



Ofcom Call for Inputs: The Future of the Universal Postal Service

About Evri

Evri (formerly Hermes) is the UK's largest dedicated parcel company. We deliver parcels for some of the largest retailers, both online and on the High Street, including John Lewis, M&S, Next and Asos, as well as SME's and small independent sellers.

We offer consumer to consumer and consumer to business (if business is a client of Evri) parcel delivery via our web site, App and in our Parcel Shops. Consumers can also collect their parcels from one of our 14,000+ Parcel Shops or lockers, which includes 2,000 Post Office counters which we have been partnering with since November 2023. We have invested significantly in expansion of our out of home network to bring more locations within easy walking distance of consumers as part of our efforts to make our service more accessible and make it easier to send and receive parcels.

Evri has circa 8,000 employees and contracts with around 20,000 self-employed couriers who deliver parcels across the UK.

In 2023/24 Evri handled over 730 million parcels. We have three parcel sorting hubs in Warrington, Rugby and Barnsley. We also have a dedicated returns hub in Rugby. From these hubs all our parcels feed into our network of 25 depots across the UK, for onward distribution to around 500 delivery units, from where our couriers collect parcels for final mile delivery to consumers.

Evri Response

Evri does not operate in the letters market, so our views are largely confined to ensuring that any changes made to the USO do not negatively affect the highly competitive parcels market, limiting competition and eroding consumer choice and quality of service.

Although Ofcom has been clear that it is focussing its attention on letters, there are parcels products in the USO. Royal Mail has a dominant position in the 0 – 2kg parcels category and USO products are VAT free, offering Royal Mail a further competitive advantage. Our comments reflect our areas of concern and views on reforming the USO as a competitor of Royal Mail.

Market context:

- Sharp falls in letter volumes over the past two decades has made Royal Mail, a business historically built on letters, financially unsustainable. This is, in part, true. But it does not acknowledge that Royal Mail has for many years struggled to run an efficient business, failed to meet its own efficiency targets as well as the regulator's, failed for more than a decade to address its labour issues and industrial relations challenges, failed to innovate, especially in the parcels market, and failed to meet expected quality of service targets which has led to businesses and consumers moving away from them and seeking reliability in other companies or other (digital) formats.
- Some of the decline in letters is due to changing consumer and business behaviour and a natural shift to digitisation. Some of it is as a direct response to sustained poor quality of



service from Royal Mail. There remains a strong letters market, mostly from businesses users, covering greetings cards, magazine subscriptions and marketing information which don't have an obvious digital alternative.

- It is vital that Royal Mail changes and improves its business and competes fairly with other postal operators, especially in the highly competitive parcels market and does not simply rely on regulatory changes to protect it from the rigours of competition. It is Ofcom's duty to secure the provision of the universal service, not to assist Royal Mail, now a privately owned company, with its profitability.

Changes to the USO:

- Ofcom's states that evidence suggests the universal service needs reform. The specification of the USO was intended to adapt to users' needs over time. However, there have been no significant changes made in the period since the legislation was passed. In this time, the letters market has significantly declined, and the parcels market increased, due to consumer use of online shopping and home delivery.
- The USO should be modernised to ensure it is fit for purpose, meets the needs of users (both business and domestic), both now and with future market developments in mind and does not represent a financial burden to Royal Mail. But Ofcom and the Royal Mail must acknowledge the huge commercial advantage and intangible benefits that the universal service gives Royal Mail. It confers on Royal Mail a reputational legacy of legitimacy and familiarity that no other postal operator has. It also enjoyed exclusive access to the UK's Post Office network for many years, including for 10 years after privatisation, further cementing its market power in smaller weight parcels category and making it difficult for other companies to compete.
- As Ofcom has set out, some changes to the USO can be made by Ofcom and some need parliamentary approval. With a general election due within the next year, it is unlikely that changes needing parliamentary approval will be a government priority. The USO is a highly contentious issue politically and it is possible that Parliament will not have the same dispassionate approach a regulator might have. Any changes to the USO need to be evidence based, reflect consumers' needs, not wants, and avoid unintended impacts on competitive areas of the postal market.

