

The future of the universal postal service - Call for Input

Post Office Limited response

1. Post Office and its goals

To many, Post Office is synonymous with the universal postal service. It is the only physical place where anyone and everyone in the United Kingdom can purchase universal postal services and, as such, Post Office has unique experience of dealing face-to-face with consumers of postal services in the UK – and a unique perspective in responding to this Call for Input.

Our Postmasters are regarded as pillars of the community, serving c.10 million customers a week in c.11,500 Post Office branches. Today 99.7% of the population live within three miles of a post office; and 4,000 branches are open seven days a week¹. USO letters and parcels continue to account for a significant proportion of transactions over the counter, making Post Office a fundamental part of the UK postal network and considerations about the future of the USO.

Post offices deliver ease of access and convenience for countless consumers by bringing a range of services under one roof. Vulnerable customers place a particularly high value on them and use their local branch more than any other customer group. Six in every seven consumers and SMEs believe it is important for a post office to be nearby and convenient to get to. Moreover, as recent research from London Economics shows², post offices are particularly important economic pillars in rural communities, with more than 25% (c.3,000) branches serving as the last remaining shop in the village, supporting as many as 30 million visits each year in these branches.

Post Office is regarded as being a key benefit of using Royal Mail, providing a human connection, advice, and reassurance. Through its extensive network, Post Office also enables Royal Mail to achieve its Universal Service Obligation (USO) Access Criteria across the United Kingdom, providing face-to-face sales of the full range of its non-account postal services.

As an overarching principle, Post Office wants to see a regulatory regime that:

- i. continues to ensure the provision of a reliable and affordable universal postal service which meets the evolving needs of all consumers and small businesses;
- ii. supports the maintenance of the nationwide Post Office network, which is indispensable to the provision of the universal postal service; and
- iii. benefits consumers by promoting fair competition.

¹ corporate.postoffice.co.uk/en/about/our-story/who-we-are/

² [part-and-parcel-the-economic-and-social-value-of-post-office.pdf \(postoffice.co.uk\)](#),

2. Executive Summary

Post Office fully agrees that there must be a national debate around how consumers need a parcel and letter delivery service to work for them in the 2020's and into the next decade. Our Postmasters serve c.10 million customers every week who need to send important letters and parcels. Moreover, vulnerable, and elderly people, as well as many businesses, depend on a reliable letter service and their needs must be considered in any review.

Since Ofcom published its Call for Inputs, we have conducted both telephone and online research with consumers to understand their requirements and gauge their reaction to the scenarios as outlined by Ofcom. We have also consulted with our Postmasters through a survey. Our key findings to this research have informed our response to this Call for Inputs – and we have provided an overview of our key messages below:

Consumers and SMEs prioritise reliability:

Above all, **customers want reliability both as senders and recipients more than anything**. Royal Mail's quality of service has declined significantly in recent years³, but Royal Mail has continued to significantly increase prices on those USO products that do not face competition or price capping, while keeping price increases on competitive products to a minimum (and in some cases reducing these).

Post Office believes **there need to be measures which assure customers of reliability** e.g., price increases linked to quality of service, or compensation for customers where service quality is not met rather than fines from which users have no direct benefit.

Due to the historic relationship between Royal Mail and Post Office, poor reliability of Royal Mail's service unfairly impacts the reputation of Postmasters and the millions of customers that access Royal Mail services through their branches.

Delivery frequency should be preserved:

However, **reliability should not be considered as a trade-off vs. frequency of delivery**. Six-day delivery is important for both First and Second Class letter services. Letters are still an essential service, particularly for those customers who are not digitally enabled. Many businesses too are reliant on daily letter / large letter deliveries, and a reduction in delivery days would mean that they are unable to meet their customer requirements.

First and Second Class services should remain affordable:

First Class delivery is heavily relied on by small businesses and consumers to send a variety of items such as light-weight items sold online, important documents and greetings cards. First Class is regarded as a more reliable service compared to Second Class, and due to the cost difference, Special Delivery is not considered a viable alternative.

³ [Post monitoring report - Postal services in the financial year 2022-23 \(ofcom.org.uk\)](https://www.ofcom.gov.uk/consult/condocs/post/post2223/post2223.pdf), pgs 18-19

To meet customer needs, Post Office believes Ofcom should **maintain its two levels of service** (First and Second Class), maintain a price cap on Second Class services and **consider the introduction of a cap on First Class pricing** to assure affordability and prevent Royal Mail from pricing First Class services out of existence.

Tracking is a hygiene factor:

Small businesses rely on visibility of the items they send⁴ while consumers are also looking for more reassurance (including on letters) through tracking. **USO services should be permitted to have a tracking feature**, available both online and in-branch. The prohibition on USO services having a tracking feature is out-of-date and does not meet customer requirements.

Vulnerable customers are particularly reliant on USO services:

Customers over 65 and people with disabilities are most reliant on USO services as senders and/or recipients and the scenarios outlined in the Call for Inputs would not serve their needs. These groups' needs require particular attention. By paying more in branch, there is a risk that these groups of people are effectively cross-subsidising customers who buy online who typically benefit from lower prices, including incentives such as free collections⁵. Therefore, there needs to be a cap on the extent to which in-branch prices can exceed online prices for USO services.

Post Office branch financial sustainability:

A decrease in income because of a reduction in users purchasing First Class services and/or the delivery of letters **less frequently** than Monday to Saturday **would result in a significant decrease in Postmaster remuneration and loss of important retail cross-sales**, impacting branches' financial sustainability. In turn, this **could contribute to a financial tipping point for certain post office branches.** [X]

We estimate that certain of the scenarios under consideration would additionally contribute to [X] Postmasters closing their post offices. The replacement cost to Post Office would be significant [X] - and in some instances we will not be able to replace them, leading to the near-total loss of access to postal services in [X] communities.

Post Office would urge Ofcom to **consider the postal network holistically** (i.e., its separate distribution and retail businesses) as changes in one area could have significant detrimental impacts on other areas.

The UK is unique compared to its international peers:

While letter volume decline and the increase in e-commerce are trends that are reflected in other markets, there are **many elements of the UK market that make it unique**: the relative size of its access bulk mail market (which has declined at a lower rate than the overall market⁶); one of the most advanced e-

⁴ [Post monitoring report: Interactive data - Ofcom](#), Business (SME) research data – importance of factors in choosing a postal provider/service

⁵ [Parcel Collect: Book A Parcel Collection | Royal Mail Group Ltd](#)

⁶ [Post monitoring report - Postal services in the financial year 2022-23 \(ofcom.org.uk\)](#), page 10

commerce markets generating the highest number of parcels per capita in Europe⁷; and a thriving greetings card market - the UK send more greeting cards per capita than anywhere else in the world⁸. The UK is also the only market where the postal distribution and retail networks are separate businesses. **We therefore urge caution when evaluating the experiences of international comparators.**

Proposed additional measures for Ofcom to consider:

To ensure that Parliament retains control over the minimum requirements of the USO, and in particular, six-day delivery frequency, Ofcom should not make undue use of its statutory powers to reduce frequency. We would urge Ofcom to publish a policy ruling out the potential future use of exceptions under s.33 Postal Services Act 2011⁹ to reduce the frequency of delivery days save in truly exceptional circumstances.

To ensure fair competition, we ask that Ofcom ensures that any of Royal Mail's new access point networks (e.g., Collect+) have the same obligations placed on them as Post Offices, e.g., mails integrity, security, product compliance, etc.

We also call on Ofcom to ensure that the current access point density requirements for outlets at which customers can send parcels are maintained.

In summary, Post Office believes that the greatest focus for Ofcom as part of the USO review should be on Royal Mail improving reliability, efficiency and productivity under the status quo.

⁷ [23-mktc-03596-2023_global_parcel_shipping_index_ebook-web.pdf \(pitneybowes.com\)](#)

⁸ [Greeting Card Association | Representing the Greeting Card Industry](#)

⁹ [Postal Services Act 2011 \(legislation.gov.uk\)](#)

3. Responses to Ofcom consultation questions

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?

