
2022 Review of Postal Regulation

Statement

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Annex

Please note that the following annexes have been published separately.

- A1. Glossary and defined terms
- A2. Overview of the relevant legal framework
- A3. Marked up version - Guidance for parcel operators on consumer complaints handling procedures
- A4. Final Guidance for parcel operators on consumer complaints handling procedures
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- A6. Decision on access regulation: supporting evidence and further detail
- A7. BVA BDRC, Additional Analysis for Parcels Review C2X Research 2021

1. Overview

- 1.1 This document sets out Ofcom’s decisions on the regulation of postal services from 2022 to 2027. Our decisions aim to improve protection for consumers, support the financial sustainability and efficiency of the universal postal service and promote competition in the postal market.
- 1.2 Postal services play a key role in our society. They are used by almost everyone in the UK on a regular basis, from online shopping deliveries, to receiving important medical correspondence, to sending cards to friends and relatives.
- 1.3 Postal users’ needs and the postal markets that serve them are changing. The number of letters sent by consumers and businesses continues to fall, but parcel volumes are growing. The Covid-19 pandemic accelerated these trends and highlighted the importance of postal services for residential customers and businesses across the UK. Postal operators are continuing to evolve. For parcels services, competition has increased, especially for fulfilling online shopping orders. This is spurring innovation in response to consumers’ changing needs. Royal Mail, like other operators, is evolving its business, while also maintaining the provision of the universal postal service.
- 1.4 The regulation of post is underpinned by the universal postal service, which requires the delivery of letters six days a week and parcels five days a week to every address in the UK at uniform and affordable prices. Beyond this, we maintain a regulatory framework which seeks to achieve Ofcom’s legal duties.¹ Following our call for inputs in March 2021 and consultation in December 2021, we now set out our decisions on the regulatory framework that will apply for the next five years (from 2022 to 2027).

Our decisions – in brief

Having considered responses to our consultation, we have made the following decisions on the regulatory framework for post:

Maintain the current overall framework, including price caps on basic universal services and quality of service standards. We will continue to cap the prices of a basic set of universal postal services to ensure postal users have access to affordable services. We have also decided that the quality of service standards applicable to universal service products remain appropriate.²

Introduce new targeted consumer protections, requiring parcel operators to have policies and procedures for the fair and appropriate treatment of disabled consumers, and issue new guidance on complaints handling. Disabled consumers are more likely to experience delivery problems and to suffer harm as a result. Our new requirement on operators will empower disabled consumers to organise deliveries in a way that better suits their needs. We also found poor performance in

¹ See Chapter 2.

² Ofcom opened an investigation on 31 May 2022 into Royal Mail’s performance against its USO targets in 2021/22.

complaints handling, so we are introducing new guidance to provide greater clarity on how we expect parcel operators to comply with their current obligations.

Continue to ensure that Royal Mail has commercial flexibility so that it can meet the challenges of providing a financially sustainable universal service. We recognise that there is market uncertainty ahead and risks remain. In this context, it is particularly important that Royal Mail delivers on efficiency improvements and modernises its operations which are the main drivers of a financially sustainable and efficient universal service.

Ensure we have a greater understanding of the financial sustainability of the universal service, strengthening our ability to identify and respond to sustainability concerns effectively. We are requiring Royal Mail to provide us with a view of the financial sustainability of the universal service over a longer period than currently required. This will strengthen our ability to identify financial sustainability issues and inform us further about the nature and extent of any risks.

Require Royal Mail to provide and publish a five-year view of its efficiency expectations and report against actual performance. Royal Mail is best placed to identify and address efficiency gaps within its business. We are requiring Royal Mail to publish certain efficiency expectations for the period 2023-28 and to annually publish an update on its progress. This will help stakeholders better understand Royal Mail's efficiency performance, and the impact on financial sustainability.

Provide a stable regulatory framework, to support investment by all postal operators and ensure Royal Mail competes on a level playing field. Overall, we think the parcels market is generally working well for consumers, and competition in postal markets is driving benefits to users. We have decided to retain all the current access regulatory safeguards. We have also decided not to extend access regulation into the parcels market, and not to require tracking in the USO, as we consider that doing so could be damaging to competition.

- 1.5 The overview section in this document is a simplified high-level summary only. The decisions we have taken and our reasoning are set out in the full document.

Next steps

- 1.6 As we are broadly maintaining the existing regulatory framework, the majority of our existing regulations will continue to operate. Later in Q2 2022/23 we will publish a consultation on regulatory reporting which will propose new reporting requirements based on the decisions within this statement.
- 1.7 Our guidance on customer complaints handling will come into effect from 1 April 2023 and our new protection for disabled consumers from 1 November 2023. During the implementation period, we plan to engage with parcel operators to understand their plans and will report on progress in our future Annual Monitoring Updates (AMUs) on the postal market.
- 1.8 Our review of the safeguard caps will begin this autumn and we expect to publish a consultation in Q1 2023/24.

2. The postal services market and our regulatory framework

The postal market has undergone significant change in recent years as consumer demand shifts from letters to parcels. Our regulatory framework underpins the postal market, and so it is important that our approach to regulation remains relevant, effective, and fit for purpose.

We want to ensure that postal users continue to have access to affordable and reliable postal services that meet their evolving needs; to do this we support a financially sustainable and efficient universal postal service and allow effective competition to grow in postal services for the benefit of consumers.

Taking account of the evolving postal market, as well as responses to our consultation, we have found that broadly the current framework is working well, allowing the postal market to meet the needs of its users. Consequently, we have decided that a root-and-branch review of the framework is not necessary, and so will continue the current approach. Our decisions made in this review to modify the framework seek to strengthen the existing framework, targeting additional regulatory intervention only where we have direct concerns over consumer harm and to allow us to discharge our duties more effectively in relation to the financial sustainability of the universal postal service.

Introduction

- 2.1 Postal services play a key role in our society. The ability to send and receive letters and parcels is important both socially and economically. Postal services are particularly important to consumers who might be more vulnerable, such as those who are more geographically or digitally isolated from their friends and family. Postal services also provide us with the ability to interact with Government and other organisations, to access a range of services, and to receive goods directly to our homes.
- 2.2 The universal postal service, provided by Royal Mail, continues to play a key role for senders and receivers of mail items. It ensures that letters and parcels are delivered to around 30 million business and household addresses in the UK, at uniform prices, regardless of destination. Consumers and businesses continue to greatly value its frequency, affordability, pricing uniformity and reliability.
- 2.3 Our regulatory framework underpins the postal market, and so it is important that our overall approach to regulation remains relevant, effective and fit for purpose.
- 2.4 In this chapter, we:
 - a) briefly summarise the applicable legal framework for the regulation of post;
 - b) explain market developments in the postal market and the changing consumer needs that may impact on the postal market in the next five years;

- c) discuss the responses to our consultation from stakeholders on our overall assessment of the postal market and broad regulatory approach; and
- d) explain our decisions on the overall regulatory framework, taking account of consultation responses, our legal duties and the wider market context.

The relevant legal framework

Ofcom's statutory duties in relation to postal services

- 2.5 We briefly set out below Ofcom's main statutory duties relating to postal services, as contained in the Postal Services Act 2011 (PSA 2011) and the Communications Act 2003 (CA 2003). The legal framework relevant to our review is set out in more detail in Annex 2.³
- 2.6 Section 29(1) of the PSA 2011 requires Ofcom to carry out its postal functions in a way that it considers will secure the provision of a universal postal service.
- 2.7 In performing that duty, Ofcom is required by section 29(3) of the PSA 2011 to have regard to the need for a universal postal service to be:
- a) financially sustainable; and
 - b) efficient before the end of a reasonable period (and for its provision to continue to be efficient at all subsequent times).
- 2.8 Ofcom's principal duty under the CA 2003⁴ is to further the interests of citizens and consumers, where appropriate by promoting competition. This duty, together with our general duties under the 2003 Act, also applies when we carry out our functions in relation to post.
- 2.9 In performing our general duties, we are also required, under section 3(4) of the CA 2003, to have regard to a range of other considerations, which appear to us to be relevant in the circumstances, including:
- a) the desirability of promoting competition in relevant markets;
 - c) the desirability of encouraging investment and innovation in relevant markets;
 - d) the needs of persons with disabilities, of the elderly and of those on low incomes;
 - e) the different interests of persons in the different parts of the United Kingdom, of the different ethnic communities within the United Kingdom and of persons living in rural and in urban areas; and

³ Annex 2 contains a description of the services that must as a minimum be included in a universal postal service (as set out in section 31 of the PSA 2011). This includes minimum requirements on delivery and collection of letters (Monday to Saturday) and other postal packets, for example parcels, (Monday to Friday), a service of conveying postal packets at affordable prices with a uniform tariff throughout the UK, provision of registered and insured services, and free of charge services (such as services to blind or partially sighted persons). Exceptions to the minimum requirements and Ofcom's role in reviewing these minimum requirements are set out in sections 33 and 34 of the PSA 2011 (see Annex 2 for a more detailed description).

⁴ Section 3(6A) of the [Communications Act 2003](#).

- f) the extent to which, in the circumstances of the case, the furthering or securing of the matters mentioned in section 3(1) is reasonably practicable.
- 2.10 Section 3(5) of the CA 2003 provides that, in performing its duty to further the interests of consumers, Ofcom must have regard, in particular, to the interests of those consumers in respect of choice, price, quality of service and value for money.
- 2.11 When carrying out any of our functions relating to postal services, if we were to consider that any of our general duties conflict with our duty under section 29 of the PSA 2011 to secure provision of a universal postal service, priority must be given to the latter.
- 2.12 Additionally, pursuant to section 3(3) of the CA 2003, in performing its general duties, Ofcom must have regard, in all cases, to the principles under which regulatory activities should be transparent, accountable, proportionate, consistent, and targeted only at cases in which action is needed, and any other principles appearing to us to represent the best regulatory practice. Ofcom has published a set of general regulatory principles on its website.⁵
- 2.13 Finally, we have an on-going duty under section 6 of the CA 2003 to keep the carrying out of our functions under review with a view to ensuring that regulation by Ofcom does not involve the imposition of burdens which are unnecessary or the maintenance of burdens which have become unnecessary.

The universal postal service

- 2.14 The universal postal service, which we refer more frequently to as the 'USO'⁶, is made up of three main building blocks: the minimum requirements, the universal postal service order (Universal Service Order⁷) and the designated universal service provider conditions (the DUSP conditions⁸).
- 2.15 The minimum requirements, set out by Parliament in section 31 of the PSA 2011, describe the services that must, as a minimum, be included in a universal postal service (subject to the exceptions set out in section 33). The Universal Service Order, made by Ofcom under section 30 of the PSA 2011, describes a set of services that should be provided in the UK as part of the universal postal service. It also sets out the standards with which those services need to comply. The Universal Service Order sets out the scope of the universal postal service but does not itself impose any obligation on any operator to provide services. The obligations Royal Mail must comply with, as the designated universal service provider, are contained in the DUSP Conditions, imposed by Ofcom pursuant to section 36 of the PSA 2011.

⁵ See [Policies and guidelines - Ofcom](#).

⁶ In this document, we use "universal service", "USO" and "USO services" interchangeably to refer to the universal postal service. We make clear in the text where we are referring to specific elements of the universal postal service or of the regulatory framework.

⁷ See [Information for the Postal Industry – Ofcom](#).

⁸ See [Information for the Postal Industry – Conditions – Ofcom](#).

The existing regulatory framework

- 2.16 Our postal framework⁹ requires Royal Mail to provide a number of essential postal services on the basis of uniform pricing throughout the UK. This includes First and Second Class letters and parcel services, as well as special delivery by next day services. This ensures that consumers, including those living in harder to reach areas, and who might not otherwise be well served by the wider market, have access to the postal services that they need.
- 2.17 While we prescribe the services that must be provided as part of the universal postal service, our overall regulatory framework allows Royal Mail commercial flexibility when providing them, both on its pricing and operationally. This ensures that Royal Mail can make its own commercial decisions based on the challenges it faces, thereby supporting the provision of a financially sustainable and efficient universal postal service.
- 2.18 This framework is supported by a number of safeguards. These include:
- a) an active monitoring regime to understand the changing needs of users, the changing market dynamics and the financial sustainability and efficiency of the universal service, and any risks to these;
 - b) a safeguard cap on Second Class letters and parcels up to 2kg to ensure basic universal services are affordable; and
 - c) quality of service standards on certain universal service products, including delivery targets on first and Second Class mail.
- 1.19 We want to support competition in the postal market as this helps ensure good consumer outcomes. We therefore promote competition by imposing minimal intervention in increasingly competitive areas of the postal market, for example in relation to parcel services. We also require Royal Mail to provide access to its network for the provision of certain bulk letter and large letter services and impose a number of safeguards to protect postal operators reliant on this access.
- 1.20 Consistent with Ofcom's general regulatory principles¹⁰, our approach to regulation is to only intervene in the postal market when necessary, for example, when there is an evident user need which is not being met by the market, or consumer harm more generally. While we operate with a bias against intervention, we are prepared to intervene promptly and effectively where required.

⁹ See [Conditions imposed on postal operators – Ofcom](#). The obligations Royal Mail must comply with, as the designated universal service provider, are set out in three DUSP Conditions imposed by Ofcom. In addition to the DUSP Conditions, Ofcom also has the power to impose several other regulatory conditions, on the designated universal provider and on other postal operators. To date, the regulatory conditions imposed by Ofcom include the universal service provider access condition (under section 38 of the PSA 2011), the universal service accounting condition (under section 39 of the PSA 2011), the essential condition (under section 49 of the PSA 2011), and the consumer protection conditions (under section 51 of the PSA 2011).

¹⁰Ofcom: [Policies and guidelines](#).

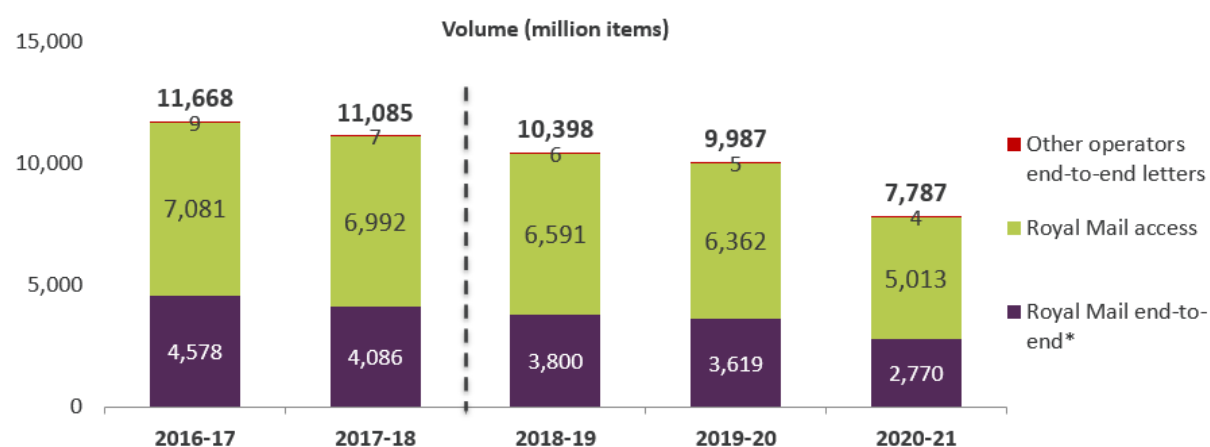
Market developments and changing user needs

1.21 There have been significant developments in the postal market since we first set the regulatory framework in 2012. These have included an intensification in the level of competition and innovation in parcel services, as well as ongoing decline in letter volumes. As set out in our annual monitoring updates on postal services since then, these trends have continued, and operators have adapted in response. Growth in parcel volumes and the decline in letters were amplified by the Covid-19 pandemic. However, recent indications suggest that the pace of change may be returning to reflect more closely pre-pandemic levels. We discuss these developments in more detail below.

Letter volumes declining

1.22 As we noted in our December 2021 consultation ('December consultation'), letter volumes have continued to decline since our last review of the postal market in 2017. As shown in Figure 2.1 below, in 2016/17, the total volume of addressed letters (which includes both USO and bulk letters) was 11.7bn but, at the end of the 2020/21 period, this stood at 7.8bn, a 33% decline. Revenues declined by less (approximately 20%), reflecting letter price increases.¹¹

Figure 2.1: Addressed letter volumes, millions¹²



Source: Ofcom / operator data

Notes: Access volumes include small volumes of access parcels. It is not possible to make direct comparisons between pre- and post-2018-19 based on the data in the chart due to a change in Royal Mail methodology (made in 2020). The effect of the change in methodology was to increase reported Royal Mail end-to-end letters volumes.¹⁷

¹¹ Total addressed letter revenues declined from approximately £4.5bn in 2016/17 to £3.6bn in 2020/21. This includes Royal Mail end-to-end and access revenues, access operator revenues, and other end-to-end operator revenues. Source: Ofcom/operator data.

¹² Data for 2021/22 is not yet available and will be published in the Annual Monitoring Update on Postal Services in Q3 2022/23.

**Royal Mail end-to-end is an Ofcom calculation and refers to Royal Mail total letters, excluding access. Figures exclude international.*

- 2.19 We note that a significant proportion of this overall decline occurred in 2020/21, reflecting the major impact the Covid-19 pandemic had on mail volumes, and in particular the reduction in business demand for letters driven by lockdown restrictions.¹³ Royal Mail has reported that addressed letter volumes in 2021/22 recovered somewhat with an increase of 3% year-on-year, however this remains down 18% compared to pre-pandemic levels.¹⁴
- 2.20 We expect the general downward trend to continue during this review period, as letter users continue to migrate to alternative online forms of communication.¹⁵ However, we consider that Government and regulatory requirements for certain types of paper correspondence as well as difficulty in moving some customers online means that letters will continue to be important. Therefore, our expectation is that letters (including bulk letters) will remain a core postal service for the period of this review despite the longer-term trend uncertainties.
- 2.21 Further analysis of the letters market can be found in Chapter 5.

Parcel volumes growing¹⁶

- 2.22 In 2016/17, parcel volumes stood at 2.1bn in the UK (including all domestic and inbound/outbound international items and deliveries of online purchases). As illustrated in Figure 2.2 below, parcel volumes increased throughout the previous review period. 2020/21 saw a sharp increase in volume growth (largely due to the Covid-19 pandemic, as lockdown restrictions forced consumers and businesses to rely on postal services to deliver goods¹⁷), with volumes increasing by 48% year on year to reach 4.2bn¹⁸. UK parcel market revenues stood at £14.0bn in 2020/21, with measured domestic parcel revenues accounting for £9.4bn.

¹³ Further analysis on the impact of Covid-19 pandemic during 2020 can be found in the 2021 Annual Monitoring Update. Ofcom, 2021. [Annual Monitoring Update on Postal Services. Financial Year 2020-21.](#)

¹⁴ Royal Mail, [FY 2022 results presentation](#) [accessed 07/07/22].

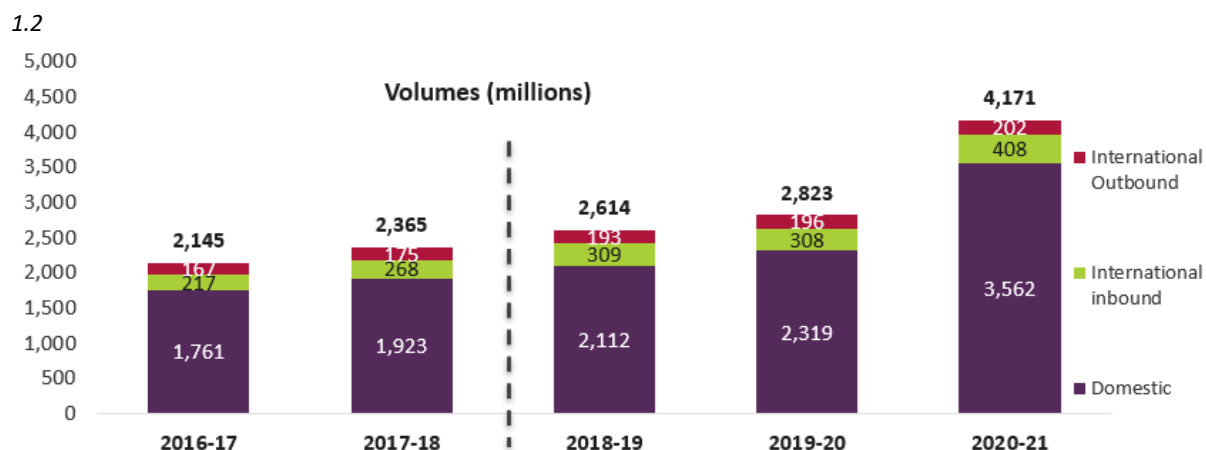
¹⁵ [§<.] The most significant decreases are expected in [§<] Forecasted letters volumes based on Royal Mail's business plan and financial results.

¹⁶ For the purposes of the data presented in this section, we have defined a parcel as an addressed postal item that is delivered end-to-end and: (a) is not a letter or a large letter (see footnote 16); (b) weighs no more than 31.5kg; and (c) can be lifted by a single average individual without mechanical aids. Parcel services form part of a broad set of delivery services used by residential and business consumers in the UK, such as two-person and pallets delivery (for large and heavy items) and more generally the logistics services that are used for business supply chains. In contrast to parcel services, these other services do not involve postal items.

¹⁷ Ofcom, 2021. [Annual Monitoring Update on Postal Services. Financial Year 2020-21.](#)

¹⁸ Letters can be up to 24cm long, 16.5cm wide and up to and including 0.5cm thick, with a maximum weight of 100g. Large letters can be up to 35.3cm long, 25cm wide and up to and including 2.5cm thick, with a maximum weight of 750g.

Figure 2.2: Total measured parcel volumes, millions^{19 20}



Source: Ofcom / operator data

- 2.23 Indications show that the leap in domestic parcel volumes may have corrected somewhat in 2021/22, as a result of the easing of Covid-19 restrictions and associated decline in e-commerce activity. In the first quarter of 2022, UK internet sales were 27% lower than the previous year²¹ (although this is still 41% higher than pre-pandemic levels).²²
- 2.24 International parcel imports and exports may have also declined, largely as a result of Brexit related customs requirements and the imposition of cross border parcel tariffs. In 2021/22, Royal Mail experienced a 42% year-on-year decline in international parcel volumes²³.
- 2.25 We expect the overall UK parcel market to grow during this review period, driven by continued growth in the Business to Consumer (B2C) segment and an eventual return to normal pre-covid growth rates. However, the short-term outlook is uncertain. An increasingly challenging consumer environment and inflationary pressures may constrain parcel growth rates in the short-term and potentially beyond.
- 2.26 Further analysis of the parcels market can be found in Chapter 6.

¹⁹ Differences in the data mean that it is not possible to make direct comparisons between data from 2018-19 onwards and that for previous years; data for 2016-17 and 2017-18 data is from restatements in official statistics publications; in 2019-20 several operators reported systems changes that altered the basis of its 2019-20 data: where this was the case, earlier data has not been restated. Data from Royal Mail included in the total market figure was provided on a 53-week basis for 2018-19 and a 52-week basis for other years; from 2019-20 Royal Mail moved to a new methodology for the allocation of revenues and volumes for stamped letters and parcels. Royal Mail stated that the impact of this change in methodology on its publicly reported 2018-19 revenues was to move £154m of Royal Mail's published revenues from parcels to letters on a 52-week basis, equating to a decrease of 36m parcels. The 2018-19 industry totals presented here have not been adjusted for the change in Royal Mail's methodology from 2019-20 onwards. For further information on the change to Royal Mail's external reporting please see: <https://www.royalmailgroup.com/media/10704/royal-mail-changes-in-external-reporting.pdf>. Our estimate of market-wide parcel volumes is based on a definition that differs from Royal Mail's definition of parcels (which includes RM 24/48 large letters, some fulfilment letters and large letters), and our data is therefore not directly comparable to Royal Mail's parcel volumes; figures shown to nearest million.

²⁰ Data for 2021/22 is not yet available and will be published in the Annual Monitoring Update on Postal Services in Q3 2022/23.

²¹ Office for National Statistics, [Retail Sales Index internet sales](#) [accessed 07/07/22].

²² Comparing CY22Q1 with CY20Q1.

²³ Royal Mail, [FY 2022 results presentation](#) [accessed 07/07/22].

Changing user needs

- 2.27 In November 2020, we undertook a comprehensive review of the needs of postal users²⁴ (RUN) across the UK, to determine if the requirements placed on Royal Mail reflect what people and businesses need today. It considered whether the current minimum requirements of the universal service, such as delivery of letters six days a week and parcels five days a week, still reflect what people and businesses need today.²⁵
- 2.28 There was strong support from users for core features of the universal service. However, our research also found that users' needs are changing. Consistent with our findings on parcel and letter volumes above, we found a marked reduction in use of and reliance on letters for both residential and small and medium-sized enterprise (SME) users. We also found a large increase in the use of parcels, and an increased willingness to consider and use alternatives to Royal Mail, especially by SMEs.
- 2.29 Royal Mail and other postal operators have adapted to changing consumer needs and demands over the past few years. This is particularly evident in relation to parcels where, reflecting the increase in demand and competition, operators have invested and innovated their services and improved customer experiences. For example:
- a) Consumer 'pick up/ drop off' (PUDOs) locations have increased. These allow consumers to collect and send parcels from collection points, such as convenience stores or train stations.²⁶ Some operators now also offer home parcel collection services, where operators will collect parcels from homes and businesses to deliver elsewhere. Some consumers find these options more convenient.
 - b) Services such as parcel delivery tracking, which allow customers to track the parcel through the operator's network, and Next Day Delivery have become more prevalent as some consumers have higher expectations of the online shopping experience.
 - c) There have also been innovations in service offerings, which some consumers value. For example, SafePlace Photos, which provides the consumer and retailer with photographic evidence of place of delivery; Geofencing, which provides a location of a delivery within a map, within a specified radius; nominated delivery windows; and inflight diversion options.
 - d) Royal Mail and Amazon have trialed drone delivery for remote locations.²⁷

²⁴ Ofcom, 2020 [Review of Postal Users' Needs](#).

²⁵ These requirements were not within the scope of this review of postal regulation, as they are set out in the Postal Service Act 2011 and can only be altered by Government and Parliament. It would be for the Government to determine whether any changes are needed to the minimum requirements and to bring any proposals before Parliament.

²⁶ Collect+ operates a network of 10,000 stores and since May 2020 has expanded to process parcels on behalf of a range of parcel operators including Yodel, DPD, FedEx and Amazon. Hermes operates a network of 5,000 ParcelShops including 900 lockers which are accessible 24/7. Collect+, May 2020. [About Collect+](#). Hermes, 2020. [ParcelShops](#) [accessed 07/07/22].

²⁷ Royal Mail: [Drones – connecting remote communities across the UK](#) [accessed 07/07/22]; Amazon: [Amazon Prime Air prepares for drone deliveries](#) [accessed 07/07/22].

- e) Parcel operators have increased investment in network expansion and redesign (for example, through increased parcel hub capacity), to improve capacity and/or service.²⁸
- 2.30 The parcels market and innovations are discussed in further detail in Chapter 6.
- 2.31 The postal industry continues to invest and innovate. Royal Mail is planning and rolling out operational initiatives and improvements to meet changing consumer needs. For example, automated parcel hubs, dedicated parcel routes and a reduction in the number of letter sorting machines.²⁹ Other parcel operators equally are investing in their networks and infrastructure including Evri (formally Hermes),³⁰ DPD³¹ and DHL³².

Post Office agreements with Royal Mail, DPD and Amazon

- 2.32 In 2020, negotiations between Royal Mail and Post Office concluded that their long-term mail distribution agreement (signed in 2012) would come to an end in March 2021. This ended the exclusive agreement Royal Mail had with Post Office and provided Post Office with flexibility to distribute mail for other postal operators. In December 2020, it was decided that the agreement would be replaced by a new commercial agreement, which Royal Mail stated, “provides greater flexibility for both parties to adapt to the changing ways that customers are buying and sending postal products, and to continue to innovate to provide convenience for customers.”³³
- 2.33 Post Office has since entered into agreements with DPD (August 2021)³⁴ and a trial with Amazon (September 2021)³⁵ to provide click and collect parcel services. Further changes are likely as Royal Mail and Post Office adopt new ways of working given this increased flexibility.

European USO providers respond to changing user needs

- 2.34 The trend of increasing parcel and decreasing letter volumes is not unique to the UK. Similar trends have occurred in other developed economies. From 2016 to 2020, total letter mail across European Regulators Group for Postal Services (ERGP) countries declined by 7.1% per annum whereas total parcels increased by 11% per annum across ERGP countries during the same period.³⁶

²⁸ [Hermes’s response to our March CFI](#), p 2.

²⁹ [Royal Mail’s response to 2021 Review of postal regulation; March CFI](#), p 23-26.

³⁰ [All you need to know about Hermes’ Barnsley hub](#) [accessed 07/07/2022].

³¹ [DPD UK gears up for record Peak with new £150m super hub](#) [accessed 07/07/2022].

³² [DHL Parcel UK continues electric van roll-out across the country](#) [accessed 07/07/2022].

³³ Royal Mail, 17 December 2020. [Post Office and Royal Mail reach Commercial Agreement](#) [accessed 07/07/2022].

³⁴ Post Office, [Innovating in Mails](#) [accessed 07/07/2022]

³⁵ The Times, 13 September 2021. [Post Office to handle packages for Amazon](#) [accessed 07/07/2022]

³⁶ European Commission 2021. ERGP PL II (21) 25 [Report on core postal indicators 2020 for monitoring the European Postal Market](#) [accessed 07/07/2022].

- 2.35 In response to these trends, some countries have made changes to the scope of their universal services to adapt to changing consumer needs, such as changing letter delivery frequency.³⁷
- 2.36 Some European USO providers have also responded by reconfiguring their networks and operations to accommodate parcel delivery and improve efficiencies to offset falling revenue from declining letter volumes. Such changes have included:
- a) investing in improved machine reading and sorting technologies, through barcoding, digital address reading and automation;
 - b) centralisation of letter sorting centres to share resources and decentralisation of parcel sorting centres to meet customer service demands; and
 - c) increasing delivery flexibility by combining or separating parcel and letter delivery rounds, or varying times depending on daily volumes.³⁸

The regulatory framework for postal services for the next five years

- 2.37 In the remainder of this section, we provide a summary of our consultation proposals on the overall regulatory framework for postal services. We consider stakeholder responses on our consultation position that the current regulatory framework is generally working well for consumers and that a root-and-branch review of the framework is not required at this stage. We then set out our decisions below.

