

Post Office CFI response

1. Post Office and its goals

To many, Post Office is synonymous with the universal postal service. It is the only place where anyone and everyone in the United Kingdom can access universal postal services and, as such, Post Office has unique experience of dealing face-to-face with consumers of postal services in the UK. We serve over 10 million customers a week in c11,500 Post Offices, and six out of every ten transactions over the counter are letter and parcels transactions.

Taking into account the growth in e-commerce parcels and the decline in letters, Post Office wants to see a regulatory regime that: ensures the provision of an affordable universal postal service which meets the evolving needs of consumers and small businesses; supports the maintenance of the nationwide Post Office network which is indispensable to the provision of the universal postal service; benefits consumers and promotes fair competition.

We believe that:

- Customers must be placed at the heart of how the USO operates;
- Any changes should (directly or indirectly) lead to better customer experience and greater customer choice;
- The purpose of the USO is to ensure that a core set of postal services are made available for use by the public, particularly in instances where the market may not satisfy those needs;
- The fact that the USO is designed to safeguard universal access to these core services must not mean that it should guarantee only a second-rate or inferior set of products;
- Universal services must be universally available at a uniform and universal price;
- Particular attention should be paid to ensure those most disadvantaged and vulnerable in society are able to access services at the same price and on the same conditions as everyone else when they buy them in a Post Office.

2. Executive Summary

Post Office and Postmasters play a crucial role in the delivery of the universal postal service and other important public services throughout the United Kingdom. The regulatory arrangements applied to postal services should not undermine the sustainability of these operations.

While, in Post Office's view, the broad structure of the regulatory framework remains appropriate and its continuation will provide stability to the market, Post Office highlights in this response some areas where regulatory intervention is important in order to protect and serve customers.

Post Office is concerned that postal regulation might inadvertently increase the digital divide. Universal postal services should be available to all customers at the same price wherever they are purchased, be it in a Post Office branch or online. This is consistent with the concept of universality.

Post Office does not believe that customers would be best served by stopping the Saturday delivery of letters or that there is any compelling commercial justification for such a move.

Market forces will not act as a sufficient constraint on pricing in all areas and Post Office believes that Ofcom will be striking the right balance by maintaining a price cap on second-class services but needs to keep this under constant review.

Continued growth and innovation in the parcels sector are not benefitting all customers. Universal postal services should not be treated as inferior services. Regulations prohibiting Royal Mail from offering a tracking feature on universal postal services, other than Special Delivery, has the effect of denying customers a useful, valued and now standard feature. Post Office believes that customers will be best served by removing the prohibition. The impact on competition of tracked, standard-parcel services becoming VAT-exempt can be mitigated by removing discounted services from the universal postal service.

The inclusion of a tracking feature does not, however, remove the customer need for universally available *Signed for* and guaranteed next day services. Even if used on fewer occasions than standard services, which is to be expected, these two services meet specific customer needs and should remain available throughout the country at a uniform price.

The trend of increasing e-commerce means that customers are receiving, returning and sending more parcels. Meeting the growing customer need for convenient delivery options and **pick-up** and **drop-off** points (PUDO) will involve retail outlets handling parcels for more than one operator. With that growth in multi-operator PUDO, it is inevitable that there will be an increase in misrouted parcels. Post Office believes that customers will be best served by Ofcom ensuring that there is a default arrangement in place among all relevant parcel operators to ensure that misrouted parcels are quickly identified and processed on fair terms. Similar arrangements already exist for letter mail.

3. Answers to CFI questions

Section 3: Approach to regulation

Question 3.1: Do you consider that Ofcom's overall regulatory approach remains appropriate for regulating postal services over the 5-year period (2022-2027)? If not, please explain the areas where you think changes should be made, with supporting evidence.

Introduction

- 3.1.1 Ofcom's regulatory approach to postal services to date has been reasonable and proportionate. Post Office supports the five-year roll forward of the basic framework – it provides stability to the market. However, given the significant acceleration of trends that has occurred to postal markets during the global pandemic over a matter of months, it is important that Ofcom keeps the situation under review.
- 3.1.2 There are several points of detail where we believe that Ofcom could do more to ensure that the Universal Service continues to meet the needs of all customers, particularly those who are put at a disadvantage by the increasing move to an online economy who tend to be the elderly and the economically disadvantaged.

Saturday letter delivery should continue

- 3.1.3 Although Ofcom has said that it regards any reduction in the USO requirements for six days a week letters delivery as "out of scope" and a matter for the Government, Post Office wants to make it clear that we would regard the degrading of the USO for UK letters (and large letters) to five deliveries a week to be a retrograde step, which would act to the detriment of consumers. We would hope that Ofcom would inform Government of our opinion when it briefs Government on this issue.
- 3.1.4 Post Office strongly supports continued letter delivery on Saturdays. Consumers rely on it, both as senders and receivers. Bulk mailers, whose access and retail volumes (all of which are non-USO) underpin the universal service, also value Saturday delivery. This is a key consideration because non-USO services represent around 83% of total volumes (see *Figure 1*).¹ A recent survey undertaken by Post Office indicates that the expected impact both on customers and on the businesses of Postmasters would be negative and material (see *Figure 2*).

¹ Ofcom Annual Monitoring Update November 2020

Figure 1

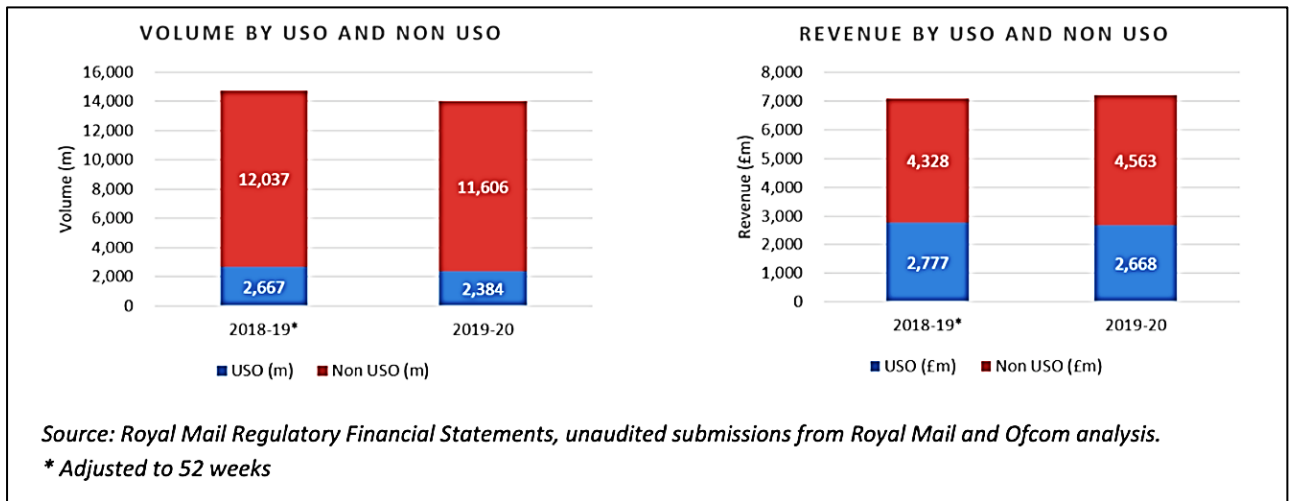


Figure 2



3.1.5 For example, as illustrated in *Table 1*, whereas a member of the public wanting to post a birthday card on a Friday for delivery on a Saturday would currently have to pay 85p, should Saturday letter deliveries be removed the only current alternatives available through a Post Office branch would be to either post the letter as a small parcel (if that is permitted) at a cost of £3.85 (a 353% price increase) or use Special Delivery with a Saturday option at a cost of £11.22 (including VAT), (a 1,220% price increase)². We do not believe that either option is reasonable or affordable for many people.

Table 1

Format	Weight (max)	Service	Price (* inc. VAT where applicable)
Letter	100g	First class	£ 0.85
Small parcel	1kg	First class	£ 3.85
Any	100g	Special Delivery guaranteed by 1pm with Saturday Guarantee	£11.22*

3.1.6 It is worth remembering that customers have no practical alternative but to use Royal Mail if they want to send a physical item (be it a letter, large letter or small packet). To then compel them to pay inflated rates for next day delivery of such items posted on a Friday is unfair and unaffordable.