Ofcom's primary legal duty is to ensure that the universal service meets the reasonable needs of consumers at affordable prices. In its Call for Inputs into the Future of the Universal Postal Service, Ofcom has identified the aims, supporting principles and features of the USO:

- The **aim** of the USO is to guarantee the provision of a quality postal service at affordable prices, which is accessible to everyone in the UK.
- This is supported by **three fundamental principles** of universality, affordability, and uniform pricing, ensuring that people are not disadvantaged due to geography, age, income, disability or vulnerability.
- The **features of the USO** support its aims and principles, requiring accessibility, reliability, timeliness and security of postal services so that every item of mail is delivered to a reasonable standard.

We agree that these aims, principles and features meet the needs of the many consumers and businesses that rely on the USO, especially those most reliant on postal services (i.e., users over 65); people with disabilities; people who do not transact online and small businesses¹⁰.

However, Post Office would propose that reliability should be more than a feature of the USO: it should be a principal aim of it. We build out our evidence supporting this position in our response to Question 2.

Although customer needs have changed since Ofcom began regulating the Postal sector, **Post Office agrees that these aims, principles and features of the USO remain relevant and should be maintained and respected going forward, subject to Post Office's recommendation to promote the importance of reliability.**

¹⁰ The future of the universal postal service (ofcom.org.uk) – clauses 5.3 and 5.8

Question 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?

Post Office does not agree with Ofcom's suggestions on reduced delivery frequency and increased pricing of essential services. Whilst Post Office agrees that consumer use and expectations of the universal postal service have changed over time, we are concerned that Ofcom may be overly relying on comparison data from the pandemic period when parcels and letter volumes trends were impacted by extraordinary conditions such as lockdown measures.

Universal pricing, reliability and frequency of service and affordability remain paramount for millions of consumers and small businesses, as well as the bulk mail customers who are reliant on deliveries through Royal Mail's USO network.

Although Ofcom appears to have concluded that most letters do not need to be delivered the next day, an important share of in-branch transactions are for First Class demonstrating that **customers continue to rely on affordable First Class post and a less frequent delivery service would not meet their needs**.

Excessive unchecked price increases would encourage further down-trading¹¹ by customers and e-substitution, adversely impacting overall USO product revenue and volumes.

Key supporting evidence for our position:

In February 2024, Post Office conducted two separate pieces of research by telephone and online to better understand the perceptions and needs of postal senders and recipients. We also conducted a survey with our Postmasters to gather their views on USO change. Further, we have reviewed Ofcom's own research findings. The key findings from these studies have informed our position.

1) Ipsos CATI interviews: Potential USO changes

Post Office conducted telephone research with a nationally representative sample of 1,011 adults aged 16+ in Great Britain through Ipsos. This was to understand levels of acceptability of the different options for USO change, as described by Ofcom in its Call for Inputs.¹² Telephone was used to ensure we reached a more representative sample, including respondents who are typically harder to reach and consumers that are not digitally enabled. Key findings from this research are as follows:

¹¹ [Residential Postal Tracker Annual Report \(ofcom.org.uk\)](https://www.ofcom.gov.uk/consult/condocs/uso/uso2402/uso2402.pdf), slide 14

¹² The survey was conducted by Ipsos in February 2024 on behalf of Post Office. They polled a representative sample of 1,011 adults aged 16+ in the Great Britain. This survey was carried out using its CATI Omnibus from 8th February 2024 – 14th February 2024. Data has been weighted to the known offline population proportions of adults in Great Britain for gender within age and working status as well as region, social grade and education.

1.1) Older consumers aged 65+ and Post Office customers are more likely than average to have sent letters in the past 12 months. Particular consideration should be given to these groups of customers around changes to the USO.

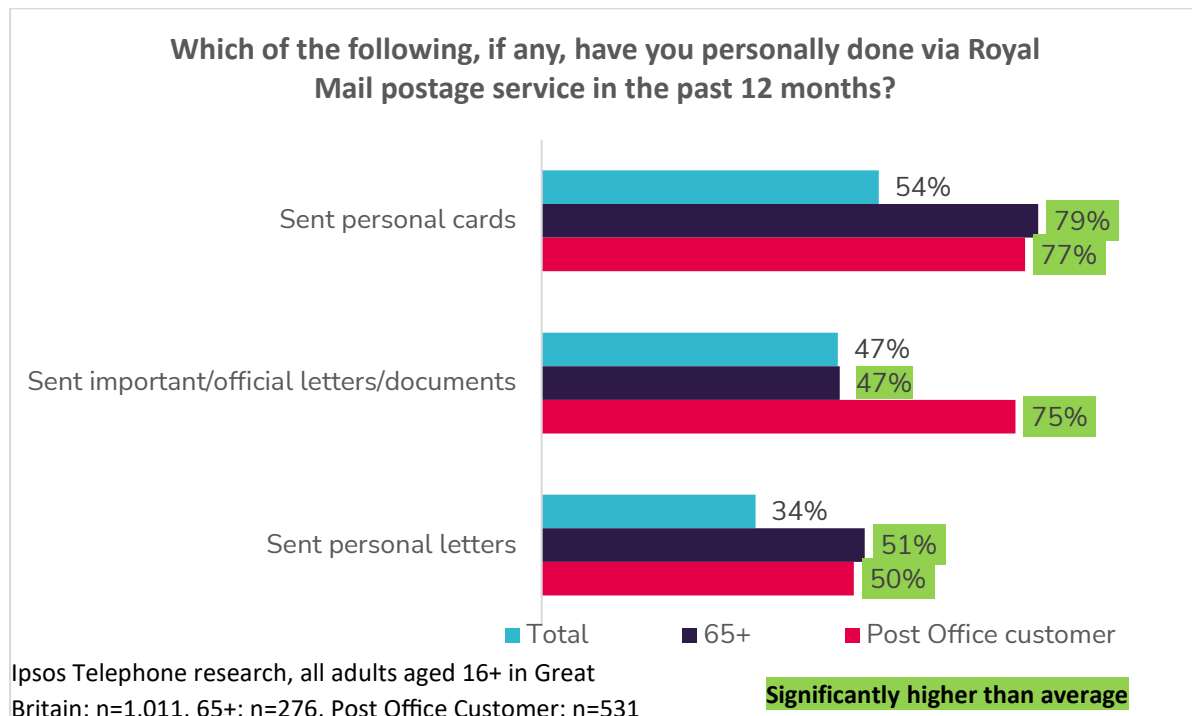


Figure 1: Contents of letters sent in the last year

1.2) Amongst those who have sent important/official letters/documents in the past 12 months, 67% reported using First Class for this (including Signed for) in the past 12 months - whereas 30% reported using Second Class and 37% Special Delivery.