Our proposals

- 2.38 We explained in our consultation that the key outcomes and aims of our regulation are to:
- a) Ensure postal users have access to simple, affordable and reliable postal services that meet their needs;
 - b) Support a financially sustainable and efficient universal postal service; and
 - c) Support effective competition in postal services for the benefit of consumers.
- 2.39 We noted that the existing regulatory framework has worked well in achieving the objectives set out above. This was despite the significant market changes and developments in recent years.
- 2.40 In particular, the universal postal service continues to provide users with the services they need.³⁹ Our RUN in 2020 found that most users were satisfied with the postal services they receive. Under the existing framework, Royal Mail has sustained the provision of the

³⁷ Our review of postal users' needs set out our assessment of whether the minimum requirements of the universal postal service – including delivery frequency – reflect the reasonable needs of users. It would be for the UK Government to determine whether any changes are needed to the minimum requirements and to bring any proposals before Parliament. We consider potential changes to other elements of the universal service later in this document (e.g., in relation to tracking on parcels).

³⁸ WIK-Consult, 2019. International Benchmark: Postal Operations and Efficiency [not published].

³⁹ However, the review also found that user needs are changing, and we will want Royal Mail and other postal operators to be able to respond appropriately to these needs during the upcoming review period.

universal postal service and has made some progress on modernising its business for the digital age.

- 2.41 The existing framework has allowed Royal Mail and other operators to respond to the significant market changes that have occurred over the review period, but in particular during the last two years. For example, Royal Mail and other postal operators were able to respond to the considerable demand for parcel services as a result of the UK Covid-19 restrictions, taking a pragmatic approach to limit social contact between employees and customers, following the rules or guidance of the Government applicable at that time.
- 2.42 Given that we considered that our framework had worked well to date, and mindful of the challenges that are likely to face the postal sector in the future, we considered whether any aspects of the current framework should change rather than undertaking a more root-and-branch redesign of the framework. The outcome of that exercise was that we proposed largely to maintain the current regulatory framework over the next review period.
- 2.43 We proposed that we should maintain this regulatory framework for the next five years (2022 to 2027).

Consultation responses

- 2.44 We received a number of responses to our consultation, from a range of stakeholders including from postal operators, consumer bodies, elected representatives, businesses and individual consumers. Non-confidential versions of all stakeholders' responses are available on Ofcom's website.⁴⁰
- 2.45 When commenting on the overall framework for postal services, stakeholders' responses tended to be grouped under the following themes and we have therefore reflected this in our summary of responses (and decisions) below:
- a) Assessment of the wider postal markets;
 - b) The overall framework;
 - c) Protections for postal users;
 - d) Supporting competition;
 - e) Supporting provision of the USO;
 - f) Consideration of environmental sustainability;
 - g) Consideration of the Northern Ireland Protocol; and
 - h) The next review period.

Assessment of the wider postal markets

- 2.46 Respondents generally agreed with our overall assessment. However, some respondents emphasised that although parcel delivery has become increasingly important to

⁴⁰ Ofcom, 2021, [Consultation: Review of postal regulation](#).

consumers⁴¹, letters continue to be a critical part of the postal market⁴² and will remain so going forward.

- 2.47 Some respondents suggested that we should seek to take a more forward-looking view of the market and consider how consumer demands will change going forward.^{43 44}

The overall framework

- 2.48 We received broad agreement on the proposed overall framework from stakeholders, and no stakeholders suggested that we should be conducting a more root-and-branch redesign of the entire framework.
- 2.49 There were some respondents, however, who considered that our proposals did not go far enough to protect consumers, competition and/or the provision of the universal service, and we summarise these in turn below.

Protections for postal users

- 2.50 Citizens Advice⁴⁵ thought that we should be more proactive in preventing consumer harm and that we should focus on consumer outcomes above the financial sustainability of the universal service and promotion of competition. Citizens Advice Scotland⁴⁶ (CAS) and Consumer Council for Northern Ireland⁴⁷ (CCNI) also suggested that Ofcom should consider how postal regulation should reflect consumer principles.
- 2.51 Citizens Advice and CCNI said that we should monitor consumer outcomes of regulation and intervene when necessary to address consumer harm, particularly when competition is not effective.
- 2.52 There were also comments from some respondents that rural consumers (including those living in Scotland and Northern Ireland) do not benefit to the same extent from competition in the postal market as urban consumers. It was argued that these consumers therefore are more reliant on the USO⁴⁸ or face less choice⁴⁹, a slower service or additional charges for some parcel deliveries⁵⁰. Advisory Committee for Scotland (ACS) argued that the regulatory approach should consider that some consumers may face isolation from other communication technologies and therefore rely more on postal services.⁵¹

⁴¹ Consumer Scotland response to December 2021 consultation, p2.

⁴² Citizens Advice response to December 2021 consultation, p5, Consumer Scotland response to December 2021 consultation, p3.

⁴³ RM response to December 2021 consultation, p 64-65, 69.

⁴⁴ eBay, Etsy response to December 2021 consultation, p5-6.

⁴⁵ Citizens Advice response to December 2021 consultation, p5.

⁴⁶ CAS response to December 2021 consultation, p3, 12.

⁴⁷ CCNI response to December 2021 consultation, p10.

⁴⁸ CCP ACOD response to December 2021 consultation, p5.

⁴⁹ Rural Services Network also pointed out that rural consumers have less of a choice for parcel delivery companies, p4.

⁵⁰ CAS response to December 2021 consultation, p2, Consumer Scotland response to December 2021 consultation, p2-3.

⁵¹ ACS response to December 2021 consultation, p2.

- 2.53 The ACS and UK Mail⁵² pointed to Royal Mail's recent poor quality of service. UK Mail stated it was disappointed that Ofcom was not proposing to make more changes to address quality of service concerns and increased price changes and ACS said that providing Royal Mail with commercial flexibility should not come at the expense of high quality of service.
- 2.54 Some respondents also commented on the affordability of post. CCNI⁵³ stated that in its research 42% of respondents said that post is unaffordable while CAS⁵⁴ said that its research shows that some Scottish consumers still struggle to afford postal services. CAS also stated that affordability is a key concern for the next regulatory period, due to increasing costs of the USO, inflation and the impact of Covid-19. It called on Ofcom to review affordability alongside the safeguard cap review. Citizens Advice⁵⁵ said that Ofcom should undertake further research on postal costs in relation to household disposable income and take action to protect consumers that are having affordability issues in relation to postal services. The Advisory Committee for Northern Ireland (ACNI)⁵⁶ pointed out that affordability could be more pertinent in Northern Ireland as disposable incomes are lower on average than the rest of the UK.
- 2.55 In terms of vulnerable consumers CAS⁵⁷ called for Ofcom to require a vulnerability strategy for postal services, including a vulnerability register similar to Ofcom's vulnerability strategy for telecoms users. CCNI⁵⁸ stated that postal services market should seek to understand and respond to the access requirements of consumers who require additional support to use the services.

Supporting competition

- 2.56 Mail Competition Forum (MCF)⁵⁹ suggested that we should intervene further in the letters market, and we had failed to promote competition in the final mile mail delivery portion of Royal Mail's network. Mail Users Association (MUA) said that the existing regime does not enable appropriate competition in the access market. Whistl⁶⁰, in its response, said that Ofcom should focus effort on supporting competition in the access market in particular, for the benefit of consumers.
- 2.57 In the parcels market DX⁶¹ stated that competition incentivises operators to provide a good service and solve enquiries as they arise.

⁵² UK Mail response to December 2021 consultation, p1.

⁵³ CCNI response to December 2021 consultation, p10.

⁵⁴ CAS response to December 2021 consultation, p2, 5-6.

⁵⁵ Citizens Advice response to December 2021 consultation, p13, 73.

⁵⁶ ACNI response to December 2021 consultation, p1.

⁵⁷ CAS response to December 2021 consultation, p16-17.

⁵⁸ CCNI response to December 2021 consultation, p10.

⁵⁹ MCF response to December 2021 consultation, p1.

⁶⁰ Whistl response to December 2021 consultation, p2.

⁶¹ DX response to December 2021 consultation, p2-4.

Supporting provision of the USO

- 2.58 Royal Mail⁶² requested we reconsider our overall approach in relation to “USO flexibility”, believing that the USO must be allowed to adapt to life in the 21st century. It stated that regulatory change can ensure the universal service stays relevant for future generations. Some other respondents supported this idea, with CWU arguing we should go further in our approach to enable the growth, evolution and diversification of the USO.
- 2.59 Evri⁶³ welcomed our proposal to not require tracking in the USO as this would protect competition in that market. In order to ensure that the USO remains up to date, Royal Mail⁶⁴ said that we should include tracking in USO services and that this was unlikely to significantly impact competition in the parcels market. CAS⁶⁵ recognised that tracking in the USO would have an impact on competition in the wider postal market; but noted that competition was currently not delivering for consumers in the Highlands and Islands.
- 2.60 There was support from some stakeholders to continue to allow Royal Mail commercial and operational flexibility to adapt to the changing market⁶⁶. Pitney Bowes⁶⁷ said it “supports Ofcom’s proposed approach to broadly maintaining the current regulatory framework allowing Royal Mail the commercial flexibility to sustain the USO.”

Consideration of environmental sustainability

- 2.61 Several respondents commented on environmental sustainability and the postal market. Royal Mail⁶⁸ suggested that Ofcom should support the decarbonisation of the postal industry in the short term by collecting and publishing data from postal operators to help consumers choose the most sustainable delivery options. It also suggested that Ofcom should explore how best to integrate environmental performance into the regulatory framework.
- 2.62 CWU⁶⁹ stated that Ofcom should take a lead in proactively addressing environmental issues within the postal sector and explore ways of encouraging investment in low carbon initiatives. The National Association of Local Councils⁷⁰ was concerned that the decarbonisation of transport could have significant impact on the sustainability of postal services beyond the five-year focus of our review, especially for parcels in rural areas.

⁶² Royal Mail response to December 2021 consultation, p2.

⁶³ Evri response to our December 2021 consultation, p5-6.

⁶⁴ Royal Mail response to our 2021 December consultation, p 5, 14-18.

⁶⁵ CAS response to our December 2021 consultation, p25-26.

⁶⁶ Pitney Bowes response to our December 2021 consultation, p2; RSN response to our December 2021 consultation, p2; Citizens Advice Scotland response to our December 2021 consultation, p3; Amazon response to our December 2021 consultation, p3; ACNI response to our December 2021 consultation, p 2-3.

⁶⁷ Pitney Bowes response to our December 2021 consultation, p2.

⁶⁸ Royal Mail response to our December 2021 consultation, p4, 11, 72-73.

⁶⁹ CWU response to our December 2021 consultation, p15.

⁷⁰ NSLC response to our December 2021 consultation, p2-3.

- 2.63 Some respondents also referenced environmental sustainability as a reason for regulatory intervention to ensure the widespread availability and interoperability in alternate delivery options, such as PUDOs.⁷¹ We address responses on PUDOs in Chapter 6 of this statement.

Consideration of the Northern Ireland Protocol

- 2.64 ACNI⁷² felt that consumers and small businesses in Northern Ireland had been adversely impacted as a result of arrangements for exiting the European Union. These included additional charges for delivery in some cases and a restriction of choice for Northern Ireland consumers. It recognised Ofcom’s limited powers in this area but asked that we continue to use our convening and advisory role to ensure issues are well understood.
- 2.65 CCNI stated that Ofcom must continue to engage with the UK Government, postal operators and consumer groups to advise on and understand the implications of the EU Exit and NI Protocol for the postal market. It also said it was essential for Ofcom to monitor, understand and assess any potential impact on postal services in Northern Ireland.

The next review period

- 2.66 On the five-year review period, ACS⁷³ and the Welsh Government⁷⁴ said that Ofcom should intervene before 2027 if it appeared that Royal Mail was not able to meet its efficiency and sustainability metrics.

Our assessment

Assessment of the wider postal markets

- 2.67 We welcome the responses received from stakeholders on our assessment of the wider postal market. We have taken into consideration the views expressed and recognise the challenges ahead. We agree that letters will continue to play an important role over the next five years and our decisions reflect this view.
- 2.68 In terms of anticipating changing postal user needs and taking a more forward-looking view of the market, we believe we have given due consideration to the alternative future trends⁷⁵. Our regulatory framework acknowledges the broad trajectory of the postal market trends and how we anticipate the market may evolve over the next five years. Equally, our framework allows for some uncertainty. It allows postal operators to adapt to the changing postal markets and, in particular, continues to provide Royal Mail with

⁷¹ Citizens Advice, Apex Insight and Royal Mail (UK consumer parcels: Assessment of tracking in the Universal Service) all made reference to environmental factors on PUDOs.

⁷² ACNI response to December 2021 consultation, p1, 4-5.

⁷³ ACS response to December 2021 consultation, p4.

⁷⁴ Welsh Government response to December 2021 consultation, p1-2.

⁷⁵ The chapters that follow contain, where relevant, a detailed analysis of the relevant sections of the postal market, including forward-looking analysis.

commercial flexibility to support the provision of a financially sustainable and efficient USO.

The overall framework

2.69 We welcome the broad agreement on the overall framework by most stakeholders. We have responded to stakeholders' comments on the detail of our proposals within the remaining chapters of this document. Below we set out our responses to comments made on the overall approach and outcomes we aim to achieve.

Protections for postal users

- 2.70 We agree with comments from stakeholders on promoting and focusing on consumer outcomes. Our aim when seeking to ensure the financial sustainability of the USO and promote competition in postal markets is with the objective of providing good outcomes for postal users in mind. Consumers will benefit from an efficient and financially sustainable universal service and effective competition in the wider postal markets.
- 2.71 The universal service remains important for consumers and businesses across the UK. Our decisions to retain or enhance important safeguards, including retaining the safeguard caps and the current quality of service standards, aim to ensure that users will continue to have access to simple, reliable, affordable and uniformly priced services, meeting their reasonable needs.
- 2.72 In response to Citizens Advice and CCNI's call for us to monitor consumer outcomes and a vulnerability strategy or register, it is our intention to continue our strategy to monitor consumer needs and outcomes and produce our AMU on Postal Services yearly. The current framework, with its emphasis on monitoring, tracks consumer preferences and needs. We track and publish research annually on residential use of, and attitudes on, post as well as business post volumes, post products and services used and attitudes to post⁷⁶. This monitoring remains important, and we will continue to gather the necessary information and data to understand the postal markets and how they are evolving for consumers.⁷⁷
- 2.73 In addition, we plan to increase some aspects of our consumer monitoring and, where appropriate, reporting. We intend to monitor the performance of parcel operators during the next review period to ensure compliance with our new consumer protection rules.⁷⁸ As is the case now, we will make decisions on any further interventions during the review period and at the start of the next review period in light of this monitoring.
- 2.74 We are also enhancing our monitoring in relation to the financial sustainability of the USO, recognising the importance of the universal service to consumers and the need for the universal service to be financially sustainable and efficient. We are satisfied that the

⁷⁶ [Statistical Release Calendar](#) – Ofcom.

⁷⁷ Chapter 5 contains further details on current provisions placed on Royal Mail to ensure that the USO is accessible to vulnerable consumers.

⁷⁸ Chapter 6 contains further details on our approach to protecting disabled consumers in the parcels market.

package of changes to the monitoring regime will allow us to be better informed when making regulatory decisions and/or advising Government on the statutory framework applicable to post.

- 2.75 Regarding vulnerable users, we have directly addressed the concerns raised for the different groups through this review process.⁷⁹ Our decisions on protections for disabled parcel users will provide additional protections for these consumers, while we also plan to review the Second Class safeguard caps later this year and Royal Mail's refreshed Concession Redirection addresses our affordability concerns for financially vulnerable customers. See Chapter 5 and 6 for our assessments and decisions relating to these matters.
- 2.76 With regards to comments from stakeholders about rural postal users, we recognise that there are some geographic variations in the prices and/or services available for commercial parcel services, and this is an important issue for many customers in Northern Ireland and Scotland. However, the vast majority of parcels are B2C which are supplied commercially (with retailers determining the charge to consumers), and there are many reasons as to why geographic variations could occur. We will continue to engage with relevant stakeholders on this topic and monitor how well the market is delivering for this group of users.
- 2.77 While our review has found that our current quality of service regulations continue to be appropriate, we note the frustrations expressed by some stakeholders in relation to quality of service issues over the last two years. Royal Mail's quality of service in delivering USO letters and parcels was severely impacted by the pandemic. Royal Mail failed to achieve its regulatory targets in the last two years only achieving 74.7% in 2020/21 and 81.8% in 2021/22 against a target of 93% for next day delivery of first-class mail.
- 2.78 Throughout this period, we have closely scrutinised Royal Mail's performance and engaged with its senior management to understand the mitigating actions they were taking to expedite the return of service levels to the regulatory standards. On 31st May 2022 we announced the opening of an investigation into its 2021/22 performance.⁸⁰ As part of this process, we expect Royal Mail will provide full representations on any mitigating factors that it believes were beyond its control and that we should consider when assessing any enforcement decision. If we conclude that a breach has occurred, we have powers to impose a financial penalty. We are continuing to engage with Royal Mail to ensure that focus on further improvement is maintained.
- 2.79 In response to affordability concerns raised by CCNI, CAS and Citizens Advice our approach to ensuring postal services remain affordable consists of four key pillars:
- a) **Safeguard caps on basic USO services.** We will continue to impose price caps on basic USO postal services to ensure core USO postal services are affordable for postal users. Royal Mail must not exceed these caps, otherwise it could face enforcement action

⁷⁹ Royal Mail has additional requirements designed to support the inclusion of other specific vulnerable groups, which include the articles for the blind service and the requirement for Royal Mail to set out its arrangements for disabled users.

⁸⁰ Ofcom 2022; [Investigation into Royal Mail's quality of service performance in 2021-22](#).

which could result in fines. The caps have kept the current price of a Second Class stamp at 68p in 2022 to post anywhere in the UK;

b) **Active monitoring and seeking of targeted voluntary change where problems emerge.**

We closely monitor Royal Mail's USO services pricing and regularly discuss key emerging issues with consumer groups. We then take proportionate, timely and targeted steps to tackle concerns where they emerge. These steps have in the past included raising concerns for debate and seeking to influence postal operators to achieve improved outcomes for consumers via voluntary changes to practices. This approach can allow changes to be brought in more quickly with a backstop of possible regulatory change if voluntary and timely change is not achievable through other means. Changes to redirections pricing and the pricing of diversions for small businesses during the Covid-19 pandemic are examples of this type of action;

c) **Enforcement action, where appropriate.** Where pricing arrangements or practices contravene our regulatory rules or wider competition law, we take appropriate enforcement action; and

d) **Supporting competition to keep downward pressures on prices.** Supporting end-to-end competition for parcels, and access competition for upstream bulk letters⁸¹ helps to ensure competitive services are available that keep downward pressures on costs, and incentivize innovation, for the benefit of consumers.

2.80 We will continue to monitor pricing and affordability trends and concerns through the review period. We will also look at affordability issues as part of our upcoming review on the Second Class safeguard cap.

Supporting competition

2.81 As we noted in our March 2017 statement⁸², given declining letter volumes, we consider it is unlikely that nationwide end-to-end competition will emerge in bulk letters in the future, but we believe that where possible, effective competition between postal operators in addition to supporting the provision of the USO, will result in the best outcomes for consumers. We have therefore made a number of decisions as part of this review, in part, in the interests of supporting established or emerging competition in the postal market.

2.82 Overall, we think the parcels market is generally working well for most consumers, and increased competition in both the B2C and C2X segments is driving benefits to users in the form of greater investment and innovation. As such, we have been mindful of this in considering potential changes to the regulatory framework, with the risk to developing competition an important factor in our decisions not to extend access regulation into the parcels market, and not to require tracking in the USO (as requested by some stakeholders). We have also targeted our regulatory interventions in parcels only where

⁸¹ Regulation that supports upstream competition in collection of bulk letters through an effective access regime helps to keep the costs of business postage down, which ultimately benefits consumers. This includes supporting efficiency initiatives such as the new D+5 mandated access service.

⁸² Ofcom, 2017. [Review of the Regulation of Royal Mail: Statement](#), paragraph 3.105.

there is evidence of a problem, taking proportionate steps to protect consumers while still providing flexibility for operators.

- 2.83 We also support the continuation of competition in the access market for bulk letter services. With competing access-based operators accounting for over 70% of bulk letter volumes, the existing access regulatory framework is working well to provide Royal Mail and other access users with the commercial and operational flexibility to manage letter decline while supporting effective competition in bulk letters. We have decided to retain all the existing access regulatory safeguards, which provide backstop protections for access users while still providing commercial and operational flexibility to respond to market changes.

Supporting provision of the USO

- 2.84 We recognise the importance of the universal service. We are retaining all the existing universal services and the consumer safeguards (including the Safeguard cap regime and quality of service standards), as well as our monitoring regime to allow us to track the changing needs for and any risks to the provision of the USO.
- 2.85 We recognise that users' needs are changing. As explained in our consultation and above, we undertook a comprehensive review of the needs of postal users across the UK in 2020, to determine if the requirements placed on Royal Mail reflect what people and businesses need today.⁸³ Broadly, we found that the current universal service meets the needs of its users. Despite our research also finding that some users' needs are changing, there was strong support from users for core features of the universal service.
- 2.86 Evolving users' expectations need not imply changes to the scope of the USO (or the regulatory requirements imposed on Royal Mail as the universal service provider). The purpose of the USO is to provide essential mail services that are not otherwise provided by the market, and therefore to address the reasonable needs of users, which otherwise might be unmet. Ofcom operates with a bias against intervention. We look to whether markets can achieve our objectives, so regulatory intervention must always be supported by strong evidence as to what markets cannot deliver.⁸⁴ Market provision of USO parcels continues to grow, and we are mindful of the impact that USO services can have on wider competition, and, in particular, of the risk of distorting competition from imposing regulation (e.g. from the VAT exemption applicable to USO services). The regulatory framework seeks to achieve this balance, supporting the provision of the USO, while, where appropriate supporting developed or emerging competition for postal services.
- 2.87 The regulatory framework we set out in this statement is designed to support the provision of the USO. Our decisions recognise that there is significant market uncertainty ahead and there remain several risks to the long-term financial sustainability of the universal postal

⁸³ The minimum requirements of the universal service are set out in legislation. These requirements are not within the scope of this review of postal regulation and can only be altered by Government and Parliament. It would be for the Government to determine whether any changes are needed to the minimum requirements and to bring any proposals before Parliament.

⁸⁴ See our [regulatory principles](#).

service. Our decisions recognise that the main drivers of a financially sustainable and efficient universal postal service are within Royal Mail's control. The stability and flexibility offered by this regulatory framework will support investment, innovation and competition and create the conditions needed to allow Royal Mail to transform into a modern and efficient business for the digital age, supporting the long-term financial sustainability of the universal service (see Chapter 3 for further detail).

Consideration of environmental sustainability

- 2.88 The Climate Change Act 2008⁸⁵ commits the UK to 'net zero' by 2050, and will impact all businesses across the UK, including those in the postal sector.
- 2.89 Our 2022/23 Plan of Work (published in March 2022⁸⁶) includes a wider discussion of environmental issues and how they could impact the sectors we regulate, including the postal sector. However, Ofcom does not currently have any statutory functions (objectives, powers and duties) specifically in relation to the environment.⁸⁷ We are nonetheless exploring what we can do to support the transition to net-zero within our remit through technical research and consumer advice.
- 2.90 The UK Government⁸⁸ is putting in place some measures to incentivise large companies, including some postal operators, to reduce and report on their emissions⁸⁹. Over time, there might be additional voluntary approaches that the communications industry adopts to support robust reporting. We are already in discussions with stakeholders on how they report on their emissions as part of our exploration of how our sectors contribute to the momentum towards net zero.
- 2.91 It is vital that communications companies invest to put themselves on a sustainable footing and have networks and services that are fit for the long term. This requires communications companies to increasingly consider their environmental sustainability. It is encouraging to see many of our regulated firms committing to reduce their own environmental impacts, while delivering services and networks that enable the UK to become more efficient and productive. We will continue to engage with industry stakeholders on sustainability to understand how it is affecting the markets we regulate.

⁸⁵ As amended in 2019.

⁸⁶ Ofcom 2022; [Ofcom's plan of work 2022/23](#).

⁸⁷ Our statutory powers are not such that we can investigate and compel stakeholders to provide us with data and other information about carbon emissions alone. Nor could we develop a formal framework for weighing the relative sustainability impact of future regulatory decisions without legislative change (something which would require careful consideration by both Government and Parliament).

⁸⁸ BEIS, 2022: [Mandatory climate-related financial disclosures by publicly quoted companies, large private companies and LLPs](#).

⁸⁹ From 1 April 2022 UK Government mandated that publicly quoted companies, large private companies and LLPs, including some postal operators, report on climate-related financial risk. This is intended to give investors and others the information they need to integrate climate change and sustainability in all financial decisions. It has also committed to banning the sale of new petrol and diesel vehicles by 2030 which is likely to further incentivise companies to reduce their emissions, particularly postal operators with large fleets. UK Gov, 2020: [Government takes historic step towards net-zero with end of sale of new petrol and diesel cars by 2030](#).

Consideration of the Northern Ireland Protocol

- 2.92 The Northern Ireland Protocol⁹⁰ has created the need for certain customs checks for goods passing between Northern Ireland and the rest of the UK. Some parcel operators have introduced, or have proposed to introduce, additional charges for sending goods to Northern Ireland from Great Britain. Deliveries to Northern Ireland could also be delayed due to additional checks which may have an unintended impact on the USO.
- 2.93 The implementation of the Northern Ireland Protocol is a matter for the UK Government. We will, however, continue to engage with the UK Government, postal operators and consumer groups to advise on, and understand, the implications for the postal market.

The next review period

- 2.94 We recognise that the postal market is changing rapidly and that we will therefore need to review the regulatory framework following a suitable time period.
- 2.95 Stakeholders were broadly supportive of our proposal to set the regulatory framework for a five-year review period, and we remain of the view that this is appropriate. It will provide certainty and stability to postal operators and other stakeholders, including investors, which could help when planning and making longer-term investment decisions and therefore encourage investment.
- 2.96 Notwithstanding the above, and consistent with our regulatory principles, we are prepared to intervene promptly and effectively where required and we will intervene during the review period if we consider that this is necessary. Our strengthened monitoring regime, including enhanced monitoring on financial sustainability and efficiency, will enable us to monitor the market and track any issues, highlighting any areas where further intervention may be required.
- 2.97 We also note that, while this document sets out the overall regulatory framework for postal services over the next five years, our safeguard cap rules are due to expire in 2024 and we will therefore commence work this autumn on our review of the Second Class safeguard cap in advance of a consultation and statement during 2023/24.

Our decision

- 2.98 Having considered responses to our consultation, future market trends and the broader effectiveness of the existing framework, we are satisfied that a root-and-branch review of the existing regulations is not required at this stage. We have not seen evidence that the current regime is not working. We have therefore decided that the overall regulatory framework for postal services remains appropriate for the next five years.

⁹⁰ The Northern Ireland Protocol came into force in January 2021 and is part of the arrangements to implement the UK's withdrawal from the European Union. It is intended to ensure that the UK's withdrawal does not undermine the Belfast (Good Friday) Agreement and, in particular, to prevent checks along the border between Northern Ireland (in the UK) and the Republic of Ireland (in the EU) following Brexit. It has resulted in changes to the way goods move between Great Britain and Northern Ireland.

- 2.99 It provides commercial flexibility to postal operators, including Royal Mail such that it can provide a financially sustainable and efficient universal service and ensuring postal users continue to have access to essential and reliable postal services throughout the UK, that are affordable and uniformly priced. It also promotes competition by supporting investment and ensuring Royal Mail competes on a level playing field.
- 2.100 While we are satisfied that our overall framework remains fit for purpose and effective, we are making some specific changes to our regulatory framework. The detail of these changes is set out in the remainder of this Statement.
- 2.101 As set out above, our regulatory framework will be in place for the period of 2022-2027 when we will re-review the market and our regulations, unless our monitoring identifies more immediate concerns.

Consultation on regulatory reporting

- 2.102 An important part of our regulatory framework for the postal sector is an effective and comprehensive monitoring regime, including requirements for Royal Mail to provide Ofcom with relevant information. The financial information requirements are set out in the Universal Service Provider Accounting Condition (USPAC) and are supplemented by the Regulatory Accounting Guidelines (RAG).
- 2.103 The monitoring regime allows us to assess how well the regulatory framework is working to meet our regulatory objectives. In particular, it aims to secure the provision of the universal service, monitor efficiency improvements, maintain quality of service standards and ensure universal services remain affordable.
- 2.104 We believe the current approach to regulatory reporting is working well. However, we need to update some of our requirements to reflect the current regulatory framework. Therefore, later in Q2 2022/23, we will consult on regulatory reporting requirements applicable to Royal Mail. We aim to publish a final statement on the proposed regulatory reporting changes in Q4 2022/23.

Impact assessment

- 2.105 The analysis presented in the entirety of this statement represents an impact assessment. As set out in our December Consultation, the analysis presented in our consultation document represented an impact assessment, as defined in section 7 of the CA 2003.
- 2.106 Impact assessments provide a valuable way of assessing different options for regulation and showing why the preferred option was chosen. They form part of best practice policy-making. This is reflected in section 7 of the CA 2003, which means that generally Ofcom must carry out impact assessments where its proposals would be likely to have a significant effect on businesses or the general public, or when there is a major change in Ofcom's activities. However, as a matter of policy Ofcom is committed to carrying out and publishing impact assessments in relation to the vast majority of its policy decisions.

2.107 For further information about Ofcom’s approach to impact assessments, see the guidelines, better policy-making: Ofcom’s approach to impact assessment.⁹¹ Specifically, pursuant to section 7, an impact assessment must set out how, in our opinion, the performance of our general duties (within the meaning of section 3 of the CA 2003) is secured or furthered by or in relation to what we propose.

Equality Impact Assessment

2.108 Section 149 of the Equality Act 2010 (the “EA 2010”) imposes a duty on Ofcom, when carrying out its functions, to have due regard to the need to eliminate discrimination, harassment, victimisation and other prohibited conduct related to the following protected characteristics: age; disability; gender reassignment; marriage and civil partnership; pregnancy and maternity; race; religion or belief; sex and sexual orientation.

2.109 The EA 2010 also requires Ofcom to have due regard to the need to advance equality of opportunity and foster good relations between persons who share a protected characteristic and those who do not.

