

# Greeting Card Association (GCA) Response to The Future of The Universal Postal Service Consultation

## Executive Summary:

### *Couldn't this all be so much simpler?*

Before embarking on what is a necessarily detailed response to the current consultation, we first asked ourselves the basic question of what steps could be taken today to help Royal Mail, without reducing a service the British public love? The GCA would suggest the answers are surprisingly clear:

1. Whilst agreeing changes are occurring within British postal demand, anyone abreast of the news will see current consumer postal confidence cannot be disaggregated from the ongoing, post-pandemic postal service failure.
2. We've also seen a further public backlash possibly because Ofcom's own data showed majority support for every aspect of the USO, yet Ofcom claimed those obligations no longer aligned with the way people used the service.
3. Irrespective of how we got here, we believe the proposal of simultaneous significant price rises and service reductions will just unnecessarily accelerate British postal decline, trapping the country in a doom-spiral of increasingly frequent requests for further bailouts or reviews.
4. This matters to us because we've got significant skin in the game – the proposed changes could wipe hundreds of millions of pounds worth of value from our otherwise stable industry and small businesses on High Streets and in back bedrooms up and down the country – but also because it's not fair to ask the British public to accept weaker service or the cost of subsidies, when far simpler solutions would fix things faster.

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## 0. Why a thriving postal service matters to our members, but most importantly to our customers:

- 0.1. The GCA represents a thriving, vibrant creative industry, contributing **£1.5bn** to the UK economy, and consisting of over 500 members up and down the country. Ofcom's data indicates our category is critical to how Royal Mail is perceived by end consumers. Cards are **the most frequent things UK consumers post<sup>i</sup>** and 42% of customers now say sending cards is the only time they use Royal Mail.
- 0.2. **We enjoy high category engagement** with **94%** of us continuing to exchange cards<sup>ii</sup>, and 49% of the population sending at least one card in the past month<sup>iii</sup>. Numbers vary by occasion and channel but, on average, our analysis indicates 50% of purchased cards are posted, equating to **c.415m letters** per year<sup>iv</sup>.

- 0.3. For those who mistakenly believe card sending is an antiquated concept, it's paradoxical that consumers' reliance on Royal Mail's monopoly Letters delivery service rises to virtually 100%<sup>v</sup> for those, often younger, consumers who buy their cards online. Data from the UK and American market suggests category engagement is rising within this group, dispelling another myth that card exchange is limited to older generations<sup>vi</sup>.



- 0.4. **Whilst our numbers are impressive, what our customers send matters even more:** Our customers tell us exchanging cards matters because they make us feel better about ourselves and contribute to our perceived identity; offering a sense of family, community, connection and belonging to senders and recipients alike. What our customers post frequently **accompanies key life moments**, reinforcing **connection during moments of profound joy and sorrow**; be that Christmas, Eid, a card for Mum on Mother's day, or any one of the many other celebrations and commemorations observed within our diverse, modern communities.



- 0.5. In an age of increasing digital saturation, the tactile nature of our product only adds to the sense that card exchange is even more special and reassuring. As recently as last year, Ofcom found card exchange '*remains important to people*,' '*is highly valued*' and is even '*considered essential for emotional reasons*' by some<sup>vii</sup>. Cards create not only an emotional connection between the sender and recipient but a physical one too: Knowing the card has been touched by both parties, they are often held, kept and cherished. The words inside are a physical record and together with the imagery on a card, makes that message more memorable. When information is presented both verbally and visually, we are more likely to remember it.

0.6. The benefits to mental wellbeing are also numerous:

0.6.1. The recipient can feel more socially connected and less alone. Reducing a sense of isolation through sending a card is an easy way to make a difference and show that you are thinking of that person. Knowing that someone has taken the time to choose a card sends a clear message that they want to keep in touch. They may also feel more worthwhile and valued, knowing that someone has put in the care and effort to send a card.

0.6.2. For an anniversary or birthday, the sender will feel reassured that they haven't been forgotten and that their relationship is appreciated. A sympathy card communicates comfort and tenderness, a get-well card inspires hope and shows how much you care, whereas a birthday or 'just because' card can convey humour, fun and happiness.

0.7. It isn't just the recipient that benefits psychologically from receiving a card, but the sender too. Research shows that being kind and generous leads to more positive moods and reduces anxiety. The evidence certainly points to the fact that sending and receiving cards leads to greater happiness through keeping us emotionally connected<sup>viii</sup>.

0.8. Additionally, at an average RRP of just £1.76 and with nearly 89% of greeting card sales still made through bricks-and mortar retailers, greeting cards are a **gateway purchase necessary for thriving High Streets**<sup>ix</sup>. A reliable, regular, affordable, and national postal service therefore brings footfall to independent retailers, as well as being critical to the fulfilment of online B2C orders taken by these, often small, businesses, as well as those taken by our own, publisher, members.

**AT AN AVERAGE RRP OF JUST £1.76 AND WITH MORE THAN 80% OF GREETING CARD SALES STILL MADE THROUGH BRICKS-AND-MORTAR RETAILERS, GREETING CARDS ARE A GATEWAY PURCHASE NECESSARY FOR THRIVING HIGH STREETS**



0.9. **For all the reasons above, we believe that a study which claims to understand the country's postal user needs must include questions designed to understand why people post cards.** As such questions don't feature within the current consultation, we've done our best to fill in the gaps.

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**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?**

- 1.1. **The GCA agree** that UK consumers and businesses need access to a range of postal services at a **uniform and affordable quality and price**.
- 1.2. Not least for reasons outlined above, **the GCA also agree reliability is critical** to consumer confidence and demand.
- 1.3. Our previous correspondence with Ofcom expressed our concerns that the delivery failure fines issued to Royal Mail in 2023 were **neither material nor meaningful** to consumers. We believe our expressed concerns have since been fully vindicated by Royal Mail's ongoing poor service performance.
  - 1.3.1. After our correspondence, our attendance at Ofcom's London March consultation enhanced our appreciation that the size of this fine may have been partially driven by **concerns that Royal Mail is too big to fail**. Whilst appreciating this puts Ofcom in a difficult position, we also believe immediate steps are required to restore consumer confidence in our postal service.
  - 1.3.2. It's because of both points that the GCA strongly supports the recommendation made at Ofcom's London Postal Consultation that there is now an urgent need to change the regulatory approach to ensure that **permission for future Royal Mail price rises** is entirely **conditional on Royal Mail delivering required USO service levels** across the preceding year. We support the views others have expressed that this approach would significantly reduce the apparent conflict of interests the regulator faces whilst putting Royal Mail firmly back in control of their own financial destiny.
- 1.4. Ofcom's distinction between Key Principles and Core Features is somewhat unclear to us. In any case, we believe both **letters delivery frequency** and **speed** are also critical parts of the service the greeting card industry requires. We expand on the significant body of data which supports our conclusions within our answers to question 2, with the headline being that our studies show that the same faster delivery expectations which apply to parcels, apply equally to cards - particularly within the 'Occasions' market.
- 1.5. Respectfully, we invite Ofcom to reflect whether an inability to effectively **segment the consumer letters market** has contributed to a situation where the consultation made **selective judgements** as to which regulatory obligations are important, and positioned these ahead of **the natural startpoint of asking the British public truly open and sufficiently pertinent questions** to establish what remains important.
- 1.6. Irrespective of how we got here, it is reasonable to suggest that the current service crisis would prompt most boards and regulators to want to keep a closer hand on the tiller. Because we've yet to see any sort of engagement on service improvement plans or price that **we disagree** that **Royal Mail should enjoy the freedom to set pricing** for any natural monopoly products **without transparent econometric or price elasticity modelling** and **meaningful consultation with consumer advocates and trade associations ahead of future pricing changes**.

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## 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?