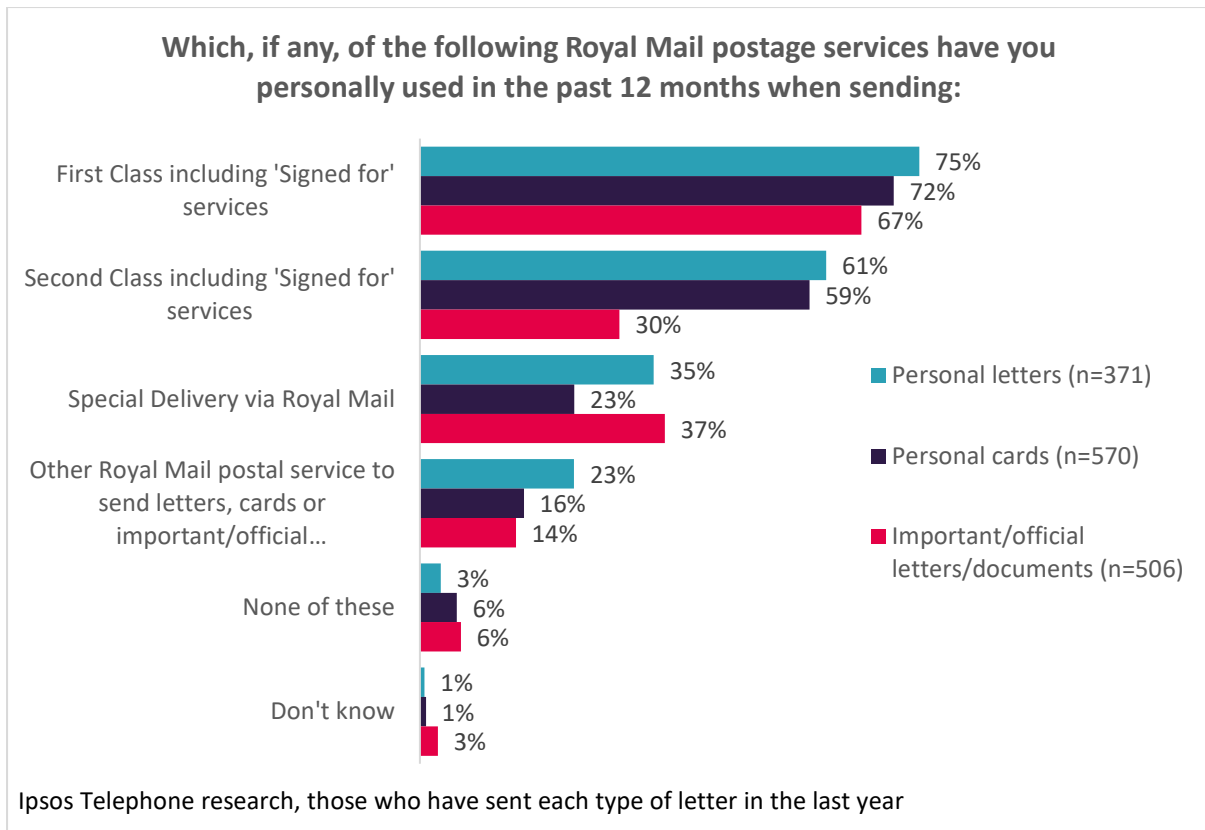


Figure 2: Speed of letters sent in the last year

First Class is a standard next day delivery requirement for letters and parcels. Next day delivery is a hygiene factor in the post and parcels industry and customers do not necessarily distinguish between letters and parcels when it comes to deliveries. As such, **Post Office believes that First Class should not be considered an urgent or premium service.**

1.3) When testing an array of proposed scenarios, they were met with varying degrees of acceptability. Overall, less frequent deliveries and significantly higher prices for a next day delivery service were reported as more unacceptable.

Letters arriving 3 out of 7 days a week is seen as unacceptable by almost two in three (62%¹³), followed by a next working day service that would cost around twice the current cost of First Class (60%¹⁴).

¹³ Amongst adults aged 16+ in Great Britain (n=1,011), 26% reported that all letters arriving on 3 out of 7 days a week is fairly unacceptable for them personally and 36% reported that it is completely unacceptable

¹⁴ Amongst adults aged 16+ in Great Britain (n=1,011), 25% reported that a next working day delivery service for letters that would cost around two times more than the current cost of First class to post is fairly unacceptable for them personally and 35% reported that it is completely unacceptable

Just under half would find it unacceptable if no letters arrived on a Saturday (45%¹⁵), and around four in ten would find it unacceptable if First and Second Class services were replaced by a single class service taking 2-3 working days to arrive (42%¹⁶).

Twice the proportion of respondents report that a slower Second Class service is unacceptable compared to the current service (24% for 3-5 days service¹⁷ vs. 12% for the current 2-3 working days aim¹⁸).

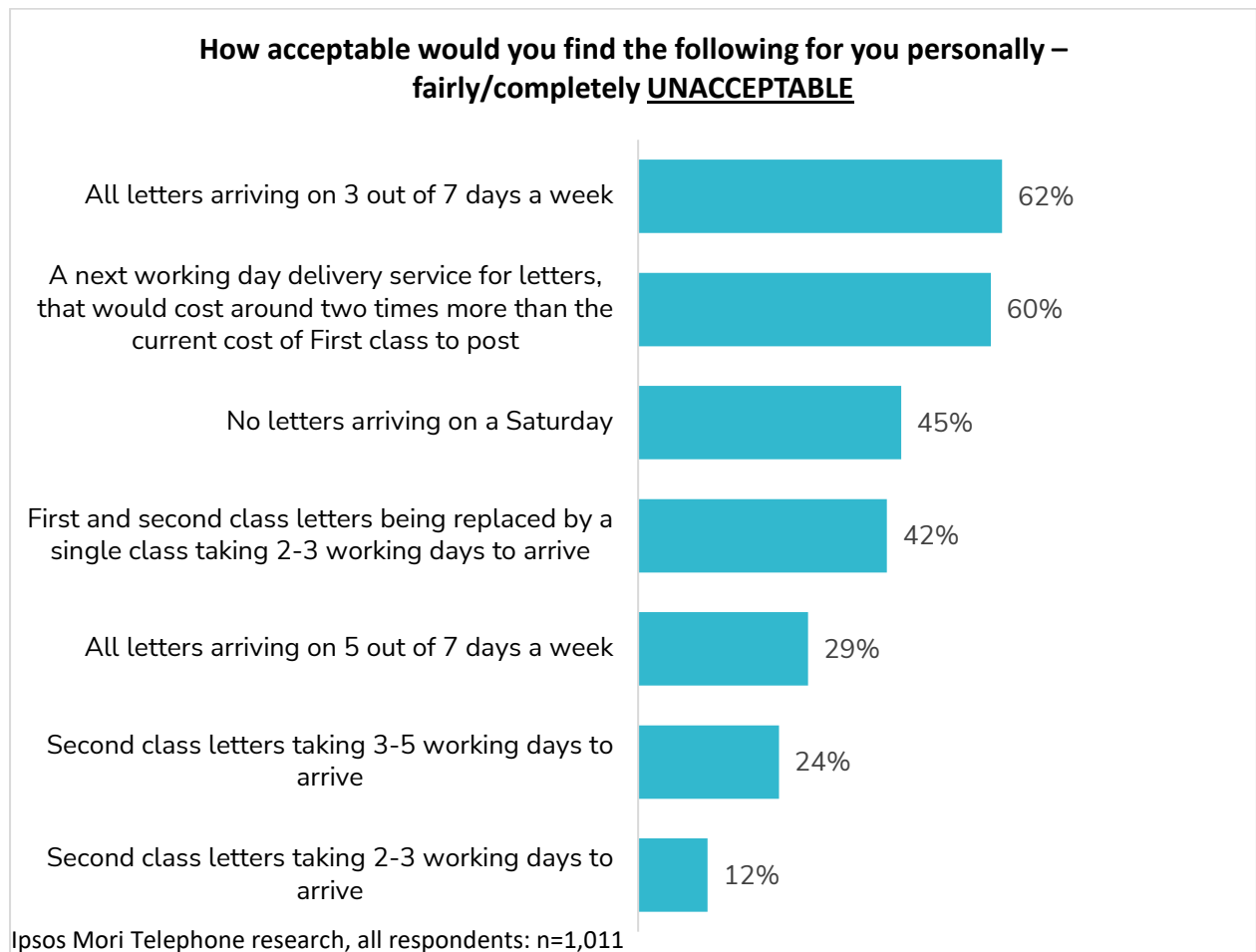


Figure 3: Levels of unacceptability of scenarios

¹⁵ Amongst adults aged 16+ in Great Britain (n=1,011), 22% reported that no letters arriving on a Saturday is fairly unacceptable for them personally and 22% reported that it is completely unacceptable

¹⁶ Amongst adults aged 16+ in Great Britain (n=1,011), 20% reported that First and second class letters being replaced by a single class taking 2-3 working days to arrive is fairly unacceptable for them personally and 22% reported that it is completely unacceptable

¹⁷ Amongst adults aged 16+ in Great Britain (n=1,011), 14% reported that second class letters taking 3-5 working days to arrive is fairly unacceptable for them personally and 10% reported that it is completely unacceptable

¹⁸ Amongst adults aged 16+ in Great Britain (n=1,011), 7% reported that second class letters taking 2-3 working days to arrive is fairly unacceptable for them personally and 5% reported that it is completely unacceptable

1.4) Respondents aged 65+, Post Office customers¹⁹ and those in rural or suburban locations were more likely to find changes impacting frequency of delivery or the price of next day service to be unacceptable for them personally.