2.110 Section 75 of the Northern Ireland Act 1998 (the “NIA 1998”) also imposes a duty on Ofcom, when carrying out its functions relating to Northern Ireland, to have due regard to the need to promote equality of opportunity and regard to the desirability of promoting good relations across a range of categories outlined in the NIA 1998. Ofcom’s Revised Northern Ireland Equality Scheme explains how we comply with our statutory duties under the 1998 Act.⁹²

2.111 To help us comply with our duties under the EA 2010 and the NIA 1998, we assess the impact of our proposals on persons sharing protected characteristics and, in particular, whether they may discriminate against such persons or impact on equality of opportunity or good relations. We do not consider that our decisions will discriminate in any way against persons with protected characteristics. We aim to regulate the postal market in a way that delivers benefits to all postal users.

2.112 We are maintaining the overall scope of the USO which provides a number of important services to address the needs of persons with disabilities. For example, we plan to continue to require Royal Mail to set out its arrangements for disabled customers⁹³. We have also proposed to maintain the scope of articles for the blind service in the USO, ensuring that blind people can receive important post free of charge.

2.113 More broadly, we also consider that our regulations - in particular, to require parcel operators (including Royal Mail) to have policies and procedures in place better to meet the needs of disabled consumers - will advance equality of opportunity between persons with a disability and those without. From November 2023, parcel operators will need to publish policies and procedures for how disabled customers’ specific needs will be met,

⁹¹ Ofcom: [Policies and guidelines](#).

⁹² [Revised-NI-Equality-Scheme.pdf \(ofcom.org.uk\)](#).

⁹³ See Chapter 5 on USO letters.

including how delivery staff on the ground will act on their delivery requests. This will mean that disabled consumers will be better served by parcel operators, for example by being able to specify what needs they have in terms of parcel delivery.

- 2.114 In addition, customers on low incomes (which may include older customers) will continue to have access to an affordable benefit from a discounted redirections service, as a result of Royal Mail's Concession Redirection scheme (which, absent their voluntary change, we would have proposed requiring through regulation). We are also maintaining the current safeguard cap on Second Class stamps and will conduct a review of the appropriate scope and level of the safeguard caps that will apply from April 2024.
- 2.115 We are therefore satisfied that we have complied with the public sector equality duty in the EA 2010, and the NIA 1998, in making the proposals set out in this consultation.
- 2.116 We will monitor operators' performance, including on meeting disabled consumers' needs, and will keep under review the need for additional regulation to protect consumers.

3. Financial Sustainability

Royal Mail's plans, if successfully executed, show an improving sustainability picture, with revenues growing and cost efficiencies being made. However, Royal Mail's performance in 2021/22, which was below its own projections, highlights some risks. [3<]. Compared to our view in the December Consultation, our most recent assessment highlights increased uncertainty around economic growth and inflation, as well as uncertainty about how the parcels market will evolve post-pandemic and therefore the levels of growth Royal Mail could achieve.

We have decided that it remains appropriate to allow Royal Mail considerable commercial flexibility, ensuring that it has the levers it needs to best respond to the changing market environment. We think this stability and flexibility will support investment and innovation, creating the conditions to allow Royal Mail to transform into a modern and efficient business for the digital age, supporting the financial sustainability of the universal service.

To better inform our duty to have regard to financial sustainability, we have decided to strengthen our monitoring regime by requiring Royal Mail to submit to Ofcom annual financial forecasts over a longer period than currently required. Furthermore, given the importance of efficiency to ensuring sustainability, we have decided to strengthen our efficiency monitoring as set out in Chapter 4.

Introduction

- 3.1 Ofcom is required by section 29 of the PSA 2011 to carry out its functions in relation to postal services in a way that it considers will secure the provision of a universal postal service.⁹⁴ In performing this duty, we must have regard to the need for the provision of the universal postal service to be financially sustainable and efficient. This includes the need for a reasonable commercial rate of return for the universal postal service provider on any expenditure incurred by it for the purpose of, or in connection with, the provision of a universal postal service.
- 3.2 It is therefore important that we have an understanding of Royal Mail's recent and forecast financial performance to allow us to assess the financial sustainability of the universal postal service. Understanding any risks to sustainability and the likelihood of those risks materialising informs our thinking on whether and when we may need to take any action, such as changing the regulatory framework.
- 3.3 In this section, we summarise our current regulatory approach and our December consultation proposals, followed by stakeholder responses. We then provide our assessment of the responses and explain our final decisions. In our forthcoming regulatory reporting consultation we will set out our proposals as to how we intend to implement these decisions through our regulatory reporting regime.

⁹⁴ See Annex 2 for an overview of the relevant legal framework. The Universal Service Obligation (USO) is imposed on the universal service provider by any Designated Universal Service Provider Condition (DUSP Condition), with the services as defined by Ofcom as part of a universal postal service order (Universal Service Order).

Current regulation

- 3.4 The existing regulatory framework facilitates the delivery of a financially sustainable and efficient universal postal service while also supporting our other aims of underpinning effective competition for the benefit of consumers and ensuring postal users have access to simple, affordable and reliable services that meet their needs. Our current regulatory framework gives Royal Mail considerable commercial and operational flexibility to adapt to the changing market environment. This reflected our view that Royal Mail is best placed to manage the financial sustainability and efficiency of the universal postal service. We considered the flexibility granted would enable Royal Mail to make commercial decisions that would most effectively manage the declining letter volumes and take the opportunities in the growing parcel market.
- 3.5 In our last review of postal regulation we outlined that commercial flexibility, subject to certain safeguards, along with achievement of a reasonable rate of efficiency improvement was the most likely means by which Royal Mail would be able to secure the financial sustainability of the universal postal service. We noted that Royal Mail relying on service degradation or price rises without improving its efficiency performance could undermine financial sustainability, affordability and/or reasonable needs of users being met.⁹⁵
- 3.6 In previous reviews, we decided to assess the financial sustainability of the universal postal service by considering whether the Reported Business could expect to earn a reasonable commercial rate of return. The Reported Business is the regulatory entity which contains the universal postal service network and all the products provided through or in relation to that network. This network also provides non-universal service products such as access and bulk mail. Royal Mail PLC is the holding company for a group of companies, including Royal Mail Group Limited (Royal Mail). The Reported Business is contained within Royal Mail as part of the RMUK business unit.⁹⁶
- 3.7 We refer to Royal Mail PLC and the group of companies it holds collectively as the Relevant Group. In 2017 we concluded that the Earnings Before Interest and Tax (EBIT) as a percentage of total revenues (i.e. EBIT margin) for the Reported Business remained the appropriate measure of the rate of return of the Reported Business to provide an indication of medium to longer-term financial sustainability of the provision of the universal service.⁹⁷
- 3.8 We refer to the particular EBIT margin we use as the ‘financeability EBIT margin’ (which includes recurring restructuring and redundancy costs, and pension costs restated on a cash basis). We considered that a financeability EBIT margin in the range of 5-10% was

⁹⁵ Ofcom, 2017. [Review of the Regulation of Royal Mail](#). [Accessed 12/07/2022].

⁹⁶ Previously this business unit was referred to as UKPIL. For a description of RMUK please see: Royal Mail plc, [Regulatory Financial Statements 2021-22](#), p4. [Accessed 12/07/22].

⁹⁷ We refer to this particular measure as the ‘financeability EBIT margin’.

appropriate and consistent with the need for Royal Mail to earn a reasonable commercial rate of return commensurate with the level of risk within the business.⁹⁸

- 3.9 We also decided to continue to monitor the performance of the Relevant Group to assist us in our financial sustainability assessment. We considered the Relevant Group important for our assessment as this is the level at which the company manages its cash and makes investment decisions, and is the level at which its creditors, analysts, and investors consider Royal Mail's financial health. In 2017 we supplemented our monitoring with additional financial health metrics that would assist us in understanding the Relevant Group's ability to meet its financial obligations.⁹⁹

Our proposals

- 3.10 In our December consultation, we explained our provisional view that the existing regulatory approach towards sustainability and the range of measures we use were likely to be broadly appropriate for the next review period. However, we did acknowledge growing concerns about the challenges Royal Mail faces in the coming review period and proposed we strengthen our monitoring regime. We summarise our proposals in more detail below.

Our approach to financial sustainability

- 3.11 We explained that Royal Mail needs to modernise its operations to put itself in a better place to manage ongoing market risks, which would then help support the delivery of a financially sustainable universal service. We proposed that our approach should be to continue to allow Royal Mail considerable commercial flexibility and control to respond to the various market pressures it faces.

Our approach to monitoring financial sustainability

- 3.12 We proposed to continue to inform any future decision-making using evidence gathered through our monitoring regime. The reporting and forecasting of the financeability EBIT margin, cash flow and other financial health metrics and data would help us to assess any risks to the financial sustainability of the universal postal service. The monitoring regime would inform our thinking on whether our regulatory framework needs to change and the potential impacts that any changes may have.
- 3.13 We did not propose to hardwire specific regulatory actions to given thresholds as this would limit our flexibility and ability to effectively identify and respond to a financial sustainability concern. We explained that we would consider each case in its specific circumstances and in the wider context of Royal Mail's financial performance and position.

⁹⁸ Ofcom, 2012. [Securing the Universal Postal Service - Decision on the new regulatory framework: Statement](#), paragraph 5.47. [Accessed 03/03/21].

⁹⁹ These included, amongst other considerations, FFO/Net Debt, EBITDA/Interest (interest cover) and the Viability Statement that Royal Mail publishes.

Use of the Reported Business financeability EBIT margin as our measure of the commercial rate of return

- 3.14 We considered that our approach from the 2017 Statement remained appropriate.¹⁰⁰ Royal Mail, in its response to our March 2021 call for inputs, considered that the financeability EBIT margin approach should be retained. Royal Mail stated, “We agree with Ofcom that the EBIT financeability margin, at the Reported Business level, is a key metric providing insight on the financial sustainability of the Universal Service”.¹⁰¹ Therefore, we proposed:
- a) to retain the use of the EBIT margin to assess the commercial rate of return earned by the universal service;
 - b) that the Reported Business remains the entity that represents most accurately the activities of the universal service, and therefore it is the appropriate level at which to measure the financeability EBIT margin;
 - c) that a financeability EBIT margin in the range of 5 to 10% remains consistent with a commercial rate of return for the Reported Business, with the intention that it is a first order indicator of sustainability and should not be interpreted as a ‘target’ return range; and
 - d) to continue to evaluate the recent actual and the long-term forecast financeability EBIT margins of the Reported Business and the underlying revenues and costs.

Use of other information and metrics to assess financial sustainability

- 3.15 We explained that we continued to believe that monitoring the cashflows and financial health metrics at the Relevant Group level would assist us in understanding the Relevant Group’s ability to meet its financial obligations. We noted that it is conceivable that, while the Reported Business might make a commercial rate of return, the rest of the Relevant Group might not perform well and this has the potential to pose a threat to the financial sustainability of the provision of the universal service if the liquidity or funding of the Relevant Group was compromised. We therefore proposed:
- a) to retain our current approach to monitoring the financial performance of the Relevant Group, so that in addition to evaluating the financeability EBIT margin we would continue to monitor the following metrics:
 - i) the actual and forecast cash flows of the Relevant Group; and
 - ii) a number of actual and forecast financial health metrics, including Funds from Operations (FFO)/Net Debt, Net Debt/EBITDA and EBITDA/Interest.

¹⁰⁰ See our December consultation, paragraph 3.35. Our original decision is set out in Ofcom, 2017: [Review of the Regulation of Royal Mail](#), p22.

¹⁰¹ Royal Mail response to our March CFI, p33.

- b) that these metrics would be considered in the round, with other financial information we receive from or that is published by Royal Mail, including the Viability Statement and Statement of Principal Risks within its Annual Financial Report.

Strengthening our monitoring with longer-term forecasts

3.16 We explained that the financial sustainability of the universal service could be significantly compromised if Royal Mail fails to respond effectively to the changing dynamics of the postal market, including the necessary modernisation and delivery of efficiencies. We noted that we have been concerned with Royal Mail's progress in these areas in recent years. We explained that it is important that we have a robust understanding, and are able to properly scrutinise, the likely sustainability of the universal service in the longer term. We therefore proposed:

- a) to strengthen our current approach by requiring Royal Mail to provide an annual five-year financial forecast. This would build on the existing three-year forecast often provided by Royal Mail in its Business Plans, with two further years of higher-level projections (including on the financeability EBIT margin of the Relevant Business);
- b) to require downside and sensitivity analysis, providing us with further information to assess both the outlook for sustainability over the forecast period and identify risks it faces. This would also allow us to assess the impact of Royal Mail's delivery of further efficiencies and the impact of these efficiencies on future sustainability; and
- c) to prescribe the date on which this information (the 'annual financial forecast') is provided to us, and that the deadline for the first submission would be 31 May 2023.

Consultation responses

Our approach to financial sustainability

3.17 There was support from some stakeholders for our extension of a framework that grants Royal Mail commercial and operational flexibility to adapt to the changing market.¹⁰² Pitney Bowes said it "supports Ofcom's proposed approach to broadly maintaining the current regulatory framework allowing Royal Mail the commercial flexibility to sustain the USO".¹⁰³ Several stakeholders also raised the importance of efficiency for a sustainable universal service. We consider these comments in Chapter 4.

Our approach to monitoring financial sustainability

3.18 Some respondents considered that our current monitoring approach should be strengthened. For example, MCF stated "the MCF supports this enhanced monitoring and

¹⁰² ACNI response to our December consultation, p2 to 3; Amazon response to our December consultation, p3-4; Citizens Advice Scotland response to our December consultation, p3; Pitney Bowes response to our December consultation, p2; RSN response to our December consultation, p2.

¹⁰³ Pitney Bowes response to our December consultation, p2.

changes to the Regulatory Accounting Guidelines to facilitate it”, and ACNI said it “very much agrees that there is a need for enhanced accountability and understanding of Royal Mail’s outlook in the longer term”.¹⁰⁴

3.19 Royal Mail stated that our proposed approach would focus inappropriately on viability and not financial sustainability, and that this would be corrected by adopting its proposals to incorporate additional equity metrics and a ‘tramline’ approach.¹⁰⁵ Royal Mail defines ‘tramlines’ as thresholds for all the metrics we should use in our assessment and these would act as trigger points for identifying financial sustainability concerns. The ‘tramline’ approach was also supported by three other stakeholders, for example the Professional Publishers Association (PPA) said “it would reassure stakeholders if given measures automatically triggered a formal regulatory decision-making process on potential action”.¹⁰⁶ Some respondents questioned whether Royal Mail’s recent distribution of dividends is reasonable in the context of what was regarded as poor performance on efficiency and quality of service, price rises, and the opportunity to re-invest the cash.¹⁰⁷

3.20 Royal Mail and some other stakeholders said that we should provide clear guidance on the actions we would take in the event of a financial sustainability concern being recognised.¹⁰⁸ Royal Mail said “Ofcom has not provided any guidance on the actions it would take to secure the universal postal service in the event that there were financial sustainability concerns – our third ask of Ofcom in our CFI response” and “Ofcom, by clarifying the tools it has, would provide better insight to all stakeholders” and “we consider that the length of time it will take Ofcom to recognise a sustainability issue and the length of time to implement a solution means there is a real risk of irreversible harm to the financial sustainability of the Universal Service”.¹⁰⁹

Use of the Reported Business financeability EBIT margin as our measure of the commercial rate of return

3.21 Royal Mail agreed that the use of a 5 to 10% financeability EBIT margin range at the defined Reported Business level remains appropriate, stating “Ofcom reaffirms much of the existing framework. This includes the definition of Reported Business and the 5-10% financeability EBIT margin is a ‘first order indicator of sustainability’. We agree with Ofcom that these elements remain appropriate for the next regulatory cycle”.¹¹⁰ However, Royal

¹⁰⁴ DX response to our December consultation, p4 to 5; ACNI response to our December consultation, p3; Welsh Government response to our December consultation, page 2; MCF response to our December consultation, p5 to 6; MCF response to our December consultation, p5 to 6; ACNI response to our December consultation, p3.

¹⁰⁵ Royal Mail response to our December consultation, p53.

¹⁰⁶ DX response to our December consultation, p4 to 5; MCF response to our December consultation, p6; PPA response to our December consultation, p3.

¹⁰⁷ Citizens Advice Scotland response to our December consultation, p4; Advisory Committee for Scotland response to our December consultation, p3 to 4; MCF response to our December consultation, p7; DX response to our December consultation, p6; PPA response to our December consultation, p4.

¹⁰⁸ DX response to our December consultation, p4 to 5; MCF response to our December consultation, p6; PPA response to our December consultation, p2 to 3.

¹⁰⁹ Royal Mail response to our December consultation, p58 to 59.

¹¹⁰ Royal Mail response to our December consultation, p54.

Mail stated that, by itself, this would not enable us to fulfil our duty, stating that without the adoption of additional equity metrics, our approach would not adequately assess financial sustainability.

Wider information we require relevant to our analysis

3.22 Royal Mail said that the information it provides to Ofcom in this regard gives an understanding of the financial viability of the company, although, as stated above, it considered that without incorporating equity metrics our framework would be focused on viability not sustainability.¹¹¹

Strengthening our monitoring with longer-term forecasts

3.23 A number of stakeholders supported our proposal to require an annual five-year financial forecast with sensitivity analysis. For example, ACNI said it “very much agrees that there is a need for enhanced accountability and understanding of Royal Mail’s outlook in the longer term, reflecting the scale of the challenge and level of risk and uncertainty that remains”.¹¹²

3.24 However, Royal Mail disagreed with our proposal. It explained that:

- a) our proposed deadline for delivery of the first five-year long annual financial forecast (i.e., 31 May 2023) is not practicable, and set out that there is no time for its business planning and finance teams to perform the additional tasks that would be required and asked for Ofcom to engage with it to ensure any final requirements are proportionate and achievable.
- b) it does not forecast over this long a period in its business plan and it is the three-year forecast in the plan that informs any market guidance given to shareholders. Royal Mail said that any requirement for a five-year forecast provided to Ofcom will result in a lack of alignment and that it “cannot agree that it is right to provide five-year forecasts for regulatory purposes when we have not issued medium term guidance to the City”.¹¹³
- c) it already produces a downside analysis in its business plan and this is shared with Ofcom, and its Viability Statement published in its annual report and financial statements.
- d) the requirement “will create further work for Royal Mail, but Ofcom have not set out how this information would be used to assess long term sustainability” and “we do not believe Ofcom have demonstrated that this new regulatory requirement is proportionate or necessary”.¹¹⁴
- e) instead of the five-year forecast and sensitivity analysis, Ofcom should rely on the business plan already provided and the increased market guidance it is likely to provide in the future saying that “Ofcom should start from the business plan underpinning the

¹¹¹ Royal Mail response to our December consultation, p62.

¹¹² ACNI response to our December consultation p3.

¹¹³ Royal Mail response to our December consultation, p59.

¹¹⁴ Royal Mail response to our December consultation, p60.

medium-term guidance when we issue it to the market. This will be management’s best view of what is achievable” and “while it has not been appropriate to give medium-term guidance for some time given the level of uncertainty, such guidance should and will be reinstated when it is meaningful and appropriate”.¹¹⁵

Our assessment

Our overall approach to financial sustainability

We have considered the outlook of the universal service to inform our decision making

- 3.25 As described above, Ofcom has a duty to secure the provision of a universal postal service. In performing this duty, we must have regard to the need for the provision of the universal postal service to be financially sustainable and efficient within a reasonable period and remain so. To inform our assessment of the regulatory framework across this review, we have considered the current financial sustainability outlook for the universal service.
- 3.26 Royal Mail’s plans, if successfully executed, continue to show an improving sustainability picture, with revenues growing and cost efficiencies being made.¹¹⁶ However, Royal Mail’s performance in 2021/22, which was below its own projections, highlights some risks. [X]. Compared to our view in the December consultation, our most recent assessment highlights increased uncertainty around economic growth and inflation, as well as uncertainty about how the parcels market will evolve post- pandemic and therefore the levels of growth Royal Mail could achieve.
- 3.27 Royal Mail’s strategy centres on growing its share of the parcels market and transforming its network and operations to deliver larger cost savings than it has achieved in the recent past. We considered a range of alternative revenue and cost scenarios over the review period. Specifically, we considered the implications of Royal Mail only achieving cost reductions in line with its recent historical performance, rather than in line with the latest business plan. Our analysis suggests that revenue growth alone appears unlikely to be sufficient to secure a level of profit consistent with a financially sustainable universal service. Royal Mail will also need to improve on its recent efficiency performance.

Our review has regard to the need for the universal service to be financial sustainable

- 3.28 We continue to believe that to fulfil our duties in relation to the universal service it remains appropriate for us to grant Royal Mail considerable commercial flexibility to respond to market changes. Royal Mail’s flexibility is only constrained by limited safeguard regulations to maintain quality of service standards, ensure affordability of some key

¹¹⁵ Royal Mail response to our December consultation, p59 to 60.

¹¹⁶ To inform our outlook for sustainability, we have updated our analysis of Royal Mail’s 2021 Business Plan (which covers the financial years 2021/22 to 2023/24) to take account of Royal Mail’s actual performance in 2021/22 (as reported by Royal Mail in their trading update dated 18 May 2022) and performed a high-level assessment of Royal Mail’s Board papers on its 2022 Business Plan (received in late May 2022). In early July, Royal Mail supplied Ofcom with its budget for 22/23 which we have also considered and we are now awaiting submission of the final two years.

services and support competition, as appropriate. For example, as explained in Chapter 5, we recognise that the financial sustainability of the universal service is one factor that we consider when setting our safeguard cap requirements. We recognise that maintaining the safeguard cap protections reduces Royal Mail's revenue opportunities, but consider that without them, the interests of consumers could be adversely impacted. Furthermore, the likely financial benefits of removing regulatory safeguards would appear to be less significant compared with those that Royal Mail could realise through successfully addressing network transformation and efficiency.

- 3.29 Continuing to allow Royal Mail considerable commercial flexibility ensures that it has the levers it needs to best respond to the changing market environment and to secure the efficient and financially sustainable provision of the universal service. We think this stability and flexibility will support investment, innovation and create the conditions to allow Royal Mail to transform into a modern and efficient business for the digital age, supporting the financial sustainability of the universal service.

Monitoring financial sustainability

Our approach to monitoring financial sustainability

- 3.30 Royal Mail stated that our proposed approach focused inappropriately on viability and not financial sustainability. We do not agree. Short-term viability is to some extent a precondition of longer-term sustainability and we therefore monitor some financial metrics that provide us with a better understanding of the near-term financial health of the Group. However, our focus remains on the sustainability of the universal service. As explained below, we consider that our use of the EBIT margin as an indicator of a commercial rate of return and the use of longer-term forecasts, provides the appropriate framework to do this.

Assessing the commercial rate of return of the universal service

- 3.31 As set out above, in performing our duty to secure the provision of a universal postal service, we must have regard to the need for the provision of that service to be financially sustainable. This includes the need for a reasonable commercial rate of return for the universal service provider on any expenditure incurred by it for the purpose of, or in connection with, the provision of a universal postal service.¹¹⁷
- 3.32 There was support from those that responded to our consultation (including from Royal Mail) on our proposal to continue using the EBIT margin made by the Reported Business to assess the rate of return earned by the universal service.¹¹⁸ Royal Mail was also in

¹¹⁷ Postal Services Act 2011, 29 (4).

¹¹⁸ ACS, response to our December consultation, p3; MUA response to our December consultation, p3; Pitney Bowes response to our December consultation, p1; Post Office response to our December consultation, p3; Quadiant response to our December consultation, p1; Whistl response to our December consultation, p2.

- agreement with our proposal to continue to use the 5% to 10% EBIT margin range as a first order indicator of a reasonable commercial rate of return for the Reported Business.¹¹⁹
- 3.33 We continue to believe that using an EBIT margin provides the best measure for determining the commercial rate of the return of the universal service, and that a range of 5% to 10% is consistent with a commercial rate of return for the Reported Business. We will therefore continue with this approach.
- 3.34 While Royal Mail agreed with the continued use of the 5% to 10% EBIT margin, it said that this was not by itself sufficient, and that our monitoring framework needed to incorporate equity metrics in order to adequately assess financial sustainability. In its response, Royal Mail argued that to monitor sustainability effectively we should adopt equity metrics such as returns to shareholders and dividends in our financial sustainability assessment.
- 3.35 Royal Mail stated in its response that a “financially sustainable company needs to be able to earn revenues that allow it to cover its debt costs and provide equity investors with a return on their investment” and that the Postal Services Act 2011 sets out the “need for the provision of a universal postal service to be financially sustainable includes the need for a reasonable commercial rate of return” and therefore our monitoring framework should formally incorporate metrics that assessed the returns to Royal Mail’s shareholders.¹²⁰
- 3.36 We agree that a company needs to be an investable proposition if it is to be sustainable. However, it does not follow that we should include equity metrics in our monitoring framework. The Postal Services Act 2011 explains that we should have regard to the commercial rate of return earned “for any universal service provider on any expenditure incurred by it for the purpose of, or in connection with, the provision by it of a universal postal service” and not the returns earned by the wider company.¹²¹ The EBIT margin metric for the Reported Business we have decided to continue to use provides us with the understanding of the commercial rate of return on the expenditure of the universal service.
- 3.37 Equity metrics relate to the whole Royal Mail Group, which includes significantly more than the activities related to the universal service. The Royal Mail Group includes business entities such as Parcelforce and GLS that have no role to play in the provision of the universal service; in Financial Year 2021, the non-Reported Business revenues represented 37% of total Group income.¹²² Equity metrics, while useful for understanding the sustainability of the Group, reveal less about the sustainability of the universal service; indeed, the group could be financially sustainable, while the provision of the universal service was not.
- 3.38 Equity returns also reflect company choices regarding its dividend policy and other wider market factors. We consider that, once the capital expenditure and liquidity needs of the

¹¹⁹ Royal Mail response to our December consultation, p54.

¹²⁰ Royal Mail response to our December consultation, p54 to 55.

¹²¹ Postal Services Act 2011, 29 (4).

¹²² Reported Business FY 2021 revenues £8,012m, Royal Mail Group FY 2021 revenues £12,638m, the difference of £4,626m comprises GLS and Parcelforce revenues.

business have been satisfied, it is reasonable for profits to be distributed to the company's shareholders. However, the extent to which Royal Mail's profits should be distributed is a decision for the directors to take after considering the company's current and prospective financial position.

- 3.39 In any event, as illustrated by the analysis in Royal Mail's response, a commercial rate of return is not only sufficient to cover debt costs (Royal Mail's definition of viability) but should also ensure an adequate return on equity.¹²³

Tramlines and addressing a potential sustainability concern

- 3.40 Royal Mail suggested that Ofcom should set 'tramlines' across the metrics we use to form our financial sustainability assessment such that whenever the actual performance is outside of those tramlines, Ofcom would need to consider regulatory action. Royal Mail said that we should also provide clear guidance on the actions we would take once a concern was identified.
- 3.41 There may be situations when we will need to consider taking action that could support the sustainability of the universal service. Our monitoring framework is designed to identify emerging sustainability concerns and assess the appropriate course of action to take at that time. However, determining whether any action is necessary, and the form that action should take, will require a full assessment of the circumstances at the time a financial sustainability concern arises.
- 3.42 Any assessment of when and how best to respond to a threat of the financial sustainability of the universal service is likely to rely not just on our own analysis (which may take account of issues like the competitive context; Royal Mail's operational and business capability; the key requirements of postal users; and the long-term prospects for the market) but will be informed by information that Royal Mail considers relevant to that assessment. Indeed, if Royal Mail identified concerns about the sustainability of the USO we expect it to bring them to our attention.
- 3.43 If, having concluded any assessment, we determined that some form of response was necessary, the appropriate response would depend on the underlying cause of the problem. For example, the response to a deterioration in the returns made caused by structural change in postal markets is likely to be different to one caused by delays to the delivery of efficiency improvements. We also recognise that some responses that might appear helpful in theory could have unintended consequences in practice. We would therefore expect to work with Royal Mail to better understand which responses are most likely to be effective, and those that might be unhelpful.
- 3.44 Therefore, we remain of the view that trying to define a bright-line test for action is unnecessary and potentially unhelpful. Consequently, we do not agree with Royal Mail's

¹²³ Royal Mail response to our December consultation, Figure 2.2, page 56.

proposal that we should adopt ‘tramlines’ or attempt to predict now how we would respond if a financial sustainability concern was identified in future.¹²⁴

Wider information we require relevant to our analysis

- 3.45 Royal Mail was the only stakeholder that responded specifically on our proposal to continue to monitor the information and metrics that allow us to understand the shorter-term financial viability of the Relevant Group. We require this information at the level of the Relevant Group and not the Reported Business because this is the level at which the company manages its cash, borrows and makes investment decisions.
- 3.46 Royal Mail said that the information it provides to Ofcom in this regard gives an understanding of the financial viability of the company, although, as stated above, it considered that without incorporating equity metrics, our framework would be focused on viability not sustainability.

Strengthening our monitoring with longer-term forecasts

- 3.47 As we have identified there is increased uncertainty as to how the postal market will develop over the medium to long-term and Royal Mail’s effectiveness in responding to these changing dynamics will directly impact on the financial sustainability of the universal service.

We think a five-year forecast is an appropriate length

- 3.48 Recognising the increased uncertainty and potential variability of outcomes over the longer-term, internally we regularly produce longer-term forecasts and sensitivity analysis to better assess the forward-looking financial sustainability of the universal service. We have found the view on the longer-term prospects given by the forecasts and sensitivity analysis a key aspect to our overall financial sustainability assessment. Our modelling has used the three forecasted years provided in Royal Mail’s business plans, scrutinised the assumptions, and projected forward scenarios to assist us in forming a longer-term view of financial sustainability. The Reported Business financeability EBIT margins we have modelled have been longer than five years in some cases.
- 3.49 We have developed a forecast of five years or longer as it allows us to understand the likely trend and direction of travel of the returns of the Reported Business, with the sensitivity analysis allowing us to understand potential variability in those returns. An understanding of at least a five-year time frame on the outlook for the profitability of the universal service and its continued financial sustainability allows us to best judge if changes to the regulatory framework might be appropriate and informs our advice to Government on the statutory framework. Deciding on the most appropriate action that we should take to facilitate the financial sustainability of the universal service will require due consideration of the causes and context of any concern and a decision on the most appropriate response, so timely identification of an issue will support our ability to meet our duty.

¹²⁴ Royal Mail response to our December consultation, p57.