- 2.1. The GCA agrees that a reduction in consumer and small business demand for letters has occurred. As others have observed, we believe this has been accelerated by factors both within and outside of Royal Mail's control. It is because both factors are present than we believe, **given focus, some of the volumes, and much of the service loss, can be recovered.**

#### **Disaggregating Service Instability from Underlying Decline**

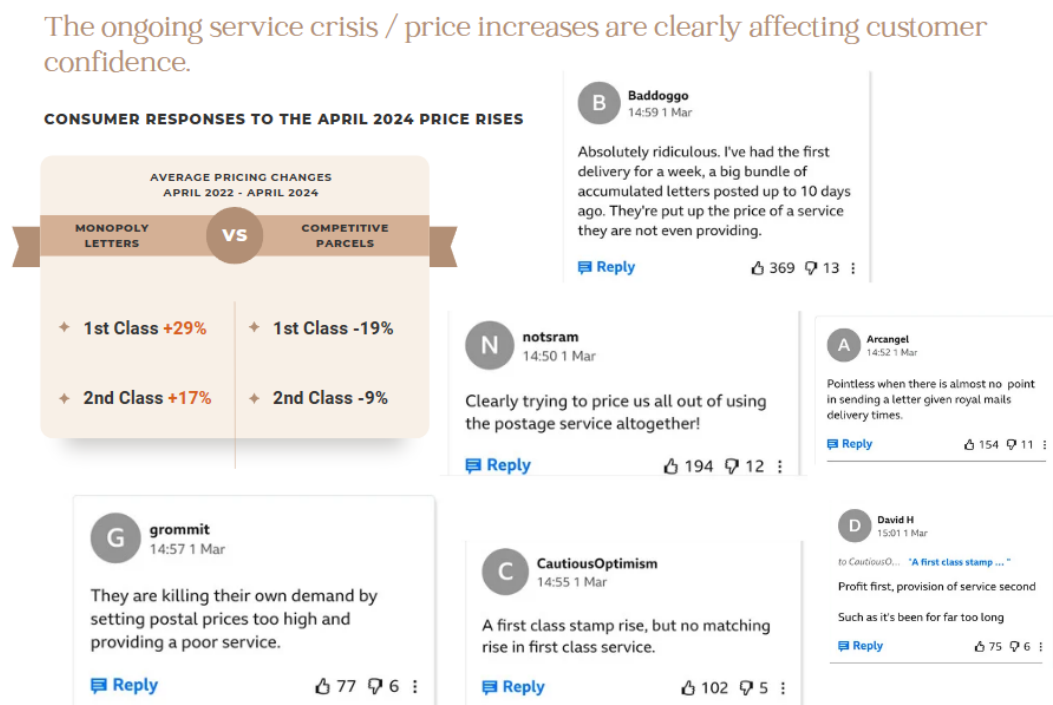
- 2.2. As evidenced by several newspapers, and again recently in BBC Panorama's expose, it is important to note that Britain's postal service levels continue to be below the required standards with clear indications that **parcels are being prioritised over letters**, despite assurances from Royal Mail to the contrary.
- 2.3. This poor service continues to significantly affect our industry, yet despite these headwinds, Ofcom's own research shows that **70% of the country continue to persevere** and post at least as many letters as they previously did.
- 2.4. Given total card exchange volumes (i.e. hand delivered plus those sent by post) remain stable, **there is a legitimate question to be asked about the extent to which ongoing operational choices made by Royal Mail are contributing to their own decline.**
- 2.5. In raising this question, we note Ofcom share many of our concerns. We also respectfully note our understanding that there still remains **no underpinned service recovery plans** or evidence of **meaningful progress** to restore service to legally required levels<sup>xi</sup>. Similarly, it remains unclear whether the **absence of Royal Mail senior management financial incentives** identified by Ofcom last year as key to service improvement<sup>xii</sup> have now been addressed.
- 2.6. The GCA therefore view **immediate service stabilisation** and restoration of public confidence in postal service levels as the **immediate priority**. Whilst discussion of a hypothetical future market is useful, that market may not exist if current trends are allowed to continue.

#### **Disaggregating Significant Price Rises from Underlying Decline**

- 2.7. In addition to the service concerns previously outlined, prices have risen significantly. Our members' experience is that many customers reference the entry-point (safeguarded) cost of a 2nd class Letter which, in April, will rise by a further inflation beating 13%<sup>xiii</sup>. First Class stamps are 95% higher than in 2019 and well above the £1 mark described by Ofcom as a *'psychological tipping point'*<sup>xiv</sup>.
- 2.8. Our members' experience<sup>xv</sup> of service and price elasticity (as well as Ofcom's own data) suggests that some of the decline in First Class usage (and postage overall) can be attributed to these rises, as well as the service instability which has led to a reported loss of faith in First Class. We respectfully conclude that where this conflicts with Ofcom's Consumer Research data, our member's data should be preferred, because of the larger sample sizes and because this shows what customers really do, as opposed to what they say they will do.
- 2.9. Significantly, this data is reinforced by international studies including the 2024 NDP Analytics study which concludes **an underestimation of true postal pricing elasticity** has directly contributed to **excessive postal volumes loss** and **resulting USPS financial hardship** within the US postal market<sup>xvi</sup>.
- 2.10. Perhaps most importantly, the data we refer to above is reflected in what consumers are literally posting on news channels every day: Figure 2.1 shows the hundreds of

independent public voices expressing similar concerns within hours of Royal Mail's March announcement of the April 2024 price rises.

**Figure 2.1 – Public Comments on BBC News Coverage of April 2024 Royal Mail Price Rise Announcement**



- 2.11. We invite Ofcom to closely consider this wide-ranging, significant and compelling body of data, and the opportunity it offers to reflect on whether **a simple expansion of Ofcom's current Consumer and SME research could quickly size how much of the current decline is entirely within Royal Mail's own gift to fix.**
- 2.12. In requesting such, we note there is **no historical precedence** of a declining industry recovering by **radically increasing prices** whilst **concurrently dramatically reducing service**, meaning the GCA has no confidence that Ofcom's currently proposed solutions will do anything other than accelerate existing postal decline.
- 2.13. It is for this reason that we find Ofcom's view of service failure at Paragraph 8.46 troubling<sup>xvii</sup>. Irrespective of **whether this statement is interpreted as demonstrating preference for Royal Mail's bottom line over Royal Mail's legal requirements to deliver service**, it appears clear to us that failing to restore QoS is likely to mean neither goal is achieved because the volumes Royal Mail need simply won't return.

#### **Research Methodology/Data Interpretation Concerns**

- 2.14. Whilst we acknowledge Ofcom's admission of surprise at the considerable outcry this consultation generated, we would **invite Ofcom to reflect further as to why the public reacted as they did** when the consultation's preliminary conclusions were announced. If the research conclusions were accurate and the need for change was universally accepted, then why the noise?
- 2.15. This is particularly important as Ofcom's assertion that consumers accept the USO is overprovisioned is **a central pillar which underpins all of Ofcom's subsequent conclusions** that the proposed changes are therefore reasonable, and is an assertion



contradicted by our own data and the public reaction. The GCA believes the answer may lie in how the research was interpreted:

2.15.1. Ofcom's commissioned research shows that, **when unprompted**, Parcels and Letters Users have '**very similar**' needs<sup>xviii</sup>. This is **inconsistent** with Ofcom's conclusions that customers have higher (and increasing) expectations when sending parcels, but not Letters, as well as Ofcom's conclusion that the Letters USO is somehow mis-aligned to user needs, but Parcels isn't.

2.15.2. The Jigsaw study references context then provided to participants regarding the imperative of change due to excessive operational costs. We would respectfully **invite Ofcom to publish the exact context provided to participants**, in view of GCA concerns that inadvertently **leading questions** and **unconscious bias** may significantly reduce the validity that can be attached to this study. To understand why this matters, the GCA would offer a comparison to the competitive Parcels market:

2.15.2.1. Had such context prefaced Parcel delivery questions, the GCA believes similar results would have (incorrectly) diagnosed an opportunity to reduce service levels.

2.15.2.2. A company blindly following a strategy based on these insights would have immediately lost significant parcels market share.

2.15.3. Again, the GCA notes the relative absence of questions in either study relating to the **current service underperformance** which Ofcom have previously concluded is **causing 'Significant Harm' to consumers**.

