21 The scope of our review was not determined by a specific focus on cost reductions. We explained in our consultation that we have considered both benefits and costs to assess the reasonable needs of users. We also explained how we determined the scope of our review. In our research we asked about both improvements and potential reductions to the universal service.
- A2.22 Specifically, while in our conjoint analysis we focused on testing reductions, as this exercise was expressly designed to understand what users needs were through measuring the tolerability of changes to the postal service, we also chose to test responses to two potential service improvements. In the quantitative research we also asked residential and business users what they would like to improve about the postal service (both as an unprompted and then prompted question in the residential survey).
- A2.23 Although we did include questions on improvements in the quantitative research, we considered that the qualitative research was a better forum to explore the views of users on possible improvements than the quantitative research. This methodology lends itself much better to exploring attitudes to hypothetical improvements than surveys, including unprompted improvements, as users are given the space and time to consider how they would like the service to change to meet the demands of their lives. For instance, it was users' unprompted views that enabled us to identify their preference for better packet services.
- A2.24 However, we did not identify as a result of users' unprompted views any other aspects of the universal service requirements which should be reviewed or revised so as better to fit the needs of users. To some extent this reflects the growing importance of packet services to users, alongside their reducing use of the postal service generally, which can explain their acceptance of other scenarios such as later delivery times. Given the fall in postal volumes, reflecting a decrease in the use of post, we considered that our hypothetical scenarios should include the question of which aspects of the universal service are key to users, and which aspects may no longer be needed.

- A2.25 The CWU also said it regretted that our qualitative research appeared to touch on packet services only as part of broader discussions on stamped products, and did not distinguish between providers and services. We would highlight that in the deliberative research participants were asked to respond throughout the workshop on the basis of their views as users of the postal service in terms of both senders and receivers of post. This provided us with a full view of their needs in relation to the universal postal service, and this applies to discussions around all aspects of the services tested, such as the number of delivery days and redelivery.
- A2.26 For example, as set out on page six of the deliberative report, residential users, who were specifically considering packet delivery, spontaneously offered the view that more delivery options were required, and many participants were specifically considering packets when discussing their use and views of recorded delivery, for example e-bay buyers and sellers.
- A2.27 In addition, while focused on the universal service, our research considered whether the needs of users are being met by the postal market in general, so it is consistent to consider packet provision more generally (where there are alternatives to Royal Mail).

## **Research methodology and approach to our evidence base**

### The business sample in the quantitative research

- A2.28 Businesses send the majority of mail, and we agree that the views of large mailers using non-universal services are also important when considering the sum total of benefits to society from the universal service. We have taken this into account where relevant in our analysis. However, our business sample is representative of the population of businesses, which is dominated by small and medium businesses. Also, some of the changes are less important to bulk mailers, for instance changes in collection and delivery times, as they use different services, and the impact would depend to some extent on Royal Mail's commercial response to changes. We recognised, however, that our research excluded the use of non-universal services, which is why we sought to engage with stakeholders, including representative bodies for large mailers, prior to and during the consultation.<sup>142</sup>
- A2.29 In particular, in relation to the point that we should conduct research into the needs of large mailers, we would highlight that large mailers have more incentives and resources than individuals and small businesses to make their views known, individually or through their trade bodies, which can represent their views to the postal industry and Ofcom.
- A2.30 In response to the FSB's point that Ofcom undertake a small firms' impact test, Ofcom has a duty to secure the provision of the universal service. In doing so, we consider the needs of all users of the universal service, including small businesses.

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<sup>142</sup> We engaged with a variety of stakeholders when scoping our review, including the FSB, the DMA, the MUA, ISBA (Incorporated Society of British Advertisers), and Postaf. To inform our consultation, we sought the views of large mailers through meetings with structured questions with DMA, PPA, ISBA and DWP on their members' use of mail and the impact of hypothetical changes to the universal service presented in our research. We contacted the MUA at the time to arrange such a meeting. We also met again with the FSB and the MUA during the consultation to present and discuss the research results.