- 3.50 Royal Mail, in its response to our earlier call for inputs, recognised that a “three-year time horizon will not be sufficient for assessing long-term financial sustainability, and a set of longer-term projections will be required”, although in that response it suggested that the longer-term forecast should be “undertaken once per regulatory cycle (i.e. once every five to seven years) due to the additional resource it will take”.¹²⁵
- 3.51 As we have explained, our longer-term financial forecasting is informed by the three future years projected in Royal Mail’s business plans. However, we are mindful that Royal Mail has a better view on how its business will evolve (such as what it can negotiate with the unions and what growth it is targeting). Royal Mail, as the universal service provider, is best informed as to how its strategies for exploiting the growth in the parcel market while responding to the structural decline in the letters market will impact on the Reported Business financeability EBIT margins over the longer-term.
- 3.52 Therefore, we are of the view that obtaining a longer-term projection of five years (and with sensitivity analysis) from Royal Mail is important to enable us to have a more robust view of the longer-term returns that might be expected to be made by the universal service, and therefore of any risks to its financial sustainability. This is particularly important given growing uncertainty around the sustainability of the universal service over the longer-term, which has increased since our December consultation.
- 3.53 Royal Mail has said that, instead of requiring an annual five-year financial forecast, we should use the three-year business plans it currently provides to us, with the sensitivity analysis it currently forecasts for those three years within that plan, and the market guidance it expects to provide more frequently in the future. We consider Royal Mail’s proposal would be an inadequate alternative for a number of reasons.
- 3.54 As explained above, we have identified the need for an understanding of the returns likely to be made by the universal service over a five-year period. This is a longer period than the current three-year forecast period in the current business plan. Royal Mail’s proposal does not indicate that a forecast that extends further than the current three-year length it provides in its business plan will be provided in its future market guidance, and does not provide certainty that the length of forecast we require will be provided. Royal Mail has not indicated that its future market guidance would extend further than it has in the recent past (which has not provided more than a one-year high level outlook for the RMUK business¹²⁶) and in its response stated “we need to provide guidance to the market on our medium-term strategy and targets when it is appropriate to do so. This is not aligned to the five-year regulatory cycle. We cannot agree that it is right to provide five-year forecasts for regulatory purposes when we have not issued medium term guidance to the City.”¹²⁷
- 3.55 Royal Mail’s market guidance is set out to provide transparency to shareholders on the Group and the business units within the Group (RMUK and GLS) and will not provide the

¹²⁵ Royal Mail response to our March CFI, p36.

¹²⁶ There are more specific references to progress against an older and longer plan (‘Journey 2024 Plan’) presented in May 2019, and a GLS outlook until FY 2024/25.

¹²⁷ Royal Mail response to our December consultation, p61.

information we require. Our requirement for the annual financial forecast is specific to the forecast longer-term returns of the universal service - the likely returns of the Reported Business and the potential volatility of those returns. As explained above, we consider this information is needed to allow us to fulfil our financial sustainability duty and it may not be identical to the information that Royal Mail decides from time to time will be sufficient for its investors.

3.56 While we recognise Royal Mail's intention to provide market guidance more frequently than it has in the past, if we relied on the information provided in the market guidance we cannot be certain when the guidance will be issued - it would be decided by Royal Mail if and when the market guidance will be provided, the scope of the guidance, and what period will be covered in any guidance on its future strategy. While Royal Mail has said it intends to produce market guidance more frequently than it has in recent years there is no certainty as to the frequency market guidance will be issued in the future – “while it has not been appropriate to give medium-term guidance for some time given the level of uncertainty, such guidance should and will be reinstated when it is meaningful and appropriate”.¹²⁸

3.57 Given our duties, we are seeking a regular, consistent and longer-term perspective on the financial sustainability of the USO. We have developed our requirements for a five-year financial forecast having considered:

- a) the specific scope of the information required - the universal service;
- b) the time period the information should cover – a longer-term forecast than currently provided;
- c) the regularity with which the information should be provided – annually;
- d) the content of the longer-term information to be provided – Reported Business returns and sensitivity analysis; and
- e) Royal Mail's proposal to use its business plan and the undefined market guidance it may provide more regularly than in the past would not allow us to meet any of these requirements with any certainty.

3.58 The annual five-year financial forecast and sensitivity analysis to be provided by Royal Mail will provide high level financeability EBIT margins, revenues and cost information solely for the Reported Business. Proposals on the specifics of the scope and information will be considered as part of our forthcoming regulatory reporting consultation.

When the annual financial forecast is provided

3.59 We continue to consider that the 31 May 2023 would be an appropriate deadline for the delivery of the first annual financial forecast as it is provided in conjunction with the first five-yearly forecast. We also think this date would likely be appropriate for the annual financial forecast in subsequent years. However, we will consider the deadlines for the

¹²⁸ Royal Mail response to our December consultation, p61.

delivery of both the financial forecasts as part of our forthcoming regulatory reporting consultation.

Our decisions

- 3.60 We have decided:
- a) to broadly maintain the current regulatory framework which provides Royal Mail with significant commercial flexibility, recognising that the sustainability of the universal service depends on macroeconomic factors and commercial and operational levers within Royal Mail's control.
 - b) to continue to use a Reported Business financeability EBIT margin in the range of 5% to 10% as a first order indicator of whether Royal Mail is earning sufficient returns on its provision of the universal service for it to be considered to be financially sustainable in the longer-term.
 - c) to continue to use the additional range of information and metrics that we currently use to assess the Relevant Group's ability to meet its financial obligations and continue to be in a position to provide the universal service in the short to medium-term.
 - d) to require an annual five-year financial forecast together with sensitivity and downside analysis from Royal Mail, in order to strengthen our financial sustainability assessment. The proposed scope of and deadlines for the annual financial forecast will be set out in our forthcoming regulatory reporting consultation.
- 3.61 Having carefully considered stakeholders' responses, and for the reasons set out above, we have decided to adopt the proposals set out in our December consultation.
- 3.62 Our most recent assessment on financial sustainability highlights increased uncertainty around economic growth and inflation, including on the evolution of the parcels market post-pandemic, and therefore increased uncertainty on the levels of growth Royal Mail could achieve. We believe that Royal Mail's plans, if successfully executed, show an improving sustainability picture, with revenues growing and cost efficiencies being made. However, Royal Mail's performance in 2021/22, which was below its own projections, also highlights some risks.
- 3.63 We have therefore decided to maintain our overall approach to financial sustainability as we believe that it remains appropriate to allow Royal Mail considerable commercial flexibility to ensure Royal Mail has the levers it needs to best respond to the changing market environment. We also think that stability and flexibility are key in supporting investment and innovation, creating the conditions to allow Royal Mail to transform into a modern and efficient business for the digital age, therefore supporting the financial sustainability of the universal service.
- 3.64 Regarding the information and metrics we use as part of our monitoring regime, we have also decided to maintain our existing approach. We will continue to use EBIT margin as the measure of the commercial rate of return of the universal service. We will also continue to use the additional range of information and metrics we currently consider in order to

assess the Relevant Group's ability to meet its financial obligations and to continue to be in a position to provide the universal service in the short to medium-term.

- 3.65 Having carefully considered stakeholders' responses and having regard to our statutory duties as well as the increased uncertainty around economic growth and development of the postal market in the short and medium term, we have decided to further strengthen our monitoring regime on financial sustainability. We will be requiring Royal Mail to annually submit a five-year financial forecast. For the reasons set out above, we have concluded that the provision of a longer-term forecast is both objectively justified and proportionate. In reaching our view, we have had regard to, amongst other things:
- a) the need for Ofcom to have a more robust view, at an earlier stage, of the longer-term returns to be made by the universal service, and any potential risks to its financial sustainability;
 - b) the forecast period currently set out by Royal Mail in its current business plan (typically a three-year forecast period); and
 - c) the limitations of Royal Mail's market guidance, in terms of the frequency and nature of the information provided by Royal Mail.
- 3.66 Given the growing uncertainty around the sustainability of the universal service over the longer-term, which has increased since our consultation, being able to reach a robust view on any potential risks at an earlier stage is particularly important to Ofcom (as this will be determinative of our ability to carry out our statutory functions and duties under the PSA2011). For that reason, and for the reasons detailed above, we believe that requiring a longer-term forecast is objectively justified. We also believe that the provision of an annual five-year forecast is proportionate given that the forecast currently provided to us by Royal Mail is often based on a three-years period, and the additional years we are asking for will be less detailed. Any additional work necessary to produce a longer-term five-year forecast, and any potential associated costs, should therefore be contained and fairly limited.
- 3.67 Our forthcoming consultation on regulatory reporting will set out our detailed proposals regarding the implementation of our decisions. Our consultation will set out detailed proposals on the information Royal Mail will be required to provide as part of its longer-term forecast, how and when the information will be provided as well as on the sensitivity and/or downside analyses to be carried out by Royal Mail. The overall proportionality of our detailed proposals will be considered as part of our consultation exercise, having regard to, for example, any potential additional work that Royal Mail may have to carry out in implementing these.

4. Efficiency

Ofcom must have regard to the need for the provision of the universal postal service to be financially sustainable and efficient within a reasonable period. Efficiency is a key aspect of ensuring financial sustainability. Royal Mail's plans, if successfully executed, continue to show an improving sustainability picture, with revenues growing and cost efficiencies being made. However, Royal Mail's efficiency performance during the last review period has been concerning and it will need to improve on its historical efficiency performance to meet the ambitions set out in its plans.

We continue to believe the market provides Royal Mail with incentives to make efficiency improvements, and Royal Mail is best placed to identify and deliver them. However, we consider regulatory changes are needed, given the critical role the achievement of efficiencies has in the financial sustainability of the USO.

Firstly, Royal Mail will be required to provide Ofcom, every five years, with a detailed confidential forecast containing certain efficiency metrics over a five-year period.¹²⁹ This forecast will provide a five-year view of Royal Mail's pathway to providing an efficient USO and provide a benchmark for our considerations of Royal Mail's efficiency progress. This understanding will enhance our ability to consider potential changes to the statutory or regulatory frameworks for post.

Secondly, Royal Mail will be required to publish two measures of its efficiency expectation from the five-year forecast.¹³⁰ One measure will provide a high-level overview of its efficiency ambitions while the other will provide insight into the expected operational efficiency of its frontline staff, which is an area of focus for Royal Mail. These expectations will be set at the start of the five-year period and Royal Mail will be required to annually publish its actual performance against those expectations. This will increase the transparency of Royal Mail's plans and progress made, providing context for Royal Mail's engagement with consumers and stakeholders.

The proposed basis of preparation for these metrics, how they will be reported and published, and the confidential information needed for our efficiency regulatory reporting regime will be set out in an upcoming regulatory reporting consultation.

Introduction

4.1 The PSA 2011 requires us to have regard to the need for the provision of the universal service to be financially sustainable, for it to become efficient within a reasonable period and then remain efficient at all subsequent times. Royal Mail's ability to plan and achieve efficiencies in this review period supports the financial sustainability of the universal service as discussed in Chapter 3. While we do not think there is an immediate threat to

¹²⁹ We refer to this as the 'five-yearly financial forecast' to distinguish it from the 'annual financial forecast' discussed in more detail in Chapter 3 on financial sustainability.

¹³⁰ We refer to these overall figures as the 'expectations' to distinguish them from the detailed information provided in the confidential forecast.

the sustainability of the universal service, we have concerns around the pace of efficiency improvements in recent years.

- 4.2 As well as supporting a sustainable, commercially funded USO which meets consumers' needs, efficiency improvements can bring wider market benefits. For example, in end-to-end letters provision where Royal Mail does not face competition, efficiency gains can help offset the upward cost (and therefore pricing) pressure from declining volumes. Efficiency gains as Royal Mail transforms into a parcels-led business can also help support effective competition in the parcels market, to the ultimate benefit of consumers in the form of lower prices and greater innovation.
- 4.3 It is therefore important that our approach to efficiency is fit for purpose during this review period. This is in light of our specific duty to sustain the provision of a universal service, and our more general duty to further the interests of citizens and consumers.
- 4.4 In this chapter we cover our current approach to regulation, Royal Mail's universal service efficiency progress to date, stakeholder responses to our consultation, our assessment and our decisions.

Current regulation

Our general approach to efficiency

- 4.5 Our current approach is to allow Royal Mail considerable commercial and operational flexibility. This model gives Royal Mail strong incentives to make efficiency improvements because it will reap the benefits of these gains, rather than losing them to price caps. This flexibility is subject to regulatory safeguards, such as our monitoring regime. We regularly monitor efficiency progress and publish a report on Royal Mail's annual performance, using a variety of metrics, within our AMU for Postal Services.¹³¹
- 4.6 We last reviewed our postal regulation in March 2017.¹³² We outlined that commercial flexibility, subject to certain safeguards, along with the achievement of a reasonable rate of efficiency improvement, was the most likely means by which Royal Mail would be able to secure the financial sustainability of the universal postal service. We noted that if Royal Mail relied on service degradation or price rises without improving its efficiency performance, it could undermine financial sustainability, affordability and/or the reasonable needs of users being met.¹³³
- 4.7 The efficiency monitoring regime we established requires Royal Mail to annually submit to Ofcom its future expectations over a period Royal Mail determines (usually three years), then report its actual efficiency performance throughout the year. This is done using a suite of metrics which includes:

¹³¹ Ofcom, 2021. [Annual Monitoring Update for Postal Services](#). [Accessed 26/06/22].

¹³² Ofcom, 2017. [Review of the Regulation of Royal Mail](#). [Accessed 27/06/22].

¹³³ Ofcom, 2017. [Review of the Regulation of Royal Mail](#). [Accessed 27/06/22].

- a) **“PVEO”** which provides an overall measure of efficiency by disaggregating annual cost movements by driver; “Price” (or inflation), “Volume”, “Efficiency” and “Other” (one-off costs). The calculation is done by cost type (e.g. frontline people costs by business area, fuel etc) and the total calculated for the Reported Business.
- b) **Productivity** which is a non-financial metric adopted by Royal Mail and calculates the rate of work by taking the ratio of workload (weighted volumes) to gross (paid) hours. Workload is the other element of Royal Mail’s productivity metric and is a measure of operational volume.
- c) **Gross Hours** which is a component of Royal Mail’s productivity metric and measures the number of hours paid to its frontline staff. It includes worked hours and non-working paid absences such as sickness and annual leave.

4.8 We also monitor efficiency ambitions and performance by getting insight into Royal Mail’s planned and realised efficiency initiatives. Insight into efficiency is provided by the metrics above, Royal Mail’s investor briefings (which typically present a high-level view of a subset of initiatives), as well as information obtained through our wider regulatory reporting requirements and from Royal Mail’s management accounts. In addition to this, we periodically request additional information to conduct more detailed reviews of Royal Mail’s efficiency and carry out international benchmarking to help understand opportunities for future efficiency gains as well as progress in comparison with Royal Mail’s peers.¹³⁴

Royal Mail’s recent efficiency performance

Progress between 2016-17 and 2019-20 was limited

4.9 Since 2016-17, we have seen some progress in terms of efficiency. In 2016-17, Royal Mail indicated in its Annual Report and Financial Statements (‘Annual Report’) that it achieved its cost reduction targets for three consecutive years and its cost avoidance programme was on track. We saw a minor improvement in cost reduction compared to the previous year, and a 2.2% efficiency improvement (via our PVEO analysis).¹³⁵ This trend continued in 2017-18, with a further 3.0% reduction in real total costs, and 2.8% efficiency improvements. Furthermore, Royal Mail reported in its 2017-18 Annual Report that the cost avoidance programme in UKPIL was ahead of its expectations.¹³⁶ Royal Mail also said that it avoided annualised operating costs of £642 million over the past three financial years, ahead of its £600 million target.¹³⁷

¹³⁴ Ofcom, 2019. [Annual Plan of work](#), p16. [Accessed 27/06/22].

¹³⁵ Ofcom, 2017. [Annual Monitoring Update on Postal Services: Financial Year 2016-17, p72](#). [Accessed 27/06/22].

¹³⁶ Ofcom, 2018. [Annual Monitoring Update on Postal Services: Financial Year 2017-18](#), p70. [Accessed 27/06/22]. The UKPIL business unit is now known as RMUK. For a description of RMUK please see: Royal Mail plc, [Regulatory Financial Statements 2021-22](#), p4.

¹³⁷ Ofcom, 2018. [Annual Monitoring Update on Postal Services: Financial Year 2017-18](#), p70. [Accessed 05/07/22].

- 4.10 However, this progress appeared to stall the following year, with a small increase in real costs (0.1%) and efficiency decline by 0.6% in 2018-19.¹³⁸ Limited progress continued in 2019-20. Royal Mail reported that it met its overall cost avoidance target for the UK business in 2019-20, however, costs for the Reported Business increased in real terms by 1.4%. Our analysis indicated that there were no underlying efficiency improvements (excluding transformation costs), and Royal Mail did not meet its 2%+ target of productivity improvement, instead achieving 1.0%.¹³⁹
- 4.11 We reported in our 2019-20 AMU that Royal Mail's efficiency performance continued to be of concern, as efficiency, alongside modernising the network, was critical to the longer-term sustainability of the universal service.¹⁴⁰ We reported that while Royal Mail had made some improvements, notably an increase in parcel automation from 12% to 33%, that its efficiency achievements continued to be disappointing. The ambition set out at the start of 2019-20 in its "Journey 24" plan to transform the business, including making significant productivity improvements, had yet to be realised.¹⁴¹ We were concerned that many of the enablers of efficiency improvements identified by Royal Mail were behind schedule and had yet to be implemented.
- 4.12 In its 2019-20 Annual Report, Royal Mail stated that, "There is a risk we will not be able to deliver our transformation programme and meet our required cost avoidance and productivity improvement targets during the life of the plan."¹⁴²

In 2020-21 Covid-19 had an impact on Royal Mail's efficiency progress

- 4.13 The Covid-19 pandemic had a significant impact on Royal Mail's operations. It led to short term changes in the way Royal Mail ran its network due to significant parcel growth, social distancing requirements and increased staff absences. This gave rise to a significant increase in costs - the change in mix between parcels and letters was estimated to have resulted in an increase in costs of £327m. Meanwhile, £152m of costs arose due to increased absences, protective equipment and social distancing. In addition, international conveyance costs increased by £69m due to the pandemic reducing airline cargo capacity.¹⁴³ Hence, in addition to the volume impact, Covid-19 was identified to have inflated the cost base by £221m.
- 4.14 Due to the exceptional circumstance, we were limited in the observations we could make on efficiency performance in our 2020-21 AMU. We noted Royal Mail's statement that it had been unable to make material progress with operational efficiency changes due to the

¹³⁸ Ofcom, 2019. [Annual Monitoring Update on Postal Services: Financial Year 2018-19](#), p60. [Accessed 27/06/22].

¹³⁹ Ofcom, 2020. [Annual Monitoring Update on Postal Services: Financial Year 2019-20](#), p62; For graphs of these trends over time see: Ofcom, 2021. [Annual Monitoring Update on Postal Service: Financial Year 2020-21, p54 to 57](#). [Accessed 27/06/22].

¹⁴⁰ Ofcom, 2020. [Annual Monitoring Update on Postal Services: Financial Year 2019-20](#), p53. [Accessed 27/06/22].

¹⁴¹ Royal Mail plc., 2019. [Journey 24 presentation](#). In May 2019 Royal Mail announced a strategy to transform its business. The plan was to drive forward UK revenue growth from parcels, while improving productivity and containing costs. The strategy outlined a focus on efficiency in its UK operation enabled by a network and digital transformation.

¹⁴² Royal Mail plc., 2020. [Annual Report and Financial Statements 2019-20](#), p64. [Accessed 27/06/22].

¹⁴³ Royal Mail plc., 2021. [Full Year Results 2020-21](#), slide 13. [Accessed 27/06/22].

pandemic. We also reported on the limited progress it had made on the initiatives originally set out in its Journey 24 plan.¹⁴⁴

- 4.15 In December 2020, Royal Mail and CWU reached an agreement ('Pathway to Change') which included plans to improve productivity and efficiency and transform Royal Mail's parcel operation.¹⁴⁵ The agreement aligned with ambitions previously set out in Journey 24. The expectation was that the agreement would enable Royal Mail to achieve productivity benefits of 3% plus in 2021-22, which would result in more than £100m of efficiency savings in 2021-22.¹⁴⁶

Efficiency progress in 2021-22 was mixed

- 4.16 Royal Mail set out in 2020-21 its ambition to achieve c.£400m of efficiencies in 2021-22 from management restructuring, Pathway to Change initiatives and a non-people cost programme. These savings would offset cost pressures (e.g. pay and inflation) and be further supported by reductions in costs as the impact of Covid-19 on costs reduced.¹⁴⁷
- 4.17 Royal Mail reported in May 2022 that this had largely been delivered. It noted that its management restructure and non-people cost savings were in line with its expectations. However, it had only realised £59m in savings from the Pathway to Change agreement - below the expected savings of above £100m.¹⁴⁸
- 4.18 Furthermore, the cost base remained inflated from the one-off costs incurred because of Covid-19. In 2020-21, Royal Mail outlined costs had increased by £221m due to Covid-19. Costs included additional resources needed to cover absence levels (which remained at higher levels than pre-Covid¹⁴⁹), protective equipment and higher international conveyance charges.¹⁵⁰ In 2021-22, £53m of these costs were removed, below the target of c.£100m.¹⁵¹
- 4.19 The above average absence levels and limited progress from the Pathway to Change agreement resulted in Royal Mail's productivity being -0.2%¹⁵² which was significantly below the target of above 3%.¹⁵³ Royal Mail outlined that there had been no productivity improvement in delivery while 8% productivity had been achieved in processing and linehaul, noting that processing accounted for a small portion of the cost base.¹⁵⁴

¹⁴⁴ Ofcom, 2021. [Annual Monitoring Update on Postal Services: Financial Year 2020-21](#), p57. [Accessed 27/06/22].

¹⁴⁵ CWU is the biggest union for the communications industry in the UK with almost 200,000 members. It represents members in postal, telecom, mobile, administrative and financial companies including Royal Mail Group, UK Mail and BT, Telefonica O2, Virgin Media, EE and Santander, as well as outsourcing company Capita. Its members' expertise includes engineering, computing, clerical, mechanical, driving, retail, financial, call centre and manual skills. (CWU, [What the union does](#) [Accessed 27/06/22]; CWU and Royal Mail, 2020. [Key Principles Framework Agreement \(The Pathway to Change\)](#) [Accessed 27/06/22]).

¹⁴⁶ Royal Mail plc., [Annual Report and Financial Statements 2020-21](#), p9 and 19. [Accessed 27/06/22].

¹⁴⁷ Royal Mail plc., [Full Year Results 2020-21](#), slide 22 [Accessed 27/06/22], £208m management restructure, £100m plus Pathway to Change, £110m non people cost programme.

¹⁴⁸ Royal Mail plc., [Results for the full year ended 27 March 2022](#), p1. [Accessed 27/06/22].

¹⁴⁹ Royal Mail plc., [FY 2021-22 Results Presentation Transcript](#), p19. [Accessed 27/06/22].

¹⁵⁰ Royal Mail plc., [Full Year Results 2020-21](#), slide 13. [Accessed 11/07/22].

¹⁵¹ Royal Mail plc., [Full Year Results 2021-22](#), slide 16. [Accessed 27/06/22].

¹⁵² Royal Mail plc., [Annual Report 2021-22](#), p7. [Accessed 11/07/22].

¹⁵³ Royal Mail plc., [Annual Report and Financial Statements 2020-21](#), p9. [Accessed 05/07/22].

¹⁵⁴ Royal Mail plc., [FY 2021-22 Results Presentation Transcript](#), p11. [Accessed 27/06/22].

- 4.20 Automation targets were reported to have been achieved.¹⁵⁵ The 50% reported corresponded to the percentage of “parcels automated at least once” and not the percentage of parcels processed fully automatically, which is a lower proportion of total parcels [3<].¹⁵⁶

Royal Mail has ambitions to improve efficiency

- 4.21 In its 2020-21 Annual Report, Royal Mail stated that “Royal Mail must become more efficient and flexible to compete effectively in the parcel and letter markets. The success of our strategy relies on the effective control of costs and delivery of efficiency and productivity benefits across all areas of the business. Failure to effectively control costs while at the same time delivering high-quality services could result in a loss of customers, market share and revenue.”¹⁵⁷ It also recognised that it was “developing a plan as part of our UK transformation to underpin the sustainability of the Universal Service Obligation. This will help us become even more efficient and better placed to respond to changing customer demands.”¹⁵⁸
- 4.22 It reiterated this view in its year end results for 2021-22, noting “We are now at a crossroads. We need to deliver the benefits from change more quickly to deliver sustainable growth. We have made significant operational change already, but this needs to translate into real efficiency savings which deliver a financial benefit next year and beyond. Delivery of our existing agreements and the successful transition into the next agreements, as part of the current negotiations with the CWU, will be key to future profitable growth. We have made a substantial pay offer to our people which will enable the change we need to remain competitive, grow and secure their jobs for the future. Our market is changing quickly, and agility in our response is key.”¹⁵⁹
- 4.23 Royal Mail set out in its 2021-22 results presentation, its ambition to save more than £350m of costs through management restructuring, Pathway to Change, automation, the removal of residual Covid-19 costs and non-people cost reductions.¹⁶⁰
- 4.24 Automation improvements are planned from the opening of its first parcel hub in Warrington which occurred on 16 June 2022, two years later than the original time horizon set out in Journey 24.¹⁶¹ Royal Mail stated “This is a giant step forward in our journey to 90% parcel automation by the end of next year” and that its Midlands Super hub, based in Daventry, is on track to open in Summer 2023.¹⁶² In addition to the opening of parcel hubs, Royal Mail is seeking to increase automation by rolling out parcel sorting machines, aiming

¹⁵⁵ Royal Mail plc., [Results for the full year ended 27 March 2022](#), p1. [Accessed 27/06/22]; Royal Mail plc., [Annual Report and Financial Statements 2020-21](#), p14.

¹⁵⁶ [3<].

¹⁵⁷ Royal Mail plc., [Annual Report and Financial Statements 2020-21](#), p48.

¹⁵⁸ Royal Mail plc., [Annual Report and Financial Statements 2020-21](#), p51.

¹⁵⁹ Royal Mail plc., [Results for the full year ended 27 March 2022](#), p5.

¹⁶⁰ Royal Mail plc., [Full Year Results 2021-22](#), slide 22.

¹⁶¹ Royal Mail plc., [Journey 2024 presentation](#), slide 98. [Accessed 27/06/22].

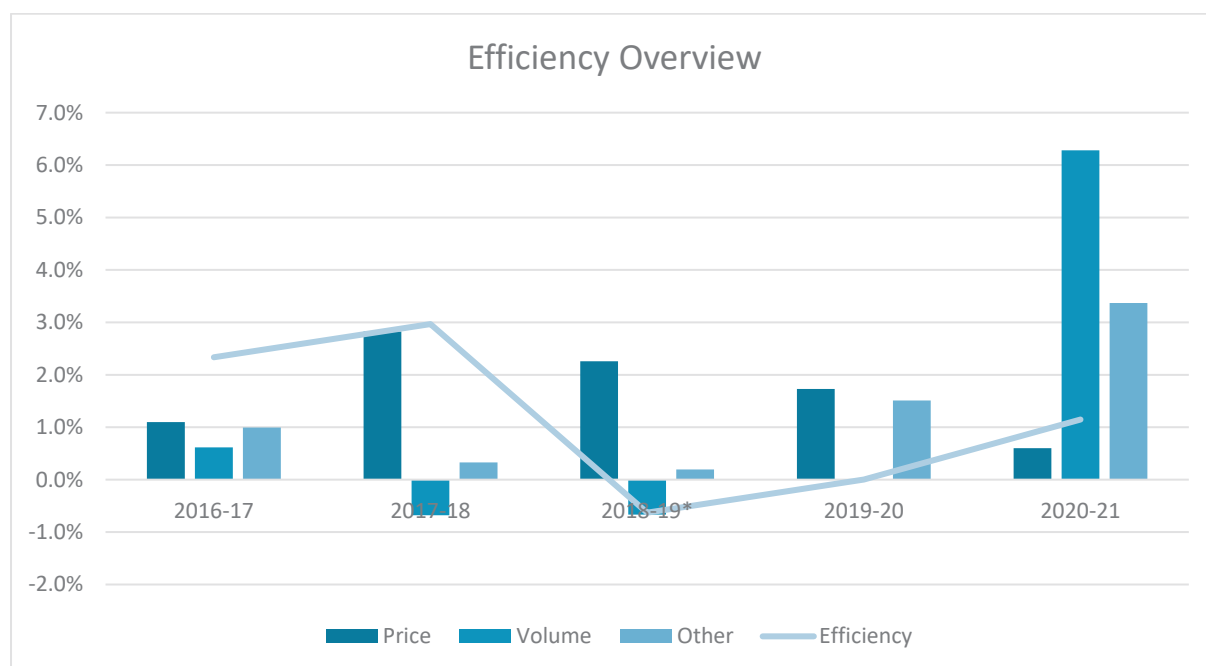
¹⁶² Royal Mail plc., [Royal Mail opens new automated super hub](#). [Accessed 04/07/2022].

to roll out 39 by October 2022.¹⁶³ This aligns with the ambitions originally set out in Journey 24.

Overview of Efficiency Performance since our last Review

4.25 In summary, Royal Mail has made some progress to become more efficient under the current framework, however progress has been limited; on average achieving around 1% per annum efficiency, as illustrated using the PVEO metric from our AMUs, summarised in the chart below.

Figure 4.1: Summary of Efficiency Performance



Source: [Annual Monitoring Updates 2016-2021](#). *2018-19 is accounted for by Royal Mail as a 53-week year. Data presented as 52-week equivalent.

4.26 We have compared performance to date against ambitions set out by Royal Mail which further illustrates this point. Since our last review, Royal Mail has set out short-term ambitions in its annual market updates and in the Pathway to Change agreement (2020), plus longer-term ambitions in its five year “Journey 24” plan (2019).¹⁶⁴ In these documents, there are consistent themes including productivity, the creation of new parcel hubs, and greater parcel automation. Some ambitions, such as the consolidation of parcel deliveries into new dedicated routes have been under discussion with the CWU. We have compiled an analysis of performance against the Journey 24 targets in Table 4.2, redacting or leaving blank where Royal Mail has not reported publicly against a target.

¹⁶³ Royal Mail plc., [Royal Mail rolls out new fully automated parcel sorting machine in Southampton](#). [Accessed 08/07/2022].

¹⁶⁴ Royal Mail plc., 2019. [Journey 24 presentation](#); Royal Mail plc., 2021; [Trading Update](#), p3. [Accessed 27/06/22; CWU and Royal Mail, 2020. [Key Principles Framework Agreement \(The Pathway to Change\)](#) [Accessed 27/06/22]].