#### **Our Modelling of Current Consumer Card Purchasing Behaviour**

2.16. As greeting card sends account for c.6% of Royal Mail Letter volumes (equating to c.30% of USO letter volumes), there are limits to our ability to entirely disprove Ofcom's assertion that most letters do not need to be delivered the next day<sup>xix</sup> although we note Ofcom say >2/3rds of consumers believe a next day service is important to them<sup>xx</sup>.

2.17. We are, however, concerned that no attempt has been made to **meaningfully segment** the letters market to identify where focused strategies could stabilise those parts declining fastest, but also to identify the **key service tipping points** that might cause currently **more stable** parts of the market to fall into **rapid decline**.

2.17.1. In this regard, we conclude losing a relatively affordable, 6 day a week, next day service would have a profound financial impact upon our own industry, particularly in the run-up to the big seasonal card-giving events which bind our nation's families and communities together.

2.17.2. When we explore why, our customers tell us that the same increase in delivery expectations Ofcom identify in the parcels market (effectively the emergence of the 24/7 economy) has reinforced consumer's existing reliance on the ability to purchase cards in the immediate run-up to an occasion, with <80% of sales coming in the final three days before some key events.

2.18. Because senders attach greater emotion to card sends than any other category, we also believe this study does not adequately consider the '**tipping point**' impact on

wider Royal Mail volumes if **the public lose faith in Royal Mail's ability to deliver the piece of mail they engage with the most.**

- 2.19. It is against this context that we would encourage Ofcom to review the related data our members (including Hallmark, [Redacted], Thortful and Cardology) have submitted to this consultation, demonstrating the importance of delivery speed and frequency to the market.
- 2.20. The submissions outlined above, and discussions with established companies across our industry, clearly show these changes will cost our industry and small businesses up and down the country hundreds of millions of pounds.
- 2.21. In any case, Ofcom can time-efficiently validate such assumptions by reviewing Royal Mail's daily sales volumes profile data in the lead-up to known events (such as Easter), using the powers already at its disposal.
- 2.22. Whilst we understand Ofcom's international comparison data was intended to provide reassurance that service reductions do not necessarily equate to volumes decline, we were somewhat confused that Norway was one of only five such cited examples, before the consultation advised just five paragraphs later that Norway had, in fact, seen a steep decline in letter volumes<sup>xxi</sup>. In any case, the most comparable card market to the UK is the USA in terms of cards sent per capita.

#### **The Importance of Saturdays**

2.23. In stark contrast to the Jigsaw Consumer and 2020 SME research cited in Paragraph 9.20, our members expressed an overwhelming preference that if a single day per week's delivery has to be dropped, this should not be a Saturday, for several reasons:

2.23.1. Weekly online demand profile data indicates that customers regularly order cards in anticipation of seeing a loved one over the weekend, and Saturday provides a critical backstop, especially given current service levels.

2.23.2. This is even more critical in the run up to big seasonal events such as Mother's Day, Father's Day and Easter which fall on a Sunday, and alone account for >60 million card sales each year.

2.24. We would suggest data which indicates how customers actually behave should be preferred over data in which customers express how they might behave.

#### **The Comparison to European Customer Demand:**

2.25. The GCA also does not accept that European countries offer comparable benchmarks for Consumer greeting card demand given the significant differences between the UK card market and that of our European neighbours (who experience far lower engagement and send far fewer cards per capita).

2.26. Therefore, whilst we would agree that the most successful European postal transformations were prefaced by a **funded, public-education strategy and time to adapt**, it does not logically follow that the European model alone (with the goal of ultimately transitioning postal volumes to digital sends) is a strategy that would fully meet British needs given how much we love cards.



### **Further SME-Specific Considerations:**

- 2.27. The majority of our 500 GCA members are SMEs, many of whom are cottage industry businesses serving consumers directly and working out of back bedrooms and small offices.
- 2.28. For reasons outlined within our preface, our industry also supports a swathe of further downstream SMEs who are the retailers who shape our High Streets up and down the country.
- 2.29. For reasons explained within earlier points relating to this question, the delivery expectations on small card publishers who sell directly to the public online (and independent retailers who also sell cards online) are identical to similar mail-order businesses sending parcels to customers.
- 2.29.1. Data from GCA member SMEs highlight **the size of the market available when consumers have confidence** in rapid, timely and reliable delivery based, not least, on their sales profile data from the Amazon online marketplace.
- 2.29.2. For the majority of publisher SMEs who trade online but not on Amazon, Royal Mail is their only fulfilment option. Our members highlight the considerable number of current **Royal Mail Trustpilot** reviewers indicating an intention to **boycott small businesses** who use Royal Mail for delivery due to the present poor service Royal Mail provide<sup>xxii</sup>
- 2.29.3. Many of our smaller members are therefore reporting that, when selling online, they are moving increasingly towards selling solely on Amazon as the only way of delivering the service UK customers presently expect. Given our understanding that Amazon is speaking to larger companies regarding letters delivery options, this raises the question of the **additional postal regulation** that might be required should a **vertically integrated business achieve additional significant market power** within the UK Letters market.

### **Royal Mail's responsibilities for market segmentation & growth strategies**

- 2.30. Within our answer to question 6 we outline further considerations regarding Royal Mail's **own responsibilities for Letters segmentation and commercial growth strategies, that go beyond just restoring QoS.**
- 2.31. **Ofcom is in a unique position to ask probing related volume questions** before accepting price rises or accepting a fall in standards. For the purposes of brevity, these considerations are reserved until question 6, but represent a key driver of future consumer demand which we note is currently absent from what might hitherto be considered a **'past-predicts-future' consultation in relation to volumes decline.**

### **Vulnerable customers (including vulnerable recipients)**

- 2.32. We agree with Ofcom's conclusions that it is not **just vulnerable customers who rely on post**, noting the significant role 2 out of 3 Brits claim post continues to play, and the significant engagement our category holds for all customers<sup>xxiii</sup>. We believe one reason for this engagement is that our industry offers such a wide range of cards at different price-points, making it possible for all to access, and benefit from, our products.
- 2.33. However, there is no doubt that mail is also a particular lifeline for the vulnerable, and those who consider themselves socially isolated. Citizens' Advice has previously offered guidance which we find instructive, regarding just how many end users in

Britain could be considered vulnerable, which reinforces just how vital post is for the whole country. We would encourage Ofcom to revisit paragraphs 5-10 of last year's Citizens Advice 2<sup>nd</sup> class price submission ahead of making any significant changes to the USO.

2.34. We would additionally refer to the datapoints we reference in paragraphs 0.6 and 0.7 of this submission which outline the considerable benefits cards offer for our nation's mental health and sense of social connection to sender and recipient alike, pulling us all together irrespective of any financial and social divides.

2.35. Last summer, we shared our concerns with Ofcom and Royal Mail that the cost of stamps for **Christmas cards offers a particularly acute affordability pinch-point for vulnerable consumers**, as well as being an issue we believe **also constrains Royal Mail's overall letter volumes**. To date, we have not seen this considered within the analysis, so we expand on our ideas around possible solutions within paragraph 6.8.

### **Digital Saturation**

2.36. A further trend driving continued card sending and personal correspondence is **digital saturation** (i.e. the overwhelming volumes of electronic correspondence recipients receive) and the potential this offers to further reduce letters volumes loss. This is a trend with considerable implications for Bulk Mail so, for brevity, we expand upon this point within our answers to Question 3.

### **The USO isn't overprovisioned and to suggest otherwise may be misleading**

2.37. Irrespective of letter volumes, we have demonstrated that contradictions, and the apparent use of leading questions, within Ofcom's own data mean it would be **unreasonable to conclude that consumers' needs when sending letters are declining** solely on the basis of the presented evidence.

2.38. We have also demonstrated a range of addressable factors exist (including service performance) which point to a more optimistic view of underlying letters trends than the consultation presently suggests.

2.39. Our own members evidence demonstrates Consumers' card sending needs, at the very least, are far closer to Parcel needs than the study portrays.