3.1.7 Many fulfilment items are posted using the Large Letter format. If Royal Mail were to continue to provide Large Letter deliveries on a Saturday for some (or all) contract customers, it would be inequitable for Large Letter Saturday deliveries for USO customers (who already pay a much higher rate) to be discontinued.

3.1.8 We note that Ofcom's research into User Needs did not ask questions of Users about their need for letters services and parcels services separately. As far as we can tell, at no point was a user asked the simple question "To what extent would a five-day delivery service for letters meet your needs?" There is a strong argument that such a conjoint analysis should not include questions about letters and parcels options mixed together as it does not reflect the "real world" behaviour of consumers. Therefore, we suggest that the headline figures being quoted by Ofcom as to whether a five-day delivery USO for letters meets users' needs are at best misleading and at worst considerably overstated.

3.1.9 Ofcom stated in their User Needs report that the current Monday-Saturday letter delivery requirement meets the needs of 98% of residential users and 97% of SMEs in the UK and that reducing the letters service to five

² <https://www.royalmail.com/sites/royalmail.com/files/2021-03/royal-mail-our-prices-april-2021.pdf>

days a week (Monday to Friday) would still meet the needs of 97% of residential and SME users. We believe this to be misleading.

- 3.1.10 The detailed report, indicates that 61% of users consider a six-day delivery to be “important” or “very important”. This is consistent with our own survey data (see *Figure 2* above). A reduction in the letters USO does not meet the needs of any user who wishes to post a letter on a Friday for delivery on a Saturday, due to the unavailability of alternative commercial options. At no point in the User Needs research was this consequence pointed out to customers.
- 3.1.11 A reduction to a five-days a week USO for letters would also not meet the needs of advertisers who would want their letters to fall at the weekend. Similarly, news magazines (e.g. The Economist, Radio Times etc.) who require their magazine to be received by the end of the week would be severely disadvantaged, as presumably around 6.5% of their magazines would be received the following Monday, even if posted on a Thursday.
- 3.1.12 Given that Royal Mail is targeted to deliver 93.5% of first class letters next day, that would imply that some 6.5% of first class letters posted on a Thursday will in fact take four days to be delivered despite the fact that the sender has paid a first class premium. See section 5.3.3 *et seq* below.
- 3.1.13 Any reduction in the frequency of letter or parcel deliveries would disappoint customers and thereby inevitably cause problems for Postmasters who are at the “sharp end” of customer dissatisfaction.

Extension of Parcels USO to Saturday is not material

- 3.1.14 With regard to the USO delivery frequency for Parcels, we note that Royal Mail currently provides for the delivery of USO parcel services on a Saturday (and is about to trial Sunday parcels deliveries). Therefore, the extension of the USO to six days a week would not be necessary as it does not represent an improvement in the service offered to customers or safeguard a service where there is any prospect of it being removed.
- 3.1.15 An extension of the parcels USO to Saturdays merely represents the status quo, driven by Royal Mail’s commercial response to demand and competition, and would not in any way compensate customers for the loss of letter (and large letter) deliveries on a Saturday, should that occur.

First and Second class for all formats should remain part of the Universal Service

- 3.1.16 We believe it is important that the USO continues to provide both first- and second-class letter, large letter and parcel services. First-class services are a substantial proportion of sales made through Post Offices.
- 3.1.17 Customers appreciate having a choice between a next day service and a slower cheaper service. Given there is clearly a need for a next day postal service, it is fair for senders who require that degree of urgency to pay a little more (particularly as it will involve air transport for some routes).

3.1.18 However, Ofcom does need to ensure that it monitors developments in the industry to make sure that other service features that become part of a standard offer are also reflected in USO services. It would be inequitable for USO services to become a second-best set of services. A good example of where USO services lag behind the market is the current absence of a tracking feature. See paras 6.4.1 *et seq.*

The uniform tariff must be available universally

3.1.19 The geographically uniform tariff is something which is not only popular with senders, but also helps to maintain services to remote parts of the UK which are more expensive to deliver to. Maintaining deep rural deliveries will become even more important given the continued growth in e-commerce.

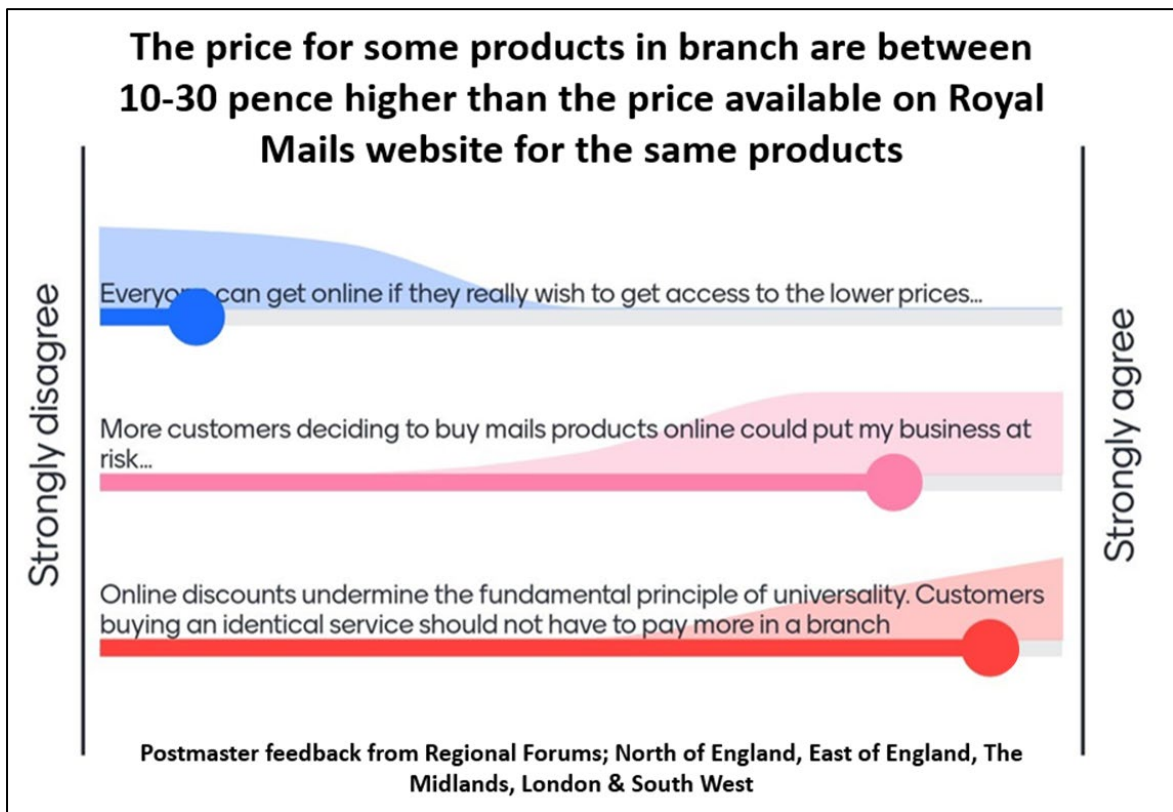
3.1.20 Customers should be assured that the whole range of USO services throughout the United Kingdom will be priced on a uniform basis no matter where they live or where they are posting to.

3.1.21 Not all consumers have equal access to all channels through which a postal service can be purchased. In particular, those with limited or no access to the internet may find that their only alternative is to visit a Post Office in person. Many of the consumers in this position will tend to be elderly or economically disadvantaged. See below paras 5.1.9 *et seq.*

3.1.22 If a uniform tariff is to be truly universal, such disadvantaged consumers should not be asked to pay a premium price over that which is available online. If the concept of universality is to be maintained, USO prices should be uniform irrespective of where or how the USO service is purchased.

3.1.23 Specifically, USO services purchased over a Post Office counter should be made available at the same price as they would be if purchased through an online channel. While we appreciate that different channels may have different costs, universal services should be the same for everyone. Results from a recent survey (see *Figure 3* below) show that internet access is not available to many Post Office customers and that surcharging USO services purchased in a Post Office branch would have a damaging impact on our Postmasters' businesses. Of course, it follows that in principle Royal Mail should be free to price competitive non-universal services how it likes.