## Choice of the pricing points in our research

- A2.31 The CWU raised several arguments questioning the price points used in designing this preference exercise. Overall, it is important to highlight that these price points were chosen to give meaningful research results, with the advice of the research company TNS-BMRB, rather than accurately predict hypothetical prices. TNS-BMRB provided independent advice on the price levels of the conjoint exercise, which fed into the price levels of the next day preference exercise. While we wanted to use realistic price points, prices also needed to be sufficiently discriminating to obtain valid research results.
- A2.32 Specifically, the CWU questioned why the single, two-day service was priced (at lower prices) at only 3p over the current price of Second Class. This level of pricing was based on the level used in Postcomm's and Consumer Focus's research on the universal service (2010).<sup>143</sup> In this research, the actual Second Class price was 32p, First Class was 41p, and the single tier option was 3p more than Second Class at 35p.<sup>144</sup> We considered that we should retain this 3p differential because it represented a realistic price point and would allow us to refer back to this previous piece of research. However, we also included a higher price point of 5p above the current price of Second Class in the exercise.
- A2.33 The CWU also questioned why, when testing higher prices, there was such an increase in the price of First Class, with a larger differential between First Class and Second Class/a single tier service than currently exists. These results show users' preferences based on a very large difference between First Class and Second Class prices and we recognise that, based on historical prices, this is an extreme case. However, we consider that the results show that even with a 30p premium for First Class some users still value the two-tier service, so this identifies some users for whom the preference for a two-tier service is not price driven. For instance, as discussed in Section 7, of those choosing a two-tier service at the higher price level, 46% said they would send all or most of their mail First Class at these prices, suggesting that in many cases these users have a preference for retaining a next day service.
- A2.34 Finally the CWU thought the price point we suggested for an evening delivery (£4.50) service was too high relative to the price of a 500g First Class packet. We recognise that the results of our research are contingent on the price point used and have interpreted them as such; we note in our consultation that the low valuation of the evening delivery may reflect the price point tested. However, we consider that when thinking about evening deliveries respondents are more likely to consider reference prices from retailers who provide a similar service, rather than the price of sending a First Class packet with Royal Mail.<sup>145</sup>

<sup>143</sup> TNS-BMRB, *Customer needs from a sustainable universal postal service in the UK*, November 2010, residential and business reports respectively:

<http://stakeholders.ofcom.org.uk/binaries/post/1183.pdf> and  
<http://stakeholders.ofcom.org.uk/binaries/post/1184.pdf>.

<sup>144</sup> Residential customer needs, *Appendix 6 – Conjoint analysis*,  
<http://stakeholders.ofcom.org.uk/binaries/post/1180.pdf>.

<sup>145</sup> A Royal Mail First Class packet weighing up to 750g is £2.70. Evening deliveries are generally limited in geographic coverage and charges by retailers vary, to take two examples, at the time of writing, ASOS charges £7.95, Amazon £14.99. See:

<http://www.asos.com/infopages/pgedeliverycharges.aspx> and  
<http://www.amazon.co.uk/gp/help/customer/display.html?nodeId=200173380>.

## Approach to our evidence base: prominence of different elements of our research

- A2.35 Royal Mail highlighted that our conclusions on next day lack evidence from the conjoint analysis. The hypothetical scenario of a single, two-day service replacing the current two-tier service of a next day and a three-day service was tested separately from the conjoint analysis part of our quantitative survey so we do not have a monetary value to users of these changes. As a result, we do not have users' views on the acceptability or value of hypothetical changes to this aspect of the universal service compared with other hypothetical changes.
- A2.36 This does not mean, however, that our evidence base is insufficient for us to consider the needs of users in relation to next day delivery. In particular, contrary to other aspects of the service tested in the conjoint analysis, which cannot be easily separated from the Royal Mail product purchased by users (days of delivery, collection and delivery times, quality of service), we can rely on actual trends in overall First Class volumes to give us a picture of users' behaviour over time.
- A2.37 The CWU and DX Group both commented on Ofcom's reliance on the qualitative research. In particular, the CWU is concerned that Ofcom gives priority to the results of focus groups over the quantitative research in relation to Saturday collections and deliveries, and DX Group that we also give priority to the qualitative research in relation to quality of service.
- A2.38 As we set out in our consultation document, we consider all of the evidence in the round in our assessment. The research methodologies are complementary, and qualitative research gives valuable insight into why users feel the way they do about their needs from the service and hypothetical service changes. Providing participants to the research with information helped them to consider what is important and to assess what they actually "need" as opposed to what they "would like". This helps us to better understand the quantitative results.
- A2.39 In addition, our approach balances costs with benefits. In other words, theoretically, benefits may be high, but if the costs are higher, then requiring the service still over-provides for the needs of users. In practice, however, we recognised in our consultation that there are a number of challenges involved in assessing the costs and benefits of potential changes to the universal service, and in particular the broader social value is very difficult to quantify.
- A2.40 In relation to Saturday delivery more specifically, the qualitative research shows us that the reason residential users value this day is, in particular, because it is the only day for "full time workers" to use postal services, such as by going to the delivery offices, and receiving deliveries. However, it also shows that they could learn to work with any new system, and in particular many participants argued that, to support the hypothetical scenario of no collections and deliveries on Saturday, delivery offices should open later into the evening and all day Saturday. Some also suggested as a compromise to stop delivery and collection of letters on a Saturday, but add Saturday delivery of packets to the universal service.
- A2.41 We think this goes some way to explaining the acceptability of changes to the number of collection and delivery days in our quantitative and qualitative research; users would find a way of meeting their needs but they still relatively value Saturday delivery because, in particular, they can receive or retrieve packets. Finally, in relation to residential users' relatively high value of Saturday delivery, this is based on low usage of post generally, which means that overall the estimated private