2.40. Each of these points indicate it is premature to conclude the Letters USO is presently over-provisioned.

2.41. The GCA was particularly concerned by how the research was initially positioned with the British public, who we fear may have been inadvertently misled:

2.41.1. In particular, we would refer to Ofcom's Press Release of 24<sup>th</sup> January 2024 which claimed 'changing the specification of the universal service is likely to be preferable ... **given it no longer aligns with the way people use it**<sup>xxiv</sup>

2.41.2. Yet the data within Ofcom's consultation indicates **clear ongoing majority support for every USO feature currently under consideration**<sup>xxv</sup>.

2.42. Whilst we don't doubt Ofcom's good faith when originally making this statement, we would invite Ofcom to consider that a formal retraction of that claim is now appropriate in order to ensure public trust in the regulator is maintained.

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### 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?

#### **Protecting the USO may increasingly rely on improved QoS regulation of Access mail**

- 3.1. The GCA recognise one significant paradox of current British postal regulation is that, despite Royal Mail operating a virtual monopoly for 100% of UK last mile letters delivery, only c.17% of the volume falls under the USO.
- 3.2. In addition to margin challenges, our dialogue with companies within the Access sector indicates many of the same service issues currently affecting USO customers apply equally to Bulk Mail, yet Ofcom presently have a reduced ability to intervene within this market.
- 3.3. The GCA recognise that if bulk mail fails, it will be increasingly harder for Ofcom to protect current standards upon the 17% of USO mail, irrespective of whether end users require such standards.
- 3.4. If responses to this consultation have proved that the **USO is not over-provisioned** in relation to consumer needs and public subsidies are politically untenable, the GCA would invite Ofcom to consider that the **only remaining credible strategic option** to protect the 17%, is to set out more clearly what effective service delivery for Access mail should look like, in order to maximise volumes stability within this 83%.

#### **The importance of reliable QoS**

- 3.5. The GCA agrees with Ofcom's assessment that *there are a range of market factors that discourage a rapid acceleration in e-substitution (compared to the historical structural decline in volumes)<sup>xxvi</sup> and that letters will remain an important communications method for large users for the foreseeable future, particularly for public services<sup>xxvii</sup>.*
- 3.6. The GCA note there has been a *deterioration of Access QoS in recent years<sup>xxviii</sup>*. However, this deterioration appears not to have been considered further within Ofcom's assessment of future volumes trends. For all the reasons outlined within our response to question 1, as well as those referenced by the Bulk Mail panel at Ofcom's 14/03/24 event, the GCA contends **a return to service stability** in this market is a significant factor affecting its future evolution.

#### **The unnecessary friction between customer groups caused by opaque costs**

- 3.7. We believe Ofcom's inability to accurately attribute costs to USO and non-USO products is causing unhelpful friction and contributed towards an unfortunate situation in which both Bulk Mail companies and USO users appear to believe they are cross-subsidising one another, whilst both advise of price hikes of 80% and 93% respectively since just 2019<sup>xxix</sup>.
- 3.8. This situation benefits no-one other than possibly the monopoly incumbent, insofar as it distracts attention from deteriorating QoS, or any failure to make expected efficiency savings, that affect both customer groups.
- 3.9. Whilst we heard loud and clear the critical importance of cost within the Bulk Mail market, if costs are known to be apportioned fairly then there is no reason why Bulk Mail providers should not ask for a lower specification 'economy' product. But this equally must not come at the expense of USO features that retain majority public support.

3.10. This cost opacity is not limited to non-USO letters. Indeed, others have observed the significance of the shared delivery network cost base for Parcels, particularly Small Parcels (a competitive market). We expand upon this point within our answer to Question 5.

3.11. In this regard, the GCA are grateful for Ofcom's related acknowledgement of the *difficulty in just accepting model outcomes* and Ofcom's assurance that this will be considered *further in the context of any consultation where we are specifically proposing changes to the USO or other Royal Mail obligations*.

3.12. In any case, the GCA believe it **unreasonable** that consumers are asked to accept any reduction to the USO **without a fair and transparent attribution of said costs**. We believe the opacity extends products within both protected monopoly, and competitive, markets.

### **Direct Mail in an age of digital saturation**

3.13. The GCA notes Ofcom conclude the Bulk Mail section by stating volumes could decline in future<sup>xxx</sup>. Whilst it is sometimes useful to speculate, this view must be set against tremendous efforts Bulk Mail companies have put into emerging hybrid in/tangible models, and Royal Mail's claims that *'mail media is more effective than ever'* on the basis of *rising engagement rates*, the resulting *increase in commercial actions and the second lowest cost per minute of any comparable advertising spend*<sup>xxxi</sup>.

3.14. More generally, articles on digital saturation abound and the GCA reflects that there are ongoing opportunities for cut through using the power of tangible sends, in much the same way as these same trends benefit our own industry.

### **Concerns raised by the healthcare and periodicals industries**

3.15. Not least because of the **intense public interest around whether hospital appointment letters are reaching patients**, we wholly agree with Ofcom's conclusion that it is not possible to reduce the letters USO to 1 day a week, because there is not yet a way *communications from all public bodies could be sent (and received) digitally*<sup>xxxii</sup>.

3.16. We would go further, however, based on the **significant concerns** expressed by Healthwatch and medical professionals in their open letter to Ofcom. It appears **significant negative impacts for the country** are envisaged should **any** of the proposed service reductions be implemented, particularly in relation to delivery speeds<sup>xxxiii</sup>.

3.17. We also note the **considerable concerns raised by the periodicals industry** at the London consultation event who, in our view, provided compelling evidence that Ofcom's proposals were based upon a fundamental misunderstanding of the timelines affecting their industry.

### **Conclusions:**

3.18. We believe the argument that weakening the USO is essential for the survival of Access Mail which, in turn, protects Consumers over the longer term is fundamentally flawed both by an inability to accurately allocate USO costs, and because the proposed USO reductions are inappropriate for some of the key businesses and organisations within this varied sector.

- 3.19. However, there do appear to be some quick wins around QoS improvements which would bring additional volumes stability to this sector, as well as more fundamental gains available if a more strategic consideration was given to how enhanced Access mail regulation could bring benefits to the entire monopoly letters market.
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#### 4. Are there specific events/changes that could trigger a significant change in demand for large mail users, including public services?

- 4.1. We have covered all relevant points we wish to make within our answer to Question 3.
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#### 5. Do you agree with our proposed approach to estimating the financial burden of the USO?

- 5.1. Our primary concerns relate to whether Royal Mail's costs are efficiently incurred, the cost allocation principles applied to the USO and the considerable size of the range of outcomes Ofcom's model produces, which potentially suggests the real drivers of revenue and cost may be harder to predict than has been claimed.

##### **Ofcom's Sole Legal Modelling Requirement - Efficiently Incurred Costs**

- 5.2. We agree with Ofcom's position that if not undertaking a Full Statutory Assessment then Ofcom should attempt to simulate the approach it would take within that assessment<sup>xxxiv</sup>.
- 5.3. We note Ofcom understand that Section 44(2) of the PSA 2011 places a **sole requirement** to ascertain whether Royal Mail's operational costs are **efficiently incurred**. Every other aspect of the assessment is left to the regulator's discretion.
- 5.4. Ofcom advise<sup>xxxv</sup> they have instead relied upon **Royal Mail's current actual costs** with a further overlay based on a five-year efficiency target which Royal Mail say is not 'use[d] for running the business<sup>xxxvi</sup>' and for which we understand<sup>xxxvii</sup> Ofcom have still to receive any underpinned plans.
- 5.5. Notwithstanding Ofcom's acknowledgement of **an inability to allocate costs to products**<sup>xxxviii</sup>, Ofcom also acknowledge *difficulties assessing Royal Mail's efficiency performance to date and concerns about [Royal Mail's] ability to make sufficient efficiency savings going forward*<sup>xxxix</sup>.
- 5.6. Perhaps even more significantly, Ofcom confirm Royal Mail has '**regularly failed to meet its efficiency targets over the years since privatisation**' which means '**Royal Mail costs are higher than they otherwise could be, which has in turn had a negative effect on its financial sustainability**'.
- 5.7. Despite understanding Royal Mail's costs to be inefficient, Ofcom has undertaken significant international rate of return comparison work presented within Annex 7 but has not undertaken any international bottom-up cost comparison benchmarking data.
- 5.8. Had such benchmarking been completed, Ofcom could have offered a view on the size of Royal Mail's current costs that are inefficiently incurred, which **would have reduced Ofcom's headline claims regarding the size of the USO's financial burden**.