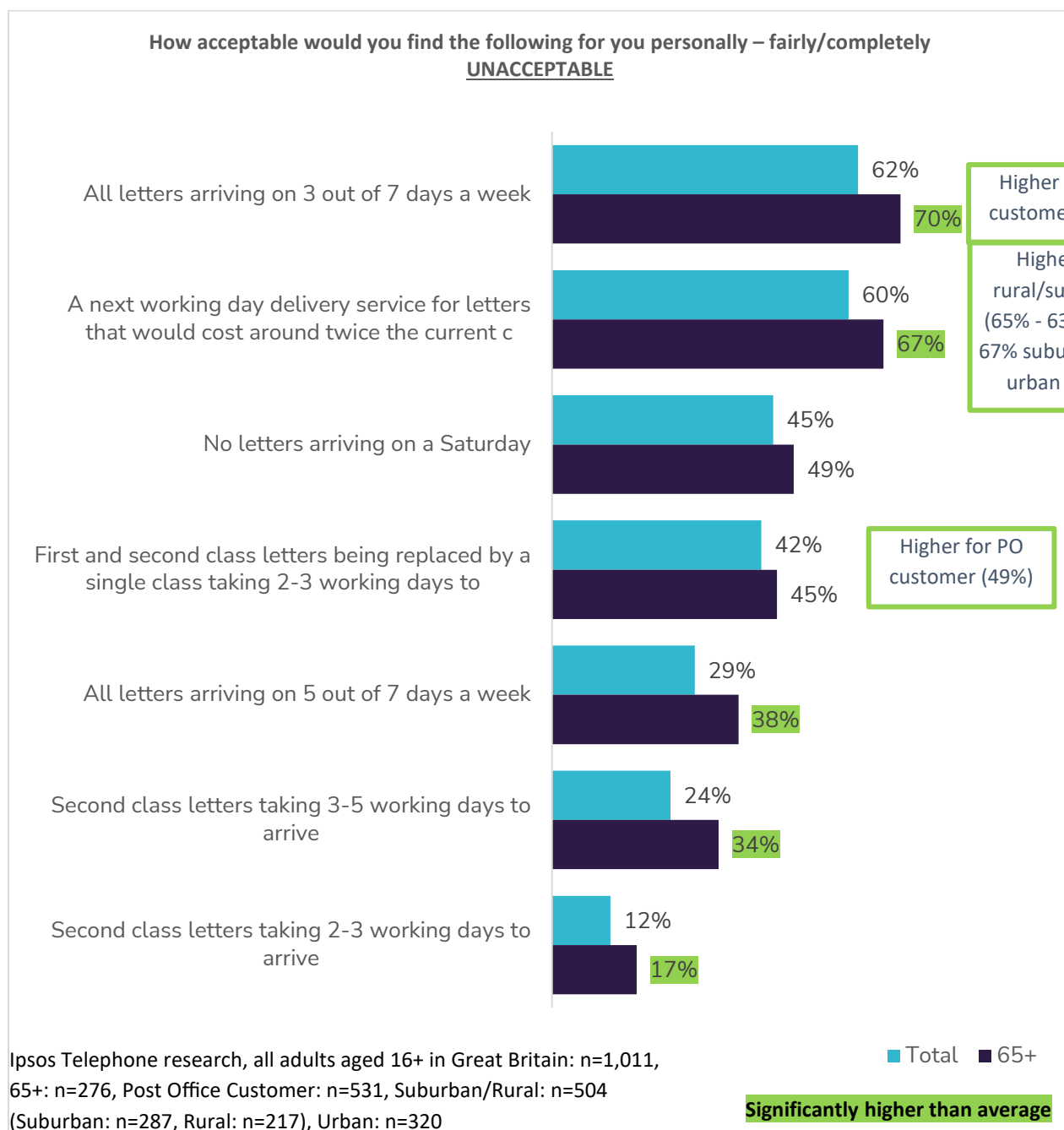


Figure 4: Levels of unacceptability of scenarios by customer type

1.5) If the cost of sending a letter by First Class was approximately twice the current cost of sending First Class, half (50%) of those surveyed said they would

¹⁹ Adults aged 16+ in Great Britain who physically went to a Post Office counter to send personal letters, cards or important/official letters/documents via Royal Mail in the past 12 months (n=531)

find an alternative method to sending a letter, and a third (33%) reported they would send the letter using Second Class.

Post Office believes such a move would clearly disadvantage those who are finding it difficult/very difficult on present income.

- i. Just 23% of respondents in this category report they would be likely to accept that the letter would cost more and still send it First Class vs. those that are living comfortably or coping (31%).
- ii. People over 65 report being less likely to find an alternative provider to send a letter compared to the overall sample (13% vs. 21% of all respondents).