benefits derived are low, because of the relatively lower usage of post by residential users compared with business users.<sup>146</sup>

- A2.42 In relation to First Class quality of service more specifically, the evidence from the qualitative research is very clear that users would find a split quality of service confusing. This is supported by the findings from Consumer Focus's qualitative research on the universal postal service (2012).<sup>147</sup> Participants in the qualitative research would have had more opportunity to consider the implications of this scenario, and we think this goes some way to explaining the results of the quantitative research – users would have been unlikely to be able to consider the implications of a split quality of service, and it is therefore possible that they saw this scenario as a lesser reduction in quality of service.
- A2.43 The CWU was concerned that participants' opinions in the focus groups may have been influenced by the information presented to them during the discussions. In response we note that deliberative research is a standard research technique used to elicit considered responses from consumers and particularly useful for complex issues such as the review of users' needs. The technique provides facts about the topic to respondents throughout an extended focus group type session. Deliberative research enables moderators to provide respondents with a common understanding of the issue and draw out considered responses to a topic as opposed to initial reactions which for some would only be based on perceptions. Both types of response are important and are analysed together to provide a full understanding of users' attitudes. The information shared with participants, alongside their usage patterns (also drawn out in the sessions), allowed respondents to provide a fully considered view.
- A2.44 DX Group commented that we are misinterpreting the results of our own research because there is a contradiction in our results that the current service largely satisfies users' core needs when there is also evidence that the service would continue to meet users' needs even with changes. In response we note that our research covered a large number of aspects of the universal service and allowed us to draw conclusions about general levels of satisfaction. However, our approach to assessing reasonable needs could only be applied to hypothetical incremental changes to the universal service, and it is this part of the research which shows the percentage of users who find the service acceptable with hypothetical changes. As a result we begin our review by presenting an overview of the evidence of needs from the service. We then highlight areas where needs may be changing.
- A2.45 The acceptability to users of changes to the universal service means that only rarely are the options presented unacceptable to the extent that the respondent would choose not to use the service at all. In addition, even if users would tolerate some significant reductions in service, in particular if compared with price increases, this does not mean that such reductions would necessarily be socially optimal. This is because we consider all our evidence in the round. Our assessment is not particularly focused on the percentage of users who would tolerate a service reduction. We also consider what users said in the workshops and the core "needs" identified, and whether the current service aligns with those needs to a large extent.

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<sup>146</sup> We estimated the total private benefits across residential and business users by multiplying average utility by volume of First Class mail used by each group in 2011-12. See paragraph 6.12 of our consultation document.

<sup>147</sup> Consumer Focus, *Sense and Sustainability - A report for Consumer Focus by Accent on the Universal Postal Service*, 2012, <http://www.consumerfocus.org.uk/files/2012/07/Sense-and-sustainability1.pdf>.

We also consider the broader social value of the service. Finally, we also consider the quantitative research results on utility (from which we derive the monetary value of a benefit of an aspect of the service).<sup>148</sup>