Parcels and the USO:

- At Ofcom's public meeting on the future of the USO on 14 March 2024, Evri asked Royal Mail representatives whether it would seek to include additional services or products in a reformed USO, specifically tracked parcel services. Royal Mail did not rule out calling for this again if it was "what consumers want".
- That is not the purpose of the USO. The USO suite of products is intended to ensure that, regardless of market developments, all consumers can access affordable postal services which meet their reasonable needs. The USO is designed to provide products and services that the market might otherwise not offer as they might not be commercially viable. There is no evidence that consumers who wish to access tracked services cannot do so easily at affordable prices. There is no clear evidence to add to the USO something which the market is already providing at competitive rates and which the Royal Mail equally provides itself outside of the USO.

- The inclusion of tracking for parcels in the USO would give Royal Mail an unfair competitive advantage over other parcel companies, allowing them to undercut competitors who offer tracking due to the absence of VAT on USO products, meaning that Royal Mail would have a 20% price advantage. This would also mean reduced VAT receipts to the Treasury.
- Ofcom's most recent review of postal users' needs showed that most senders of C2X services, sending parcels to family and friends, currently choose a non-tracked service and that tracking was not regarded as a priority issue when deciding which parcel operator to use. Tracking only becomes a priority for consumers when buying and selling via platforms such as eBay and Vinted.
- As Ofcom has acknowledged in its 2022 review of postal regulation, tracked services for parcels is already widely available from many other parcel companies at competitive prices and many companies, including Evri, offer tracking as standard on all parcels. The USO review process should not be seen by Royal Mail as another chance to try to introduce tracked parcels into the USO. There is nothing preventing Royal Mail from introducing a new commercial tracked service, outside of the USO, if it feels that its current products do not adequately meet consumers' needs.
- Royal Mail already has significant market power in the lightweight parcels segment; including tracking in the USO would give further dominance to one operator and make it potentially impossible for other operators to compete on price. This could create a de facto monopoly in certain weight categories with consumers opting for Royal Mail based on price and ease of accessing their services via the Post Office and online.
- A lack of competition in any part of the parcels market could lead to poorer quality of service for consumers with no competition driving higher standards or innovations in service. Royal Mail has already demonstrated in the letters market that when it has a monopoly it acts anti-competitively and does not meet regulatory requirements on service standards.

VAT exemption:

- In assessing whether the USO represents a net financial burden on Royal Mail, Ofcom has looked at how it might operate without the USO and without VAT exemption on universal service items. Evri is pleased to see Ofcom look at this and would like to see more exploration of the VAT exemption and whether it is still appropriate, especially for parcels where there is a high level of competition.
- The exemption means that Royal Mail can reclaim VAT on a range of things, such as power, fleet, fuel etc while servicing the USO. As it has one network for both USO and non USO products, it is not clear how it avoids cross subsidising the non USO products and services and ensuring only the USO items benefit from the VAT exemption.
- Royal Mail is dominant in the consumer-to-consumer (C2C) parcels market, a segment of the market which has grown significantly in recent years due to the rise of and increased popularity on platforms such as eBay and Vinted. In its submission to Ofcom as part of the 2022 Review of Postal Regulation, Royal Mail made clear its desire to see tracked parcels included in the USO specifically so it could gain more volume from consumers buying and selling via these sites. Tracking is important to consumers buying and selling via C2C online platforms. Most parcels bought and sold on these sites are clothing and weigh less than 2kg,



usually with small dimensions, as such easy for Royal Mail post people to deliver as part of their daily round. By seeking to add tracked parcels to the USO Royal Mail is simply wanting to leverage the VAT advantage this would give them to unfairly gain market share in this growing market segment. As a privately owned company Royal Mail is free to compete with other companies in this market segment.