**Appropriate consideration of the benefits of the USO to Royal Mail's Parcels business.**

5.9. Whilst Ofcom's 24<sup>th</sup> January 2024 press briefing emphasised the risks of the USO becoming financially unsustainable, we note Ofcom's data **acknowledges the financial sustainability of the USO is unknown**<sup>xl</sup>.

5.10. This is significant in circumstances where Ofcom's study primarily attributes the **material decline in Royal Mail's financial position to a fall in Parcels, not Letters, volumes** with a key factor being *Royal Mail's loss of [parcels] market share as a result of the industrial action*<sup>xli</sup>.

5.11. The limited data available to us means we cannot tell the exact extent to which the USO directly subsidises Royal Mail's Parcels business, but we note that:

5.11.1. Last summer, **Royal Mail advised Ofcom of their ongoing intent to use their significant market power in Letters to enable Royal Mail to price incrementally in markets where they face competition**<sup>xlii</sup>.

5.11.2. Over the past 24 months, our analysis suggests the country has seen monopoly 1<sup>st</sup> class letters prices rise by an average of 29%, whilst competitive 1<sup>st</sup> class Parcel prices have fallen by an average of 19%<sup>xliii</sup>.

5.12. Temporarily putting to one side whether Royal Mail are able to price letters higher to compete on price in competitive parcels, multiple informed sources conclude there are **considerable cost benefits to shared letter and parcel** (particularly small parcel) delivery networks:

5.12.1. The European Regulators Group for Postal Services suggests **most European countries operate a shared network as this offer benefits** of 'cost reduction and the development of economies of scale and scope, as well as an increased efficiency and flexibility'<sup>xliv</sup>

5.12.2. Last summer, we also invited Ofcom to consider a significant US study<sup>xlv</sup> which goes even further and concludes **the marginal cost of delivering a parcel on a letter route was one sixth of the cost of delivering on a standalone parcel route**, citing evidence from Bradley et al.

5.12.2.1. Additionally, this same study references analysis by Swiss Economics which concludes the cost **savings of a "5+" delivery model, where only parcels would be delivered on Saturdays, would be minimal**<sup>xlvi</sup>.

5.13. A former [Ofcom] employee said to be familiar with the current work, and speaking under condition of anonymity, also notes: "*The main issue may be that [Royal Mail's] small parcels business is entirely reliant on its letters network, so if you cut back on deliveries, you have to put small packages in vans, which is less efficient,*"<sup>xlvii</sup>.

5.14. Early in the consultation we therefore asked Ofcom: '**Does [the shared cost stack mean] Royal Mail need Letters to succeed in Parcels, and is it probable, therefore, that Royal Mail will return for additional public support when Letter volumes shrink further?**'. From the responses received, we believe the study has not adequately considered the significant body of work that contradicts its conclusions that this is not a significant concern<sup>xlviii</sup>.

5.15. Ofcom also acknowledge the USO status could 'confer further benefits' which would 'have to be taken into account in a statutory net cost calculation'<sup>xlix</sup>. However, in our



view significantly, the current study chooses not to quantify any such intangible benefits:

5.15.1. Ofcom explain this omission by suggesting the intangible benefits of the USO are distinct from Royal Mail's 500-year delivery history and almost universal brand recognition. After isolating these, Ofcom conclude the benefit is difficult to measure and insignificant<sup>1</sup>.

5.15.2. Our contention is that Ofcom's arbitrary distinction makes calculation unnecessarily difficult: A reasonable person would clearly conclude Royal Mail derive significant brand and infrastructure business which stems from the protected letters business, and which contributes to Royal Mail's success in those more competitive markets where it is not the price leader.

5.16. In circumstances where Royal Mail's own financial statements suggest a £475m net benefit from USO products, we believe this is clearly a Unique Selling Point (USP) over Royal Mail's competitors. We therefore believe a **more appropriate consideration of these tangible and intangible benefits** would significantly change the model outcomes and support the view that the current model is overly pessimistic when calculating the financial burden of the USO. We believe a more accurate assessment of the true value of the USO can be gained by asking the simple question: ***Can Royal Mail survive if they stopped delivering letters tomorrow?***

#### **The ability to predict the real drivers of cost savings**

5.17. When viewed alongside the points raised above, the considerable range of financial outcomes produced by Ofcom's model, even for the three 'better understood' scenarios (+/- 33% to +/- 62.5%), offers further indication that the underlying drivers of cost savings (as well as revenue generation/loss) may be poorly understood, or even impossible to predict.

5.18. Given the significant changes Ofcom are proposing, we believe a **more accurate picture is required** of the true costs being saved, before it can be concluded that the public impact is justified.

#### **Conclusions:**

5.19. In circumstances where the presented evidence leaves it wholly unclear what the costs of the USO actually are, whether they are (at best) efficiently incurred, or to accurately predict the savings Royal Mail would make if they were removed, it is impossible to conclude the USO results in a financial burden.

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## **6. Do you agree with our considerations regarding the unfairness of the financial burden of the USO?**

### **The case a burden exists, or is unfair, remains unproven**

6.1. Within our previous answers we have demonstrated that:

6.1.1. As there is **majority support for all current USO features**, as well as a failure to segment the market to sufficiently consider the needs of different types of letters senders, the concept of an over-provisioned USO has not been proved.

- 6.1.2. It is equally **impossible to conclude a financial burden exists** in circumstances where the presented evidence cannot say what the true costs of the USO are and where Ofcom already advise they know such costs are likely to be incurred inefficiently.

**Less damaging alternatives exist and should be explored first**

- 6.2. In any case, in the unlikely event that such a burden were to be proved, we have demonstrated that **service delivery improvements by Royal Mail would materially improve Royal Mail's Letters volumes and financial<sup>li</sup> position.**

- 6.2.1. Given service restoration would involve significantly less public harm than cutting service levels and is, regardless, required to establish true underlying demand so that any strategic steps can be more proportional, we contend such an approach **must be preferred** over more radical change.

**Royal Mail's additional responsibilities for market segmentation & growth strategies**

- 6.3. Within paragraphs 2.1 to 2.6 we outline how getting service right could return significant volume and stability to the market. These represent basic operational processes which Royal Mail has largely successfully delivered for all but 2 of its 500-year history.
- 6.4. But Royal Mail also have a commercial directorate responsible for revenue and volumes growth.
- 6.5. The greeting card and postal industries have a long and proud history of working alongside one another to promote card exchange which stretches all the way back to Henry Cole and the Penny Post in 1843<sup>iii</sup>. At our best, we are natural partners who continue to do some incredible things together, which we reflect on affectionately, and which bring joy to the British public.
- 6.6. Equally, the past twenty-four months have seen greater tension enter our relationship, exacerbated by the impacts of the industrial dispute, but primarily due to our evidenced belief that Royal Mail have deliberately de-prioritised letters. This has negatively and significantly impacted our members' businesses and, most importantly, our customers.
- 6.7. We believe Royal Mail could take far more initiative to stem their volumes decline and even return sectors of their Letters business to growth: We work well together around key **marketing initiatives** such as Thinking of You Week and Festive Friday, but we also recognise that there is more we want to be doing around **commercial opportunities** which we believe could benefit us both.
- 6.8. A good example of this is the proposition we began exploring last summer that a Christmas stamp at a lower price point would **grow November and December letter** volumes and total revenues, both by immediately relieving the acute seasonal cost pressure our customers tell us prevents them sending more cards to families and friends, but also because this would present a year-round marketing opportunity to remind customers that posting letters is associated with strengthening the connections they value most.
- 6.9. Ofcom told us this was an *'interesting commercial decision, solely for Royal Mail'*, whilst Royal Mail told us *'the regulator won't let us do this because we'd be pricing below costs'*. Unsurprisingly, this didn't get far.