Table 4.2: Royal Mail's Journey 24 ambitions and progress

	Ambition 2019-20 to 2023-24 ¹⁶⁵	Actual 2018-19 ¹⁶⁶ (baseline) ¹⁶⁷	Actual 2019-20 ¹⁶⁸	Actual 2020-21 ¹⁶⁹	Actual 2021-22 ¹⁷⁰
Parcel Automation	>80%	12%	33%	33%	50% ¹⁷¹
Productivity	Cumulative 15-18%	0.9%	c.1.9%	c.4.0%	c.3.8%
	In year	0.9%	1%	2.1%	-0.2% ¹⁷²
Parcel Sorting Machines	40	10	20	20	25
Parcel Hubs	3	0	0	0	0
Combined Routes	c50,000	c60,000			
Dedicated Parcel Routes	C7,000	0			
Avoided Costs	Cumulative £1bn	£107m	£295m		
	In year	£107m ¹⁷³	£188m		£110m
Transformation Operating Costs	c.150m pa ¹⁷⁴	£133m ¹⁷⁵	£130m	£95m ¹⁷⁶	£92m ¹⁷⁷
Core Hours	-3% pa	-1.1%	-1.4%	+5.1% ¹⁷⁸	[>] ¹⁷⁹

Sources: Royal Mail's "Journey 24" 2019 Market guidance and 2019-21 Annual Results.

Our proposals

4.27 In our December consultation we noted our concerns with Royal Mail's progress since 2016, and the importance of efficiency to longer term financial sustainability. However, we did not think reintroducing price controls or attempting to set efficiency targets would support the delivery of efficiencies. We thought continuing to allow Royal Mail commercial

¹⁶⁵ Royal Mail plc., 2019. [Journey 24 presentation](#), p11, 12, 40 and 103. [Accessed 11/07/22].

¹⁶⁶ 2018-19 is accounted for by Royal Mail as a 53-week year. Data presented as 52 week equivalent.

¹⁶⁷ Royal Mail plc., 2019. [Journey 24 presentation](#), p11,12, 24. [Accessed 11/07/22].

¹⁶⁸ Royal Mail plc., [Full Year 2019-20 Results and Business Update](#), p15 & 34. [Accessed 11/07/22].

¹⁶⁹ Royal Mail plc., [Full Year Results 2020-21](#), p13 & 46. [Accessed 11/07/22].

¹⁷⁰ Royal Mail plc., [Full Year Results 2021-22](#), p42, 44 & 47. [Accessed 11/07/22].

¹⁷¹ Automated at least once.

¹⁷² Royal Mail plc., [Annual Report 2021-22](#), p7. [Accessed 11/07/22].

¹⁷³ Royal Mail plc., [Full Year Results 2018-19](#), p3. [Accessed 11/07/22].

¹⁷⁴ Royal Mail plc., [Full Year Results 2018-19](#), p5. [Accessed 11/07/22].

¹⁷⁵ Royal Mail plc., [Full Year Results 2018-19](#), p3. [Accessed 11/07/22].

¹⁷⁶ Royal Mail plc., [Full Year Results 2020-21](#), p32.(split £40m people transformation excluding redundancy costs and £45m non people). [Accessed 11/07/22].

¹⁷⁷ Royal Mail plc., [Full Year Results 2021-22](#), p30.(split £34m people transformation excluding redundancy costs (£6m lower than PY) and £58m non people). [Accessed 11/07/22].

¹⁷⁸ Royal Mail plc., [Royal Mail Annual Report and Financial Statements 2020-21](#), p72. [Accessed 11/07/22].

¹⁷⁹ Royal Mail productivity file within the Cost Metrics submission 2021/22.

and operational flexibility would give Royal Mail the strongest incentives to make efficiency improvements, and that strengthening our monitoring regime with increased transparency would support greater scrutiny. Therefore we proposed:¹⁸⁰

- a) To maintain our current overall approach to efficiency, which is to provide Royal Mail with commercial and operational flexibility to make the necessary efficiency improvements, underpinned by an active monitoring regime.
- b) To require Royal Mail to provide to Ofcom, every five years, a confidential forecast consistent with the efficiency change it expects to achieve across the five-year period starting in 2023-24. The date of the first submission was proposed as the 31 May 2023.
- c) To require Royal Mail to publish selected metrics of its efficiency expectations from the confidential forecast.
- d) That in the five years that follow, Royal Mail would also be required to publish annually its actual performance against its expectations. We also proposed to require Royal Mail to explain the reasons for any divergence from the forecast.
- e) That Royal Mail set its forecast and efficiency expectations upfront and that they would not be amended in the intervening years, unless there were exceptional circumstances.
- f) As part of our monitoring regime, to receive an annual financial forecast (as described in Chapter 3) and continue to require Royal Mail to provide information on actual performance.

Consultation responses

Our assessment of Royal Mail's efficiency achievements and the potential for improvement

- 4.28 All respondents recognised the efficiency challenges facing Royal Mail. Royal Mail believes it has delivered on efficiency where it can but accepts that there is more to do.¹⁸¹ CWU disagreed with Ofcom's assessment of Royal Mail's recent efficiency achievements and cited examples of improvements made since the introduction of its modernisation programme in 2008 including the reduction in mail centres, automated walk sequencing and hundreds of millions saved on cost avoidance programmes through hours reductions and operational efficiency.¹⁸²

Our approach of promoting efficiency improvements while providing Royal Mail with commercial freedoms to secure the USOs sustainability

- 4.29 Several respondents were in favour of maintaining the existing arrangements, believing they provide regulatory certainty, sufficient incentives and/or that alternatives could

¹⁸⁰ Ofcom, 2021. [Consultation: Review of postal regulation](#), p40 to 42. [Accessed 11/07/22].

¹⁸¹ Royal Mail response to our December 2021 consultation, p10 & 63.

¹⁸² CWU response to Our March 2021 Call for Inputs, p5.

produce unintended consequences.¹⁸³ Some respondents also highlighted that Royal Mail faces sufficient challenges in the current market and any significant regulatory shifts by Ofcom could prove disruptive.¹⁸⁴

- 4.30 The majority of respondents supported Ofcom taking more action, in relation to ensuring that the provision of the universal service is efficient before the end of a reasonable period and continues to be efficient at all subsequent times.¹⁸⁵

Our view that reintroducing price controls or attempting to set efficiency targets would not support delivery of efficiencies

- 4.31 Some stakeholders argued that Ofcom should go further, several suggesting the imposition of price controls or efficiency targets on Royal Mail.¹⁸⁶ MCF and MUA reasoning for this was that Royal Mail did not have adequate incentives to make efficiency improvements due to its monopoly in mail and lightweight parcels delivery.¹⁸⁷ The MCF and PPA asked for Ofcom to elaborate on the difficulties it envisages in setting binding targets.¹⁸⁸ Whistl argued Ofcom could address issues it envisages in setting targets by using Royal Mail's business plan targets and then using them as binding targets (much like QoS).¹⁸⁹

Our proposal to increase transparency by requiring Royal Mail to publish its 5-year efficiency expectations

- 4.32 Many stakeholders welcomed our proposals.¹⁹⁰ The greater transparency that this would provide to the public was supported by most stakeholders and seen as important in light of Ofcom's statutory duty to have regard to the need for the provision of the universal service

¹⁸³ Citizens Advice Scotland response to our December consultation p2; CWU response to our December consultation, p2; Royal Mail response to Our December consultation, p63.

¹⁸⁴ Royal Mail response to our March CFI, p8; CWU response to our March CFI, p8; Amazon, response to our December consultation, p4-5.

¹⁸⁵ ACNI response to our December consultation, p4; ACS response to our December consultation, p4; CitiPost response to our December consultation, p19; Citizens Advice, response to our December consultation, p19; Citizens Advice Scotland, response to our December consultation; DX, response to our December consultation, p7; Mail Competition Forum response to our December consultation, p7 to 8; Mail Users Association response to our December consultation, p6; Pitney Bowes, response to our December consultation; Professional Publishers Association (PPA) response to our December consultation, p5; Quadiant response to our December consultation, p2; Rural Services Network, response to our December consultation, p2; techUK response to our December consultation, p3; Whistl response to our December consultation, p3; UK Mail, response to our December consultation, p2; [3<].

¹⁸⁶ DX, response to our December consultation, p7; Mail Competition Forum, Response to our March CFI, p7; Mail Users Association response to our December consultation, p6; The Delivery Group response to our March CFI, p1; UK Mail response to our December consultation, p2.

Whistl response to our March CFI, p8; [3<].

¹⁸⁷ Mail Competition Forum, Response to our March CFI, p7; Mail User's Association response to our December consultation, p6.

¹⁸⁸ Mail Competition Forum, response to our December consultation, p8; Professional Publishers Association response to our December consultation, p3 to 4.

¹⁸⁹ Whistl response to our December consultation, p3.

¹⁹⁰ ACS response to our December consultation, p4; ACNI response to our December consultation, p4; Centre for Effective Dispute Resolution response to our December consultation, p1; Citizens Advice response to our December consultation, p19; Rural Services Network response to our December consultation, p2; Welsh Government response to our December consultation, p2.

to be efficient before the end of a reasonable period.¹⁹¹ However, some stakeholders considered that our proposals did not go far enough (see 4.31). UK Mail stated “there has been very little evidence of Ofcom having a clear understanding of Royal Mail efficiency...adding another five years of monitoring seems wholly inadequate”.¹⁹²

- 4.33 CWU and Royal Mail opposed our proposal to increase transparency by requiring Royal Mail to publish its 5-year efficiency expectations, arguing there is already transparency without regulatory oversight.¹⁹³ Royal Mail and Post Office questioned whether a five-year expectation would increase transparency beyond what Royal Mail currently report on.¹⁹⁴ CWU opposed our proposals believing it risked prioritising cost cutting over investment and innovation, threatening universal service quality and postal jobs.¹⁹⁵ The Welsh Government agreed with our proposal as a whole but stated that future changes by Royal Mail must take into account the workforce and be consulted on.¹⁹⁶
- 4.34 Royal Mail believed that Ofcom’s proposal was not ‘fit for purpose’ and that Ofcom should instead rely on the set of metrics published in Royal Mail’s medium-term market guidance.¹⁹⁷ In its view, this was because:
- a) the transparency proposed will be too technical or high level for the public to contribute meaningfully.¹⁹⁸
 - b) the proposals did not meet the principles for imposing new regulation set out in CA 2003¹⁹⁹ highlighting the increased cost of compliance, the risk of publishing confidential data or publication of measures that may provide insight on Royal Mail’s commercial strategy, its impacting market shares and profitability.²⁰⁰
 - c) It also may find savings not captured by the regulated expectations, giving a misleading picture to the public about Royal Mail’s efficiency.²⁰¹
- 4.35 Royal Mail also argued if Ofcom thought additional measures beyond its proposed market guidance approach were needed, Ofcom should consider setting out whether it views Royal Mail’s efficiency ambition set out in the plan is “within reasonable range” as it believes this clarity from Ofcom would create transparency, increase stakeholder confidence and provide credibility to Royal Mail’s plan. It suggested in this scenario, if

¹⁹¹ ACNI response to our December consultation, p4; Mail Users Association response to our December consultation; Pitney Bowes response to our December consultation; TechUK response to our December consultation, p3; Whistl response to our December consultation, p3.

¹⁹² UK Mail response to our December consultation, p2.

¹⁹³ CWU response to our December consultation, p2; Royal Mail response to our December consultation, p65.

¹⁹⁴ Royal Mail response to our December consultation, page 65 to 66, Post Office response to our December consultation, page 3.

¹⁹⁵ CWU response to our December consultation, p2.

¹⁹⁶ Welsh Government response to our December consultation, p2.

¹⁹⁷ Royal Mail response to our December consultation, p65.

¹⁹⁸ Royal Mail response to our December consultation, p62, 65, 66 and 68.

¹⁹⁹ [Communications Act 2003](#) sets out Ofcom’s duty and power to set conditions. [Accessed 27/06/22].

²⁰⁰ Royal Mail response to our December consultation, p67.

²⁰¹ Royal Mail response to our December consultation, p66.

Ofcom think that the level of efficiency is not reasonable, Royal Mail would look again and collaborate with Ofcom to identify efficiency opportunities.²⁰²

Our shortlist of metrics for publication

4.36 No stakeholders responded in relation to the shortlist of possible efficiency metrics on which we consulted.

Our decision

4.37 In this section, we explain the following:

- a) Why we have decided to maintain our current overall approach to efficiency, which is to provide Royal Mail with commercial and operational flexibility to make the necessary efficiency improvements, underpinned by an active monitoring regime.
- b) Why we do not think it would be appropriate or proportionate to impose price controls or set efficiency targets.
- c) Despite maintaining our overall approach, why we have decided that some changes to the monitoring regime are required, including:
 - i) To require Royal Mail to provide to Ofcom, every five years, a confidential forecast consistent with the efficiency change it expects to achieve across the five-year period starting in 2023/24 ('five-yearly financial forecast').
 - ii) To require Royal Mail to publish efficiency expectations from the five-yearly financial forecast using certain metrics. These metrics will include a measure of overall efficiency using either **PVEO** or **PVE** (the inclusion of "other" or otherwise will be consulted on in our forthcoming consultation on regulatory reporting). The other metric will be a measure of operational efficiency - **Productivity (WIPGH)**.
 - iii) That in the five years that follow, Royal Mail will be required to publish annually its actual performance against its expectations. We will consult separately, as part of our forthcoming consultation on regulatory reporting, on the information to be provided by Royal Mail alongside publication of its actual performance.
 - iv) That Royal Mail set its five-year efficiency expectation upfront and that the five yearly financial forecast and the expectations are not amended in the intervening years.
- d) We will continue, as part of our monitoring regime, to receive the annual financial forecast (as described in Chapter 3) and require Royal Mail to provide information on actual performance.
- e) Our proposals for what will be required to implement these decisions, including, the basis of preparation of the metrics, their presentation and the specific confidential

²⁰² Royal Mail response to our December consultation, p68.

forecast and actual information needed for our efficiency regulatory reporting regime will be discussed in our forthcoming regulatory reporting consultation.

The existing approach of commercial and operational flexibility underpinned by an active monitoring regime remains appropriate

- 4.38 We consider that market conditions and shareholder pressures provide Royal Mail with incentives to make efficiency gains in order to maximise profits (and ultimately shareholder returns). Indeed, as noted in Chapter 3, our analysis suggests that efficiency gains are critical for the USO to be sustainable, as Royal Mail cannot rely on revenue increases alone. Furthermore, we remain of the view that Royal Mail is best placed to identify and implement efficiency improvements and to manage its activities in a way that provides the best opportunity to secure the sustainability of the USO.
- 4.39 As a result, we think it is appropriate to give Royal Mail the commercial and operational flexibility to respond to these incentives to modernise and improve its efficiency performance and transform its business. However, we recognise that strong incentives do not automatically lead to changes in practice, so it is important that, as well as providing Royal Mail with commercial and operational flexibility, we continue to closely scrutinise Royal Mail's efficiency ambitions and performance via an effective monitoring regime.
- 4.40 We therefore consider it is necessary to maintain an active monitoring regime alongside the commercial and operational flexibility afforded to Royal Mail.

Reintroducing price controls or setting efficiency targets would not better support the delivery of efficiencies

- 4.41 Some stakeholders argued that price controls on the absolute level of Royal Mail's prices (beyond the existing safeguard cap on Second Class USO services) would create further incentives on Royal Mail to become more efficient.²⁰³ Having considered these arguments, we have decided imposing price controls would provide limited benefits which are outweighed by material additional costs and risks at this point in time.
- 4.42 We recognise that imposing price controls would constrain Royal Mail's ability to increase prices (in lieu of efficiency gains).²⁰⁴ However, in practice, we think that imposing price controls is likely to have limited additional benefits and potentially higher costs and risks in this case for the following reasons:
- a) As described above, Royal Mail is already under pressure to transform and make progress on efficiency. In this context, commercial flexibility may create stronger

²⁰³ Whistl response to our March CFI, p8; DX, response to our December consultation, p7; Mail Users Association response to our December consultation, p6; [3<].

²⁰⁴ Citizens Advice response to our December consultation, p19; DX response to our December consultation, p6; Mail Competition Forum response to our December consultation, p8; Mail Users' Association response to our December consultation, p6; Professional Publishers Association response to our December consultation, p4; Quadiant response to our December consultation, p1.

incentives to improve efficiency than introducing additional price controls because Royal Mail keeps the full benefit of any improvement.

- b) There is a material risk that a price control could constrain Royal Mail's commercial flexibility to respond to market changes quickly and effectively – which, in our view, is an essential element in it addressing its efficiency (and ultimately, sustainability) challenges.
- c) Price controls could result in unintended consequences and introduce a greater risk of regulatory failure.²⁰⁵ We also note that Postcomm operated a price control regime, which The Hooper Report ultimately found to be ineffective.²⁰⁶ Royal Mail knows its business best and is therefore best placed to run its business and identify and deliver efficiency.
- d) Royal Mail already faces some constraints on its ability to increase prices, e.g. through the Safeguard Cap on Second Class USO services, e-substitution in bulk letters, and from end-to-end competition in parcels.

4.43 In relation to the concerns around excessive pricing raised by stakeholders, we note that although we have given Royal Mail commercial flexibility to set access charges, Royal Mail's regulatory accounts suggest that it has not been setting charges at levels which are significantly above costs. As volumes decline Royal Mail's unit costs increase, so price increases need not automatically imply higher or excessive profits. Royal Mail's regulatory accounts indicate that Royal Mail has been setting access charges below its fully allocated costs in the last three years. Moreover, and as highlighted in Chapter 3, Royal Mail's performance in 2021/22, was below its own projections. Furthermore, our analysis suggests that Royal Mail has considered the impact that price increases may have on long-term revenue, and as such we believe its recent access pricing decisions have been consistent with supporting the financial sustainability of the universal service. For more details see our discussion on access pricing in Chapter 8.

4.44 We also considered the possibility of us imposing efficiency targets on Royal Mail. However, as described above, Royal Mail is best placed to identify the efficiency opportunities it can achieve, and it has strong incentives to develop realistic expectations and make progress against them. In contrast, as with price controls, there is a risk of regulatory failure and unintended consequences were we to try and set efficiency targets ourselves.

4.45 Overall, we think the risks and potential additional costs of imposing price controls or targets currently outweighs the potential (and rather limited) benefits. Therefore, we are of the view that maintaining Royal Mail's current commercial and operational flexibility combined with our consultation proposals to strengthen the monitoring regime will be the

²⁰⁵ The consequence of this is that price controls can be resource intensive to design and establish.

²⁰⁶ Hooper, 2008. [Modernise or Decline](#). [Accessed 27/06/22]. Hooper was commissioned by the Government to assess the universal postal service and among other things, determined that regulation should be taken over by Ofcom.

most appropriate approach to supporting an efficient and financially sustainable universal service.

Although our overall approach remains the same, we are making some changes to strengthen our monitoring regime

- 4.46 Our current approach, having regard to the need for the USO to be financially sustainable, become efficient within a reasonable time and remain efficient, is to allow Royal Mail considerable commercial and operational flexibility. This flexibility is subject to regulatory safeguards, such as our monitoring regime. In 2017 we thought that commercial flexibility, subject to certain safeguards along with the achievement of a reasonable rate of efficiency improvement, was the most likely means by which Royal Mail would be able to secure the financial sustainability of the universal postal service. We noted that Royal Mail relying on service degradation or price rises without improving its efficiency performance could undermine financial sustainability, affordability and/or reasonable needs of users being met.²⁰⁷
- 4.47 Given the importance of efficiency for future sustainability of the USO and our concerns with Royal Mail's progress in recent years, it is necessary to strengthen our monitoring regime by both obtaining a five-yearly financial forecast and requiring Royal Mail to publish its efficiency expectations across this period using selected metrics. We now explain the rationale for these changes.

An understanding of Royal Mail's efficiency plans and actual progress is relevant to future statutory or regulatory decisions

- 4.48 As described in Chapter 3, Royal Mail's plans, if successfully executed, show an improving sustainability picture, with revenues growing and cost efficiencies being made. However, Royal Mail's performance in 2021-22, which was below its own projections, highlights some risks. [3<]
- 4.49 Historically, we have relied on Royal Mail's own management planning documents for our assessments for efficiency. When we set the current requirements, we did not define the period the plans needed to cover, although at that time, Royal Mail's business plans typically covered a period of up to five years. However, in recent years, Royal Mail's business plans have tended to cover three years or less. The information Royal Mail produces also changes as time passes, as it updates its plans on a regular basis, introducing alternative objectives and ways to measure progress. This approach does not allow for consistent assessment of progress against a clear and stable benchmark over time.
- 4.50 We need to ensure we are informed when considering changes to the statutory or regulatory framework, including in the event that changes are being considered as a result of financial sustainability concerns. For example, we would expect the efficiency of the

²⁰⁷ Ofcom, 2017. [Review of the Regulation of Royal Mail](#). [Accessed 27/06/22].

universal service (and Royal Mail's performance against its own expectations) to be an important consideration in the following circumstances:

- a) If the Government is considering changes to the statutory framework regarding the universal service. In 2020 we published our Review of User Needs which set out our research surrounding what citizens and consumers needed from the universal service.²⁰⁸ [8<].
- b) When Ofcom sets price controls on USO products, including if we are asked to provide Royal Mail with flexibility to raise USO prices as a result of financial sustainability concerns. This is because we are required by section 36(5) of the PSA 2011, when setting prices controls on USO products, to seek to ensure that, amongst other things, the prices provide incentives to provide the service or part of a service efficiently.

4.51 More generally, if in the future Royal Mail's financial sustainability comes under pressure, but we consider Royal Mail could have achieved greater efficiency improvements, we will take such information into account when evaluating any proposals.

Changing our monitoring regime will create an effective benchmark

4.52 Therefore, we need to consider Royal Mail's performance in relation to efficiency against a consistent and relevant benchmark. The best way to create this benchmark is by requiring a forecast from Royal Mail which will be set up front and should not be amended in the intervening years. This change to our monitoring approach is important to create a more effective benchmark of Royal Mail's view of scope for efficiencies and progress against them. Royal Mail will still be required to provide actual data on a regular basis to enable us to be informed about progress as is currently the case.

4.53 The combination of an upfront benchmark and provision of actual data will provide insight into Royal Mail's view of the scope for efficiencies and progress against them, enabling us to identify any sustainability concerns relating to efficiency promptly. Identifying the most appropriate action that we should take to facilitate the financial sustainability and efficiency of the universal service could take time to conclude. It will require due consideration of the causes and context of any concern, and a decision on the most appropriate response, so timely identification of an issue will support our ability to meet our duties.

Five years is the right length for the forecast period

4.54 We explained in Chapter 3 the importance of a five-year forecast for our monitoring regime. The annual financial forecast will give us a high-level view of Royal Mail's assumptions for costs and the efficiency improvements that sit behind them - this will be updated each year. For similar reasons to those for the annual financial forecast we consider that the five-yearly financial forecast period should be five years long. We note that Royal Mail's transformation plans have in the past used a five-year horizon (such as

²⁰⁸ Ofcom, 2020. [Review of User Needs](#). [Accessed 27/06/22].

“Journey 2024”²⁰⁹). Furthermore, some of its capital investments (e.g. parcel hubs) will take longer than three years to have an impact (from inception to operation).

The benchmark should not be updated unless there are exceptional circumstances

- 4.55 We have also considered whether the five-yearly financial forecast used for the benchmark should be updated during the five-year period. However, for the purpose of providing a consistent benchmark that can be used to consider efficiency improvements over the period, we consider that setting the benchmark at the start of the period and using that throughout provides the most straightforward and transparent basis for consideration for both Royal Mail and us.
- 4.56 We recognise that the insights gained from the forecasts will need to consider how circumstances have changed over time (especially those outside Royal Mail’s control), in a manner that would affect the extent of gaps between expectations and under/over performance. Therefore, we are taking an output focused approach that allows Royal Mail to manage its business as it sees fit, while providing forecasting/actual information about overall outputs to give us the insight we require. We also note that the five-yearly financial forecast will be provided alongside the annual financial forecast, which includes requirements for Royal Mail to provide sensitivity and downside analysis (see Chapter 3). Finally, we anticipate Royal Mail may wish to explain the impact of any forecasting error when it comes to the measurement of actual performance against expectations.²¹⁰ We intend to consult on what information should accompany actual performance data in our forthcoming Regulatory Reporting consultation.
- 4.57 We also recognise that there may be exceptional circumstances (such as the recent pandemic) that could mean it makes sense to reset the expectation. Where Royal Mail considers exceptional circumstances have arisen, we think it should seek approval from us that the circumstances warrant a change within the five-year period.

We will consult on the deadline for these financial forecast submissions in our forthcoming Regulatory Reporting consultation

- 4.58 We continue to consider that the 31 May 2023 would be an appropriate deadline for the delivery of the first annual financial forecast as it is provided in conjunction with the first five-yearly forecast. We also think this date would likely be appropriate for the annual financial forecast in subsequent years. However, we will consider the deadlines for the delivery of both the financial forecasts as part of our forthcoming Regulatory Reporting consultation.

Our decision

²⁰⁹ Royal Mail plc., 2019. [Journey 24 presentation](#), p12. [Accessed 27/06/22].

²¹⁰ We will shortly be consulting, as part of our forthcoming consultation on regulatory reporting, on the information that Royal Mail is required to provide alongside publication of its actual performance.

- 4.59 Given the importance of efficiency for future sustainability of the USO and our concerns with Royal Mail's efficiency progress in recent years, we have decided to require Royal Mail to provide to Ofcom the five-yearly financial forecast every five years. Ensuring the time horizon is set to five years, and fixing the forecast for that period upfront, will provide us with an appropriate, consistent reference point against which we can review Royal Mail's performance and plans.
- 4.60 We note that our proposed changes in some cases may increase the burden on Royal Mail (such as a potential increase in burden in the year of submission of the five-yearly financial forecast) but in other cases may decrease the burden (in later years where Royal Mail report against progress). We will explore this in more detail in our forthcoming Regulatory Reporting consultation.

There is value in Royal Mail publishing efficiency expectations, and publishing progress against them, to support greater scrutiny by all stakeholders

- 4.61 While it is for Royal Mail to manage its business activities in a way that provides the best opportunity to secure the sustainability of the USO, we think there is value in some level of public understanding and scrutiny of Royal Mail's efficiency expectations and its progress against them. Measures that promote or enforce transparency are widely used in regulated sectors. This is often because transparency helps hold a company accountable, which is important for the organisation to be trusted, perform well, and focus on good practice. Multiple regulators also draw on transparency tools which often work alongside other mechanisms to create fair and comprehensive regulation of a sector.²¹¹
- 4.62 We think this is particularly relevant here given the wide-ranging commercial flexibility granted to Royal Mail under the current regulatory framework, the increased need for Royal Mail to make efficiency improvements to ensure the sustainability of the USO and its limited progress on efficiency made to date. Therefore, we think stakeholders should have consistent, longer-term information on Royal Mail's own efficiency ambitions and the progress being made against them. Importantly, we note the majority of stakeholders were generally supportive of greater transparency.²¹² We also note that additional transparency about Royal Mail's progress could provide transparency to stakeholders about how Ofcom is fulfilling its duties – a concern of some stakeholders.²¹³
- 4.63 Our current approach allows Royal Mail considerable commercial and operational flexibility. This flexibility is subject to regulatory safeguards, such as our monitoring regime, which provides transparency to our stakeholders above Royal Mail's provision of the universal service. Providing the USO means Royal Mail is responsible to a wider group than just its shareholders and additional transparency is an important aspect of providing this.

²¹¹ For some examples of transparency as a regulatory tool see: Ofcom, 2019. [How Ofcom regulates the BBC: A review](#); Ofgem, [Improving transparency of energy company profits](#); Ofwat, [Monitoring financial resilience](#); Ofwat, [Monitoring Financial Resilience Report, Year ended 31 March 2021](#); FCA, [Transparency as a Regulatory Tool](#).

²¹² ACNI response to our December consultation, p3; MUA response to our December consultation, p6; TechUK response to our December consultation, p2; Whistl response to our December consultation, p2.

²¹³ MCF response to our December consultation, p7; UK Mail response to our December consultation, p2.

Many consumers rely on the universal service provided by Royal Mail for sending letters and parcels, indeed the objective of the universal service is to offer essential services that consumers need and which the market is not otherwise providing. Similarly, competition in bulk letters is underpinned by access to Royal Mail's network for delivery.

- 4.64 Since Royal Mail's efficiency is a factor in price rises, transparency is relevant for building consumer confidence and trust. Indeed, several stakeholders raised concerns around recent price rises without clarity over Royal Mail's efficiency plans or progress.²¹⁴ The current regulatory approach is predicated on a safeguarding monitoring regime, the aims of which include giving sufficient transparency, and clarity of the way that Ofcom is fulfilling its duties.
- 4.65 We do not consider that, currently, there is sufficient transparency in relation to Royal Mail's efficiency ambitions and progress. In particular, we consider that external stakeholders may find it difficult to benchmark and track Royal Mail's efficiency performance in a meaningful way. We think the additional transparency we are imposing will provide the information they need on a consistent basis and whether sufficient progress is being made on efficiency, to help build confidence and trust.
- 4.66 Furthermore, we raised concerns above about the transparency and clarity of Royal Mail's efficiency progress and plans which could better inform Government's decisions on potential future changes to the universal service. We think that publication ensures that the dialogue on efficiency with Ofcom and Government is informed by, and consistent with, the dialogue that Royal Mail is having with its stakeholders in the context of its commercial incentives. We think this will improve the quality of dialogue with Ofcom and Government – making our monitoring regime more effective. Publication of the expectations also provides information on Royal Mail's longer-term expectations to its shareholders, which may help support the system of commercial incentives to the extent this information is not already visible to them.
- 4.67 We have therefore decided that it is both appropriate and proportionate to require published expectations from Royal Mail and in each of the five years that follow, that Royal Mail publish actual performance against them. We consider this will address the concerns with existing transparency described above, by providing a fixed benchmark, based on efficiencies which Royal Mail considers achievable and against which performance can be measured on a regular and consistent basis. In selecting which metrics to publish, we have also tried to address some of the limitations of the currently available data, by considering if they are output based, simple and reliable, to maximise the benefits of this transparency while also protecting confidentiality (see discussion below). As a result, we expect this approach to increase stakeholders' understanding of Royal Mail's progress on efficiency and provide a public reference point for future considerations of Royal Mail's efficiency.

²¹⁴ ACS response to our December consultation, p4; Citizens Advice response to our December consultation, p19; DX response to our December consultation, p7; MCF response to our December consultation, p8; MUA response to our December consultation, p6; Professional Publishers Association response to our December consultation, p3.

Many stakeholders supported this approach.²¹⁵ We think the transparency we are imposing is proportionate in light of the commercial and operational flexibility we grant Royal Mail as part of our overall approach.