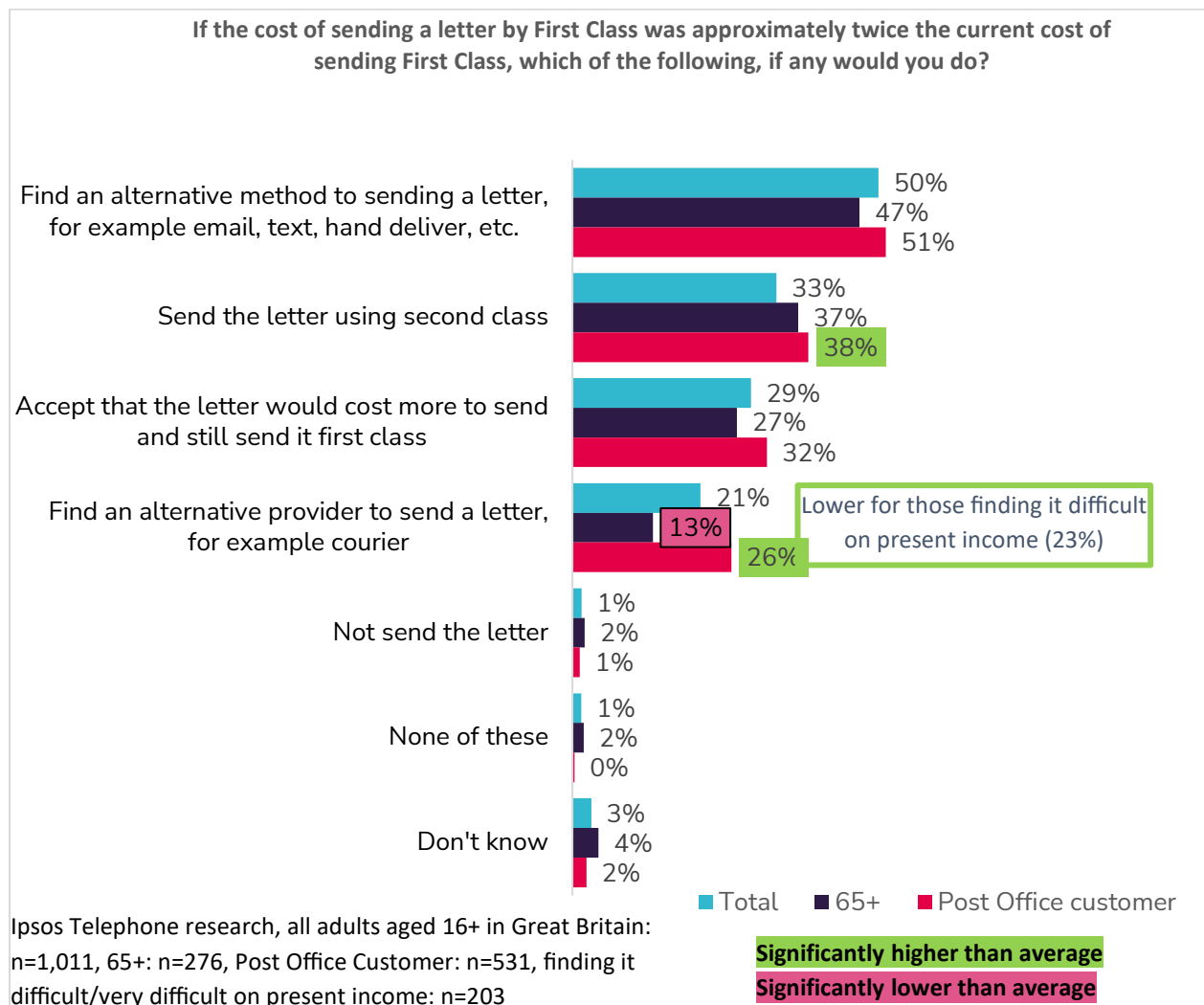


Figure 5: Actions in the event of First Class prices approximately doubling

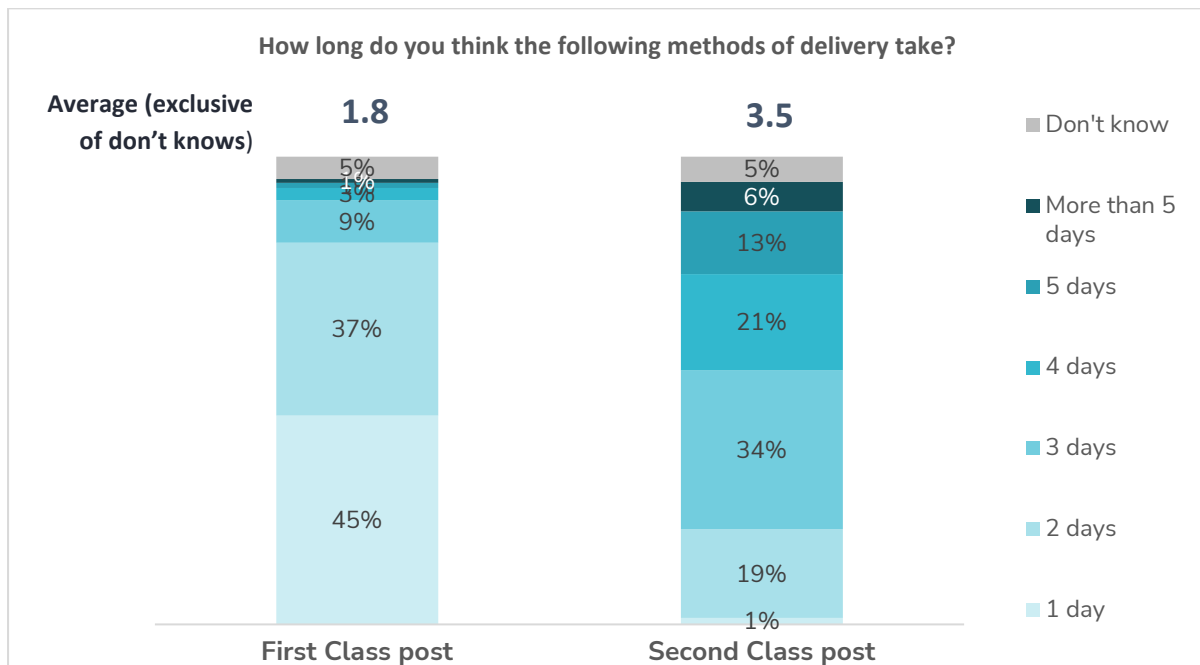
Post Office proposes that a **First Class price cap should also be introduced to the USO to safeguard affordability of a service that customers evidently need**. This would also mitigate the risk of pricing being used as a means of making the First Class service unattractive to customers.

2) USO Online Research via Dynata Consumer Panel – Senders

Separately, Post Office conducted USO online research with 2,001 nationally representative consumers through Dynata in February 2024. The purpose of this research was to understand the importance of different factors when sending and receiving letters, especially those with a disability, the over 65's and those who are struggling on their current income.

2.1) The research found that on average, the perception is that the First and Second Class services are not delivering on their delivery aims:

- i. First Class has a next day delivery aim for letters and parcels, but the perception is that Royal Mail takes 1.8 days to deliver.
- ii. Second Class has a delivery aim of two to three working days however the perception is that it takes 3.5 days to deliver.



Dynata Online Research, all respondents: n = 2,001

Figure 6: Perception of how long it takes to deliver First Class and Second Class post

Reliability of service needs to be a key regulatory consideration going forward, particularly given the strong customer demand for improved service²⁰. In 2022/23 Royal Mail complaint volumes increased to c.2m, compared with 1.6m the prior year.

Royal Mail's quality of service declined significantly during the Covid-19 pandemic in 2019/20, most notably on First and Second class letters, and it has not recovered to targeted levels since then. However, Royal Mail has continued to significantly increase prices²¹ on uncapped USO products and set prices on capped

²⁰ [royal-mail-annual-complaints-and-compensation-2022-23-v3.pdf \(internationaldistributionsservices.com\)](#)

²¹ [Royal Mail 2024 Stamp Prices - ChannelX](#)

products to the maximum permitted limit, while keeping price increases on competitive products to a minimum (and in some cases reducing these). The result is that customers are paying more for a worse letters service.

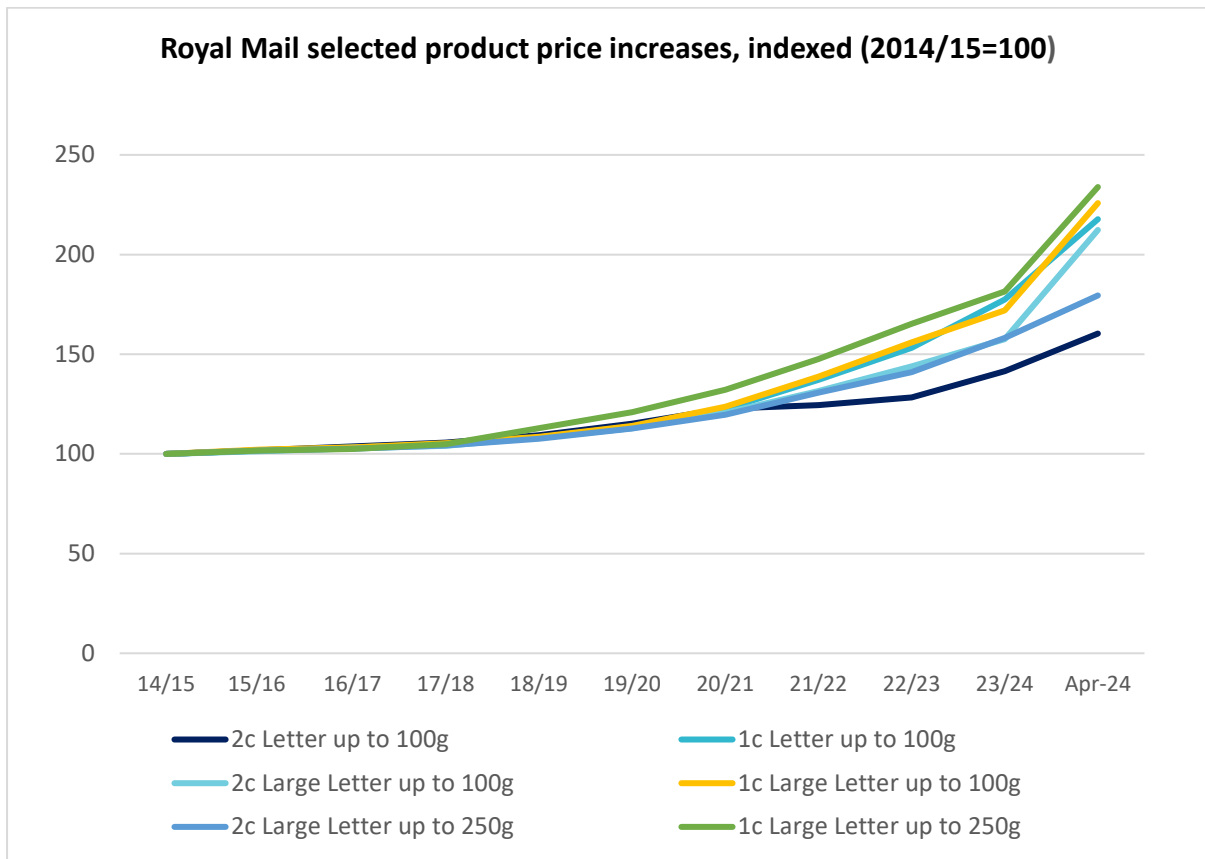


Figure 7: Royal Mail Price increases on 1c and 2c letters and large letters since 2014/15 (not adjusted for CPI)