6.10. Delivering revenue growth through opportunities like this relies on an ability to **segment the USO market**, identify where points of greater price-elasticity exist and then execute strategies that stem decline and grow revenues.

6.11. But such **commercial endeavour will always be disincentivised** if regulatory conditions mean the easier route to profit maximisation is through service cuts or price rises. We are therefore concerned that Ofcom's statement that '*we recognise that the extent and the net cost of the regulation could contribute to the challenges in meeting QoS levels<sup>liii</sup>*' could be interpreted as apparent justification for Royal Mail's current poor performance.

**Conclusion:**

6.12. Whilst we reject the idea a financial burden has been proved, in the unlikely event such burden did exist we have shown there are significantly better ways to address this than the reduction in service levels under consideration. We have also demonstrated opportunities exist for Ofcom to assist Royal Mail regain their sense of control over their own commercial destiny, which we believe could reduce the future need for increasingly frequent requests for bailouts and reviews.

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## **7. Do you agree with our considerations regarding the impact of the financial burden of the USO?**

7.1. If one believes that the USO is over-provisioned and has a significant financial burden, Ofcom's assessment of the resulting impact is entirely logical.

7.2. However, if for all the reasons outlined above one believes neither are proved, there is a significant risk that prematurely considering changes to the USO risks unnecessarily harming consumers and downstream businesses but is also highly likely to ultimately **accelerate Royal Mail's own decline**, when alternative options are available.

7.3. We recognise Ofcom may ultimately reach a different conclusion to our own, which is why we believe that if Ofcom does decide to proceed with reducing the USO specification, then a **Full Statutory Cost Assessment**, including a **downstream industries assessment**, is required to ensure the true costs to the British economy are understood before any decisions are taken about how any proposed changes should be funded.

7.4. Because we are concerned that the incumbent appears insufficiently able to knowledgably segment the USO letters market to achieve growth or avoid unnecessary decline, we also believe **further transparency is required** around econometric modelling and pricing elasticity assumptions. In a market that Ofcom advise is highly unlikely to attract new entrants, we note there are extremely limited reasons why such data might be justified as commercially confidential, especially in circumstances where Royal Mail are claiming they require further regulatory relief, bailouts and/or state support to continue.

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## **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.**

**If you're delivering 7 days a week, why wouldn't you take everything with you?**

- 8.1. Before responding on each of the options in turn, we replayed this seemingly naïve question over repeatedly in our minds.
- 8.2. The present consultation's focus has primarily centred around cost savings, but our analysis at Paragraph 5.12.2 already shows it makes far **more sense to deliver both letters and parcels concurrently** in most of the country, which made us reflect more deeply.
- 8.3. Our startpoint is complete comfort with the idea that, as a commercial entity, Royal Mail exist to maximise shareholder returns, and that the single biggest profit lever available isn't cost savings, but **removing price-inelastic monopoly products** from pricing regulation:
  - 8.3.1. As an example, were Royal Mail to add just 10p on 7bn letters with no volumes loss the impact would be +£700m which is already a larger benefit than any cost saving identified in Ofcom's main scenarios<sup>liv</sup>.
  - 8.3.2. Yet, in Ofcom's 3-day per week model, 2<sup>nd</sup> class post would increase by nearly four times this amount (by 37.5p<sup>lv</sup>) and next day delivery would immediately rise by at least an eye-watering £2.50<sup>lvi</sup> per item.
  - 8.3.3. Given these numbers, Ofcom's assumption that Royal Mail's letters revenues would somehow **fall** by £50-150m seems unlikely: To believe this, you either have to believe product cannibalisation numbers which don't match our knowledge of how much consumers say they need next day delivery, or you have to believe Ofcom have already assumed the change will see huge swathes of customers leaving the postal market entirely.
- 8.4. We may be accused of being overly cynical: In return, we'd point to the **peak surcharge** Royal Mail now apply to business letters during the festive period; a **pricing strategy entirely inconsistent with Royal Mail's concurrent, wider claim** that falling letter volumes cause network under-utilisation which means letter prices must rise.
- 8.5. We have previously outlined our significant fears that price and service reductions can represent **tipping points** particularly in those parts of the letters market (such as our own) which we believe have **higher levels of pricing elasticity** than Royal Mail appear to presently believe apply to letters more generally.
- 8.6. The problem for the country is that if the proposed changes go through, it really doesn't matter who's right in terms of the impact on Royal Mail's bottom line:
  - 8.6.1. **If Letters demand is ultimately inelastic**, every Saturday and next day delivery that now falls outside of pricing controls generates significant supernormal profits. Assuming LRAIC (Long Run Average Incremental Cost allocation<sup>lvii</sup>), Royal Mail also gain considerable advantage in the competitive markets they want to grow.
  - 8.6.2. **If Letters demand is ultimately elastic** and the service reductions/price rises accelerate letter volumes decline in the way we predict,

it will be even harder for Ofcom to stem the tide by granting further dispensation, bailouts or regulatory relief.

- 8.7. Either way, it will be British small businesses and the public who are most negatively impacted and, as stated, there appear to be simpler ways to return market stability than the options under consideration, which are:

#### **Reduce Number of Delivery Days**

- 8.8. Given the aforementioned majority support for 6-day a week letters delivery, the increasing expectation of 7-day parcels delivery and the synergies of delivering parcels and letters concurrently we **question both the size of the cost savings identified** for the 3 and 5 day options, and also whether it is really operational cost savings (as opposed to **pricing freedoms**) driving Royal Mail advocacy for the more aggressive option.
- 8.9. Our SMEs point to the importance of **retaining Saturday delivery** based on their daily/weekly demand profile – particularly in the run up to Seasonal events which often fall on Sundays:
- 8.9.1. In the unlikely case that the case for cutting a delivery day was proven, our members would prefer this to be **Tuesday or Wednesday**.
- 8.9.2. If delivery days were reduced, **commercial activations** involving waiving any premium (Saturday?) delivery fees in the week prior to events that bring our nation together (e.g. Mother's Day) could significantly **reinforce category legitimacy**, thereby growing overall letters revenues, as well as mitigating against the event-specific letters revenues we otherwise predict would be lost. We invite Royal Mail to consider such options, whilst noting Ofcom also have the power to mandate products which might confer significant benefits on postal users.
- 8.10. Due to our aforementioned concerns about tipping points, the idea of a 3 day per week is completely unpalatable to our customers and wider industry.
- 8.11. We empathise with what we view as entirely legitimate concerns expressed by the **periodical publishers** (and some advertisers) around the apparent absence of a plan for their industry if Saturdays were lost and believe our proposals offer some mitigation (and alignment) in that regard.
- 8.12. We are pleased to see Ofcom considering the environment. In addition to all the points Ofcom make, we understand that poor service has already driven many of our members to Royal Mail's less emissions efficient rivals. From an environmental perspective, it is clearly important that any further changes to the USO do not accelerate this self-defeating trend.

#### **Slower Delivery Speeds**

- 8.13. The absence of specific questions within the User Research regarding the impact of Royal Mail's current poor performance doesn't stop **customers proactively raising concerns** about reliability / current certainty of delivery<sup>viii</sup> when choosing First Class.
- 8.14. It is against this context that we question Ofcom's interpretation of this emergence of reliability/certainty of delivery<sup>lix</sup> as a reason for using 1<sup>st</sup> class mail as evidence that speed of delivery is somehow no longer so critical.

8.15. Rather, when set alongside the verbatim comments on any news or review website, it appears far more probable that the necessity for speedy delivery remains, and the increasing importance of **delivery certainty** purely stems from the fact that it presently represents such an **aspirational goal** for many Royal Mail customers.

