

Sent via email: futurepostaluso@ofcom.org.uk

3 April 2024

Dear Sir/Madam,

RE: The future of the universal postal service

FSB welcomes the opportunity to provide a response to the above consultation.

FSB is a non-profit making, grassroots and non-party political business organisation that represents members in every community across the UK. Set up in 1974, we are the authoritative voice on policy issues affecting the UK's 5.5 million small businesses, micro businesses and the self-employed.

We recognise the challenges around financial sustainability of the current postal service obligations particularly in light of increased digitalisation however, we do not believe that the impact on small businesses has been fully considered in light of the proposals that have been put forward. Small businesses find themselves in a unique position in relation to postal services, as they not only rely on them as individuals for information from key services but also many rely on them for their livelihood, as an intrinsic part of their business models. For this reason, we are concerned that the current options being considered will have a disproportionate impact on small businesses, who are vulnerable to changes in the market and are not able to adapt as quickly as larger businesses with more resources, and/or individual consumers who are more likely to use post less frequently. We also do not believe that simply scaling back services that Royal Mail provides as part of the USO is the answer to ensure that it is sustainable in the long-term.

Our main concerns are around reduction of frequency of letter deliveries and, potentially removing the First Class letter service as we know it. Furthermore, we have a concern that cutbacks to the USO are not being accompanied with any reassurance for business customers that value for money will be protected. Letters are a monopoly product, and if small business needs relation to them are not considered then it risks a proportion of small businesses seeing their business model become unviable. Saturday deliveries are also important for small businesses and remain a vital part of their business model, allowing businesses to remain competitive and individuals are more likely to be at home to accept post. Ofcom's own research suggests that 17% of SMEs consider Saturday delivery to be important and 33% consider delivery 6 days a week to be important. Reducing the number of delivery days will not only impact those sending on a Friday but also Second Class deliveries would need to be adjusted to be sent earlier in the week to be received the same week.

Ofcom's own research also highlights the value of key USO characteristics for small businesses, for example 86% of SME's say that low-cost letter delivery important when choosing a provider to send letters, and 81% say that same price to send anywhere in the UK is important. At the same time,

delivery within 3 days (83%) and fast delivery overall (78%) are also ranked highly by a vast majority of small businesses.¹ This highlights the value of the key characteristics of the USO for SMEs.

Rather than simply cutting back on frequency of delivery, which is likely to have a disproportionate impact on small businesses' ability to conduct business operations, we would like to see Ofcom and Royal Mail outline what a modern USO should look like, that allows Royal Mail to run as a viable business, and which ensures the things that society values most from the postal service – universality, reliability, uniform pricing, cost-effectiveness and meeting user needs. Such an approach requires opportunities to be identified, as well as looking more widely at efficiencies, in order to avoid cutting down on services where they are still needed by some of the key users.

We make the following points throughout the consultation response:

- We do not believe that sufficient consideration has been given to small businesses' use of letters for delivery of small products as well as letters, and therefore underestimates small business use of such products as well as importance to their sustainability.
- Lack of clarity around costs associated with the proposals of to remove and replace the First Class service as we know it could mean that many small businesses that rely on it to compete will be priced out. Customers have come to expect that they will be able to order something online one day, and receive it the next day. For many small businesses, use of the postal service, including letters, is the only way to meet these customers' expectations without the cost becoming disproportionate.
- Given that bulk mail deliveries account for 83% of the letter USO network, we believe that cost savings should be first identified there instead of looking to scale back the 17%. For example, this could be done by reviewing whether it would be possible to move all bulk mail in line with Second Class or longer, if this offers more reliability for users across the USO network.
- In some countries, postal services reforms mean that the obligations are being strengthened rather than reduced for example, in the US the introduction of a recent legislation means that they are able to ensure a six day post delivery service. However, where there have been examples of other countries reducing the frequency of deliveries or other changes in line with reduction of use of letters in similar universal services obligations, they have put appropriate mitigations in place to ensure a transition for users. If any reduction in frequency of delivery were taken forward we would also like to see proposals for mitigations for users that will allow them to transition and adapt to the new service.
- We would also like to see a full statutory assessment before any critical measures are taken, that will have a significant impact on any users, and in particular on small businesses. We would like to see impact on economic growth in relation to users considered as part of this assessment.