### Other comments

- A2.46 In response to Intellect's question as to whether businesses were asked the correct question in relation to Saturday collections and deliveries, our questions in relation to the conjoint exercise asked businesses about the postal service generally, and indeed at one point specifically refers to sending and receiving mail.<sup>149</sup> They should therefore have thought about both aspects of their postal usage.
- A2.47 However, as mentioned above, it is possible that not all businesses considered the impact on their business of this hypothetical change. In addition, it is important to remember that the valuation from the conjoint exercise does not mean that no business respondent valued the service. The views of businesses which valued Saturday delivery are offset by those of businesses which, on the contrary, valued no Saturday delivery. This could be because they are closed, and would prefer not to have a mail delivery, as was the case for some large mailers in a previous research.<sup>150</sup>
- A2.48 In response to Intellect's point that the fact that our research found that more business mail is sent First Class than estimated, and that there is an undue proportion of businesses using stamps, we discuss the business sample above. These results are based on the fact that our survey was designed to be representative of the business population. Most businesses are small companies, which are in turn more likely to be using First Class over Second Class,<sup>151</sup> and to use stamps.<sup>152</sup>
- A2.49 In relation to our research in Wales, we consider that our research is as robust as a nationwide research of this nature can be. We have taken into account the recommendations of the ACW on the best locations for our qualitative research and boosted the samples of users in each nation to be able to provide further breakdown. For each nation, the data was weighted within country, so Scotland, Wales, Northern Ireland and England data sets are representative of their populations (weighting was by sex, age, social grade, urban/rural and mainland/offshore within each country). In addition, since the ACW submitted their

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<sup>148</sup> Tolerability and utility measure two different aspects of users' preferences. The difference between utility and tolerability is that while an aspect of the service is worth something to users, they may still be likely to accept changes because they still can send postal items if this is really needed. Most people will tolerate service reductions in the sense that they will continue to use the postal service but those that will tolerate changes will lose some of the utility they derive from the service. The utility estimates are about how much less utility those that will tolerate changes to the service get. For example, only 1.2% of residential users find losing a Saturday delivery intolerable relative to the current service (92.5% of residential users find the current service acceptable, and 91.3% find the service with this change acceptable). However, of the remaining 91.3% of postal users, each loses 12p worth of utility.

<sup>149</sup> The example used to introduce the conjoint exercise refers to collection and delivery of mail, and the interviewer closes the example by saying "choosing neither means that you would not be able to post, send or receive the items you wish using either option, and that you would have to find an alternative communication method to meet this need, including not sending or receiving the item at all".

<sup>150</sup> TNS-BMRB, *Bulk mailer needs from a sustainable universal postal service in the UK*, 2010, <http://stakeholders.ofcom.org.uk/binaries/post/1179.pdf>.

<sup>151</sup> See p. 40 of our quantitative research report.

<sup>152</sup> See p. 33 of our quantitative research report.

response, and in response to a query from Consumer Focus Wales, we have published the data tables for the review of users' needs split by nations.<sup>153</sup>

- A2.50 In relation to mail flows between Northern Ireland and the Republic of Ireland, while this is not an issue within the scope of the review of user needs, we are monitoring residential users' mail flows as part of our regular postal "tracker" surveys. We have asked users the numbers of items sent to and received from the Republic of Ireland, and their views on value for money. Most users send to and receive from the Republic of Ireland very few items a month, with the vast majority neither sending nor receiving any postal item in the last month.<sup>154</sup> However, users are more likely to find that the service of sending a letter to the Republic of Ireland is poor value for money.<sup>155</sup> We are aware that some users in Northern Ireland believe that it should be the same price to send a letter to the Republic of Ireland as to the rest of the UK but this is not an issue for this consultation to consider.

### Cost benefit approach

- A2.51 In response to the CWU's concerns that our cost estimates are not of a high quality enough to enable our cost and benefit analysis, and the limitations highlighted by Royal Mail, we are satisfied that the cost estimates were of sufficient quality to provide the high-level ranges of cost savings for the different scenarios that we presented as indicative of scale in the consultation. Royal Mail provided the original estimated cost impact for each scenario on a high-level desktop basis, although we recognise the limitations highlighted by Royal Mail. In particular, it was inevitable that the cost estimates of hypothetical changes to the universal service would be theoretical. Consult Sirius, a consultancy with extensive experience of assessing, planning and implementing changes in postal operations then reviewed the methodology and underlying operational assumptions underpinning Royal Mail's estimates. We were conscious that the analysis could only provide a relatively broad cost estimation but believe the order of the incremental costs are consistent with previous analysis, and that the estimates constitute a considered assessment of the likely cost impacts of different potential changes to the universal service.
- A2.52 The CWU made the point that Ofcom should, in estimating the costs of elements of the universal service, also assess Royal Mail's efficiency in providing those services. This point refers to the fact that the approach we took was to estimate costs for the year 2015/16, because these costs represent post modernisation costs and this was the best estimate of the efficient costs of providing the service. A detailed assessment of whether these costs are efficient would entail a wider review of the efficiency of Royal Mail's network to understand whether Royal Mail's 2015/16 cost base represents an efficient level of costs. We have not carried out this work because we had to estimate costs based on available data and because

<sup>153</sup> See: <http://stakeholders.ofcom.org.uk/market-data-research/market-data/review-of-user-needs/>.