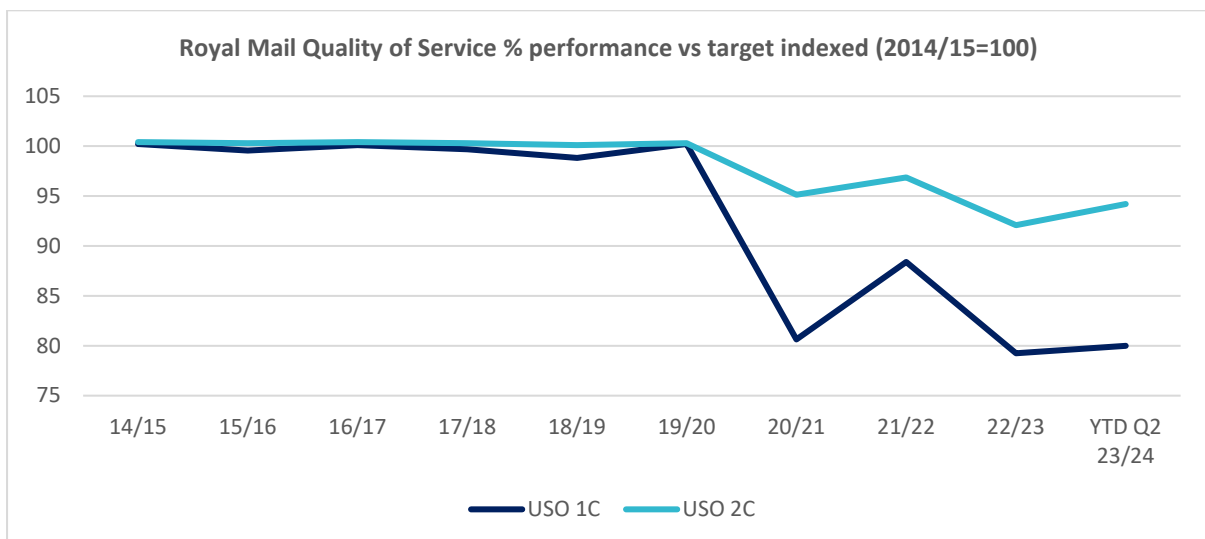


Figure 8: Royal Mail 1c and 2c FY Quality of Service performance²²

²² <https://www.internationaldistributionsservices.com/en/about-us/regulation/quality-of-service/>

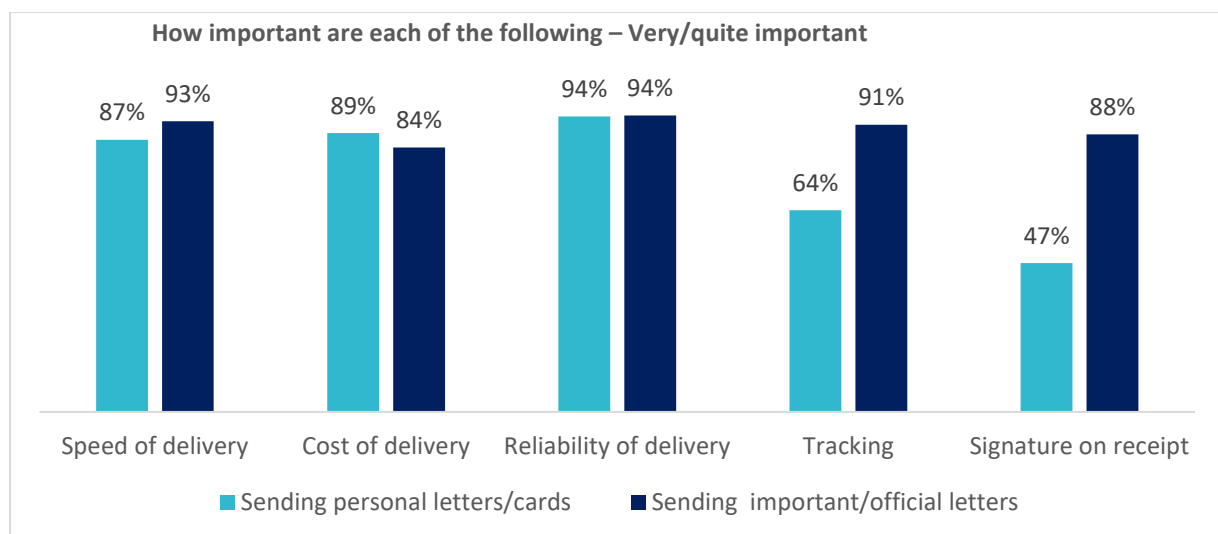
Where Royal Mail’s quality of service targets are not achieved, this impacts on the reputation of Postmasters and the thousands of small businesses that rely on them.

At present Ofcom’s fines for failing quality of service targets do not provide a sufficient incentive for Royal Mail to improve its quality of service performance. Where Royal Mail’s quality of service targets are not achieved, this impacts on the reputation of Postmasters and the thousands of small businesses that rely on them.

Ofcom should consider introducing economic incentives for Royal Mail to improve its service quality and compensate end users for service failures. For example: the introduction of a "Delay Repay" type scheme for items not received within a specified period but which have a proof of posting; and price increases only permitted when quality of service targets have been achieved.

2.2) *When sending letters, important/official documents require higher reassurance measures such as tracking and signature on delivery compared to personal letters and cards.*

Tracking is seen as the third highest requirement after reliability and speed of delivery for important/official documents. However, the importance of reliability, speed and cost of delivery are rated as very/quite important for all types of letters.



Dynata Online Research, all respondents: n = 2,001

Figure 9: Importance of criteria when sending different letter contents

2.3) *Drilling into "very important" data only, for vulnerable customers sending important/official documents, the importance of speed and tracking are more pronounced, particularly for those with a disability and the over 65's. Reliability is the key concern for those over 65.*

Sending important/official letters	Very Important - Total	Disability	65+	Finding it very difficult on present income
Speed of delivery	71%	74%	77%	70%
Cost of delivery	57%	60%	57%	62%
Reliability of delivery	84%	83%	92%	83%
Tracking	73%	78%	76%	75%
Signature on receipt	69%	77%	72%	72%

Dynata Online Research

Higher than Average

Significantly higher than average

Figure 10: Importance of criteria by customer type

Post Office continues to advocate that **USO services should be permitted to have tracking features**. Tracking is seen as a key requirement for all consumers - not just parcels customers - particularly when sending important documents and letters. Post Office maintains that technological advances, such as tracking, should be available to all customers throughout the UK as part of a basic, but modern, universal postal service.

3. Postmaster survey

Postmasters are uniquely placed to understand their customers' needs and they want to see the two current levels of service maintained (First and Second Class). The scenarios for possible change as outlined in Ofcom's Call for Inputs would have detrimental impacts beyond a decline in stamp sales:

In February 2024, we conducted a voluntary and confidential survey of our Postmasters (via a forms link in Post Office's weekly Postmaster newsletter) around the following two scenarios being explored by Ofcom [8]:

1. Making changes to the existing 1st Class, 2nd Class and business products, so that most letters / large letters are delivered through a slower service, taking between three and five days, with a premium next-day service still available for any urgent letters
2. Reducing the number of standard letter / large letter delivery days from the existing six-days-a-week obligation down to five or three days

Postmasters said that the suggested options around a standard slower delivery speed service and reduced delivery days would definitely result in people sending fewer letters and/or switching to digital channels.