- 4.68 There is value in getting external review by giving informed external stakeholders the opportunity to review and comment. Ofcom will take any comments into account as part of the overall evidence base. As such we disagree with Royal Mail's view that Ofcom is outsourcing a technical exercise to the public.²¹⁶
- 4.69 We remain of the view that Royal Mail is best placed to manage its activities in a way that provides the best opportunity to secure the sustainability of the USO. We think our new regulation aligns with this approach as it leaves Royal Mail in overall control for identifying the scope for and delivery of efficiency improvements. Therefore we disagree with CWU's argument that publishing an efficiency expectation risks prioritising cost cutting over investment and innovation, threatening universal service quality and postal jobs. Our approach enables better transparency, while giving Royal Mail commercial freedom to identify how best to meet its statutory obligations and set expectations for the business in a fashion that meet its objectives.²¹⁷ It also means Royal Mail will have to think about efficiency across a five-year period which will help keep a focus on longer term investment and innovation, rather than short term cost cutting.

We do not consider that Royal Mail's market guidance is sufficient to replace our regulatory requirements

- 4.70 Given Royal Mail is best placed to identify improvements, we also considered Royal Mail's suggestion that we use metrics from its medium-term efficiency-related market guidance instead of the metrics consulted upon.²¹⁸ We agree this proposal could in theory allow some public scrutiny of Royal Mail's efficiency expectations and could therefore provide some of the benefits associated with our regulatory decision.
- 4.71 However, the extent of these benefits is heavily dependent on the type and frequency of information provided in the market guidance. Given our duties, we are seeking a longer-term perspective on Royal Mail's efficiency planning, and a regular, consistent, approach to efficiency transparency. Royal Mail's medium-term guidance appears to only have been offered once in recent times (Journey 2024 in 2019) and has a number of limitations. We think there is limited public visibility of Royal Mail's ambitions, and where information is available, it is not always expressed on a consistent basis, is narrow in scope and/or can be challenging to interpret. In relation to Royal Mail's published efficiency ambitions from its market guidance and the subsequent actual information provided in full year results:²¹⁹

²¹⁵ ACNI response to our December consultation, p3; ACS response to our December consultation, p3; Citizens Advice response to our December consultation, p19.

²¹⁶ Royal Mail, response to Our December consultation, p62, 65 and 66.

²¹⁷ CWU response to our December consultation, p2.

²¹⁸ Royal Mail response to our December consultation, p65.

²¹⁹ Royal Mail plc., 2019, [Journey 24 presentation](#). [Accessed 11/07/22]; See Table 2.

- a) The published metrics are often input based, using metrics such as *% automation and number of revisions*, rather than outcomes focused. Although input/operational-based metrics can be informative about the drivers of efficiency outcomes, they do not necessarily show efficiency gains in and of themselves.²²⁰
- b) Metrics adopted typically do not provide an overall view of efficiency. Instead, they are selected to represent areas of focus for a given year. This makes an overall consideration of efficiency progress challenging.
- c) Different metrics are used in different years and their definitions evolve, making it difficult to understand or track. For example, while core hours have been adopted by Royal Mail for many years, in 2021-22 the metric was not reported.²²¹ Similarly, the definition of parcel automation used in 2021-22 appears to have changed.²²²
- d) Metrics can be dropped as management shifts its messaging. For example, cost avoidance ambitions which were set in Journey 24 (in 2019), while normally published annually, were not published in 2020-21. Similarly, hours reductions were not reported in 2021-22.²²³

4.72 Without a regulatory requirement, Royal Mail is not required to consistently publish a five-year perspective on its efficiency plans and progress. Similarly, subsequent reporting on actual performance against this guidance has been variable. Therefore, while Royal Mail may choose to change how it communicates to the market about efficiency ambitions and achievements, we do not think this is sufficient for our regulatory purposes given our duties and the benefits of increased transparency described above.

Ofcom's role under this approach

4.73 Royal Mail also argued that if Ofcom thought additional measures beyond its proposed market guidance approach were needed, Ofcom should consider determining if its efficiency ambition is “within a reasonable range”.²²⁴ Comments from other stakeholders were concerned about the adequacy of the expectations and the actions Ofcom might take if Royal Mail does not meet its own expectations.²²⁵ As noted above, Royal Mail is best placed to identify the efficiency opportunities it can achieve, and it has strong incentives to develop realistic expectations and make progress against them. Our overall approach in this review centres on allowing Royal Mail sufficient commercial flexibility to ensure that it has the levers it needs to best respond to the changing market environment and so provide a financially sustainable and efficient universal service. It is not our role to micromanage Royal Mail's business, including when setting its ambitions nor in the delivery of its performance.²²⁶ Similarly, we do not think it would be appropriate to fetter our discretion

²²⁰ Royal Mail plc., [Full Year Results 2021-22](#), p44. [Accessed 11/07/22].

²²¹ See 4.20

²²² See 4.20

²²³ Table 4.2

²²⁴ Royal Mail response to our December consultation, p63.

²²⁵ ACNI response to our December consultation, p3; MCF response to our December consultation, p8, Mail User's Association response to our December consultation, p6.

²²⁶ Hooper, 2008. [Modernise or Decline](#). [Accessed 05/07/22].

at this stage as to how we may respond if Royal Mail falls short of its published efficiency expectations, as this will depend on a range of factors.

4.74 However, we are satisfied that the package of changes will enable a feedback loop that will reflect Royal Mail's performance:

- a) The proposed confidential reporting will help ensure we are well informed if requested by the Government to advise on the universal service or regulatory decisions; and
- b) the transparency requirements will provide all stakeholders with visibility of Royal Mail's expectations, ensuring appropriate public scrutiny of progress given its role as universal service provider.
- c) Furthermore, when Royal Mail publishes its efficiency expectations we will consider if commentary on the expectations from Ofcom is appropriate.

4.75 Lastly, we recognise there may be some costs and risks associated with imposing these requirements and have been mindful of these in designing our implementation proposals to try and minimise them while still achieving our aims. Below we explain how we selected the metrics to be published, and in our forthcoming regulatory reporting consultation, we will set out our full proposals for how these metrics should be defined and calculated, and how we will implement these changes.

The published metrics

4.76 We have set out above why we consider it is appropriate to require Royal Mail to publish five-year efficiency expectations in 2023 (and every five years thereafter), and to publish its progress against them annually. In this section, we explain our decision that these expectation forecasts will be for the metrics **PVE (or PVEO)** and **productivity** which are two of the five metrics proposed at consultation:

- a) **PVE (or PVEO)** provides an overall measure of efficiency by disaggregating annual cost movements by driver; "Price" (or inflation), "Volume", "Efficiency" and, in the case of PVEO, "Other" (one-off costs outside of management control). The calculation is done by cost type (e.g. frontline people costs by business area, fuel etc) and the total calculated for the Reported Business.
- b) **Productivity** is a non-financial metric adopted by Royal Mail and calculates the rate of work by taking the ratio of workload (weighted volumes) to gross (paid) hours.

We consulted on a shortlist of metrics that we considered would be most appropriate

4.77 In the December consultation, we considered a range of potential metrics, and proposed that some or all of the following could be appropriate:

- a) **PVE analysis** takes account of both changes in input price inflation and changes in volumes to identify the effects of efficiency improvements but may be harder for some stakeholders to understand.

- b) **Productivity - Weighted Items per Gross Hours (WIPGH)** accounts for the rate of work throughput – and therefore provides a useful measure of productivity – but does not capture the effect of changes to pay.
- c) **Change in total real costs of the Reported Business** is easy to understand and clearly covers a broad range of costs. However, changes in real costs might not be very instructive at times of volatile volumes which would cause the underlying costs to change. It also offers little insight into the factors driving the changes in costs.
- d) **Total gross hours** would provide greater coverage than front line hours alone, but, if this was the only metric, we would lose visibility of non-people cost efficiency improvements. In addition, similar to change in total real costs, this metric might not be as instructive at times of volatile volumes.
- e) **Non-people costs of the Reported Business, excluding capital and transformation costs.** This metric is simple and easy to understand and can account for input price inflation if adjusted by CPI inflation. However, given that most of Royal Mail’s costs are people costs, this metric will not capture a significant portion of Royal Mail’s scope for efficiency improvements on its own.

4.78 We also considered some other metrics which could be appropriate but said that we were minded not to use these as part of the regime. These included pay rate change relative to productivity gain and the productivity metric used by Royal Mail and CWU (WIPWH). For the reasons set out in our December consultation we do not think these meet our requirements for publication.

Our chosen metrics

- 4.79 In choosing the metrics for publication we considered both stakeholders comments on how well the metrics met the attributes we set out in our consultation, and the scope of the insight that the metrics provided. The attributes we set out were:
- a) **Output based** – the monitoring of forecast efficiency outcomes (rather than operational inputs) over time is likely to provide a more meaningful benchmark. Although input/operational-based metrics (such as level of automation, number of revisions) can be informative about the drivers of efficiency outcomes, they do not necessarily show efficiency gains in and of themselves. Targeting and monitoring outcomes also gives Royal Mail flexibility to decide how to deliver efficiencies over time, while still demonstrating overall achievements.
 - b) **Simple** – the metrics also need to be simple and easy to understand. Simple metrics will be understandable to all stakeholders. This in turn would help improve the transparency of our monitoring regime and Royal Mail’s accountability. It could also reduce the administrative burden for all parties involved.

- c) **Reliable** – ideally, metrics should accurately show Royal Mail’s efficiency progress, accounting for the fact that the forecast is over a five year period.²²⁷ Given that costs can be driven by changes in volumes and input prices and one-offs (e.g. Covid-19 restrictions), in addition to changes in efficiency, accuracy of a metric could be impacted by the extent to which Royal Mail can separate out these changes, so as to identify the genuine efficiency impact on costs. Furthermore, the level of some metrics can be influenced in ways which are not linked to genuine efficiency performance, thus making the metric less robust/meaningful.
 - d) **Transparent** – some metrics may contain commercially confidential information. In selecting our metrics to use, we will consider the impact that disclosing commercially confidential information would have on Royal Mail and other stakeholders.²²⁸
 - e) **Practicable** – in determining which metrics to adopt, we will also consider the associated administrative costs. In other words, we will seek to adopt the minimum number of metrics needed to achieve our policy objectives.
- 4.80 All of the metrics we proposed at consultation phase are output based, in line with our principles.
- 4.81 The metrics vary in simplicity. Simplicity of metrics brings benefits in terms of ease of comprehension as well as their preparation.²²⁹ Simplicity can be achieved by definition; for example, gross hours is a count of paid hours and as such is easily and readily understood.
- 4.82 Simplicity can also be achieved, when metrics are more complex, by providing clarity on what they represent and setting clear expectations. For example, Royal Mail’s productivity metric (WIPGH) is technically complex but has been used for many years by Royal Mail to inform the market of its non-financial people efficiency ambitions.²³⁰ Hence more technical metrics, including productivity, can fulfil this principle.
- 4.83 Royal Mail argued that PVEO is too technical to be meaningful to other stakeholders.²³¹ We note that, while complex, PVEO is conceptually a simple metric as it provides an overall measure of efficiency. Further, we see no practicable difference in the complexity of PVE or PVEO versus Productivity (WIPGH). Both are technically complex, represent conceptually simple measures and can be communicated simply by publishing expectations and reporting progress against these expectations. Hence, we feel that all metrics proposed could be realised in a simple, transparent manner.

²²⁷ We note that this point was raised by Royal Mail in response to our consultation. a) We also expect the annual commentary Royal Mail can provide on its progress against the expectations (including at the end of the period) will provide it with the opportunity to explain its progress and any context, mitigating the risk that its shareholders and wider stakeholders do not understand its progress such that the information is misleading. Royal Mail response to our December consultation, p67.

²²⁸ We note that this point was raised by Royal Mail and Post Office in response to our consultation. Royal Mail response to our December consultation, p67; Post Office response to our December consultation, p3.

²²⁹ Considered at 4.88 against practicability.

²³⁰ Royal Mail plc., [Full Year 2018-19 Results and Strategy Presentation](#), p8 to 9 gives a high level explanation of Royal Mail’s productivity and ambitions. [Accessed 11/07/22].

²³¹ Royal Mail response to our December consultation, paragraph 2.53.

- 4.84 We also considered the reliability of the various metrics we proposed. We think PVE or PVEO is the most reliable, as it disaggregates cost movements into input price changes, volume effects, and can also control for one-off costs, if “other” is included in the calculation. In choosing PVE or PVEO above the simpler cost metrics of real costs or non-people costs for reliability, we considered the balance between the metric being able to isolate genuine efficiency impacts versus the risk of it being susceptible to influence. We concluded that the risk of influence would be minimised by the rules around the calculation and principles underpinning the metrics which we will consult on in our forthcoming consultation on regulatory reporting.
- 4.85 Regarding the reliability of the non-financial metrics proposed; productivity and gross hours, we considered productivity to be more reliable. Whereas gross hours provides insight into the movement of paid hours, productivity (WIPGH) provides insight into how paid hours have moved relative to the hours movement that would be expected for the same volume at standard performance. It is the ratio of workload (or standard hours) to gross hours. Hence productivity (WIPGH) controls for volume, while gross hours does not. (We do not go into detail on the calculation methods here. Further detail can be found in our 2016 AMU).²³²
- 4.86 As with the comparison of PVEO vs real costs, isolating the efficiency impact is achieved through increased complexity and assumptions which have the potential to be influenced, in this case through the calculation of the workload metric. We will propose how the risk of this can be effectively minimised within our forthcoming consultation on regulatory reporting.
- 4.87 We also considered transparency. We considered that gross hours, real costs and non-people costs could be commercially sensitive, and it could be challenging to present this information in a way that would not be. However, we consider that while the underlying technical detail underpinning PVE or PVEO and the productivity metrics may be commercially sensitive, the output metrics themselves are not. The metrics do not directly provide information on costs or hours and any inference, if at all possible, would be reliant on numerous assumptions on cost/hours movements due to volume and inflation (and potentially one offs). We also note that Royal Mail itself has published five-year projections of its productivity expectations (WIPGH) and cost avoidance.²³³ Cost avoidance is a similar concept to that calculated through PVE or PVEO as it represents the costs saved following adjustments for volume and inflation.
- 4.88 Finally, we considered practicability, i.e. the potential regulatory burden on Royal Mail. All the metrics proposed are already created by Royal Mail either for its own, or regulatory purposes – therefore it is likely the additional regulatory burden of each option would be minimal. We observed that PVEO (a similar metric to PVE) is produced for regulatory purposes alone and is arguably the most complex, and therefore may be slightly higher in terms of burden.

²³² Ofcom, 2016, [Annual Monitoring Update](#), p56, [Accessed 27/06/22].

²³³ Table 4.2

- 4.89 Therefore, taking into account the principles set out in our consultation and feedback from stakeholders we concluded that PVE or PVEO and Productivity (WIPGH) met our requirements. PVE or PVEO provides a financial measure of the overall efficiency of the Reported Business while insight into the efficiency of the operation in terms of rate of work. We consider this combination will provide valuable transparency to Royal Mail's efficiency ambitions and performance.
- 4.90 The overall financial PVE or PVEO measure provides a holistic view of efficiency which addresses Royal Mail's concerns that it may find savings not captured by regulated expectations.²³⁴ The complementary operational Productivity metric provides insight into a key area of focus for Royal Mail as highlighted in its 2021-22 outlook²³⁵ namely addressing productivity levels in its delivery operation and, as set out in its proposals for negotiation with the unions over pay, addressing its inflated absence levels.²³⁶
- 4.91 Monitoring both metrics will address each of the other metrics' potential limitations. We think this combination is broad enough to be meaningful but also capture all potential efficiencies, addressing Royal Mail's concern that it might make changes out of scope of the expectations.²³⁷ Our combination strikes the right balance - capturing all the major costs in the network, while being output based, simple, reliable, transparent, and practicable.

Our decisions

- 4.92 Having carefully considered stakeholder responses, we have decided to:
- a) maintain our current overall approach to efficiency, which is to provide Royal Mail with commercial and operational flexibility to make the necessary efficiency improvements, underpinned by an active monitoring regime.
 - b) make some changes to the monitoring regime including:
 - i) To require Royal Mail to provide to Ofcom the five-yearly financial forecast.
 - ii) To require Royal Mail to publish efficiency expectations from the five-yearly financial forecast using certain metrics. These metrics will include a measure of overall efficiency using either PVEO or PVE (the inclusion of "other" or otherwise will be consulted on in our forthcoming consultation on regulatory reporting). The other metric will be a measure of operational efficiency - Productivity (WIPGH).
 - iii) That in the five years that follow, Royal Mail will be required to publish annually its actual performance against its expectations. We will consult separately, as part of our forthcoming consultation on regulatory reporting, on the information to be provided by Royal Mail alongside publication of its actual performance.

¹⁰⁷ Royal Mail response to our December consultation, p66.

²³⁵ Royal Mail plc., [Full Year Results 2021-22](#), p45. [Accessed 11/07/22].

²³⁶ CWU, [RMG DRP Change Proposals further details, p5](#). [Accessed 11/07/22].

²³⁷ Royal Mail response to our December consultation, p69.

- iv) That Royal Mail set its five-year efficiency expectation upfront and that the five yearly financial forecast and the expectations are not amended in the intervening years.
 - c) We will continue, as part of our monitoring regime, to receive the annual financial forecast (as described in Chapter 3) and require Royal Mail to provide information on actual performance. We will be consulting on the detailed content of the information to be provided in our forthcoming consultation on regulatory reporting.
- 4.93 Given the importance of efficiency for future sustainability of the USO and our concerns with Royal Mail's progress in recent years, we believe that strengthening our monitoring regime by both obtaining a five-yearly financial forecast and requiring Royal Mail to publish its efficiency expectations across this period is important to carry out our statutory duties. The provision by Royal Mail of the five-yearly financial forecast that is not amended in the intervening years, as well as actual performance against upfront expectations, will provide insight into Royal Mail's view of scope for efficiencies and progress against them. This will enable us to consider Royal Mail's performance in relation to efficiency against a consistent and relevant benchmark (set by Royal Mail), thus enabling us to identify any sustainability concerns relating to efficiency.
- 4.94 We note that in recent years, Royal Mail's business plans have tended to cover three years or less and that Royal Mail's transformation plans have in the past used a five-year horizon. The impact of some of Royal Mail's capital investments will also span over a period that is longer than three years (e.g. parcel hubs). Ensuring the time horizon is set to five years, and fixing the forecast for that period upfront, will provide us with a consistent reference point against which we can review Royal Mail's performance and future plans. Having regard to our statutory duties and the importance of efficiency for the future sustainability of the USO, we therefore believe that requiring Royal Mail to provide a five-yearly financial forecast that is not subsequently amended over that period is both objectively justified and proportionate.
- 4.95 For the reasons set out above, we also believe that Royal Mail should be publishing certain efficiency expectations as well as progress against them as this will support greater scrutiny by all stakeholders. We think that increased transparency for all stakeholders is particularly relevant given the wide-ranging commercial flexibility granted to Royal Mail, the limited progress Royal Mail has made on efficiency to date, and the importance of efficiency improvements to ensure the sustainability of the USO. We also believe that these publication requirements will make our monitoring regime more effective by improving the quality of dialogue with Ofcom and the Government.
- 4.96 In reaching our view on publication of the PVE or PVEO and WIPGH metrics, we also noted that these metrics are already created by Royal Mail either for its own, or regulatory, purposes and that the likely additional regulatory burden imposed on Royal Mail would be minimal. We are therefore of the view that our decisions on the publication by Royal Mail of its efficiency expectations and progress against them are both objectively justified and proportionate.

- 4.97 As part of our forthcoming consultation on regulatory reporting, we will be setting out our proposals on the detailed implementation of the above decisions, including preparation of the metrics, their presentation and the specific confidential information needed for the purpose of our regulatory reporting regime. The overall proportionality of our detailed proposals will be considered as part of our consultation exercise.

5. USO letters regulation

Having access to simple, affordable and reliable postal services remains crucially important for customers throughout the UK.

Despite the enormous growth in online communication, around 8 billion letters are still sent each year and 40% of residential postal users in the UK say they would feel cut off from society if they could not send or receive a letter almost every day.

The universal service has a key role in achieving this objective, and consumers continue to greatly value its core characteristics: affordability of the service, uniform tariffs across the UK, and frequent and reliable deliveries.

Having carefully considered consultation responses from stakeholders, we have decided to:

- **Retain the existing scope of USO services**, which we consider continue to meet the reasonable needs of users of postal services in the United Kingdom.
- **Retain the existing price caps on Second Class mail** to ensure affordable prices for basic USO services. We have concluded that the current caps should remain in place until the end of March 2024. We will begin our review of the safeguard caps which will apply from April 2024 onwards later this year.
- **Not impose new requirements on Royal Mail's redirection pricing**, in light of Royal Mail's refreshed 'Concession Redirection' scheme, which came into effect in November 2021, and which largely addresses our affordability concerns.
- **Maintain the current quality of service standards**. Quality of service targets help to ensure users receive the service promised, and that their mail will arrive on time. Our research shows the current quality of service standards remain important for users, and we consider it necessary and appropriate to retain them at their current levels.
- **Retain the current specifications for Special Delivery Guaranteed by 1pm and proof of delivery services**. We have carefully considered Royal Mail's requests, but we are not persuaded that changes to our regulation are necessary to meet users' reasonable needs.
- **Monitor online and offline pricing of Royal Mail's USO services**. We have considered consultation responses on differentials between online and offline prices and have decided to monitor this as part of our ongoing monitoring regime.

Introduction

5.1 This chapter considers the universal service, and postal services offered by Royal Mail as part of the universal service obligation (USO) – in particular, USO letter services.

5.2 The UK postal market has changed significantly in recent years²³⁸, and letter volumes and revenues have continued to decline since 2011, as customers increasingly move towards online communications. We expect this volume to continue to decline over time. Despite

²³⁸ See Chapter 2 – the postal services market and our regulatory framework.

this, the letters market is still significant, with around 8 billion addressed letters²³⁹ being sent each year. The UK letters market can be split into two parts: single piece end-to-end services (mainly USO services) – single letters that individuals or SMEs send via post boxes and post offices (e.g. birthday cards/invoices), which are collected and delivered by Royal Mail; and bulk mail (non-USO) – mail sent in large volumes, typically by larger organisations such as banks or utility providers, which is generally delivered by Royal Mail but can be collected by Royal Mail or alternative access operators (see Chapter 8 – Access regulation – for further details).

5.3 The focus of this chapter is on single piece end-to-end letters services, which are mainly USO services. Royal Mail provides a range of USO letter services (e.g. First Class, Second Class, Redirection and Special Delivery Guaranteed). There is no significant competition in single piece letter services, either from other end-to-end or access operators. Therefore, users of single piece letter services rely almost exclusively on Royal Mail’s universal service. Issues relating to USO parcels regulation are covered in Chapter 7.²⁴⁰ For completeness, we note that USO products also include single piece parcels. Our detailed discussion of USO parcels is set out in Chapter 7 but some of the issues we cover here (including safeguard caps and quality of service) also apply to some USO parcel services.

5.4 The structure of this chapter is as follows:

- a) The current universal service rules;
- b) Overall approach to the USO;
- c) Safeguard caps;
- d) Redirection services;
- e) Quality of service targets;
- f) Ensuring everyone can access USO services;
- g) Special Delivery, Signed For, and additional services;
- h) Meter mail (franking); and
- i) Online and offline USO pricing.

The current universal service rules

5.5 The USO requires the designated universal service provider, Royal Mail, to deliver a range of postal services to homes and businesses. As explained in Annex 2 - Overview of the relevant legal framework, there are three ‘building blocks’ which make up the universal service. We discuss these briefly in turn below.

Minimum requirements

5.6 Section 31 of the PSA 2011 sets out the minimum requirements of the USO, and they include the requirement that Royal Mail deliver letters six days a week, at an affordable

²³⁹ These 8 billion letters include both Access and Royal Mail End-to-End addressed letters. For more details see Chapter 2 of this document.

²⁴⁰ However, where relevant we may refer to issues relating to USO parcels in this section.

and geographically uniform price to every address in the UK. These minimum requirements can only be altered by Government and Parliament.²⁴¹

Universal Postal Service Order

- 5.7 Ofcom is required by Section 30 of the PSA 2011 to set out a description of the services that it considers should be provided in the UK as a universal postal service, and the standards those services are to comply with. Ofcom did this in 2012, when it made the Postal Services (Universal Postal Service) Order 2012 (“the Universal Service Order”).²⁴²
- 5.8 While the PSA 2011 sets out various minimum requirements, the Universal Service Order can go beyond this, following an assessment of the extent to which the market for the provision of postal services in the UK is meeting the reasonable needs of the users of those services. The current Universal Service Order includes features going beyond the minimum requirements of the PSA 2011, such as the requirement to provide First and Second Class services.

DUSP Conditions

- 5.9 Ofcom can impose designated universal service provider conditions (“DUSP Conditions”)²⁴³ on a universal service provider pursuant to Section 36 of the PSA 2011. These can include, amongst other things, a requirement for a universal service provider to provide a universal postal service (or part of such a service) throughout or in a specified part of the UK. Ofcom can also make provision as to the tariffs to be used for determining the prices of universal service products, as well as performance targets.
- 5.10 To date, Ofcom has imposed three DUSP conditions on Royal Mail:
- a) DUSP Condition 1 requires Royal Mail to provide those services set out in the Universal Service Order throughout the UK. It also includes performance targets that Royal Mail must meet in respect of some universal services, as well as obligations to notify and publish certain information;
 - b) DUSP Condition 2 imposes a safeguard cap on stamps for Second Class letters; and,
 - c) DUSP Condition 3 imposes a safeguard cap on stamps for Second Class large letters and parcels up to and including 2kg.
- 5.11 The USO provides a basic postal service to everyone in the UK that meets reasonable user needs. In particular, it ensures that there is a safety net for those whose needs might otherwise not be met by the wider competitive market. It is particularly important for customers in remote or rural areas, or for more vulnerable customers who might

²⁴¹ In 2020, Ofcom published research into whether the minimum requirements reflect the reasonable needs of the users of postal services in the United Kingdom. Ofcom, 2020. [Review of postal users’ needs](#).

²⁴² [The Postal Services \(Universal Postal Service\) Order 2012](#).

²⁴³ Ofcom. [Designated universal service provider \(DUSP\) conditions](#).

otherwise be at risk of social and/or economic exclusion. The USO does not seek to cover all possible postal services, or indeed any service that users may value - it is intended to only meet those reasonable user needs which are not otherwise sufficiently met by the wider market.

- 5.12 Ofcom operates with a bias against intervention. We look to whether markets can achieve our objectives, so regulatory intervention must always be supported by strong evidence as to what markets cannot deliver.²⁴⁴ Any change to the USO requires us to conduct an assessment of the extent to which the market is meeting users' reasonable needs. That is our starting point for considering change. There is no separate starting assumption that the scope of the USO, and Royal Mail's obligations as the universal service provider, should be expanded over time to reflect developments in the wider market or changes in users' expectations (as opposed to their needs).

Overall approach to the USO

- 5.13 In our December consultation, we set out our proposed approach to regulating USO services for the next five years, taking into account stakeholder comments in response to our March 2021 call for inputs. We noted that stakeholders had expressed strong support for a universal service, and that while Royal Mail had asked for some specific changes to detailed requirements of the USO (which we covered in later sections of the December consultation), they did not comment generally on universal service specifications. We also noted that the topic of delivery days was outside the scope of this Review.

Our proposed approach to the USO

- 5.14 In light of our research²⁴⁵ demonstrating that the broad range of USO services remained vitally important for postal users, as well as Royal Mail's dominant market position in many USO services, in our December consultation we did not review each of the precise service specifications in the USO and noted that we were of the provisional view that the overall shape of the USO will remain appropriate in the next review period.
- 5.15 Where specific comments were raised on particular USO requirements (for example, Royal Mail's request to add tracking to First and Second class USO parcels), we considered them elsewhere in the chapter or consultation, and do so again in this statement.²⁴⁶

²⁴⁴ See our [regulatory principles](#).

²⁴⁵ To inform our provisional conclusions in this section, we considered responses to the March CFI as well as our own research. The latter includes research recently conducted to support our Review of postal users' needs, our annual Postal Tracker survey, specific consumer research gathered for this review, as well as evidence gathered from statutory information gathering.

²⁴⁶ We discuss Royal Mail's request for a 6pm Special Delivery service later in this chapter. We discuss some specific issues on the USO specification for parcels in Chapter 7 – USO parcels regulation.

Consultation responses

- 5.16 Many stakeholders (Post Office²⁴⁷, CCNI²⁴⁸, CEDR²⁴⁹, Welsh Government²⁵⁰, Citizens Advice Scotland²⁵¹, Quadiant²⁵², MUA²⁵³, techUK²⁵⁴, ACRE²⁵⁵, ACNI²⁵⁶, Rural Services Network²⁵⁷, NALC²⁵⁸, and representatives from parish councils²⁵⁹) noted their support for the continuation and protection of the current specification of the USO.
- 5.17 Royal Mail said the current review should be used as an opportunity to reduce prescriptive regulation, enabling greater innovation. It argued that Ofcom should grant additional freedom to Royal Mail to respond to what it said were changing user needs and expectations.²⁶⁰
- 5.18 A number of respondents representing or encompassing rural and/or remote communities noted the importance of the USO to those communities (Welsh Government²⁶¹, ACRE²⁶², Rural Services Network²⁶³). While Ofcom does not regulate the Post Office, we noted that respondents from local councils²⁶⁴ (Barnham Parish Council, Bedfordshire Association of Town & Parish Councils, Hurstpierpoint and Sayers Parish Council) said that Post Offices were important to their communities.
- 5.19 Several respondents noted the importance of six-days a week letters delivery, and five-days a week parcel deliveries, to the communities and groups they represented (Barnham Parish Council, Bedfordshire Association of Town & Parish Councils, Hurstpierpoint and Sayers Parish Council²⁶⁵, CCP ACOD²⁶⁶, PPA²⁶⁷, Consumer Scotland²⁶⁸, ACNI²⁶⁹). NALC said

²⁴⁷ Post Office response to our December consultation, paragraph h.

²⁴⁸ CCNI response to our December consultation, p. 3.

²⁴⁹ CEDR response to our December consultation, p. 2.

²⁵⁰ Welsh Government response to our December consultation, pp. 1 - 3.

²⁵¹ Citizens Advice Scotland (CAS), response to our December consultation, p. 5.

²⁵² Quadiant response to our December consultation, p. 3.

²⁵³ Mail Users' Association response to our December consultation, paragraph 6.1.