<sup>154</sup> In the Ofcom tracker survey covering the period between October and December 2012 (Q4 2012), 87% of users did not send any items to the Republic of Ireland in the last month, and 93% did not receive any. These results are similar to the results for the tracker survey in the period July-September 2012 (Q3 2012). The data tables are available at: <http://stakeholders.ofcom.org.uk/market-data-research/statistics/>.

<sup>155</sup> In the survey covering the period between October and December 2012 (Q4 2012), 29% of users thought that the service of sending a letter to the Republic of Ireland, which costs 87p, was good value for money, compared with 45% who thought the service was poor value for money. A First Class stamped letter to the UK currently costs 60p.

Ofcom has not carried out a wider assessment of the efficient costs of providing the universal service.<sup>156</sup>

A2.53 We agree that the revenue impact of any change to the universal service would need to be fully thought through before proposing changes to the universal service requirements. In particular, Royal Mail highlighted that, based on a high-level desk-top analysis, the revenue impact of removing its First Class service would be high.<sup>157</sup> As we explained above, we do not take the revenue impact into account when considering the costs and benefits of aspects of the current service. If we had identified a need for changing the regulatory requirements, we would have considered the impacts on our duties and on stakeholders, including the impact on the sustainability of the universal service. We note however that a change to the regulatory requirements does not necessarily entail a major revenue impact. Royal Mail has commercial freedom to provide services over and above the current universal service requirements, although services which do not meet the characteristics of the universal service may be subject to Value-Added Tax (VAT). VAT policy is a matter for Her Majesty's Revenue and Customs (HMRC).

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<sup>156</sup> Ofcom is currently considering the most relevant methodologies for assessing Royal Mail's efficiency, should the need for any such review occur in the future. The outcome of this review is likely to feed into any future formal efficiency assessment.

<sup>157</sup> Royal Mail used the same definition of "high" as we did in our consultation, i.e. high is over £151million.

## Annex 3

# List of respondents

A3.1 There were 26 respondents, of which there were 16 organisations, nine individuals and one business:

- Age Cymru
- The Advisory Committee for Northern Ireland (the ACNI)
- The Advisory Committee for Scotland (the ACS)
- The Advisory Committee for Wales (the ACW)
- Citizens Advice
- Consumer Focus
- The Communications Workers Union (the CWU)
- The Direct Marketing Association (DMA)
- DX Group
- The Federation of Small Business (the FSB)
- Intellect
- The Mail Competition Forum (the MCF)
- The Mail Users Association (the MUA)
- The National Federation of Sub Postmasters (the NFSP)
- The Royal National Institute of Blind People (RNIB)
- Royal Mail
- Nine responses or comments from individuals
- One response from an individual business, Peakes Travel Elite.

A3.2 All responses can be seen on our website.<sup>158</sup>

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<sup>158</sup> at <http://stakeholders.ofcom.org.uk/consultations/review-of-user-needs/?showResponses=true>.

## Annex 4

# Socio-economic groups

A4.1 Socio-economic group (SEG) is a social classification, classifying the population into social grades, usually on the basis of the Market Research Society occupational groupings (MRS, 1991).

A4.2 The groups are defined as follows:

- A. Professionals such as doctors, solicitors or dentists, chartered people like architects; fully qualified people with a large degree of responsibility such as senior civil servants, senior business executives and high ranking grades within the armed forces. Retired people, previously grade A, and their widows;
- B. People with very senior jobs, such as university lecturers, heads of local government departments, middle management in business organisations, bank managers, police inspectors, and upper grades in the armed forces;
- C1. All others doing non-manual jobs, including nurses, technicians, pharmacists, salesmen, publicans, clerical workers, police sergeants and middle ranks of the armed forces;
- C2. Skilled manual workers, foremen, manual workers with special qualifications such as lorry drivers, security officers and lower grades of the armed forces;
- D. Semi-skilled and unskilled manual workers, including labourers and those serving apprenticeships. Machine minders, farm labourers, lab assistants and postmen; and
- E. Those on the lowest levels of subsistence including all those dependent upon the state long-term, casual workers, and those without a regular income