We have not commented on every section within the consultation, only those that are directly to small businesses.

¹ Ofcom, SME postal user survey, 2023 https://www.ofcom.org.uk/data/assets/pdf_file/0035/272789/sme-postal-tracker-mid-year-2023.pdf

Question 1: Do you agree that we have identified the correct aims, supporting principles and features of the USO? Do you consider that these should continue to be respected as far as possible when assessing potential changes to the USO?

Yes, we agree. The fundamental principles of universality, affordability and uniform pricing are key to ensuring that small businesses are able to continue to access the services. Similarly, the core features of the service on accessibility, reliability, timeliness and security should continue to be respected as far as possible. Small businesses are particularly vulnerable in the market given that they are less likely than a larger business to have financial reserves and be able to negotiate better deals. Our latest SBI data shows that in the last quarter of 2023, that overall small business confidence has fallen to -15 from -8. This included retail firms who in comparison with other sectors have some of the lowest confidence levels with an overall fall from -22.8 to -29.8 in Q4.² The vast majority of small firms (82.5%) report that the cost of running their business was higher in Q4 2023 than in the same period in 2022, with utilities and labour costs as the main drivers behind that. Set against that, more small firms are reporting falling revenues, rather than increased revenues. This illustrates the difficult operating environment that small businesses find themselves in, and in particular highlights the need for small businesses that rely on the postal services as part of their business operations to be both affordable and reliable so they are not constrained by cost increases that may hamper their ability to compete with other businesses.

2: Do you agree with our assessment of the direction of change in postal needs of residential (including vulnerable) users and SMEs? Are there other factors relevant to their future demand which we have not considered?

One significant area which is overlooked is small businesses use of letters for sending products such as jewellery, provided that they are small enough to send. In the consultation it states that, for most users sending letters, reliability and certainty of arrival are considered more important than speed of delivery. We do indeed agree with this assessment given a letter arriving to its final destination is more important than not arriving at all. For example, if a product that a small business sells does not arrive they would not only would lose their product but they would also have to compensate the customer for this, meaning that they would be out of pocket twice. Additionally, the customer would not blame the postal service or delivery company, they would blame the small business, therefore the business would also likely suffer reputational damage if they got a bad review because of poor postal service. While reliability and certainty are paramount, this does not mean that speed of delivery is not important. In today's world where many customers expect to get products as soon as possible particularly with many larger businesses offering next day delivery, speed is also crucial. Ofcom's own research shows that majority of SMEs find next delivery (60%) and fast delivery (78%) to be important when choosing a provider to send letters. 81 per cent also find same price to send anywhere within UK to be important as well as generally low cost delivery of letters (86%).³ This highlights that majority of SMEs value key USO characteristics of reliability, affordability and cost-effectiveness for delivery of letters.

² FSB press release, Final quarter of 2023 saw small business confidence lose ground, new report finds, 2024 <https://www.fsb.org.uk/resources-page/final-quarter-of-2023-saw-small-business-confidence-lose-ground-new-report-finds.html>

³ Ofcom, SME postal user survey, 2023 https://www.ofcom.org.uk/data/assets/pdf_file/0035/272789/sme-postal-tracker-mid-year-2023.pdf

We do not believe that it is rare for a business to use next day delivery for letters when they are sending products or communicating with customers. It is particularly well known that around seasonal holidays that there is a particular reliance and need on postal services to be as efficient as possible particularly as consumers expect their products to arrive in time for special occasions at a short notice.

We agree that cost of delivery and reliability are important for SMEs overall. However, the proposals in the consultation suggest that this points to a lesser need for availability of cost-effective next day letter delivery. If the number of delivery days was reduced to three days, the consultation states that it would not be possible to uphold First Class deliveries as they are today, and instead they would need to be replaced with a next day delivery somewhere in between the current First Class and Guaranteed Special Delivery – this would equate to potentially more than triple the cost of current First Class. For some small businesses, this would fundamentally undermine their business model, as customers would switch to using larger competitors, instead of paying the extra costs. For other small businesses, it would leave many small businesses with squeezed margins.