²⁵⁴ TechUK response to our December consultation, p. 1.

²⁵⁵ ACRE response to our December consultation, p. 1.

²⁵⁶ ACNI response to our December consultation, p. 1.

²⁵⁷ Rural Services Network response to our December consultation, pp. 2 – 4.

²⁵⁸ National Association of Local Councils (NALC) response to our December consultation, p. 2 and p. 4.

²⁵⁹ Barnham Parish Council response to our December consultation, page 1; Bedfordshire Association of Town & Parish Councils response to our December consultation, p. 1; Hurstpierpoint and Sayers Parish Council, response to our December consultation p. 1.

²⁶⁰ Royal Mail, response to our December consultation, p. 7, pp. 31 - 32.

²⁶¹ Welsh Government response to our December consultation, pp. 1 - 3.

²⁶² ACRE response to our December consultation, p. 1.

²⁶³ Rural Services Network response to our December consultation, pp. 2 – 4.

²⁶⁴ Barnham Parish Council response to our December consultation, p. 1; Bedfordshire Association of Town & Parish Councils response to our December consultation, p. 1; Hurstpierpoint and Sayers Parish Council, response to our December consultation p. 1.

²⁶⁵ Barnham Parish Council response to our December consultation, p. 1; Bedfordshire Association of Town & Parish Councils response to our December consultation, p. 1; Hurstpierpoint and Sayers Parish Council, response to our December consultation p. 1.

²⁶⁶ CCP ACOD response to our December consultation, p. 3.

²⁶⁷ PPA response to our December consultation, pp. 5 – 9.

²⁶⁸ Consumer Scotland response to our December consultation, p. 3.

²⁶⁹ ACNI response to our December consultation, p. 1.

that there should be consultation with Government on whether a reduction in letter delivery days would reduce costs while still meeting many users' needs.²⁷⁰

Our assessment and decision

- 5.20 Having considered consultation responses, we are of the view that the overall scope of the USO remains appropriate for the next review period (2022-27). We also note the support for the current specification of the USO from a wide range of respondents.
- 5.21 This is supported by our research²⁷¹ which indicates that the USO services remain vitally important for postal users. Our Review of Users' Needs research found strong support from users for core features of the USO.²⁷² Users supported a service that was affordable and offered value for money, was certain and reliable, and had delivery to the door. We note the particular points made by stakeholders about the importance of the USO services to rural and/or remote communities.
- 5.22 Further, while we recognise that users' needs are changing (see our RUN and Chapter 2 of this statement), our research suggests that users value the broad range of postal services provided under the USO. Indeed, in the RUN, we found that users' needs extend beyond the standard services of First Class and Second Class letter services and include additional services such as Special Delivery, Signed For, Certificate of Posting and Redirections. Specifically, while our qualitative research suggested that postal users' needs could often be met by a narrow range of postal services, there were cases where the standard (First and Second Class) services did not meet user needs.²⁷³ Users regarded existing Special Delivery, Signed For and Certificate of Posting as essential.²⁷⁴ Other services including metering (using franking machines), Redirection, insured services and return to sender remain important for users that need to use these services.²⁷⁵
- 5.23 While these services add to the prescription and detail of regulation of USO services, in our view the current level of prescription remains important to ensure regulation meets users' reasonable needs, and goes no further than is necessary to achieve this. The USO is a requirement on the DUSP to provide certain postal services across the UK at a uniform price to meet the reasonable needs of users where those services are not sufficiently provided by the wider market. It imposes an obligation on the DUSP to provide basic and essential services to all households and businesses across the UK and it is incumbent on Ofcom to clearly specify the scope of that obligation²⁷⁶. We have a general bias against intervention, reflecting the burden it imposes, and while Royal Mail argues there would be benefits from being generally less prescriptive, we consider that it risks the regulation

²⁷⁰ NALC response to our December consultation, p. 4.

²⁷¹ To inform our conclusions in this section, we considered responses to the March CFI as well as our own research. The latter includes research recently conducted to support our Review of postal users' needs, our annual Postal Tracker survey, specific consumer research gathered for this review, as well as evidence gathered from statutory information gathering.

²⁷² Ofcom, 2020. [Review of Users' Needs](#), p. 23.

²⁷³ Ofcom 2020. Review of Users' Needs, see from paragraph 4.61.

²⁷⁴ Ofcom, 2020. Review of Users' Needs, paragraph 6.36

²⁷⁵ Ofcom, 2020. Review of Users' Needs, pp. 77 – 78.

²⁷⁶ Indeed, section 31 of the PSA11 requires Ofcom to describe the services that should be provided as part of the USO.

becoming less well targeted at what it is trying to achieve and that it may actually increase the scope of our regulation and the regulatory burden. USO services should include only those that are necessary to meet users' reasonable needs and for which there is insufficient market provision, it does not follow that all variations of particular services should receive USO status. Further, targeting USO requirements to only those necessary to meet users' reasonable needs which are not sufficiently met by the market actually maximises Royal Mail's ability to innovate and provide new services outside of the USO. Therefore, we think it is appropriate that potential changes to the USO are assessed in their own right, in line with the relevant statutory framework, to ensure it remains objectively justifiable and proportionate.

- 5.24 We note the points made by some stakeholders representing or encompassing rural or remote communities about the importance of local Post Offices. The reach of the Post Office network is not within Ofcom's regulatory scope.
- 5.25 We note points made about six day a week delivery for letters. As we explained in our March CFI, the requirement for the delivery of letters to homes and businesses six days a week falls under the minimum requirements of the universal service set by Government and Parliament. We cannot change these requirements, so it is not within the scope of this review.

Safeguard caps

Safeguard price caps on Second Class letters and small parcels are an important part of the framework for regulating Royal Mail and help to ensure that basic postal services are affordable for postal users.

In 2019 a decision was made on the scope and level of the safeguard caps for the period to the end of March 2024, and we have decided that the current caps should remain in place until then.

We therefore intend to conduct a separate review of the appropriate scope and level of the safeguard caps that will apply from April 2024. We intend to begin work on this review in autumn this year.

Introduction and background

- 5.26 Our safeguard cap regime is designed to ensure that a basic, affordable, universal postal service is available to consumers and small businesses, and that users of postal services, especially vulnerable consumers, are protected.
- 5.27 We currently apply two price caps on Royal Mail's Second Class services to achieve this aim, which are the basis of our safeguard cap regime:
- a) a price cap on Second Class letter stamps; and
 - b) a basket cap on Second Class large letters and parcels up to and including 2kg.

- 5.28 In the 2019 Review of safeguard caps, we undertook a full assessment of the affordability of Second Class letters, large letters and parcels up to 2kg.²⁷⁷ We concluded that there was some scope for price increases, while keeping prices affordable for a significant majority of vulnerable consumers. We said that raising the level of the standard letter cap would help to minimise the effect of the safeguard caps on Royal Mail’s pricing freedom to avoid a material effect on wider financeability. We decided to:
- a) increase the level of the standard letter cap by 5% in real terms, to 65p in 2019;
 - b) maintain the basket cap at its current level; and
 - c) allow both caps to rise with CPI until March 2024, but not by more than that.²⁷⁸
- 5.29 We were concerned that giving Royal Mail more than 5% flexibility to increase prices on Second Class standard letters risked increasing affordability problems for vulnerable consumers.
- 5.30 In January 2021, Royal Mail raised prices on Second Class standard letters to the level of the cap, which meant it could only raise prices in line with CPI for the remainder of the current review period, ending March 2024. In April 2022, Royal Mail raised prices on Second Class standard letters in line with CPI, to 68p. It also modified its pricing for Second Class parcels, including those within the safeguard basket cap. As at its most recent price changes applying from April 2022, Royal Mail still has 21% headroom on the basket cap (which covers Second Class parcels and large letters),²⁷⁹ so continues to have commercial flexibility to raise its prices in respect of those services if required.
- 5.31 Ofcom does not currently regulate the price of First Class stamps, although we do require that they (alongside all USO services) are affordable. In April 2022, Royal Mail increased the price of First Class stamps by 10p to 95p. Royal Mail increased First Class stamp prices by 9p the year before, from 76p to 85p. Alongside price increases for both First and Second Class stamps since 2017, we have also observed the differential between them widening – in 2017, First Class stamps were 9p (16%) more expensive than Second Class; in 2022, First Class stamps are 27p (40%) more expensive.²⁸⁰

Our proposal

- 5.32 We set out in our December consultation that, given that our review of the safeguard caps is recent, we would need compelling reasons (supported by robust evidence) to justify re-opening the cap early. The purpose of the cap is to provide a safeguard against unduly large increases in prices, so the fact that Royal Mail is now setting prices at the safeguard limit (for letters) is not in itself a reason to re-open it.

²⁷⁷ Ofcom, 2019. Statement: [Review of Second Class safeguard caps](#).

²⁷⁸ Ofcom, 2019. Review of Second Class safeguard caps, pp. 2-3.

²⁷⁹ This is the headroom remaining, as a percentage increase from current prices. Royal Mail’s Second Class Safeguard Cap Compliance Statement for 2022-23.

²⁸⁰ Based on nominal terms.

5.33 Our provisional view was that neither affordability nor financial sustainability considerations provided compelling reasons to re-open the safeguard cap. We were not persuaded that it would be appropriate to review the caps at this stage of the current pricing framework period, ahead of our planned separate review. We therefore proposed to conduct a separate review of the appropriate scope and level of the safeguard caps that will apply from April 2024. We said that we intended to begin work on this review towards the end of 2022.

Consultation responses

5.34 Most stakeholders agreed with our proposal not to open the safeguard cap review earlier than planned (ACS²⁸¹, CAS²⁸², Citizens Advice²⁸³, CWU²⁸⁴, techUK²⁸⁵, Amazon²⁸⁶, Rural Services Network²⁸⁷, ACNI²⁸⁸, Pitney Bowes²⁸⁹).

5.35 Two stakeholders argued that Ofcom should bring forward its review of the safeguard cap:

- a) CCNI said that their research showed that consumers in Northern Ireland had affordability issues with products within the current safeguard caps, and that therefore we should carry out a detailed affordability assessment and bring forward the review. CCNI said that the cap should be maintained and strengthened over the next review period.²⁹⁰
- b) In contrast, Royal Mail said it was disappointed that we had not brought forward the safeguard cap review. It said that affordability was not a concern for most stamp users, and that there was also no longer a need for the basket cap. Royal Mail argued that the level of the cap constrained its ability to price commercially, and that competition in the parcels market would keep prices affordable for customers. Royal Mail asked Ofcom to remove both the letters and parcels caps; and, if Ofcom was not minded to do that, then Royal Mail said we should grant a “significant uplift” in both caps, which it said would still be affordable for consumers while providing greater commercial flexibility.²⁹¹

5.36 CWU said that safeguard caps were important to ensure affordability for customers and supported our proposed position, but noted that capped prices on some products puts financial pressure on overall USO sustainability, so argued that this strengthened the case for tracking to be included in the USO (see Chapter 7).²⁹²

²⁸¹ ACS response to our December consultation, p. 5.

²⁸² CAS response to our December consultation, p. 6.

²⁸³ Citizens Advice response to our December consultation, p. 21.

²⁸⁴ CWU response to our December consultation, p. 5.

²⁸⁵ TechUK response to our December consultation, p. 2.

²⁸⁶ Amazon response to our December consultation, p. 5.

²⁸⁷ Rural Services Network response to our December consultation, p. 3.

²⁸⁸ ACNI response to our December consultation, pp. 1 – 3.

²⁸⁹ Pitney Bowes response to our December consultation, p. 3.

²⁹⁰ CCNI response to our December consultation, p. 3 and pp. 10 – 14.

²⁹¹ Royal Mail response to our December consultation, p. 7 and paragraphs 1.89-1.93.

²⁹² CWU response to our December consultation, p. 5.

- 5.37 Amazon said that Ofcom should limit Royal Mail to making one price change per annum, since many businesses plan on annual cycles and mid-year changes can cause disruption to plans and to the customer experience.²⁹³
- 5.38 DX and MCF commented that Ofcom should ensure, when considering safeguard caps, that Royal Mail's prices for USO parcels products were cost reflective and did not involve cross-subsidy between letters and parcels.²⁹⁴

Our decision

We have decided not to review the caps earlier than planned

- 5.39 In our December consultation, we set out our provisional view that neither affordability nor sustainability reasons provided compelling reasons to re-open the safeguard cap. We said that we would need compelling reasons (supported by robust evidence) to justify re-opening the cap early. We note that the two substantive consultation responses we received arguing for the safeguard cap review to be brought forward (from CCNI and Royal Mail), took opposing views on the affordability challenges currently faced by users.
- 5.40 CCNI provided important context about their research illustrating the views of some consumers in Northern Ireland on the affordability of products covered by the current safeguard caps, including their findings that significant minorities of consumers in Northern Ireland face affordability concerns with current Second Class prices for letters and parcels. We have recognised in the past (in our Review of Safeguard Caps statement) that, unfortunately, postal services may be unaffordable for some even under the cap.²⁹⁵ Therefore, we do not consider CCNI's findings alone to be sufficient evidence to justify re-opening the cap early. However, we consider their findings to be important evidence, which we intend to examine in more detail as part of our next review of safeguard caps, which will begin later this year and take account of the current cost of living pressures.
- 5.41 Royal Mail argued that the cap should be reviewed earlier than planned, that affordability was not a concern for most customers, and that Ofcom should remove – or significantly uplift – both caps. However, it did not provide substantive new evidence to support its argument. We note that Royal Mail still has headroom under the basket cap (for large letters and parcels) to increase prices if required. While Royal Mail is now pricing Second Class letter stamps at the level of the cap, it can raise this price with inflation for the remainder of the review period. We set out our approach to the financial sustainability of the universal postal service in Chapter 3 – Financial sustainability.
- 5.42 Having reviewed stakeholders' comments, we have not identified compelling reasons, supported by robust evidence, to suggest that we should review the caps earlier than planned. We have therefore decided that the caps will remain in place until March 2024.

²⁹³ Amazon response to our December consultation, p. 4.

²⁹⁴ DX response to our consultation, pp. 8-9; and MCF response to our consultation, p. 9.

²⁹⁵ Ofcom, 2019. Review of Second Class safeguard caps, paragraph 4.22.

Our approach to the affordability of postal services and the forthcoming review of safeguard caps

- 5.43 In response to our consultation, many stakeholders raised the affordability of postal services and the broader cost of living challenges experienced by consumers across the UK. Many stakeholders argue this means that it is increasingly important to assess the affordability of postal services across the board, not just focused on products specifically covered by the current safeguard caps (i.e. Second Class letters and parcels up to 2kg).
- 5.44 Our work on postal affordability is situated within the wider context and pressures on household budgets as a result of cost of living increases. We describe the four key pillars of our overall approach to affordability in Chapter 2. This approach helps to ensure prices and services for postal users are affordable as well as ensuring users are able to benefit from the effects of competition. It provides important safeguards and allows us to respond when concerns arise, without unduly limiting Royal Mail's commercial flexibility to respond to the market changes and challenges it is facing.
- 5.45 As we have explained above, we plan to begin our review of safeguard caps later this year for the caps that will apply from April 2024.²⁹⁶ In our review, we plan to consider the appropriate scope and level of the safeguard cap on Second Class stamp prices after April 2024. We also plan to look at the affordability of postal services for households in different income deciles, taking into account spending on other essential services. We expect to issue a consultation on our proposals for the safeguard caps to apply from April 2024 in spring or early summer 2023, and expect to confirm our decision by the end of 2023. This will allow Royal Mail sufficient time to make and notify stakeholders of any price changes that may occur as a result of our decision.

²⁹⁶ [Ofcom's plan of work 2022/23](#), 25 March 2022.

Redirection services

We found that people on low incomes were facing affordability problems when buying redirection services and, without improved prices for these consumers, we would have proposed formal intervention.

In November 2021, Royal Mail introduced a refreshed Concession Redirection service, which offers significant discounts for eligible customers. Having considered consultation responses it remains our view that the new concession service largely addresses our affordability concerns. In light of this, we have decided to maintain our consultation position of not imposing further regulation on Royal Mail in regard to redirection pricing.

We intend to monitor prices, promotion, and uptake of the concession scheme through our future monitoring work. We will also closely monitor the standard prices of the redirections service over the coming review period.

Introduction and background

- 5.46 Customers (both individuals and businesses) can purchase a Redirection from Royal Mail to divert mail addressed to a particular recipient from one address to another address, for a specified period.
- 5.47 Consumers tend to take out redirection services when moving home, as a temporary measure to ensure no mail is missed while they update their contacts of their new address, and therefore it is generally an occasional purchase. Redirection can also help protect consumers from the potential risk and consequences of identity fraud.
- 5.48 Royal Mail currently offers consumers a choice of three Redirection durations: 3, 6 and 12 months.²⁹⁷ Similarly, businesses can take out a Redirection of these durations when moving between premises.²⁹⁸
- 5.49 Royal Mail is the only provider of a universally available redirection service, and providing this service is a requirement of the USO (and, indeed, a minimum requirement in the PSA 2011). While redirections are not currently subject to a price cap, Royal Mail is required to provide redirections at an affordable price which is uniform throughout the United Kingdom.
- 5.50 Payment for Redirection is made upfront as a single lump sum at the point of purchase, regardless of the length of package taken out. Standard prices range from £33.99 for one person ('lead applicant') for 3 months to £68.99 for one person for a 12-month package (see Table 5.1 below).

²⁹⁷ A consumer Redirection can be instigated up to 6 months either side of a moving date and can then be renewed until four years has elapsed. See <https://www.royalmail.com/personal/receiving-mail/Redirection> [accessed 29 June 2022].

²⁹⁸ Both residential and business Redirection services are part of the USO.

Table 5.1: Prices of residential and business Redirection services (as of April 2022)

Time period	Standard residential Redirection	Standard business Redirection ²⁹⁹
3 months	£33.99 + £8.00 per extra person	£216
6 months	£47.99 + £9.00 per extra person	£321
12 months	£68.99 + £10.00 per extra person	£519

Source: <https://www.royalmail.com/personal/receiving-mail/Redirection>,
<https://www.royalmail.com/business/manage-mail/Redirection-diversion>

- 5.51 Royal Mail's prices for its residential Redirection services have risen significantly over time. Between 2012/13 and 2020/21, we estimate that the price of a 3-month package increased by around 74% in nominal terms (55% in real terms). We also estimate that prices for the 6-month and 12-month package rose by 60% and 47% in nominal terms (42% and 30% in real terms), respectively.³⁰⁰ Over a similar time period, we estimate that real disposable incomes across all households in the UK increased by around 15%.³⁰¹ Between 2020/21 and 2021/22, prices for the 3, 6 and 12-month packages have remained unchanged.
- 5.52 In recent years, Royal Mail has however launched several initiatives for redirection services in response to concerns raised by consumer bodies.³⁰² These include:
- implementing a four-year price freeze on the 3-month package since 2017/18;
 - providing a free Redirection service for those under the age of 16, those that are victims of scams, and those that are affected by exceptional events (e.g. flooding);
 - changing the pricing structure, thereby charging on a per-person basis rather than per-surname;
 - implementing a secure and confidential Redirection process for victims of domestic abuse;

²⁹⁹ A business redirection service can be used when businesses move between premises. Royal Mail also offers a business diversion product for businesses that are located in multi-occupancy buildings or only moving part of their business. As of September 2020, Royal Mail also introduced a business diversion product for small businesses, with fewer than 50 employees. Business diversion products are priced separately. See <https://www.royalmail.com/business/manage-mail/Redirection-diversion> [accessed 29 June 2022].

³⁰⁰ Ofcom analysis based on Royal Mail's Redirection prices, provided in response to our formal information request dated 8 June 2021. Royal Mail changed the pricing structure of Redirections in 2019, from charging on a per surname basis prior to 2019 to charging on a per person basis post 2019. For every extra applicant in addition to the lead applicant, there is an additional fee. See figure 5.2 in our December consultation for a chart of how residential Redirection nominal prices have changed over time.

³⁰¹ Ofcom analysis based on ONS data, for the financial year ending 2020. [Average household incomes, taxes and benefits](#), Table 14. [accessed 30 November 2021]

³⁰² Royal Mail response to our March CFI, p. 47.

- e) introducing a Concession Redirection scheme for renters in receipt of either Job Seekers Allowance (JSA) or Pension Credits, in the form of a 20% discount against full-price 3-month and 6-month packages in the UK³⁰³; and
- f) in November 2021, refreshing the Concession Redirection scheme to broaden eligibility and increase the level of the discount, as explained further below.

Royal Mail Concession Redirection refresh (announced on 8 November 2021)

- 5.53 Shortly before the publication of our December consultation, Royal Mail announced some significant changes to the scope and scale of its Concession Redirection³⁰⁴ scheme. These changes were then implemented from 29 November. The changes expanded eligibility for the scheme by removing the requirement for applicants to live in rented accommodation, applied a significantly more generous discount than under the original scheme, removed the incremental price increases for more than two adults in a single household, and expanded the discount to cover 12-month packages as well as 3- and 6-months. These are summarised in Tables 5.3 and 5.4 in our December consultation.
- 5.54 Royal Mail also improved the prominence of information about its Concession Redirection on its Redirection landing page, including a link to a dedicated webpage, and highlighted that it had made payment easier by introducing the option to pay by phone.³⁰⁵

Citizens Advice's recent research on redirections

- 5.55 Citizens Advice published new research into the affordability of redirections on 29 June 2022, which included new recommendations for Ofcom.³⁰⁶ We have considered these findings and recommendations as part of our work on this review.

Our proposal

- 5.56 We conducted consumer research into the use and affordability of redirections services in 2021 (and before Royal Mail refreshed its Concession Redirection scheme), which informed our provisional assessment in our December consultation.
- 5.57 Our research found affordability problems for some postal users when faced with the standard Redirection price, particularly those on low incomes or who were otherwise financially vulnerable. While we welcomed the steps made by Royal Mail to increase the affordability of its Redirection service for financially vulnerable consumers in 2019, we explained that we did not consider that the pricing and terms of the original Concession Redirection scheme offered by Royal Mail prior to 29 November 2021 were sufficient to

³⁰³ This concessionary Redirection rate applied until 29 November 2021, when Royal Mail introduced a refreshed Concession Redirection rate, discussed later in this section. See 'Applying for our concessionary discount', <https://www.royalmail.com/personal/receiving-mail/Redirection> [accessed 7 July 2022]

³⁰⁴ Royal Mail, 8 November 2021, [Royal Mail to cut the cost of its redirection service for millions of lower-income households](#) – press release. [accessed 18 November 2021].

³⁰⁵ Previously, applications had to be made by post and paid for by cheque.

³⁰⁶ Citizens Advice, 29 June 2022, [Left behind: The need for affordable mail redirections](#).

address our affordability concerns. Without improved prices for financially vulnerable consumers, we would have proposed formal intervention.

- 5.58 However, having assessed Royal Mail's refreshed Concession Redirection, we considered it to have sufficiently addressed our main affordability concerns (and to have been well aligned with the regulatory proposals upon which we would otherwise have consulted absent Royal Mail's improved voluntary scheme). On that basis, we did not propose to impose additional obligations in relation to Royal Mail's Redirection pricing. We considered this to be consistent with our Regulatory Principles which, as explained earlier in this chapter, state clearly that we have a bias against intervention.³⁰⁷
- 5.59 Our provisional assessment in December also found that, based on 2021/22 standard Royal Mail Redirection prices, a Redirection was affordable for most consumers. We therefore did not consider that it would be appropriate to propose a general cap on Royal Mail's standard Redirection pricing, which would apply to all consumers.³⁰⁸ However, we were mindful of the potential impact that future price rises could have on the general affordability of Redirection. Therefore, going forward, we proposed to monitor Standard and Concession Redirection prices so that we could re-assess the case for broader intervention if necessary (e.g. if we observe evidence of wider affordability concerns). We reserved the right to re-open this issue during the review period if we believed it was appropriate to do so to protect consumers.

Consultation responses

- 5.60 Stakeholders agreed that affordability was an important consideration for redirections, given the importance of the service to customers and the pressures on finances for people on lower incomes (ACS³⁰⁹, CCNI³¹⁰, Welsh Government, CCP ACOD³¹¹, Citizens Advice, ACNI).

Royal Mail's Concession Redirection scheme

- 5.61 Stakeholders generally welcomed Royal Mail's decision to refresh its Concession Redirection scheme, and agreed that it addressed many (if not all) of the affordability concerns that we identified (CWU³¹², Welsh Government³¹³, CAS, NALC³¹⁴, ACNI³¹⁵, ACS³¹⁶).

³⁰⁷ Ofcom, [Policies and guidelines](#).

³⁰⁸ Our assessment was informed by consumer research that we conducted in order to better understand the importance of residential redirection services (and therefore the potential for consumer harm where services are not affordable), and the affordability of Redirection services offered by Royal Mail. Full details of our research approach and findings are set out in our December consultation, paragraphs 5.48 – 5.78 and [Redirections affordability research slidepack](#).

³⁰⁹ ACS response to our December consultation, p. 6.

³¹⁰ CCNI response to our December consultation, pp. 14-15.

³¹¹ CCP ACOD response to our December consultation, p. 3.

³¹² CWU response to our December consultation, p. 6.

³¹³ Welsh Government response to our December consultation, p. 3.

³¹⁴ NALC response to our December consultation, p. 4.

³¹⁵ ACNI response to our December consultation, p. 2 – 3.

³¹⁶ ACS response to our December consultation, p. 6.

- 5.62 Several stakeholders agreed with our proposal not to impose further pricing obligations, given the changes that Royal Mail had made (Royal Mail³¹⁷, CWU³¹⁸, Post Office³¹⁹, Welsh Government³²⁰, DX³²¹, Whistl³²², NALC, ACRE³²³, ACNI³²⁴, CEDR³²⁵).
- 5.63 Royal Mail said that it had designed the refreshed Redirection Concession taking account of consumer research to ensure it met consumers' needs. It noted that it had frozen Redirection prices for 2022/23 and that it recognised that "any increase in the concessionary price must be handled sensitively", and committed to giving "careful consideration to any changes in the concessionary prices when they are reviewed". It also said that it has seen a significant [X] increase in take-up of the discount since its introduction in November 2021, and that it would continue to raise awareness among low-income customers.³²⁶
- 5.64 Several other stakeholders commented on how Ofcom should ensure that Redirections remain affordable over time, with some stakeholders suggesting Ofcom should consider safeguarding Royal Mail's discount through regulation (CAS³²⁷, Citizens Advice³²⁸, DX³²⁹). Post Office said that Ofcom should safeguard affordability of the Redirections service by requiring that it be sold in Post Offices or other physical branches for prices that are no higher than online.³³⁰
- 5.65 CAS and CCP ACOD said that the eligibility criteria for Royal Mail's Concession Redirection scheme were too narrow, because they excluded some welfare benefits.³³¹ CAS also argued they may exclude customers with other vulnerabilities (for example, domestic abuse survivors, traveller communities and homeless people).³³² Citizens Advice noted that many people on low incomes may still not be covered by the expanded discount, including disabled consumers, and said that Ofcom should re-assess the general affordability of redirections and consider introducing price controls.³³³
- 5.66 Some stakeholders commented on how Ofcom should monitor the promotion and take up of redirections. Several stakeholders said that Ofcom should closely monitor take up and

³¹⁷ Royal Mail response to our December consultation, p. 8.

³¹⁸ CWU response to our December consultation, p. 6.

³¹⁹ Post Office response to our December consultation, paragraph j.

³²⁰ Welsh Government response to our December consultation, p. 3.

³²¹ DX response to our December consultation, page 11.

³²² Whistl response to our December consultation, p. 5.

³²³ ACRE response to our December consultation, p. 2.

³²⁴ ACNI response to our December consultation, pp. 2 – 3.

³²⁵ CEDR response to our December consultation, p. 2.

³²⁶ Royal Mail response to our December consultation, p. 48.

³²⁷ CAS response to our December consultation, p. 10.

³²⁸ Citizens Advice response to our December consultation, p. 61.

³²⁹ DX response to our December consultation, p. 11.

³³⁰ Post Office response to our December consultation, paragraph j.

³³¹ CCP ACOD response to our December consultation, p. 5.

³³² CAS response to our December consultation, p. 11.

³³³ Citizens Advice response to our December consultation, p. 62.

prices (ACS³³⁴, CCNI³³⁵, CAS³³⁶, DX³³⁷, Citizens Advice³³⁸, Rural Services Network³³⁹). ACS, CCNI and CAS said that as well as carefully monitoring take up, Ofcom should retain the option to take further regulatory action if required. Citizens Advice said Ofcom should set out exactly what it intends to monitor and what level of prices would trigger a re-assessment of broader intervention.³⁴⁰

- 5.67 Some stakeholders said that it was important for Royal Mail to promote and effectively communicate about the concessionary rate (ACS³⁴¹, Citizens Advice³⁴², ACRE³⁴³, ACNI³⁴⁴).

Broader regulatory intervention on redirection pricing

- 5.68 Some stakeholders argued that Ofcom should go further, by capping redirection prices more generally. CCNI said that Ofcom should apply a safeguard cap to redirection prices over the next regulatory period, taking a more robust approach to monitoring and intervention and future proofing the affordability of redirections for all customers. CCNI said that, short of capping prices, Ofcom should set out the trigger points it would consider for any future regulatory intervention.³⁴⁵ MCF said that Ofcom should consider applying a safeguard cap to redirections.³⁴⁶
- 5.69 CAS said that it was concerned that redirections were unaffordable for small businesses, citing YouGov research showing 83% of small businesses thought redirections were expensive. CAS said Ofcom should consider requiring Royal Mail to introduce tiered business redirections services, with lower rates for smaller companies or charities/social enterprises.³⁴⁷ ACNI also noted affordability of redirections for small business as a concern.³⁴⁸

Our assessment

Royal Mail's Concession Redirection scheme

- 5.70 Having considered stakeholders' consultation responses, we remain of the view that it would not be appropriate or proportionate for Ofcom to impose further regulation on Royal Mail with respect to a concession scheme for financially vulnerable customers.

³³⁴ ACS response to our December consultation, p. 6.

³³⁵ CCNI response to our December consultation, p. 3 and pp. 14 – 15.

³³⁶ CAS response to our December consultation, p. 12.

³³⁷ DX response to our December consultation, p. 11.

³³⁸ Citizens Advice response to our December consultation, p. 61.

³³⁹ Rural Services Network response to our December consultation, p. 4.

³⁴⁰ Citizens Advice response to our December consultation, p. 63.

³⁴¹ ACS response to our December consultation, p. 6.

³⁴² Citizens Advice response to our December consultation, p. 61.

³⁴³ ACRE response to our December consultation, p. 2.