Figure 3



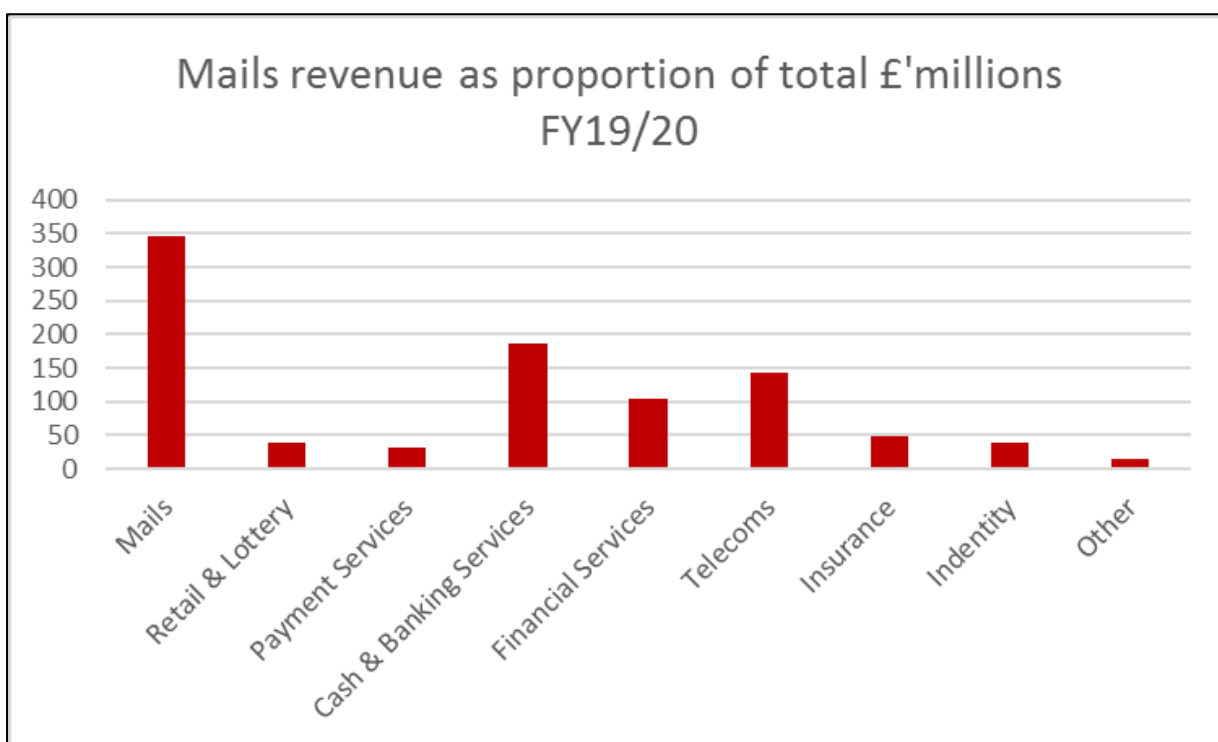
Section 4: Financial sustainability and efficiency

Question 4.1: Do you consider that Ofcom’s current approach to financial sustainability and efficiency of the universal postal service will remain appropriate going forward? If not, please explain what changes you think should be made, with supporting evidence.

4.1.1 Royal Mail’s provision of the universal service needs to be financially sustainable. The Post Office network depends on Royal Mail (see *Figure 4*) and its business being sustainable, and Royal Mail depends on the Post Office network and the services Postmasters provide to customers at the counter to deliver the USO.

4.1.2 The social functions performed by Post Office are underpinned by the financial sustainability of the mail and parcels activities.

Figure 4



4.1.3 Similarly, Post Office’s ability to offer customers additional services (e.g. PUDO) from other carriers will depend on its underlying business being stable and sustainable.

4.1.4 We note that Royal Mail has consistently missed targets on EBIT (*Figure 5*) and efficiency gains (*Figure 6*)³.

³ Figures 5 and 6 taken from Ofcom Annual Monitoring Update, 26 November 2020

https://www.ofcom.org.uk/data/assets/pdf_file/0022/208219/2019-20-annual-monitoring-update-postal-market.pdf

Figure 5

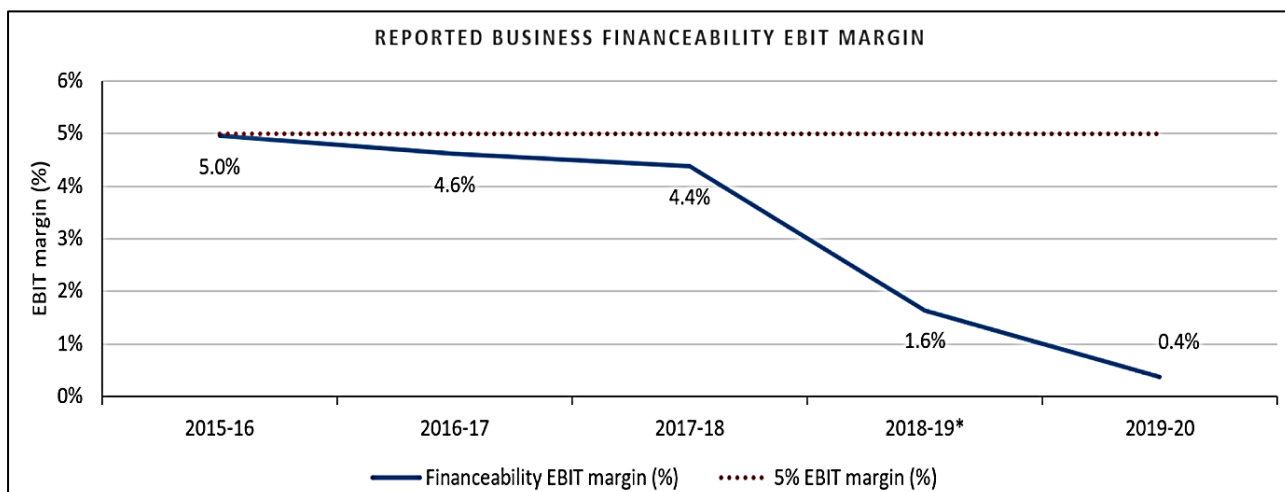
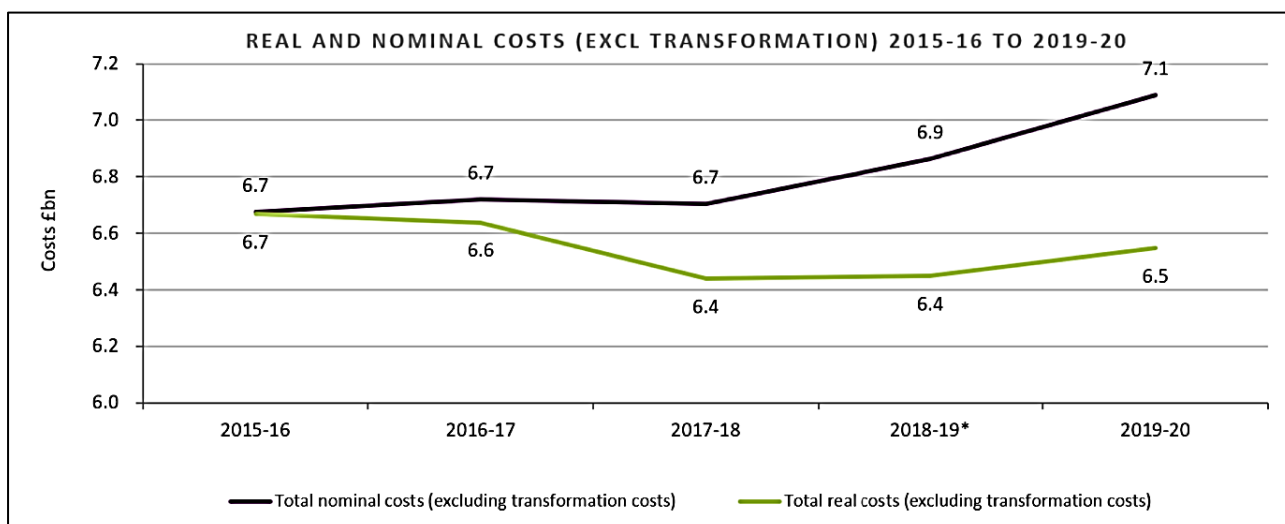


Figure 6



4.1.5 Applying additional or tighter price caps which would constrain Royal Mail’s commercial flexibility would risk making these targets even less achievable.

Section 5: Universal service obligations

Question 5.1: Do you consider Ofcom's approach to the safeguard cap and ensuring affordability will remain appropriate going forward? If not, please explain what changes you think should be made, with supporting evidence.