Indeed, we have seen the increase in First Class stamp prices has been quite significant over the last four years, and Citizens Advice data shows that during this time, as the price has increased, the reliability has decreased. The latest data is showing that in 2023 Q2 when the First Class stamp cost rose to £1.25 there was -19% percentage difference from target in deliveries - highest in almost a year.⁴ Therefore, we do not necessarily believe that making services more expensive is a viable solution, not for SMEs as users of postal services or for making efficiencies within the Royal Mail.

With that said, we believe further research needs to be done on the needs and expectations of SMEs and their ability to conduct their business if the service frequency is reduced or if delivery becomes more expensive. We agree that reliability of delivery and affordability are key, however we disagree that that this should come at a cost of speed and frequency delivery, particularly given the impact on small businesses ability to compete in the market with larger firms. Speed and frequency are critical to running a business and go hand in hand. This is even more important for businesses that may rely on Royal Mail to receive small parts for their products and then assemble and, send onto consumers – for these slower service would mean that any delays or reduction in frequency of delivery will have a severe impact on their offerings.

3: Do you agree with our assessment of the bulk mail market? Are there other factors relevant to its future evolution which we have not considered?

We do not oppose your assessment of the bulk mail market. However, with that said, the consultation states that it will need to be adjusted appropriately following any changes to frequency of deliveries within the USO as bulk mail uses the USO network. Given that bulk mail market accounts for 83% use of the USO network, it would make sense to assess the efficiencies that could be made within the use of majority of the network before the USO is cut back, as bulk mail is potentially putting on the biggest strain on the network. This is why believe that efficiencies could be made by adjusting the bulk mail market to be more in line with second class post, effectively removing the current arrangements of

⁴ Citizens Advice, Quality of service and stamp price increases, 2024
<https://public.flourish.studio/visualisation/16552222/>

D+2 and moving to D+3 or longer to deliver savings as this takes up a substantial proportion of the network. Reliability of bulk mail delivery is crucial for both businesses and individuals, but often the letters are sent about appointments and notifications for months ahead, therefore a slight shift on when the large part of commercial deliveries are made could be beneficial provided that they become more reliable, and the cost savings could contribute a significant proportion to the 6 day USO to be preserved.

5: Do you agree with our proposed approach to estimating the financial burden of the USO?

Given the importance of the decisions around the USO, and its impact on small businesses, it is disappointing to see that at present there are no plans for a full statutory assessment to take place. We recognise that it may require substantial resources, however given the potential impact on those that rely on the USO as it stands it would be beneficial to have this conducted.

It is also disappointing to see that much of the financial burden and its reduction has been based on making a number of assumptions that Royal Mail will make commercially and operationally, with lack of clarity on the exact price points for the products that it provides. As mentioned before, it seems that the potential proposals mean that not only the frequency of delivery will reduce but also the cost of delivery of letters continue to increase, and in some cases substantially. This is not something that FSB can agree on given existing cost pressures on small businesses, and given the substantial increases to First Class stamps over the last 18 months have not delivered any efficiencies in deliveries in terms of delivering on target, so it does not seem to be an appropriate solution to help ensure reliability or sustainability of the service.

Further, when comparing other country approaches the consultation does not include examples from countries where USO has been strengthened or introduced, for example in the US where a recent changes in legislation have meant that they are able to ensure six day a week postal deliveries. Similar challenges that they have faced with similar obligations, in particular in relation to Norway and Denmark and how they have reduced their services to 5 days or less over time, it is clear that at first they implemented digital post or similar systems and allowed users to transition first before moving to a shorter delivery frequency. Similarly, France has introduced delivery of e-letters which has allowed to keep USO at 6 days. It is worth noting that we are not arguing for a similar approach (and Royal Mail have alluded that a similar digital post approach would not be possible in the UK), however, it is clear that these countries first put mitigations in place and allowed for a transition rather than a sudden stop in availability of products. Without appropriate mitigations, cutbacks to the USO would leave many individuals and businesses in a position without any transitional periods or sufficient other options to adapt at a slower pace and leave many that rely on those services out in the cold. Therefore, if any similar reductions to services will be taken forward then we would also like to see proposals for mitigations for users that will allow users to appropriately transition and adapt to the new service.