- i. In the event of changes to First and Second Class products, 85% of Postmasters responding to our survey said the impact on their Post Office business would be "large" or "extremely large".

- ii. In the event of delivery day reductions, 75% of Postmasters responding to our survey said the impact on their Post Office business would be “large” or “extremely large”.

Postmasters also highlighted that Ofcom’s proposed changes as outlined in its Call for Inputs would have detrimental impacts beyond a decline in their Post Office business.

3.1) Risk of marginalisation

The above scenarios risk marginalising segments of the population most notably:

- i. The elderly
- ii. Customers in rural areas
- iii. Small businesses
- iv. Vulnerable customer groups

3.2) Impact on host retailer:

The retail footfall generated by the Post Office side of our Postmasters’ businesses also provide cross-sales opportunities that would be difficult to replicate in the event of either of the two scenarios outlined by Ofcom being implemented.

- i. In the event of changes to First and Second Class products, 65% of Postmasters responding to our survey said the impact on their non-Post Office retail business would be “large” or “extremely large”.
- ii. In the event of delivery day reductions, 64% of Postmasters responding to our survey said the impact on their non-Post Office retail business would be “large” or “extremely large”.

3.3) Post Office viability

Either increasing the time taken to deliver letters to 3-5 days or reducing the number of delivery days would have a detrimental impact on branches. Such moves would lead to a decline in the number of people visiting the Post Office side of the business, impacting their overall retail business indirectly and their Postmaster remuneration directly.

- i. [X]% of Postmasters who responded to the survey said their business is “extremely” or “quite” reliant on customers sending First and Second Class letter / large letter services to sustain trading.
- ii. [X]% think these proposed changes will result in people sending fewer letters and/or switching to digital channels where possible.
- iii. [X]
- iv. Additionally, we estimate that the scenarios set out by Ofcom would contribute to up to [X] Postmasters closing their Post Offices, potentially leaving areas without coverage and customers isolated and without access to postal services. The replacement cost of closed branches is estimated at

[§<], but in some instances, Post Office will not be able to replace the branches.

Together, these changes would impact Post Office's ability to meet the Access Criteria²³ as mandated by government. This includes in rural and remote areas where our competitors do not provide a service due to the high cost to serve these communities.

3.4) Postmaster reputation

Post Office customers do not typically differentiate between Post Office and Royal Mail. Any changes to the USO would require careful positioning and are unlikely to be well understood by customers.

A downgrading of service or excessive price increases can reflect badly on the retailer of those services.

Post Office would again **urge Ofcom to take a holistic approach** when reviewing USO services in the UK as changes to the distribution business will have significant knock-on impacts on the retail business.

4. Analysis of Ofcom's own research

Ofcom's research summary suggests there may be some customer openness to amending the USO for letters (downgrading / combining services, reducing delivery days and potentially significantly increasing prices), however, its research also shows a clear need for a service offering that is in line with the current provision.

4.1) A majority of people still find attributes of the current service offering to be important:

- i. Nine in 10 people say it's important that the price of sending is kept affordable (91%)
- ii. Almost nine in 10 (88%) say it's important to be confident that at least 90% of letters sent will be delivered on time
- iii. Seven in 10 (69%) say it's important a next day delivery service is available
- iv. Six in 10 (63%) say it's important that letters are delivered to home six days a week.

Even though Ofcom reports drops in importance for some attributes vs. 2019, it should be noted these are still relatively high and, for affordability and reliability, very high. Importantly, the timing of Ofcom's earlier research is likely to have been impacted by the truly exceptional Covid-19 pandemic conditions such as lockdowns, therefore we believe that comparisons should only be relied on with extreme caution.

²³ [SN02585.pdf \(parliament.uk\)](#)

4.2) The changes are likely to have a negative effect on the older population:

- i. Almost half of 65+ (46%) would feel cut off from society if they were not able to send/receive letters almost every day of the week
- ii. 88% of 65+ say it's important that letters are delivered Monday to Friday
- iii. Although there is an increase in over 65's expecting to use Royal Mail's competitors more in the future, this is still a relatively small proportion (65-74: 20% and 75+: 15%), demonstrating a lack of accessibility to other options for older customers.

These research findings go to the very heart of assessing if the fundamental principle of universality is being maintained as part of a modern universal postal service.

Question 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?

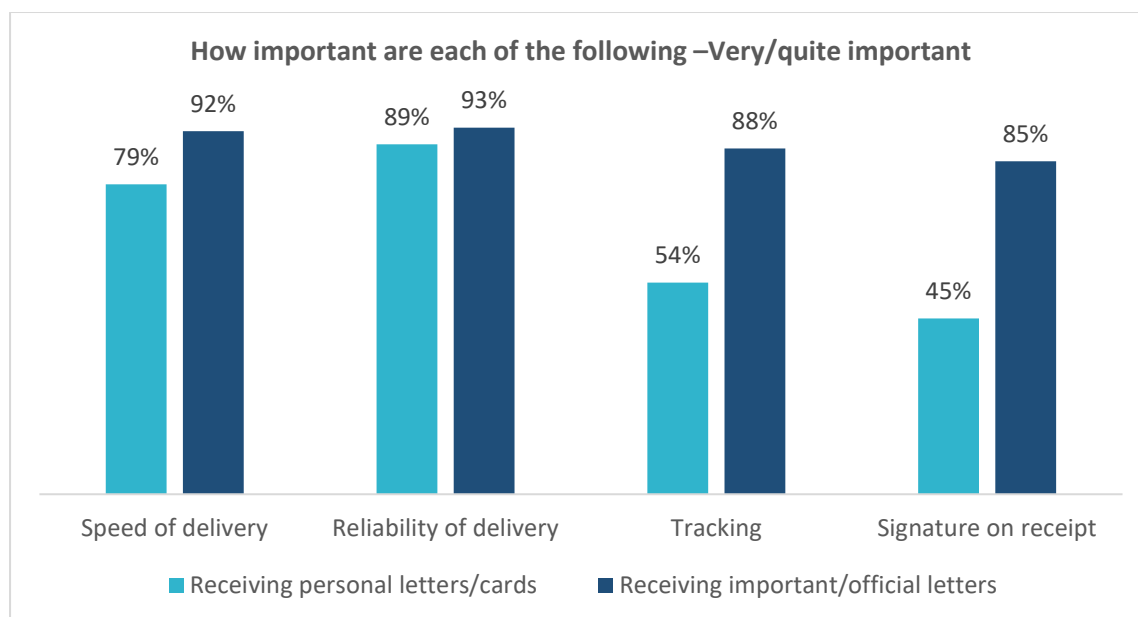
Bulk mail items represent the majority of Royal Mail letter volumes and make use of the USO network for final mile delivery. Post Office agrees that a healthy bulk mail market is essential to Royal Mail’s financial sustainability and to the sustainability of USO single item services which comprise 13.9% of volumes and 31.3% of revenues of Royal Mail’s Reported Business²⁴.

Post Office believes that the needs of recipients of bulk mail require attention e.g., the need for reliability for hospital appointments - as was highlighted in the recent BBC Panorama programme “Royal Mail, where’s my post?” - and other important documents such a monthly bills and bank statements

5) USO Online Research via Dynata Consumer Panel - Recipients

Post Office’s February 2024 online research also highlighted the importance of features for recipients of mail. While we looked at this through the lens of single piece items, we believe that these findings would apply equally to recipients of some types of bulk mail.

5.1) Reliability (93%) and speed of delivery (92%) are rated as the most important features when receiving both important/official letters and personal letters/cards.



Dynata Online Research

Figure 11: Importance of criteria by type of letter

5.2) Referring to the “very important” data only, when it comes to more vulnerable customers receiving important/official documents, again the importance of speed and reliability of delivery are more pronounced, particularly for the over 65’s.