- 5.1.1 Post Office agrees that the use of a safeguard cap is an appropriate way to safeguard users, provided that the services to which this restriction applies continue to represent the reasonable needs of users today and in the future. A safeguard cap is necessary as, whereas Royal Mail may have market pressures that may discourage it from raising some large letter and parcel prices excessively, that is not the case for letters (or some large letter and small parcels services where it faces little or no competitive pressure).
- 5.1.2 To some extent, a safeguard cap on second class services constrains first class prices as well, because customers will down-trade if the price difference becomes too wide. Royal Mail will need to take this into account when determining price differentials.
- 5.1.3 With regard to letters and large letters (and also small lightweight parcels where there is limited competition), it is prudent to assume going forward that Royal Mail will make full use of whatever scope for increasing prices it is allowed and so Ofcom should be particularly careful to ensure that the safeguard cap is set at an appropriate level.
- 5.1.4 The level of any safeguard cap (second-class or otherwise) would need to consider the available service features (such as compensation and tracking if it becomes a permitted feature of USO services).
- 5.1.5 The income Post Office derives from the sale of postal services is linked directly to the sale of Royal Mail services. Any additional or tighter safeguard caps may also impact Post Office's income and sustainability.

Universal services must not be more expensive over a counter

- 5.1.6 Post Office believes that universality and affordability should be at the heart of the universal services offering.
- 5.1.7 Customers should have the same service offering and prices for universal services irrespective of where they are posting from, where they are posting to, or which payment channel they use to pay for those universal services.
- 5.1.8 Universal services should not be priced so as to discriminate against any group and in particular any disadvantaged groups. This goes against the entire notion of universality and may conflict with the duties of Ofcom

under the Postal Services Act 2011⁴, the Communications Act 2003⁵ and the Trade and Cooperation Agreement between the United Kingdom and the European Union⁶.

5.1.9 There is a great inequity in Royal Mail being able to offer reduced prices on USO services only to those who are able or willing to buy the services online. It is effectively a surcharge on consumers who buy their postal services in a Post Office. This puts at a disadvantage those who can only purchase services in person.

5.1.10 There is widespread and growing concern that those sectors of society that are not “online” are being disadvantaged and that such people tend to be old or poor.

Figure 7

- **People aged 65+ are almost nine times more likely not to shop online than those under 54;** ⁷
- **18% of those aged 65+ have no internet connection at home;**⁸
- **11% of those in DE households and 10% of the most financially vulnerable do not have internet access at home;** ⁹
- **Only 51% of households earning between £6000-10,000 have home internet access compared with 99% of households with an income of over £40,001.** ¹⁰

5.1.11 We believe it would be inequitable for those who have access to online services to be able to pay less for their USO postal services, compared to those who are not. As part of a universal service, it is generally accepted that those sending mail to addresses in deep rural communities should not be asked to pay more (despite the additional costs to serve). Similarly, those who are not “online” should also not be expected to pay more.

5.1.12 Any online discounts would provide those customers who can make use of them with a commercial incentive to bypass our branches harming our Postmasters’ remuneration and thus making the economics of some Post Office branches challenging.

⁴ Postal Services Act 2011, Schedule 6 paragraph 1(b) requires that a regulation “does not discriminate unduly against particular persons or a particular description of persons”. Allowing a higher price to be charged in branch for a universal service potentially contravenes this obligation.

⁵ Communications Act 2003, section 3(4)(i) requires Ofcom, in the exercise of its duties, to have regard to, “the needs of persons with disabilities, of the elderly and of those on low incomes” all of whom are disproportionately less likely to be able to access services online.

⁶ See paragraph 5.1.16 below.

⁷ 35% of those aged 65+ compared with 4% of those under 54 do not shop online

⁸ Ofcom’s ‘Adults’ Media Use and Attitudes report 2020/21’ published 28 April 2021

https://www.ofcom.org.uk/data/assets/pdf_file/0025/217834/adults-media-use-and-attitudes-report-2020-21.pdf

⁹ Ofcom’s ‘Adults’ Media Use and Attitudes report 2020/21’ published 28 April 2021

https://www.ofcom.org.uk/data/assets/pdf_file/0025/217834/adults-media-use-and-attitudes-report-2020-21.pdf

¹⁰Cambridge Centre for Housing & Planning Research: The Digital Divide: what does the research tell us? October 2020

https://www.cchpr.landecon.cam.ac.uk/Research/Start-Year/2017/building_better_opportunities_new_horizons/digital_divide_research

ONS: Exploring the UK’s digital divide 4 March 2019

<https://www.ons.gov.uk/peoplepopulationandcommunity/householdcharacteristics/homeinternetandsocialmediausage/articles/exploringtheuksdigitaldivide/2019-03-04>

- 5.1.13 Selective discounts, almost by definition, are not universal and therefore shouldn't be permitted for USO products. In-branch surcharges for certain USO services are already significant (for some examples, see *Table 2*). An extension and/or increase in the level of those surcharges could have a materially negative impact on Post Office branches.

Table 2¹¹

Service and class	Format	Weight step (up to and inc.)	In-branch price (pence)	Online price (pence)	Surcharge (pence (%))
UK Standard					
UK Standard 1 st	Small parcel	1kg	385	368	20 (5.4%)
UK Standard 2 nd	Small parcel	1kg	320	300	20 (6.67%)
UK Signed					
UK Signed 1 st	Small parcel	1kg	485	468	17 (3.6%)
UK Signed 2 nd	Small parcel	1kg	420	400	20 (5.0%)
International Standard (Europe)					
International Standard	Large Letter	100g	325	305	20 (6.6%)
International Standard	Small parcels	100g	580	550	30 (5.5%)
International Standard	Small parcels	250g	595	565	30 (5.3%)
UK Guaranteed (£500 compensation)					
Special Delivery Guaranteed by 1pm	Any	100g	685	675	10 (1.5%)
Special Delivery Guaranteed by 1pm	Any	500g	765	755	10 (1.3%)

- 5.1.14 Removing this inequity would also go a long way to addressing the concerns raised about the absence of a level playing field for competing parcel services which are usually sold online.
- 5.1.15 Excluding from the USO any services that are sold online for a discounted price, provides an elegant solution to concerns about unfair distortion of competition should USO parcel services include tracking. See below para 6.4.8.

¹¹ <https://www.royalmail.com/sites/royalmail.com/files/2021-03/royal-mail-our-prices-april-2021.pdf> and <https://www.royalmail.com/sites/royalmail.com/files/2021-03/royal-mail-online-price-guide-april-2021.pdf>

- 5.1.16 The imposition of higher prices on some universal services purchased in branch compared to online could cause friction under the UK-EU Trade and Cooperation Agreement (Article SERVIN.5.17: Prevention of market distortive practices) which prevents the UK (and EU member states) from “unjustifiably differentiating between consumers with respect to tariffs or other terms and conditions for the supply of a service subject to a universal service”.

Question 5.2: Do you consider Ofcom’s approach to the regulation of residential and business redirections services will remain appropriate going forward? If not, please explain what changes you think should be made, with supporting evidence.

- 5.2.1 In recent years Royal Mail has increased the cost of redirections considerably, with a 74% increase in the cost of the cheapest 3-month redirection service between 2012-2019¹².
- 5.2.2 While redirection services may appear to some to be becoming less necessary due to the decline in letters volumes, ensuring that letters are redirected is important as a means of discouraging identity theft. Paradoxically, as letters decline, those that remain may become even more important as a means of proving identity and residence.
- 5.2.3 Going forward we strongly believe that Ofcom needs to ensure that, where Royal Mail continues to sell redirections services both over a counter and online, such services should be sold at the same price, so that customers who are already disadvantaged by their inability to access the online economy are not asked to pay even more. See paras. 5.1.9 *et seq* above.

Question 5.3: Do you consider Ofcom’s approach to regulating quality of service for key USO services remains appropriate going forward? If not, please explain what changes you think should be made, with supporting evidence.

- 5.3.1 Post Office supports the need for Quality of Service targets and believes the current targets to be achievable and fair. By and large it is apparent that Royal Mail either meets its targets or comes very close (for an example of measurement against targets see *Figure 8*)¹³. This suggests the targets are challenging but realistic.