8: Do you agree with our analysis of the different options available to change the USO and the impact of those changes on residential (including vulnerable) users, SMEs and bulk mail users? If not, please explain why and set out any option(s) which we have not considered.

9: Which option(s) do you consider would be most appropriate to address the challenges we have identified, while also ensuring that users' needs are adequately met?

From a small business perspective, it has been noted that a lot of the research on user needs in the consultation was conducted at the end of 2019 and in the summer of 2020, when the world was facing an unprecedented event, and even then the data suggested that between 62% and 78% would have their needs met by a three day letter delivery in comparison to the current service. This would suggest that potentially around a third would not. The same research also found that 33% of SMEs find six days a week post to be important and 17% of SMEs considered Saturday delivery to be important. That is as many as 1.83 million and 937,533 SMEs respectively across the UK during that time that would be affected.⁵ The reason is that while for many six days deliveries are important because they allow them to be competitive, because even if the business themselves was closed on a Saturday, individual users are more likely to be at home to open post and deliveries.

As mentioned previously, we note the absence of consideration of letters use in a sense that it would letter size delivery of products on Saturdays, so there is a risk that this was not considered in the user needs survey or interviews. Similarly, while we see why some SMEs would have chosen for Saturdays to be stopped out of any other delivery day in the week given the functioning of week, it does not mean that a 5 day service was preferable to a 6 day service. A 5 day Monday to Friday service would mean that in practice if you send a Second Class letter on a Wednesday that it would not arrive until the following week meaning that those who would want their delivery to be received the same week would still need to plan to send their letters or letter sized products much earlier in the week. Alternatively, if the deliveries take place on alternate days to different addresses then this would take even longer.

Finally, in terms of the options set out within the consultation, as mentioned earlier we do not believe that frequency of delivery is the appropriate solution, both in terms of the disproportionate impact on small businesses as well as inability to ensure sustainability of the USO in the future. In terms of reducing Royal Mail's quality of service targets, which as the consultation states are more stretching than in other European countries, we agree with your analysis that a reduction of targets would overall have little impact on any efficiencies in terms of serving the needs of users and ensuring reliability and sustainability of the network. However, we disagree with your analysis on discarding looking at USO subsidy due to the current USO specification go beyond user needs, as we have highlighted that small businesses are in unique position and if USO is to be adapted then this should be with sustainability of the services as well as their needs in mind.

We would also like to highlight that while the use of letters may have decreased in some areas of the years, it could be beneficial to consider innovative approaches that may increase reliability of letters. We have seen the introduction of competition in parcels, which has delivered great benefits in terms of both innovation and investments, and we understand that this would not be possible to the same extent in letters given that that it is a monopoly product. However, we do not believe that all options have yet been fully explored and scaling back services that Royal Mail provides will not make the USO more sustainable in the long-term. We believe that the key is to ensure that while the USO preserves its key characteristics of affordability and reliability is also flexible not only changes in the market but also to needs of users.

⁵ Department for Business and Trade , Business population estimates, 2023
<https://www.gov.uk/government/statistics/business-population-estimates-2023>

10: Do you have any other views about how the USO should evolve to meet users' needs?

It is evident that the current key characteristics of the USO are really valuable to SMEs and therefore, it is critical that the USO continues to uphold them for both letters and parcels in future. When assessing viability of the USO in the future the focus should not only be on scaling back services but also looking at opportunities across the network for example, looking at further innovations in parcels and how further expansions in the services could provide benefits to both users and as well as help to future-proof the network as a whole. Many small businesses rely on the provision of these vital services for their business operations and continue to compete against larger businesses that are able to seek out better deals or indeed provide their own delivery services. The importance of Royal Mail meeting its service delivery targets is crucial to help small businesses to compete, and therefore continuing innovations and ensuring viability in the long-term are crucial and we would like to continue to work together with Ofcom as well as Royal Mail to help ensure small business needs are met in the future. The nature of business operations as well as evolving customer expectations in terms of fast delivery and cost-effectiveness of any service provision are critical to continue to uphold their standing in the market and foster consumer choice of products and services across the UK.

Yours sincerely,

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