8.16. We are also concerned about the opacity of Ofcom's proposals for priority delivery: As a guide to how confusing this is even for the informed, we debated with a party very close to the detail less than 24hrs before our submission whether Ofcom's thinking was that the Express (next day) delivery charge would rise to an eye-watering c.£3.75 (Table A7.3) or an unthinkable £7 (from Paragraph 9.41). We therefore further question whether the qualitative research study group were fully aware of the price implications of the proposed slower delivery speeds – a concern reinforced by the apparent absence of any questions about their card sending habits. In any case, such significant rises clearly require a **proper impact assessment** and, we would argue, **Parliamentary debate**.

### **Reduction in QoS Targets**

8.17. We agree completely with Ofcom's initial view that reducing quality of service targets is an unattractive option, but we would also go further:

8.17.1. Referencing the significant and compelling body of evidence already outlined, we believe a return to the **required QoS levels** must be the **industry's immediate priority**.

8.17.2. A future without this progress, and also additional progress from Royal Mail against efficiency targets, appears certain to necessitate a **constant cycle of consultations** like this one, or the need for Royal Mail to turn constantly to the government requesting **bailouts** which appear unjustified.

8.18. Whilst sizing impacts are impossible given uncertain proposals, we would suggest that the Royal Mail Trustpilot reviews previously mentioned in Paragraph 2.29.2 which already show consumers' intention to boycott small businesses who use Royal Mail give a clear and unflinching indication of just how **catastrophic such a policy might be** for our industry and Royal Mail.

### **Government Subsidies to maintain a USO**

8.19. The GCA agree with Ofcom that it is wholly inappropriate to ask the taxpayer to fund subsidies, in circumstances where we understand there is no published plan from Royal Mail to return service to required levels, to meet efficiency targets, or even to outline the growth opportunities Royal Mail have considered.

8.19.1. We trust the latter will proactively feature within Royal Mail's own answer to this question which might therefore propose options to avert the more radical reductions in service we fear would be **self-defeating**. We equally note the regulator **can request the same** under its existing powers.

8.20. In any case, and particularly given how the Horizon scandal has heightened public perception of apparent injustice within the wider end to end postal journey, we anticipate any such request for a subsidy would lead to further difficult questions around:

8.20.1. Whether Royal Mail's decision to issue a dividend payment following the £726m pandemic-linked profits in the year to March 2021 was premature



given the subsequent request for obligations relief on grounds of financial sustainability.

8.20.2. Whether such a bailout is credible in circumstances where almost all the trends we're now discussing were the subject of clearly recorded public debate ahead of privatisation and known to investors (then and now). Indeed, the National Audit Office's assessment suggests the original sale was undervalued by at least £750m<sup>lx</sup>.

8.21. However, whilst subsidies themselves are unpalatable, a more interesting (and potentially palatable) question is about **maximising efficiency within existing public budgets**. Here, we note the **UK's social care and healthcare budgets** are under considerable pressure, and Royal Mail currently have a **trusted workforce already operating within communities up and down the country every day**:

8.21.1. The Communications Workers Union have already referenced prescription drop-off services as an opportunity whilst, in France, postal workers provide vulnerability check-ins for more isolated residents.

8.21.2. When we've discussed related ideas with Royal Mail and the Government, both offer different views why progress has stalled. Both explanations, however, appear to indicate a way forward is possible given the submission of an appropriate business case and joined-up interdepartmental thinking.

8.21.3. The benefits of such a case are clearly considerable, and not just in the context of the current consultation. Equally, we suggest the risks of doing nothing are even greater, because an industry without a growth story risks increasingly volatile industrial relations. A further industrial dispute like last years could now terminally accelerate postal decline, impacting both Royal Mail and the jobs it provides, equally.

### **Provision of Additional Support For Certain Users**

8.22. Whilst reserving final judgment until we have seen specifics of Ofcom's proposals, we are guided by our belief that a thriving social letters business builds strong communities, and we want as many people as possible to be able to enjoy the benefits of sending and receiving cards.

8.23. Because we believe the act of **receiving a card is as important to vulnerable users** as sending, then clearly any such scheme must also consider how best to prioritise vulnerable recipients.

8.24. We would also refer to our previous related submissions to Ofcom's 2<sup>nd</sup> Class Postal safeguards consultation<sup>lxi</sup>.

### **Transitioning to the new arrangements**

8.25. In every market where postal transition has occurred, the change has started with a **clear strategy** that ensures suitable digital alternatives are available for communications that can migrate, and gives **customers time to understand**, the changes, as well as how existing long-ingrained behaviours may need to change.

8.26. Such a strategy also must recognise that **not everything can, or perhaps even should, be done online** and so must provide clear options for these products. These options must also recognise that **the need for regulation may become more, rather**

**than less, acute** as the balance of power between monopoly provider and consumer heightens within any declining market.

- 8.27. We have demonstrated previously within our answers that the UK card market is **exceptional relative to its international peers**. This drives our need for a clearly segmented communications plan that gives card senders realistic options to change their buying behaviours without causing them to abandon their card sending tradition which currently gives senders and recipients alike so much joy.

## 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?

- 9.1. As we've laid out, the GCA believe there are significant gaps in the current consultation, and it would therefore be premature, and likely to cause significant unnecessary public harm, were Ofcom to reduce the USO ahead of:

- 9.1.1. Overseeing a rapid and sustained return to the **required service levels** that enables any change in the underlying demand for postal services to be accurately measured,
- 9.1.2. Securing the conditions for **customer confidence** in the postal service to be regained, including a missed targets **compensatory scheme** that is meaningful and transparent to end users.
- 9.1.3. Re-assessing the true present alignment of the USO to consumer needs, considering the concerns we've raised that the original communications issued to the public appear **inadvertently misleading**.
- 9.1.4. Ascertaining what the **true efficiently incurred** cost of the USO is, and informing the public if this number differs materially from the headline numbers announced in January.
- 9.1.5. Balancing the costs (as well as tangible and other benefits) the USO brings to Royal Mail's bottom line, with a full **downstream industries assessment** to ascertain the true costs of any such change to the British economy.
- 9.1.6. Gaining a full, **transparent understanding** of the steps other than price rises, that would grow Royal Mail's revenues and are already within Royal Mail's gift.
- 9.1.7. Producing a clear communications plan, built alongside key stakeholders, to best prepare the public for any resulting changes Ofcom still believe are required. We specifically believe that **Parliament should debate** any proposed changes that would materially affect the current USO conditions – again to restore consumer postal confidence following recent damage.

- 9.2. If, **having completed all the steps above**, it was clear that one of Ofcom's options remained needed, the **least harmful** change to those who send and receive cards would be a reduction to **5 days a week delivery**, with a preference for the dropped delivery day to be a **weekday**.

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

10.1. No.

<sup>i</sup> Source: Para 5.25 [Review of Second Class safeguard caps 2024 \(ofcom.org.uk\)](#) Original Source Jigsaw Residential Postal Tracker 2022, QG1\_1)

<sup>ii</sup> Consumer Insights Survey, 2024 [Redacted]

<sup>iii</sup> Paragraph 5.25, [Review of Second Class safeguard caps 2024 \(ofcom.org.uk\)](#)

<sup>iv</sup> GCA Market Survey 2023 and aggregated data gained from leading card publishers monthly insight programmes (further details within individual GCA member submissions).

<sup>v</sup> The residual representing the small % who purchase cards and gifts together, or bulk purchase cards in such quantities that they could theoretically make use of alternative parcel courier services.

<sup>vi</sup> [US GCA - Key Greeting Card Facts](#)

<sup>vii</sup> Paragraph 5.27, [Review of Second Class safeguard caps 2024 \(ofcom.org.uk\)](#)

<sup>viii</sup> [About | Thinking Of You Week](#)

<sup>ix</sup> Source: GCA Market Survey 2023

<sup>x</sup> The Occasions market is an industry term the card industry uses to differentiate seasonal events such as Mother's Day, Easter, Father's Day, Eid, Diwali and Christmas. Our members' data indicates this attracts more 'last safe moment' buying behaviours than other types of card sends such as Birthdays (which we term the Everyday market).

<sup>xi</sup> See Ofcom's weekly postal service reliability tracker. We further understand individual GCA members will supply additional data to this consultation which supports this claim.