¹² Tom Gower, 25 March 2019. [Royal Mail has made redirections fairer – but they shouldn’t have redirected the cost?](#)

¹³ Royal Mail Q4 report for 2019-20. <https://www.royalmailgroup.com/media/11172/quarterly-quality-of-service-and-complaints-report-2019-20-q4.pdf>

Figure 8

Domestic & outgoing EU standards and performance targets	Qtr 1 compared with target	Qtr 2 compared with target	Qtr 3 compared with target	Qtr 4 compared with target	Qtr 4 adjusted compared with target
USO 1st Class	+0.3	+0.4	-1.0	-1.4	+0.2
USO 2nd Class	+0.4	+0.3	+0.1	+0.1	+0.5
Special Delivery	-0.3	-0.3	-0.8	-0.6	-0.3
Postcode Area 91.5% Delivered	-9	-4	-36	-50	-11
Collection Points Served Daily	+0.04	+0.03	+0.00	-0.08	+0.01
Delivery Routes Completed Daily	+0.01	-0.04	-0.16	-1.27	-0.09
Items Correctly Delivered	+0.23	+0.16	+0.21	+0.21	+0.20
USO Outgoing EU Services D+3	+6	-1	+1	-3	+2

5.3.2 It is clear that Ofcom is willing to take action where Royal Mail misses its targets¹⁴, so Royal Mail do have a real incentive to comply.

Figure 9

Ofcom has today fined Royal Mail £1.5m for failing to meet its first-class delivery target in 2018/19.

Royal Mail is required by Ofcom to deliver at least 93% of first-class post – across the UK – within one working day of collection. In 2018/19, 91.5% of first-class post was delivered on time.

5.3.3 However, if Saturday letter and large letter delivery were no longer within the USO and were discontinued or unaffordable, there would be a material impact on consumers who expect next day services to include a Saturday delivery. (See above paras 3.1.3 *et seq*).

5.3.4 If that were to happen, Post Office would expect the first-class delivery target to have to increase if letter deliveries were only five days per week. To do otherwise would be to tolerate a situation whereby 6.5% of first-class letters posted on a Thursday would actually take four days to deliver.

Question 5.4: Do you consider Ofcom’s approach to regulating USO services, including access requirements, Special Delivery Guaranteed by 1pm, Signed For and Meter mail will remain appropriate going forward? If not, please explain what changes you think should be made, with supporting evidence.

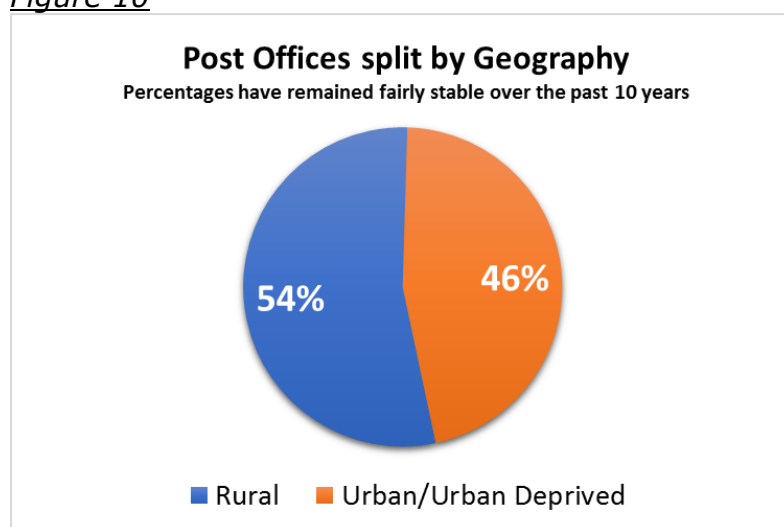
¹⁴ <https://www.ofcom.org.uk/about-ofcom/latest/features-and-news/royal-mail-fined-for-missing-delivery-target>

5.4.1 Ofcom’s principal duty under s.3 Communications Act 2003 (as amended by PSA 2011)¹⁵ is to further the interests of consumers and citizens. Post Office’s view is that the continuation of the current requirements in respect of access requirements and the continued inclusion within the USO of Special Delivery Guaranteed by 1pm, Signed For and Meter mail services would be the most appropriate discharge of that duty.

Access requirements

5.4.2 Post Office provides a universally available network of access points throughout the United Kingdom. The number of Post Office branches has remained largely stable over the last decade as has the split across rural, and urban/urban deprived areas (see *Figure 10*), notwithstanding the dramatic downward trend in the health of physical retail sector over that last five years, and accentuated over the last 12 months during the Covid-19 pandemic (*Figure 11*).

Figure 10



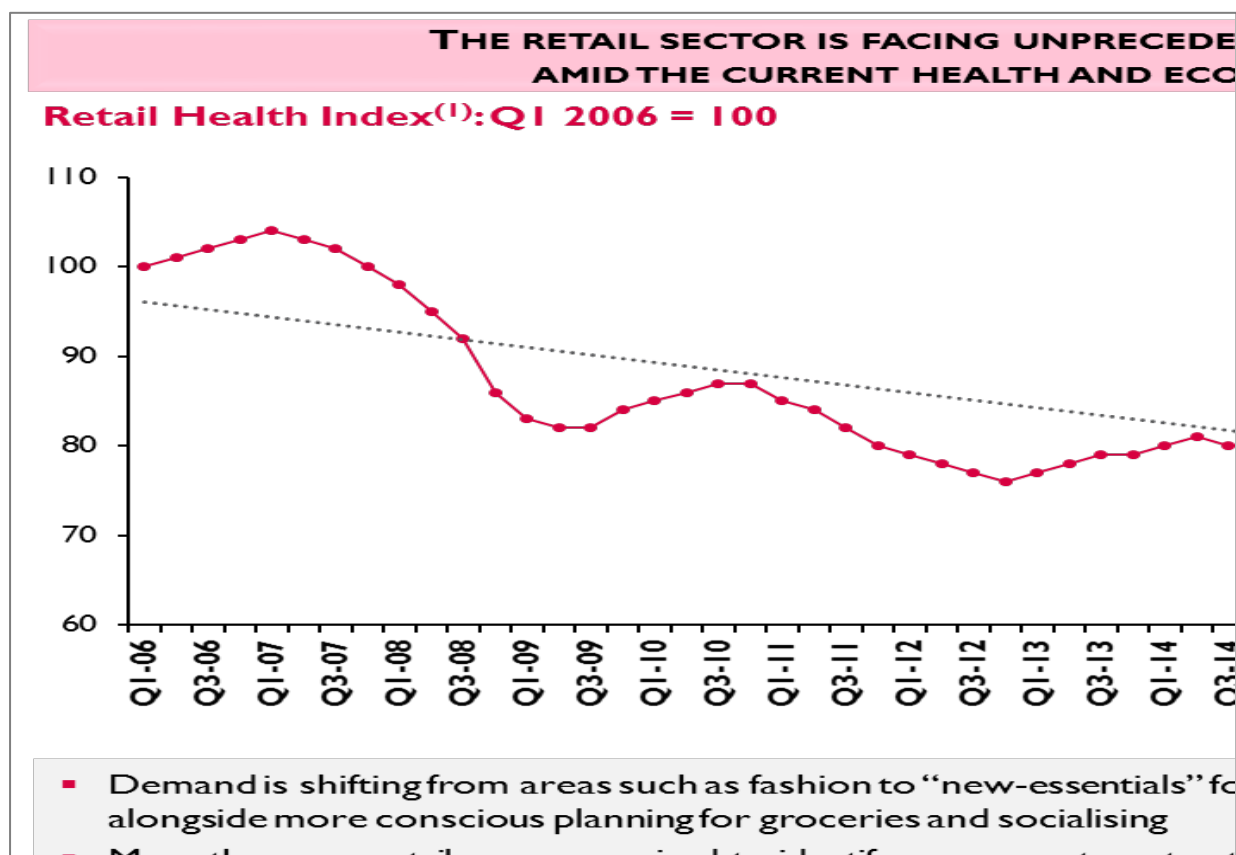
Urban; settlements with populations of over 10,000 (ONS)

Deprivation; Based on Employment, Education, Health, Crime, Barriers to housing, Living environment (MHCLG)

¹⁵ s.3(1) Communications Act 2003. “(1) It shall be the principal duty of Ofcom, in carrying out their functions—

(a) to further the interests of citizens in relation to communications matters; and

(b) to further the interests of consumers in relevant markets, where appropriate by promoting competition.”

Figure 11¹⁶

5.4.3 There is no evidence that the established network fails to meet the needs of consumers. The Government also requires Post Office to provide a range of non-postal services and sets its own national spread requirements which are subject to periodic review¹⁷. Post Office believes that Ofcom, as the independent regulator, has set the access requirements for universal postal services at an appropriate level. Therefore, Post Office believes that the current requirements as to the spread of access points are sufficient.