²⁴ Royal Mail 2022/23 Regulatory Financial Statement

Receiving important/official letters	Total	Disability	65+	Finding it very difficult on present income
Speed of delivery	72%	75%	77%	73%
Reliability of delivery	79%	80%	89%	78%
Tracking	68%	71%	69%	71%
Signature on receipt	63%	66%	64%	68%

Dynata Online Research

Higher than Average

Significantly higher than average

Figure 12: Importance of criteria by customer type – receiving important/official letters

Question 4: Are there specific events/changes that could trigger a significant change in demand for large mail users, including public services?

In addition to the scenarios around five, three or alternate day deliveries, the three main triggers that could cause a significant a change in demand for bulk mail are:

1. Government policy encouraging people to transact online only (e.g., the Denmark model)
2. e-substitution continues for transactional mail moving to e-only communications
3. Medical letters have particular importance. If prices for First Class services were to rise, transit times were to be relaxed or delivery frequency were to be reduced, there is a risk that this would put additional pressure on bulk mailers sending medical communications to move to other media. As Post Office has highlighted previously, vulnerable customer groups are disproportionately unable to transact online, so any of these moves would potentially have an adverse impact on health outcomes. Post Office believes that this merits particular consideration given the fundamental principle of universality.

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

Ofcom has provided a very broad range of net costs associated with the USO, which it estimates at £325-675m a year, with this financial burden likely to increase in the future given the continued decline in letter volumes. Ofcom's estimates assume that the current specification of the universal service goes beyond what is needed by users, resulting in excess prices for consumers and an unfair burden on Royal Mail.

Post Office does not agree that the current specification of the USO is higher than required by customers. Our research demonstrates the opposite.

Before any changes are made, it would be essential to understand how savings might be made, e.g., through efficiencies, or how any of the proposed changes would reduce USO costs whilst also improving service quality.

Ofcom recognises that changes to the USO could result in Royal Mail losing some of the benefits of USP status, e.g., the VAT exemption on products that cease to be within the USO or any intangible benefits (such as diminution of brand value). Royal Mail would inevitably pass on the resulting price increases to customers, leading to accelerated e-substitution, losses to competitors and switching to lower cost products. The loss of these benefits would have a very detrimental impact on Post Office [X].

The effects of any negative financial impact on Post Office are not confined to Post Office and Postmasters. Where changes to the USO result in financial pressures and, in extremis, the very viability of a branch, this entails the potential loss of access to postal services in the communities those branches serve. Post Office is highlighting that, in some of the scenarios under consideration, this could be the case for [X] Post Office branches and **the communities they serve.** This goes to the core of the key feature of accessibility.

In assessing USO scenarios, we would again urge Ofcom to take a holistic view of the postal network. Any reduction in service will impact sustainability of the retail branch network and result in additional funding requirements from government.

Question 6: Do you agree with our considerations regarding the unfairness of the financial burden of the USO?

Post Office does not seek to offer a view on the extent of the financial burden or of its fairness or otherwise.

From Post Office's perspective, **the key concern is to ensure that Post Office and Postmasters have sufficient income to maintain a UK-wide network,** making postal (and other services) available to communities.

As outlined above, some of the scenarios under consideration could lead to the loss of [X] Post Office branches, not only depriving communities of access to public services but also removing the livelihoods of the Postmasters who run these branches.

Although not specifically addressed in the Call for Inputs, Post Office would continue to maintain that **there should be no change to the access point density requirements of the universal postal service.**

Question 7: Do you agree with our considerations regarding the impact of the financial burden of the USO?

A financially sustainable Royal Mail is in the interests of the many businesses and consumers that rely on its services. We urge Ofcom to take a long term view of the USO rather than reacting to a short term hole in Royal Mail's finances which has been driven by exceptional inflationary cost increases following a once-in-a-lifetime global pandemic (cost increases which all consumers and businesses are facing) and pay awards, in addition to the high fixed network costs associated with the USO.

Royal Mail's recent performance has also been compounded by 18 days of industrial action in 2022 and the International cyber-attack in 2023. These events profoundly impacted USO volumes in 2022/23, and Royal Mail reported volumes in that financial year should not be viewed by Ofcom as indicative of an accelerating decline trend. While the letters market is in structural decline, the UK volume decline rate has returned to the pre-pandemic trend of 6-8% annually and there remain some buoyant areas of letter markets such as greeting cards.

The highest priority should continue to be given to achieving affordability and reliability of the universal service. Ofcom needs to ensure that it does not attach too much weight to financial sustainability to the detriment of the fundamental principles and features of the USO.

As they stand, the scenarios would all worsen the outcome for consumers with no upside: higher prices; less frequent delivery and/or longer transit times and no added features (such as tracking). Post Office has particular concerns about reliability and how it does not feature sufficiently highly in the considerations about financial sustainability. This is the most important feature for customers (see Figure 10 above) and, for them, has a much lower priority than Royal Mail's profitability.

Post Office's view is that **Royal Mail needs to invest more in improving reliability (with customers receiving fair compensation where expected reliability targets are missed) and generating greater efficiency and productivity within its existing network.**

Question 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.

Post Office does not agree that Ofcom's proposed changes in delivery frequency and speed of services of the USO would meet the needs of customers. Our research very clearly indicates that certain groups would be particularly harmed by these changes.

- The effects on users over 65 and people with disabilities – as recipients of mail – are not considered sufficiently and more careful consideration of the effect of possible changes on them is necessary.
- Those who are least impacted are those who are financially well off so regulation should not focus on their needs.
- Island communities depend on postal services disproportionately and, again, their needs require special attention.
- There is a genuine risk of social isolation of the 65+ age group, both as senders but also, crucially, as recipients of mail.
- Our user research results demonstrate the clear need to keep a next day service, but it must be at an affordable price. As stated above, Ofcom should give serious consideration to imposing a price cap on First Class services to ensure affordability.
- Our research results show that reliability is the key issue for customers. Reliability should be incentivised more highly through compensation (rather than only fines which do not benefit users) to customers who can prove they have sent an item.

We serve thousands of vulnerable customers every day through our Post Office branch network and understand the role that these crucial services play for this group of people.

We support in principle a separate vulnerable customer stamp scheme, but it should be in addition to and not replace the Second Class price cap. We repeat our recommendation that price caps should be extended to cover First Class letters/large letters.

A vulnerable customer stamp scheme would require careful development in order to provide the service attributes that customers require. However, it is likely to present significant operational challenges especially if "proof" of vulnerability is required to access such a service.

Question 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?

In light of the survey data, none of the scenarios under consideration is appropriate. **Rather, the greatest focus should be on Royal Mail improving reliability, efficiency and productivity under the status quo.**

To reiterate, the reviewed USO should:

- Maintain the current transit time targets and strengthen quality of service economic incentives – add compensation for users who can prove they have sent an item but where targets are not met;
- Keep both First and Second Class services and extend an affordability Price Cap to First Class letters/large letters;
- Tracking is now a standard feature of parcels services so should not be prohibited from USO services – users find tracking more useful than signature;
- To avoid any dilution of the delivery frequency requirements of the USO without Parliamentary approval, Ofcom should consider publishing a policy ruling out the use of s.33 Postal Services Act 2011 exceptions to USO minimum requirements;
- Reduce the growing risk of the most reliant users, especially vulnerable customers, who buy services in branch (but not online) from effectively cross-subsidising others who are able to buy services online, by capping the price difference between online and in-branch prices for USO services.

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

Regrettably, none of the scenarios envisaged offers any upside to customers. The USO has to offer customers the types of services that meet their needs.

We have covered above the need: for price caps on both Second and First Class services; to bolster reliability requirements (including through compensation and linking price increases to achieving reliability targets); to maintain a six day delivery service throughout the UK; to permit (but not require) USO services to have a tracking feature; and to prevent excessive differences between online and in-person prices.

At this stage and given the short response time to the Call for Inputs, we offer no other views on how best to meet users' needs.

Above all, the USO has to offer customers a reliable service and this should be at the core of the future regime.