<sup>xii</sup> Paragraph 5.36, [Decision finding Royal Mail contravened its Quality of Service performance targets in 2022/23 and imposing a financial penalty \(ofcom.org.uk\)](#)

<sup>xiii</sup> We lay out the full range of price changes within the spreadsheet circulated with this briefing note.

<sup>xiv</sup> Ofcom Affordability Qualitative Research, 2023.

<sup>xv</sup> Please see commercially confidential data within individual corporate submissions from Hallmark, [Redacted], Thortful and Cardology, amongst others.

<sup>xvi</sup> [Critique of USPS Elasticities \(ndpanalytics.com\)](#)

<sup>xvii</sup> *Further, we observe that Royal Mail is also experiencing difficulties in delivering the current obligation to meet the QoS targets we set. We expect Royal Mail to resource its service to a level necessary to meet its obligation. However, we recognise that the extent and the net cost of the obligation could contribute to the challenges in meeting QoS levels.* Paragraph 8.46, [The future of the universal postal service \(ofcom.org.uk\)](#)

<sup>xviii</sup> Slide 11, [Consumer survey research on post \(ofcom.org.uk\)](#)

<sup>xix</sup> Paragraph 5.41, [The future of the universal postal service \(ofcom.org.uk\)](#)

<sup>xx</sup> Slide 11, [Consumer survey research on post \(ofcom.org.uk\)](#)

<sup>xxi</sup> Paragraph 7.8 and 7.13, [The future of the universal postal service \(ofcom.org.uk\)](#)

<sup>xxii</sup> [Royal Mail Reviews | Customer Service Reviews - Past 30 days \(trustpilot.com\)](#)

<sup>xxiii</sup> See Paragraph 0.3 of this submission

<sup>xxiv</sup> [Ofcom: Universal postal service must modernise - Ofcom](#)

<sup>xxv</sup> Slide 11, [Consumer survey research on post \(ofcom.org.uk\)](#)

<sup>xxvi</sup> Paragraph 6.13, [The future of the universal postal service \(ofcom.org.uk\)](#)

<sup>xxvii</sup> Paragraph 6.22, [The future of the universal postal service \(ofcom.org.uk\)](#)

<sup>xxviii</sup> Paragraph 6.11, [The future of the universal postal service \(ofcom.org.uk\)](#)

<sup>xxix</sup> 80% understood to have been claimed by Group Operations Director, Go Inspire at Post - present and future: discussing the future of the postal service (14/03/24) and 93% from [Citizens Advice reacts to Royal Mail stamp price increase - Citizens Advice](#)

<sup>xxx</sup> Paragraph 6.13, [The future of the universal postal service \(ofcom.org.uk\)](#)

<sup>xxxi</sup> All statements taken from [Mail marketing cuts through and captures attention. | Marketreach](#) (24/03/24).

<sup>xxxii</sup> Paragraph 9.20, [The future of the universal postal service \(ofcom.org.uk\)](#)

<sup>xxxiii</sup> <https://www.healthwatch.co.uk/response/2024-02-27/open-letter-royal-mail-about-delivery-nhs-letters>

<sup>xxxiv</sup> Purpose paragraph, Chapter 8, Page 54 [The future of the universal postal service \(ofcom.org.uk\)](#)

<sup>xxxv</sup> Within Table 8.2

<sup>xxxvi</sup> [five-year-cumulative-expectation-for-pveo-and-productivity-2023-06-30.pdf \(internationaldistributionsservices.com\)](#)

<sup>xxxvii</sup> See [Decision finding Royal Mail contravened its Quality of Service performance targets in 2022/23 and imposing a financial penalty \(ofcom.org.uk\)](#)

<sup>xxxviii</sup> Paragraph 2.11, [The future of the universal postal service \(ofcom.org.uk\)](#)

<sup>xxxix</sup> Both from Paragraph 2.14, [The future of the universal postal service \(ofcom.org.uk\)](#)

<sup>xl</sup> 'It is not possible precisely to assess the financial sustainability of the USO on its own. We therefore consider the rate of return of the whole of the Reported Business in our assessments of the long-term financial sustainability of the USO'. Paragraph 2.11 [The future of the universal postal service.pdf \(ofcom.org.uk\)](#)

<sup>xli</sup> *Royal Mail's revenue and profits fell significantly over 2022/23. The profit (EBIT) margin for the Reported Business decreased to -6.3% (compared to 3.6% in 2021-22). The decrease was largely driven by a drop in its revenues (by c.£950m year on year) mainly the result of falling parcel volumes. This was in part caused by market factors (such as weaker online shopping trends), but a key factor was also the significant drop in Royal Mail's market share, which was affected by industrial action.* Paragraph 2.14, [The future of the universal postal service.pdf \(ofcom.org.uk\)](#)

<sup>xlii</sup> 'Royal Mail operates across a number of markets, many of which are highly competitive. In these highly competitive markets, prices are driven lower and often we need to price to incremental cost to remain competitive. However, in order to be in a position to provide a market funded financially sustainable USO, we need to be able to cover our total cost base (i.e. Fully Allocated Costs

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including a reasonable return). Our prices should reflect the costs of the provision of the service and the prices that customers are prepared to pay for the services'. Paragraph 49, [Royal-Mail.pdf \(ofcom.org.uk\)](#)

<sup>xliii</sup> Again, please see spreadsheet circulated with this briefing note

<sup>xliiv</sup> Paragraph 41, *2019 ERGP REPORT ON THE DEVELOPMENT OF POSTAL NETWORKS AND ACCESS PRACTICES REGARDING INFRASTRUCTURE RELATED TO THE PARCEL MARKET*

<sup>xliiv</sup> [NDP Analytics Memo-on-Bifurcated-Delivery-Systems-for-C21.pdf \(omsgca.wpenginepowered.com\)](#)

<sup>xlivi</sup> See Page 4, same study

<sup>xliiii</sup> [Dead letter office? Royal Mail wrestles with a difficult future | Royal Mail | The Guardian](#). An industry source speaking under condition of anonymity.

<sup>xliiii</sup> GCA email correspondence with Ofcom indicates Ofcom rely upon evidence that 'Royal Mail has lost market share in parcels' as evidence as to whether they 'actually benefit from the dual obligations'. This, of course, fails to consider Paragraph 2.14's conclusion that Royal Mail have lost parcel share because of poor service performance.

<sup>xlix</sup> A7.90-A7.93, [The-future-of-the-universal-postal-service.pdf \(ofcom.org.uk\)](#)

<sup>l</sup> Footnote 185

<sup>li</sup> By virtue of the network's fixed costs

<sup>lii</sup> [Henry Cole - Wikipedia](#)

<sup>liii</sup> Paragraph 8.46, [The-future-of-the-universal-postal-service.pdf \(ofcom.org.uk\)](#)

<sup>liiv</sup> We recognise the assumption of complete price inelasticity is unrealistic, but equally assume Royal Mail must consider such rises commercially advantageous given this is the exact amount 2<sup>nd</sup> class letters are rising in April 2024.

<sup>liv</sup> Table A7.3 and A7.183, [The-future-of-the-universal-postal-service.pdf \(ofcom.org.uk\)](#)

<sup>lvi</sup> A7.135, [The-future-of-the-universal-postal-service.pdf \(ofcom.org.uk\)](#)

<sup>lvii</sup> This refers to the cost allocation model we understand Royal Mail use to price optimise in competitive markets but stay above legal requirements that would otherwise suggest predatory pricing.

<sup>lviii</sup> Slide 29, Jigsaw analysis 2023 [The-future-of-the-universal-postal-service.pdf \(ofcom.org.uk\)](#)

<sup>lix</sup> Paragraph 9.48. [The-future-of-the-universal-postal-service.pdf \(ofcom.org.uk\)](#)

<sup>lx</sup> [Undervaluing Royal Mail shares cost taxpayers £750m in one day | Royal Mail | The Guardian](#)

<sup>lxi</sup> Question 14, [Greeting-Card-Association.pdf \(ofcom.org.uk\)](#)