5.4.4 Attracting customers for USO postal services is essential for the sustainability of the nationwide Post Office network. We have commented elsewhere on ways in which the regulatory framework could support the network that we have, namely:

- avoiding channel price differentials for USO services which could in effect create a surcharge for in-branch transactions; and
- a regulatory mechanism which guarantees a solution for parcel repatriation between parcel networks which would assist in the functioning of a competitive parcels market.

¹⁶ The Retail Health Index is based on quantitative assessments by members of KPMG/Ipsos Retail Think Tank, of the impact on retail health of demand, margins and costs for the quarter just completed and a forecast of the quarter ahead. Source: KPMG/Ipsos Retail Think Tank, ONS, BRC, Euromonitor

¹⁷ The Government requirements cover applications, payments, identity verification, data capture and information services. These services, and related funding, are reviewed periodically by Government. Post Office provides an annual network report to Parliament pursuant to s.11 Postal Services Act 2011.

- 5.4.5 Network spread depends on there being a sufficient number of branches that are sufficiently financially viable for the Postmasters who run them, and a Post Office branch's sustainability relies on the volume of sales activity and footfall. As stated previously, this could be undermined by excessive USO price rises or *de facto* in-branch surcharges for USO services. See above paras 5.1.12 *et seq.*
- 5.4.6 Noting Ofcom's duty to keep regulatory obligations to a minimum¹⁸, there is clearly no need to increase access requirements, nor any evidence that they should be reduced.

[Monitoring delivery address provision for those in unsafe or untraditional living situations, including those who are homeless](#)

- 5.4.7 Post Office has worked with Citizen's Advice and Royal Mail in recent years, including through participation in a Working Group, to find a solution to this important issue. In light of the numerous stakeholders involved, it is yet to be established what, if any, role Post Office has to play in any solution as other, potentially more appropriate, alternatives are available.
- 5.4.8 The original aim was to provide an address for letter delivery for homeless people. Royal Mail was on the point of running a trial for homeless people, using delivery offices as the collection points, but this was disrupted by the COVID-19 pandemic.
- 5.4.9 The scope has subsequently been extended to cover other vulnerable groups in unsafe living conditions, notably people suffering domestic abuse. Our understanding is that expansion of the scope has rendered the proposed Royal Mail solution less feasible requiring the solution to be revisited.
- 5.4.10 The extension of the scope has also added complexity and has increased the costs of providing a solution. Furthermore, the source of public funding of such a service remains to be identified.
- 5.4.11 This is a complex and sensitive issue involving very vulnerable people and requiring multiple stakeholder input which is not best addressed through postal regulation. There are many important issues still to be resolved, for example:
- acceptable forms of identification
 - personal data security
 - ability to appoint a proxy to collect the mail while safeguarding against abuse of such a system
 - safeguarding measures required to protect the collecting customer's identity
 - fraud prevention
 - protection of the vulnerable person when at a Royal Mail Delivery Office, in a Post Office branch or other relevant location
 - posting customer's consent to the use of an alternative address
 - acceptability of an alternative address for 'do not redirect' services

¹⁸ s.6(1) Communications Act 2003.

- mail formats to which the service applies (letters and/or parcels)
- the need for arrangements with multiple postal and parcel operators.

5.4.12 There are also additional operational issues that would need to be resolved:

- duration for which items are to be held in branch
- process for keeping items separate and secure
- returns process for uncollected items
- remuneration for the additional activity
- criteria for selection of Delivery Office, branch or other relevant locations where the service would be available
- specialist training of staff to assist with handling these vulnerable customers' requirements and needs.

5.4.13 Ofcom is under a legal duty to keep regulatory obligations to a minimum¹⁹ and it does not seem appropriate for the regulator to impose conditions under the postal legislative framework where multiple stakeholders are involved and considerable effort is still required to find a workable, safe, effective and funded solution.

5.4.14 Post Office continues to work with Citizen's Advice and all other relevant stakeholders to find a solution to this important issue.

Special Delivery Guaranteed by 1pm

5.4.15 Post Office believes that it is correct to retain Special Delivery Guaranteed by 1pm as part of the universal service. This would be the case even if tracking were to be a permitted feature of standard USO services as tracked services do not provide time-certainty of delivery, high levels of compensation or proof of delivery.

5.4.16 Customers need a guaranteed, next-day service with high levels of insurance and compensation (see *Figure 12* below). Special Delivery has a particular role (very urgent items, additional security for important documents and valuables, tracking, proof of delivery and enhanced compensation).

¹⁹ s.6(1) Communications Act 2003.

Figure 12



5.4.17 Royal Mail’s is the only network providing consumers a next-day guaranteed service to all addresses in the United Kingdom at a geographically-uniform price. To simulate a reasonable customer journey, a search of two price comparison websites²⁰ was undertaken to find alternatives to Royal Mail services and it showed that, for any given carrier, there was not always a price shown for a next day service to Northern Ireland or the Scottish Islands²¹ or that, where a price was displayed, it was higher than the UK Mainland price. Only Royal Mail offered a service to both Northern Ireland and the Scottish Islands at a geographically-uniform tariff.

²⁰ Parcel2Go and Parcel Monkey.

²¹ Parcel2Go.com data are drawn from a Scotland Highlands and Islands price and ParcelMonkey.co.uk price data search was for the Orkney prices. Data drawn 23 April 2021.

Table 3

Operator	Service name	Service speed	Uniform price available for all destinations?	Service available throughout the UK?
Royal Mail	±Special Delivery Guaranteed by 1pm	Next day	YES	YES
Parcelforce Worldwide	Express 24	Next day	NO	YES
DPD	DPD Next Day Collected	Next day+	NO	NO
DX Next Day	DX Next Day, heavy/large/pallet	Next day	NO	NO
DHL	DHL UK - Drop Off	Next day+	NO	NO
TNT	TNT UK Express	1-3 days	NO	NO

5.4.19 Customers are prepared to pay a premium for these features provided the price is affordable and there is some evidence that a service with such a high specification would not be available at a uniform tariff from other operators other than at a substantially higher price.

5.4.20 Should Ofcom have any concern that the presence of Special Delivery Guaranteed by 1pm within the definition of universal service may in some instances distort competition with express carriers, then it would be prudent to prevent such a universal service from being sold at a discount through online channels. It would, therefore, follow that if Royal Mail should discount it, it would then be a non-USO service offering and thus subject to VAT. This would put them on a level playing field with other express carriers. See above paras. 5.1.14 and 5.1.15 and below para. 6.4.8.

Signed For

5.4.21 Post Office also believes that the "Signed For" service should be retained within the definition of the universal service. The need to require a signature as proof of delivery is important for many customers, especially when sending official documents (e.g. DVLA or court documents etc.). This would be the case even if tracking were to be a permitted feature of standard USO services.

5.4.22 A tracked service lacks some of the features of a "Signed For" service. In instances when delivery is disputed, the ability to demonstrate that the recipient has signed for it is powerful evidence. A tracked service does not of itself meet this need. For example, if an item is in fact misdelivered it is of no use to have a "track" to say that the item has been delivered. Our survey of Postmasters clearly shows that customers value the

features of Special Delivery and Signed For and would also value a tracked feature on standard parcels. (See *Figure 12* above).

Meter mail

- 5.4.23 Post Office has no strong view on the USO status of meter mail but notes that it appears to meet a need of around 14% of small businesses. Post Office provides an important access point for customers who use this service and do not have a Royal Mail collection.
- 5.4.25 On the assumption that services sold through a meter remain in the USO, we believe that it is proportionate and fair that Royal Mail should be allowed to have a lower price for services sold through a meter, compared to other online or in branch USO services.
- 5.4.26 Modern Smart Meters represent an investment by the small business customer in technology which provides Royal Mail with enhanced revenue protection (and the collection of surcharges). In practice, meters are not available to consumers and the use of meters constitutes a different market to the way in which consumers can buy services. If Royal Mail could not implement a separate price structure for meters, then the likelihood is that e-substitution of letters would be further increased.

Section 6: Parcels Regulation

Question 6.1: Do you think the parcels market is working well for all senders and receivers of parcels (such as online shoppers, marketplace sellers and/or small retailers)? If not, please explain what changes you think should be made, with supporting evidence.

Market not meeting all customer needs

- 6.1.1 Although the UK parcels market is extremely competitive overall, many of the services and/or competitive rates are only available to large commercial posters or consumers living in urban areas. There is also only limited competition for items below 2kg and almost none below 1kg. This position has changed little, if at all, since Postcomm carried out a review in 2010²².
- 6.1.2 Post Office believes that it is essential that there is a uniform, affordable, high-quality parcel service available to all users throughout the United Kingdom at a uniform price. It is not clear that the market would meet the needs of members of the public who only want to post a parcel occasionally, nor those who want to post to more remote locations within the UK. It is reasonable to limit the maximum weight of items using such a service to 20kg, as weights beyond that may require a specialist network. It is also reasonable to have a safeguard cap for small parcels due to the lack of competition below 2kg. See above at paras. 5.1.1 to 5.1.5.

²² Laying the foundations for a sustainable postal service (2010).

USO services must be available to all customers at the same price and evolve to include tracking to meet customer needs

- 6.1.3 However, Post Office has strong concerns that the current USO standard parcel services are becoming an inferior product due to the absence of tracking. Please see our comments at para. 6.4.1 *et seq* below.
- 6.1.4 Consumers need access to high-quality USO parcels products at affordable, uniform prices. Post Office is best placed to meet those needs in terms of accessibility, but for any USO standard parcels service to meet the expectations of a consumer in 2021 and beyond, it needs to include tracking (see para. 6.4.1 *et seq* below).
- 6.1.5 Crucially, to avoid discrimination against those who do not or cannot purchase services online, it should not be more expensive to by a USO service purely by virtue of it being bought over a Post Office counter (see para. 5.1.6 *et seq* above).

Parcels misrouting likely to become an issue with continued growth in multi-carrier PUDO outlets

- 6.1.6 Customers are increasingly demanding more convenience, particularly when it comes to online shopping (see *Figure 13*). Post Office (and other physical retail outlets²³) have an increasing role to play in providing a convenient point to collect items ordered on-line, from which to return items and to receive any deliveries that are unfortunately missed, which is why Post Office is exploring the possibility of affording PUDO services to other carriers than just Royal Mail²⁴.

Figure 13

- **Online sales grew by 36% vs. predicted 7.8% in 2020**
- **This will have fuelled demand for PUDO, and 90% of those who have used Click & Collect more since the pandemic started will keep this up once all restrictions are lifted**
- **1 in 3 consumers say they have used Click & Collect more frequently since the start of the pandemic**
- **On average shoppers now use the service 3 times per month compared to twice a month in 2019**

Sources; IMRG; Barclaycard Payments research March 2021

- 6.1.7 In order to meet customer needs for “pick-up” and “drop-off” (“PUDO”) services across the whole Parcels market, we believe that Ofcom needs to create a regulatory process which will enable such a market to function

²³ Such as Collect+, who recently announced their offer of PUDO services to carriers other than just Yodel.

²⁴ <https://corporate.postoffice.co.uk/our-media-centre#/pressreleases/post-office-limited-and-royal-mail-agree-new-long-term-commercial-agreement-3060459> “Post Office Limited and Royal Mail agree new long-term commercial agreement” 17 December 2020.

<https://www.thegrocer.co.uk/convenience/post-office-partners-with-amazon-in-click-and-collect-trial/653741.article> “Post Office partners with Amazon in click & collect trial” The Grocer, 2 March 2021

efficiently and in the interests of consumers when a parcel goes astray (see para 6.2.1 *et seq* below).

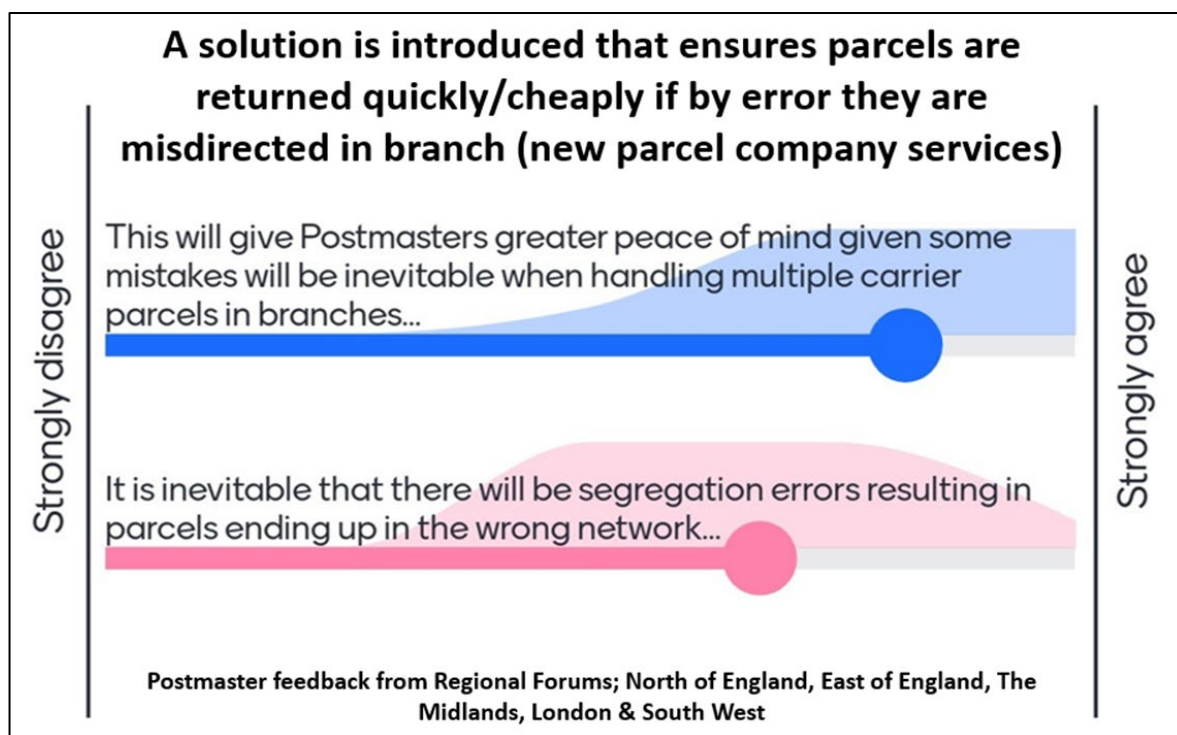
6.1.8 As to the current performance levels of carriers, Post Office has no strong views but would expect competitive forces to drive improvements.

Question 6.2: What is the nature and extent of detriment (if any) that consumers may suffer in the C2X or B2C segments of the parcels market? Please provide your views with supporting evidence.

6.2.1 As the growth in the number of parcels sent by consumers and use of multi-carrier PUDO outlets looks set to continue (particularly as lockdown eases), the incidence of parcels ending up in the wrong network will inevitably increase (e.g. because they are segregated incorrectly by the retailer or are collected by, or handed over in error to, the wrong parcel carrier). Post Office is required to segregate items prior to collection by Royal Mail. Currently some segregated mail bags collected by Royal Mail from Post Offices have one or more incorrectly segregated item(s) in them. With the growth of multi-operator PUDO outlets and the opening of Post Office branches to other carriers, it will become increasingly important to have a standardised solution in place to repatriate misrouted items in order to reduce the impact and delays on customers parcels.

6.2.2 Post Office believes that there is a need to protect consumers by ensuring the prompt repatriation of misrouted parcels by defining processes and standards in anticipation of the growth of PUDO services. Even Postmasters themselves have acknowledged the likelihood of errors and the need for an operational solution to address them (see *Figure 14*).

Figure 14



- 6.2.3 Customers' refunds may depend on receipt by a retailer of a returned parcel, so it will be important to have a solution to ensure that all of these parcels are repatriated speedily should the need arise. Such a solution needs to be an industry-wide solution and it cannot be left to a series of bilateral arrangements, due to the difficulty of agreeing common standards. There needs to be a solution across all carriers, irrespective as to whether it is (for example) an Amazon, Hermes or DPD return parcel that ends up in the Royal Mail network or vice versa. Any delay in repatriating misrouted parcels could, conceivably, last for weeks and the absence of a common tracking system will mean that such parcels will effectively 'disappear'.
- 6.2.4 There is no existing multilateral arrangement in place, which is not perhaps surprising as it is only with the growth of multi-carrier PUDO outlets that these risks are likely to materialise. The growth in PUDO for multiple operators at the same location will inevitably lead to an increase in misrouting incidents (see above para. 6.2.1 and *Figure 14*).
- 6.2.5 We believe that there is, therefore, an imminent need for a multilateral solution, akin to that used for letters, before the problem materialises. Accordingly, we believe that Ofcom should use this regulatory review process to put suitable measures in place to anticipate this issue, just as Postcomm did with issue of interoperability for letter delivery operators.
- 6.2.6 As has already been done with letters, Ofcom's regulatory settlement should, Post Office believes, similarly put default arrangements in place, in case multi-lateral commercial arrangements cannot be agreed in a timely fashion. It would be open to carriers to agree alternative arrangements, but these default conditions would provide a safety net for consumers and carriers alike, consistent with Ofcom's duties to act in the interests of consumers whilst also supporting effective co-operation.²⁵

Question 6.3: How effective are the existing consumer protection measures for users of parcel services, in particular CP 3? Is a change in regulation needed to protect users of postal services (as senders and recipients) and if so, what measures? Please provide your views with supporting evidence.

- 6.3.1 Post Office has no strong views but would expect competitive forces to drive better performance, including the handling of complaints. If it does not, then regulatory intervention may be needed in the future.

Question 6.4: Are there any changes to the universal service obligations required for parcels, such as including tracking for First/Second Class services? If so, please provide your views with supporting evidence.

- 6.4.1 Tracking is, as a matter of law, a permitted feature of standard USO parcels services by virtue of a change already made by Ofcom when it

²⁵ ss.51(2)(b) and 51(3)(e) Postal Services Act 2011

amended the Universal Postal Services Order 2012 in December 2013 to allow for tracking to be included on USO services²⁶.

6.4.2 To date, this change in the USO definition has not been passed on to Royal Mail through a minor modification of the Designated Universal Service Provider (DUSP) conditions. Royal Mail is currently the only parcels carrier of any size which provides untracked parcel services²⁷ and even Royal Mail has a publicly stated ambition to barcode all parcels, which will allow tracking information to be captured (see *Table 6*). Indeed, when Whistl launched a letter delivery service in 2012, a tracking feature was offered as standard.

Table 6

Operator	Service name	Service speed	Tracking
Royal Mail	UK Standard	2nd class	NO
Parcelforce Worldwide	PFWW Express 48 Drop Off	2+ day	YES
Parcelforce Worldwide	PFWW Express 48 Drop at Post Office	2+ day	YES
Hermes	Hermes Parcelshop	2+ day	YES
Collect+ Yodel	Collect+ Delivered By Yodel	2+ day	YES
DPD	DPD Pickup	1-2 days	YES
DX Next Day	DX 48	2+ day	YES
TNT	TNT UK Express Service	1-3 day	YES
DHL	DHL UK - Drop Off	Next day+	YES
UPS	UPS Standard	2+ day	YES

6.4.3 To continue to prohibit Royal Mail from offering tracking as part of a standard service under the DUSP Condition would have the effect of keeping core postal services, which are relied upon by all consumers, to an inferior offering. We strongly believe that it is not in the interests of consumers to insist that the USO standard parcels service be required to be uniquely substandard.

6.4.4 Over the past 20 years the increasing use of barcodes and PDAs has resulted in a general expectation that a parcel will be capable of being tracked (through a website or through an App). The current exclusion of tracked services from the USO now risks hindering both customer benefit (visibility of their item) and operational efficiency (ability track items through the network).

²⁶ See *The Postal Services (Universal Postal Service) (Amendment) Order 2013 SI 2013 No. 3108, Clauses 9 and 10*.

²⁷ Source: Parcel2Go.com and ParcelMonkey.co.uk price comparison websites. Data drawn 23 April 2021.

6.4.5 With the phased introduction of barcoded stamps (see *Figure 15*) the technology will be available to even add tracking to stamped letters. Given Ofcom's duty to promote innovation²⁸ it surely cannot be correct that Ofcom would prevent this feature from being introduced lest stamped letters should be taken out of the USO? It would be perverse indeed if Royal Mail had to switch off tracking of stamped letters and parcels in order to keep the services in the USO, despite the technology being available.

Figure 15



6.4.6 The stipulation that tracked services are outside the USO (parcels or letters) compels the users of USO services to accept a product specification which is well below that which senders have come to expect. To continue to deny the public access to a, now ubiquitous, tracked feature risks fossilising the universal service at the very time when it needs to remain relevant.

6.4.7 Currently customers have to pay a substantial premium to access tracked products in a Post Office branch through buying the Special Delivery service (see *Table 7*). Special Delivery offers many additional features which customers who want tracking may not need (e.g. next day guarantee by a specific time and much higher compensation/insurance costs).

Table 7

	First-class pence (as % of SD price)	Second-class pence (as % of SD price)	Special Delivery Guaranteed by 1pm²⁹
Large Letter (250g)	183 (15%)	153 (12.6%)	1218
Small Parcel (1.5kg)	557 (34%)	320 (19.5%)	1638
Medium Parcel (5kg)	1585 (45.2%)	899 (25.6%)	3510

²⁸ s.3(4)(d) Communications Act 2003. "Ofcom must also have regard, in performing those duties, to such of the following as appear to them to be relevant in the circumstances—

... (d) the desirability of encouraging investment and innovation in relevant markets;"

²⁹ With minimum level of compensation of £500.

6.4.8 We acknowledge that other parcel operators would prefer to keep the USO standard parcel services without a tracking feature, because they want to maintain their product advantage. That is why Post Office believes that, in order to minimise any adverse effects on competition, any services (e.g. tracked parcels if they were included in the USO) that are sold at a discount online (compared with the price at which they are sold in a Post Office branch) should be treated as outside the USO (see above paras. 5.1.6 to 5.1.16; 5.4.4, 5.4.5 and 5.4.20). This solution promotes fair competition because, under current tax legislation, non-USO retail services are subject to VAT. Under our proposal, if tracked standard parcels services were sold online at a discount, they would become non-USO services and would not, therefore, be exempt from VAT. Thus Royal Mail would not be at a VAT advantage compared to other carriers. Non-discounted USO services would remain VAT exempt.

6.4.9 To conclude, Post Office believes that preventing customers from having tracking as part of their standard USO parcel services is not in the interests of consumers.

Question 6.5: Do you have any other comments on Ofcom’s approach to regulating parcels? If so, please provide your views with supporting evidence.

6.5.1 Without repeating our evidence above, Post Office believes that Ofcom’s current division of the market into letters and parcels may be too simplistic. The definitional issues, described in the following sections, become problematic once they become part of deliberations over the scope of regulation or the scope of the USO. For example, any decision not to deliver letters on a Saturday risks including a substantial number of small parcels (posted in a large letter format). On the other hand, a decision only to remove Saturday deliveries for letters but not large letters may undermine the net costs savings calculated by Ofcom to be in the region of between £125 million to £225 million in 2022/23³⁰.

6.5.2 The definitional problem arises from the fact that a sizeable proportion of what Ofcom currently defines as “letters” are, in reality, small parcels containing goods (albeit in a Large Letter format). Such items operate in a fulfilment sector, not in a letters sector – which is why Royal Mail price differentiates between “Fulfilment Large Letters” and “General Large Letters” in Access. Current regulations do not appear to recognise fully this distinction.

6.5.3 Similarly, the economics of small parcel delivery (particularly below 1kg – see 6.1.1 above) and large parcel delivery has led to the market position that there is a great deal of effective competition for large parcels, but very little for small parcels. Aggregating all this into a single Parcels market may not properly reflect the relevant conditions.

³⁰ Ofcom **Review of postal users’ needs** ‘An assessment of whether the minimum requirements of the universal postal service reflect the reasonable needs of the users of postal services in the United Kingdom’ 26 November 2021

Section 7: Access regulation

Question 7.1: Does the current scope of access regulation remain appropriate, or should this be changed and, if so, how and why? Please provide your views with supporting evidence.

- 7.1.1 Post Office has no strong views on the scope of Access regulation, but we would support consumer choice in principle.
- 7.1.2 We note that Royal Mail currently provides Access parcels services voluntarily and would expect this to continue, as it offers customer choice.

Question 7.2: How well is our approach to access price regulation working in supporting access-based competition? Are there any improvements or changes that we should make? If so, please provide your views with supporting evidence.

- 7.2.1 We have no comment on this question.

Question 7.3: Is our current approach to access regulation working well in delivering fair, reasonable and not unduly discriminatory terms of access, and are there any changes we should make? If so, please provide your views with supporting evidence.

- 7.3.1 We have no comment on this question.