³⁴⁴ ACNI response to our December consultation, pp. 2 – 3.

³⁴⁵ CCNI response to our December consultation, p. 3 and pp. 14-15.

³⁴⁶ MCF response to our December consultation, p. 11.

³⁴⁷ CAS response to our December consultation, p. 12.

³⁴⁸ ACNI response to our December consultation, pp. 2-3.

Eligibility for concessionary redirections

- 5.71 In our view Royal Mail's refreshed Concession Redirection scheme provides for a broad enough eligibility and a large enough price reduction to address our main affordability concerns.
- 5.72 One of our expectations for an improved Concession Redirection scheme from Royal Mail was that it should apply to a significantly wider eligibility group, better reflecting the range of customers who might be least able to afford a Redirection, and regardless of housing tenure. In our December consultation, we noted that affordability issues – where customers are least likely to be able to afford redirections services without cutting back on spending on other essential household services - were concentrated in the lowest income decile. We found that, before Royal Mail's November 2021 discount, a three-month redirection package for a household with one adult represented 10.9% of monthly disposable income, net of essential spending, for the lowest income decile.³⁴⁹ Royal Mail's refreshed scheme applies to Universal Credit and Pension Credit recipients, rather than just Job Seekers Allowance and Pension Credit recipients as in the old scheme, and removes the requirement for applicants to be in rented accommodation. We consider that these widened eligibility criteria effectively target the discount at those customers on the lowest incomes, and who are most likely to face affordability issues. For example, a Universal Credit claimant who is now eligible could receive a 47% discount for a two adult, two children household Redirection for a six-month period.³⁵⁰
- 5.73 Some stakeholders said they wanted to see eligibility widened further, including to – for example – recipients of other benefits (like Disability Living Allowance (DLA) / Personal Independence Payments (PIP) and/or Carers' Allowance (CA)), or to a wider group of disabled, low income or otherwise vulnerable people who are not in receipt of benefits. We consider that the scheme should be targeted at people on low incomes, and that the current eligibility criteria largely achieve this. Universal Credit and Pension Credit are means-tested benefits that are available to people on low incomes. Other non-means-tested benefits (such as DLA or PIP) can also typically be claimed in parallel with means-tested ones where the individual is on a low income, offering a route to discounted redirections for eligible customers. Targeting discounts towards recipients of Universal Credit (and the benefits that it will eventually replace) and Pension Credit is in line with how companies in other sectors, like telecoms, determine eligibility for discounted services. We do not think it is likely to be well targeted, proportionate, or administratively possible for Royal Mail to offer a discounted redirections service to any customer who may be experiencing vulnerable circumstances.³⁵¹ We also note and welcome the fact that Royal

³⁴⁹ December 2021 consultation, table 5.8.

³⁵⁰ December consultation, table 5.4. Discounts under the concession redirection scheme vary depending on the time period of the redirection and the number of customers redirecting their mail. Discounts are relative to the standard price.

³⁵¹ Customers facing vulnerable circumstances is intended to capture a broad set of vulnerabilities, many of which may be temporary, and are not easily verified or monitored for eligibility purposes. For example, a common approach is that anybody can face circumstances that lead to them becoming vulnerable - temporarily or permanently. This might include physical or mental health problems, or changes in personal circumstances such as bereavement, job loss or changes in household income.

Mail offers free redirections services to those aged under 16, those that are victims of scams, and those that are affected by exceptional events (e.g. flooding), and that they have implemented a secure and confidential Redirections process for victims of domestic abuse.

- 5.74 For the reasons set out above, we do not consider it would be appropriate or proportionate for Ofcom to require that Royal Mail's Concession Redirection eligibility criteria be expanded.

Requiring a concession scheme through regulation

- 5.75 We note that many stakeholders agreed that the Concession Redirection scheme largely addressed our affordability concerns, and that many stakeholders agreed with our proposal not to impose any further pricing obligations on Royal Mail's redirections services, given the scheme.
- 5.76 We have considered the suggestion from some stakeholders that we safeguard Royal Mail's Concession Redirection scheme in regulation, but do not think that this would be appropriate. Ofcom must have regard to the principle under which regulatory activities should be proportionate and targeted only at cases in which action is needed³⁵² (which is reflected in our longstanding Regulatory Principles which explain that Ofcom operates with a bias against regulation). Given that our main affordability concerns are addressed by the voluntary scheme, we consider that further regulation at this point would be disproportionate.

Monitoring and promotion of the concession scheme

- 5.77 Notwithstanding our decision to not impose price regulation on redirection services to protect consumers on lower incomes, we agree with stakeholders that close monitoring, and improved promotion of Royal Mail's voluntary Redirection Concession scheme will be important.
- 5.78 As set out in our December consultation, we intend to closely monitor the prices and take-up of Royal Mail's revised Concession Redirection scheme, and reserve the right to re-open this issue during the review period to 2027 if we believe it appropriate to do so. For example, if Royal Mail were to raise Concession Redirection prices by more than CPI each year, such that they become unaffordable to a greater proportion of customers, then we may be concerned and may consider regulatory intervention appropriate. We therefore intend to use our statutory information-gathering powers to obtain information about pricing and take-up of the Concession Redirection scheme, and plan to report on our findings in our AMU on the postal market.
- 5.79 On promotion, we noted, and welcomed, in December 2021 that Royal Mail had made information about the Concession Redirection more prominent on its website. We think it is important that people eligible for the scheme are aware of it. We note that gov.uk informs people searching for information about Universal Credit³⁵³ and Pension Credit³⁵⁴

³⁵² Section 3(3)(b) of the Communications Act 2003.

³⁵³ <https://www.gov.uk/universal-credit/other-financial-support> [accessed 12 May 2022].

³⁵⁴ <https://www.gov.uk/pension-credit> [accessed 12 May 2022].

that their eligibility for those benefits will also mean they are eligible for the Concession Redirection service. We expect Royal Mail to continue promoting the scheme and plan to monitor their activity to do so. We also welcome efforts from other stakeholders to help raise awareness.

Redirections prices more generally

- 5.80 In response to CCNI’s suggestion that Ofcom should consider capping redirections prices more generally, we are not persuaded that it would be proportionate or appropriate to do so at this stage. While we have recognised that people on low incomes face affordability issues and should be protected, our findings suggest that redirections services are currently affordable for the majority of customers.³⁵⁵ However, we will also monitor Royal Mail’s standard redirection pricing as part of our annual monitoring work (including both the pricing and take-up of the standard service) and plan to report on our findings in our AMU on the postal market.³⁵⁶
- 5.81 In response to calls for intervention on the pricing of business Redirections services, we are not persuaded that the evidence shows that there is an affordability challenge for businesses in general. We also noted in our consultation that business Redirection prices have grown less steeply over time in comparison to residential Redirection prices.³⁵⁷
- 5.82 In response to Post Office’s point, we note that the full range of Royal Mail’s Redirections products (both standard and Concession) are available for purchase online by phone or by post, via Royal Mail, or in Post Offices, with no price difference depending on the channel of purchase. We do not see the case for safeguarding this in regulation. In the final section of this chapter, we explain our approach to online and offline pricing more broadly.

³⁵⁵ See paragraph 5.59 above.

³⁵⁶ We note Citizens Advice’s recommendation, in their June 2022 report that “Ofcom should re-assess if redirections are affordable – and intervene if they’re not” (Citizens Advice, 29 June 2022, [Left behind: The need for affordable mail redirections](#), p. 36). We will use our monitoring work, alongside evidence from stakeholders, to keep affordability under review.

³⁵⁷ See our December consultation, paragraph 5.50.

Quality of service targets

The quality of service regime helps to ensure that users benefit from certainty that an item will reliably arrive on the date promised. We know that users value these aspects of the universal service above speed of delivery. Taking into account responses to our consultation, we have decided that the existing regime remains appropriate, and so we are not making any changes to the current targets.

We take quality of service very seriously and are investigating Royal Mail's failure to meet its delivery targets during the past year.

Introduction and background

- 5.83 We require Royal Mail to achieve certain performance targets in the delivery of USO services. These targets aim to ensure that users of key USO services benefit from a reliable service, and that mail will arrive when promised. Royal Mail is required to monitor its performance against these targets and to publish, for each quarter and financial year, its performance against the targets. If it fails to meet the targets we can open an investigation and consider taking enforcement action.³⁵⁸
- 5.84 DUSP condition 1.9.1 sets out the specific performance targets applicable for USO services. Table 5.2 below sets out the main performance targets.

³⁵⁸ For example, Ofcom fined Royal Mail £1.5m for failing to meet its First Class national delivery target in 2018/19. See: Ofcom, 2020. [Royal Mail fined £1.5m for missing 2018/19 delivery target](#)

Table 5.2: Royal Mail's performance targets

Target	Specification
Collections	Royal Mail to serve at least 99.9% of public access points, each day on which a collection is required.
Deliveries	Royal Mail to complete at least 99.9% of all delivery routes, each day on which a delivery is required.
First Class delivery (i)	Royal Mail to deliver at least 93% of First Class items within one working day of collection on a national (UK) basis.
First Class delivery (ii)	Royal Mail is also subject to a separate postcode area (PCA) target which requires it to deliver 91.5% of First Class mail within one working day of collection in each postcode area in the UK apart from HS, KW and ZE (118 of 121 postcode areas in the UK). This is to make sure that local areas receive an adequate level of service over time.
Second Class delivery	Royal Mail to deliver at least 98.5% of Second Class items within three working days of collection on a national basis.
Special Delivery Guaranteed by 1pm	Royal Mail to deliver at least 99% of Special Delivery items the next working day by 1pm on a national basis.

Source: Ofcom analysis of DUSP conditions.

5.85 Royal Mail has been subject to comparable regulatory obligations since 2001, including the First Class national performance targets and postcode area (PCA) performance targets. The levels of the standards were originally based on Royal Mail's then internal quality of service targets. Royal Mail subsequently agreed to an increase in the standards and, by 2005-06 the present levels were put in place.

Our proposal

Overall view on quality of service targets

- 5.86 The quality of service regime helps to ensure that users benefit from certainty that an item will arrive on the date promised, and high reliability. We know from our 2020 RUN that users value these qualities of the universal service above speed of delivery. Our analysis from the RUN also found that relatively limited cost savings would be achieved by Royal Mail from reducing quality of service levels.³⁵⁹
- 5.87 Taking into account responses to our March CFI and our RUN research, we explained in our consultation that we believed that the existing quality of service targets for key USO services remain appropriate.

³⁵⁹ Ofcom, 2020. [Review of postal users' needs](#), pp. 69-73. In particular, we found that while there may be some cost savings from a reduction in quality of service standards, these may be offset by associated revenue reductions, such that Royal Mail's profitability may in practice reduce.

First Class Postcode Area target

- 5.88 As shown in Table 5.2 above, Royal Mail must deliver at least 91.5% of First Class mail within one working day of collection in 118 of the 121 postcode areas in the UK (known as the PCA target).³⁶⁰ Separately, Royal Mail must deliver at least 93% of First Class items within one working day of collection on a national basis (known as the national target).
- 5.89 Royal Mail said in its March CFI response that the PCA target should be changed from 91.5% to 90% in order, in its view, to align statistically with the First Class national target (set at 93%). It argued that it would not achieve the PCA target even when it met the national target, and that based on the variation in performance between PCAs in previous years, to be statistically confident of meeting the 91.5% PCA target in each of the 118 PCAs, it would need to achieve a national performance of 94.5%. It argued that by aiming for this 1.5% over-achievement, significant additional costs were added into its operation.
- 5.90 We proposed however to retain the PCA target at 91.5%. We were mindful of the fact that Ofcom applies a confidence interval when assessing Royal Mail's performance and were concerned that a reduction in the level of the PCA target could result in wider variation in USO quality of service across the UK, and would likely lead to users in some local areas experiencing poorer levels of service.

Deliveries target

- 5.91 Royal Mail said in its March CFI response that we should consider changing the deliveries target from one based on the percentage of 'routes' completed to one based on the percentage of 'delivery points' (i.e. addresses) reached each day on which a delivery is required. It explained that changes to its network, and the shift from letters to parcels, mean that in future there will be fewer delivery routes, but each will be longer, making the delivery route target increasingly challenging. Royal Mail's alternative target would mean that, where one address is missed on a delivery route, it would not count as a complete fail (as it does under the current deliveries target), and would instead estimate the number of addresses/delivery points not delivered to.
- 5.92 We recognised in our December consultation that Royal Mail's suggested approach has some benefits: in particular, that it better takes account of part-route failures, and is an approach already used for the collections target. However, we proposed to maintain the current deliveries target to maintain the incentive for Royal Mail to reach each and every address on a delivery route.

Special Delivery Guaranteed by 1pm target

- 5.93 In its March CFI response Royal Mail asked for changes to the SDG specification, including the removal of the 1pm delivery deadline. If no changes were made, it argued that the 99% target was very challenging and not consistently achievable. We did not propose to reduce the 99% target because we considered it appropriate that Royal Mail be subject to

³⁶⁰ This is for 118 of 121 PCAs across the UK (HS, KW and ZE are excepted for reasons of remoteness).

stretching targets in respect of its USO services, especially for a premium service such as SDG.

Exemptions from targets

- 5.94 The Kirkwall (KW) PCA includes part of the mainland of Scotland (Caithness and East Sutherland), and the Orkney Islands. The whole PCA is exempt from the First Class PCA target because of its remoteness.³⁶¹ We did not see the case for reopening this exemption because we considered that the mainland part is sufficiently remote to justify its continued exemption (along with the Orkney Islands).³⁶² Instead, we noted that Royal Mail had agreed to explore the feasibility of publishing information about its performance in the Kirkwall PCA split into its two constituent parts: the Orkney Islands and the mainland area.
- 5.95 Separately, we did not propose to remove the exemption from meeting the performance targets which applies during the Christmas period, which is due to high volumes of seasonal mail.³⁶³ We considered that the current approach, which is to require Royal Mail to publish its Christmas performance separately for monitoring purposes, remained appropriate.³⁶⁴

The impact of Covid-19

- 5.96 We did not propose to set criteria on how the length of any future emergency period should be decided. This was because this is a statutory exemption set by Parliament in the legislation, and we did not think it would be appropriate for us to seek to prejudge how future emergency periods should be treated.

Consultation responses

Overall view on quality of service targets

- 5.97 There was broad support for our proposal to maintain the quality of service targets at their current levels, and not to make any other changes.³⁶⁵ Many stakeholders highlighted the importance of quality of service targets to users. ACNI said that quality of service was central to the value of the postal service.³⁶⁶ CCNI cited the findings of research it had undertaken which supported maintaining the current targets and levels, and argued that it

³⁶¹ There are three PCAs exempt from the First Class PCA target. The other two exempted PCAs are HS (Outer Hebrides) and ZE (Shetland Islands).

³⁶² We are sensitive to the needs of island communities and have examined the Islands (Scotland) Act 2018 as suggested by one respondent to our March CFI. While we understand the aims of the Act, we note that it does not place any duties on us, or Royal Mail.

³⁶³ DUSP 1.9.1 provides that the universal service provider is not required to meet the performance targets during the Christmas period. DUSP 1.1.2 (g) defines "Christmas period" as the period commencing on the first Monday in December in any year and ending at the start of the first working day after the New Year public holiday in the following year, or in Scotland, at the start of the first working day after the Scottish New Year public holiday in the following year.

³⁶⁴ DUSP 1.10.5 requires the universal service provider to notify Ofcom and the consumer advocacy bodies and publish, no later than two months from the end of each Christmas period, its performance during that Christmas period.

³⁶⁵ CAS response to December consultation, p. 6; Citizens Advice response to December consultation, p. 26; CWU response to December consultation, p. 6.

³⁶⁶ ACNI response to December consultation, p.2.

would not be in the interests of consumers to remove or reduce any targets.³⁶⁷ Royal Mail said that it takes quality of service very seriously and supported all the main targets.³⁶⁸

Views on specific targets

- 5.98 Royal Mail said that it did not agree with our proposal not to make the two key changes it requested in its March CFI response which were: 1) to align the First Class national target and PCA target; and 2) to change the delivery route target to a delivery point target. It argued that not making these changes was counterproductive to promoting good regulatory outcomes.³⁶⁹
- 5.99 CAS highlighted the importance of keeping the First Class PCA target to allow for comparisons by area.³⁷⁰ Citizens Advice said that it was important that 99.9% of delivery routes should be completed, and not part-completed, on every day on which a delivery is required.³⁷¹
- 5.100 There were no responses specifically in relation to the Special Delivery Guaranteed by 1pm quality of service target.

Exemptions

- 5.101 On the Kirkwall PCA, CAS expressed concern that there was no timeline provided for Royal Mail to publish its First Class PCA performance in the KW PCA split into two parts (islands and mainland). It also called for the introduction of targets for exempt island communities in the HS, ZE and KW postcode areas, as it argued that the lack of targets did not sufficiently incentivise Royal Mail to improve its performance.³⁷² Consumer Scotland recognised that the remoteness of some islands in Scotland lends itself to consumers not being covered by the First Class PCA target.³⁷³
- 5.102 Separately, Royal Mail agreed that the Christmas period exemption should not be removed. It said that it already had significant incentives to provide the best possible quality of service during this period, in particular the threat that its parcels customers could switch to its competitors. Although there was no target, it noted that it was required to report its Christmas performance publicly. As a result, it said that it invested in extra resources during this period. It agreed that meeting performance targets designed for the rest of the year, when volumes were lower, would not be achievable without disproportionate levels of investment.³⁷⁴
- 5.103 Consumer groups argued that we should reconsider the Christmas exemption. Citizens Advice, CAS and CCNI said that people used post more at Christmas, and so the exemption

³⁶⁷ CCNI response to December consultation, p. 13. CCNI research found that 84% of people highlighted the importance of items arriving quickly and on time, and 82% said the same level of service compared to other parts of the UK is important.

³⁶⁸ Royal Mail response to December consultation, p. 36.

³⁶⁹ Royal Mail response to December consultation, p. 34.

³⁷⁰ CAS response to December consultation, pp. 14-15.

³⁷¹ Citizens Advice response to December consultation, p. 25.

³⁷² CAS response to December consultation, pp. 14-15.

³⁷³ Consumer Scotland response to December consultation, p. 3.

³⁷⁴ Royal Mail response to December consultation, p. 34.

was not in the best interests of consumers. They argued that we should consider a lower target than the rest of the year to act as a safety net which balances the needs of users and Royal Mail.³⁷⁵

Royal Mail's recent performance

- 5.104 A number of stakeholders highlighted the importance of Royal Mail's performance being consistent across all parts of the UK. CCNI expressed concern that its research had found that 28% of customers in Northern Ireland had experienced delays to their post, or letters not arriving.³⁷⁶ ACS said that quality of service is inconsistent in Scotland. It recommended that further work be undertaken to understand the causes of such variations, especially in relation to redirections.³⁷⁷ CAS said it was concerned that Scottish customers receive lower quality of service than other areas.³⁷⁸
- 5.105 A number of stakeholders expressed concern that Royal Mail's performance had not improved enough since the pandemic-related emergency period ended on 21 August 2021. Given the impact on consumers, they argued that we should open an investigation and use our enforcement powers to address this.³⁷⁹ MUA and PPA noted that poor USO performance has also affected access users.³⁸⁰ Some respondents asked us to consider, as part of any investigation, what the cause of the delays were and the extent to which they were caused by the impact of Covid-19, or other factors, specifically whether Royal Mail had prioritised the delivery of parcels over letters.³⁸¹ Citizens Advice urged us to explore if we need further levers to take quicker action to resolve problems during the year.³⁸²
- 5.106 Helen Hayes MP highlighted poor performance in Dulwich and West Norwood, particularly during the pandemic. This followed the closure of a delivery office in her constituency in 2018. Ms Hayes argued that we should introduce a new requirement for Royal Mail to carry out a public consultation when it proposes to close a delivery office, and that it should also be required to submit an independent analysis of the impact of the proposed closure on local services for our approval before Royal Mail could proceed.³⁸³

³⁷⁵ CAS response to December consultation, p. 9; CCNI response to December consultation, p. 15-16; Citizens Advice response to December consultation, p. 28.

³⁷⁶ CCNI response to December consultation, p. 15.

³⁷⁷ Advisory Committee for Scotland response to December consultation, p. 6.

³⁷⁸ CAS response to December consultation, pp. 6-8 and 14-15.

³⁷⁹ CCP ACOD response to December consultation, p.2; CAS response to December consultation, pp. 6-8 and pp.14-15; Citizens Advice response to December consultation, p. 41; DX response to December consultation, p.10; MUA response to December consultation, para 5.1; Professional Publishers' Association response to December consultation, pp.5-6.

³⁸⁰ MUA response to December consultation, para 7.2; Professional Publishers' Association response to December consultation, pp.5-6.

³⁸¹ MCF response to December consultation, p. 1 and p. 11; MUA response to December consultation, paragraph 5.2; Professional Publishers' Association response to December consultation, pp. 5-6.

³⁸² Citizens Advice response to December consultation, p. 41.

³⁸³ Helen Hayes MP response to December consultation, p. 2.

The impact of Covid-19

- 5.107 Many stakeholders commented on their experience of quality of service during the pandemic and the emergency period, and called for changes to the rules governing future emergency periods.
- 5.108 Some said that there was limited information provided to customers during this time, and that we should consider how Royal Mail's communication with its customers about problems could be improved.³⁸⁴ DX suggested that we should require Royal Mail to provide information to customers on action it is taking to resolve issues and timelines for returning to normal.³⁸⁵
- 5.109 Citizens Advice said that the principles of transparency in relation to performance, and consultation with consumer bodies should be safeguarded in any future emergency periods. Specifically, Citizens Advice argued that Royal Mail should continue to publish its quarterly and annual performance reports.³⁸⁶ ACNI said that it would have liked more information about performance in Northern Ireland and how it was being addressed during the pandemic.³⁸⁷
- 5.110 Some disagreed with our proposal not to set additional criteria on when or how long an emergency period could last.³⁸⁸ MCF suggested that the experience of the emergency period showed that our powers were limited if Royal Mail decided that there was an emergency situation.³⁸⁹
- 5.111 MUA and DX said that we should have clear regulatory ability to monitor Royal Mail's actions during an emergency period.³⁹⁰ CCNI said we should consider how we can intervene more quickly to improve performance.³⁹¹
- 5.112 Helen Hayes MP said that we should ensure that regulatory action can always be taken when there are breaches, and that there is no vacuum of regulation during any suspension (i.e. during an emergency period).³⁹²

Reporting requirements

- 5.113 Some stakeholders argued for changes to the information that we require Royal Mail to report publicly in relation to its quality of service.
- 5.114 Citizens Advice said that we should require Royal Mail to publish more granular performance information. It argued that postcode district-level information, rather than postcode area-level, would allow consumer bodies and us to more effectively scrutinise

³⁸⁴CAS response to December consultation, p. 13; CCNI response to December consultation, p. 15; DX response to December consultation, p. 10; MCF response to December consultation, p. 2.

³⁸⁵ DX response to December consultation, p. 10.

³⁸⁶ Citizens Advice response to December consultation, p. 44.

³⁸⁷ ACNI response to December consultation, p. 2.

³⁸⁸ DX response to December consultation, p. 10.

³⁸⁹ MCF response to December consultation, p. 2.

³⁹⁰ DX response to December consultation, p. 10.; MUA response to December consultation, paragraphs 5.3-5.4.

³⁹¹ CCNI response to December consultation, p. 15.

³⁹² Helen Hayes MP response to December consultation, p. 2.

Royal Mail's performance. Helen Hayes MP said that Royal Mail should report performance at a more granular level so that regulatory action can be taken in relation to individual delivery offices.³⁹³

- 5.115 Citizens Advice further said that we should require Royal Mail to publish its performance reports in a more accessible way for consumers.³⁹⁴ Citizens Advice also argued that where there are delays, Royal Mail should provide better information for consumers which is accessible, actionable and up-to-date.³⁹⁵

Our assessment

Overall view on quality of service targets

- 5.116 As explained above, the quality of service regime helps to ensure that users benefit from certainty that an item will arrive on the date promised, and high reliability. We know from our 2020 user needs research that users value these qualities of the universal service above speed of delivery. Taking into account responses to our March CFI and our consultation, as well as our RUN research, we remain of the view that the existing set of quality of service targets are appropriate.

First Class Postcode Area target

- 5.117 We carefully considered in our December consultation Royal Mail's submission that the First Class PCA target should be reduced by 1.5% (to 90%) to, in its view, statistically align with the First Class national target. We explained the reasons for our proposed decision in December and note that, while Royal Mail suggested that this is "counterproductive to promoting good regulatory outcomes", it has not in its response provided any further evidence in response to our concerns. In contrast, CAS highlighted the importance of the First Class PCA target as it allows for comparisons by local area. Some stakeholders also argued more generally that it would not be in the interests of consumers to remove or reduce any of the targets.
- 5.118 Taking into account responses to our consultation, we remain of the view that it would not be appropriate to reduce the level of the First Class PCA target as Royal Mail has suggested. This reflects the reasoning in our December consultation. In particular:
- a) The First Class national and PCA targets are two separate targets, with different objectives. The national target is a clear overarching target to ensure an adequate level of service across the UK as a whole; whereas the PCA target exists to ensure an adequate level of service in each local area, and to limit the variations in service between different PCAs.
 - b) We remain concerned that a reduction in the level of the PCA target could result in a wider variation in USO quality of service across the UK, and would likely lead to postal

³⁹³ Helen Hayes MP response to December consultation, p. 2.

³⁹⁴ Citizens Advice response to December consultation, p. 29.

³⁹⁵ Citizens Advice response to December consultation, p. 42.

users in some local (more rural) areas experiencing poorer levels of service. A number of stakeholders recognised these concerns in their responses to our December consultation. We are concerned that this would be inconsistent with our duty to further the interests of citizens and consumers, including by having regard to (amongst other things) the opinions of consumers in relevant markets and of members of the public generally; and the different interests of persons in the different parts of the United Kingdom and of persons living in rural and in urban areas.

- c) We are also mindful of the fact that Royal Mail's quality of service performance is measured using a sample of items delivered (rather than all mail items), with the application of a confidence interval.³⁹⁶ We are concerned that, in light of the continued need for us to apply a confidence interval in line with standard statistical practice, a 90% PCA target would not be sufficiently stretching.

Deliveries target

- 5.119 We carefully considered in our December consultation Royal Mail's submission that we should change the deliveries target to a delivery 'point' approach from the current delivery 'route' approach. We explained the reasons for our proposed decision in our December consultation, and note that, while Royal Mail said that not making its requested changes would be "counterproductive to promoting good regulatory outcomes", it did not provide any further evidence in response to our concerns. In contrast, Citizens Advice supported the current approach and stated that it was important that 99.9% of delivery routes were completed, and not part-completed, on every day on which a delivery was required.
- 5.120 Taking into account responses to our consultation, we remain of the view that it would not be appropriate to change the target as Royal Mail suggested. This reflects the reasoning in our December consultation. In particular:
- a) our concerns about the robustness of the suggested approach, which would rely on Royal Mail's delivery staff accurately estimating the number of delivery points missed each day by looking at the sorting frame³⁹⁷; and
 - d) our desire to maintain the incentive in the current target to reach each and every address on a route, which is in line with the principle of universality at the core of the universal service.

³⁹⁶ Specifically, when we consider Royal Mail's compliance with its target, we would not intervene or investigate further as long as Royal Mail's performance adjusted to the upper bound of the 95% confidence interval meets the relevant standard (in this case, 91.5%). If the middle of the sample performance is below the 91.5% target we could not be satisfied that Royal Mail had missed the target or not. Ofcom, 2015. Annual monitoring update on the postal market – Financial year 2014-15, paragraph 3.35. Also see Ofcom, 2014. Annual monitoring update on the postal market – Financial year 2013-14, paragraph 5.40; Ofcom, 2016. Decision to conclude investigation of Royal Mail Group Limited in relation to a contravention of Designated Universal Service Provider Condition 1.9.1, CW/01183/05/16, paragraph 3.6; Ofcom, 2019. Decision to conclude investigation into Royal Mail's compliance with its quality of service performance standards in 2017/18, p. 11, paragraph 3.17.

³⁹⁷ A sorting frame exists at the delivery office for each delivery route. It is used to put letters and parcels in order of delivery. There is usually a slot for each delivery point (address), and the frame typically contains several hundred delivery points.

Special Delivery Guaranteed (SDG) by 1pm target

- 5.121 We remain of the view that it would not be appropriate to change the level of the target (currently set at 99% on an annual basis), and note that Royal Mail did not submit any specific evidence in support of its view that the SDG target should be reduced in response to the March CFI or our December consultation. This reflects the reasoning in our December consultation. In particular, that:
- a) While we did not cover SDG quality of service levels specifically in our 2020 RUN consumer research, we would expect that user expectations of reliability would be higher for a premium service like SDG than for everyday First and Second Class services.
 - b) The fact that Royal Mail has not met the target for some time does not automatically mean that the target is no longer appropriate. As noted above, Royal Mail has provided little evidence to make the case for the change it has requested. Further, as explained in our December consultation, we have discretion in enforcement and would expect to take account of factors outside Royal Mail's control (such as mis-sorting in Post Offices) as part of any enforcement process.
 - c) We are also concerned that a reduction in this target would be inconsistent with our duty to further the interests of citizens and consumers, including by having regard (amongst other things) to the opinions of consumers in relevant markets and of members of the public generally. The SDG service is a premium next day service which tends to be used for the mailing of important, valuable and/or urgent items. It is more expensive than standard next day (First Class) services, and our RUN found that most postal users felt that it was an "essential" service, typically using it for the guarantee of next day delivery.³⁹⁸
- 5.122 Separately, Royal Mail asked for the introduction of a new SDG service (to arrive by 6pm the next day) in addition to the 1pm service. This is discussed in more detail in the section below on Special Delivery Guaranteed, Signed For, and additional services. If Special Delivery Guaranteed service requirements are changed in future, at that stage we would expect to review the appropriate quality of service target that would apply, accounting for any changes in specification of the SDG service.

Exemptions from targets

Kirkwall PCA and exempt Scottish Islands PCAs

- 5.123 In relation to the Kirkwall PCA, we continue to believe that it is important for reasons of simplicity that the local area targets should be set at PCA-level, and not at sub PCA-level. We also remain of the view that the mainland part of the Kirkwall PCA, Caithness, is sufficiently remote to justify its exemption from the target, together with the Orkney Islands. This is because it is a particularly challenging area to serve as the nearest mail

³⁹⁸ Ofcom, 2020, Review of postal users' needs, p. 75.

centre and delivery office, in Inverness, is a considerable distance from large areas of Caithness, and there are limited road connections.

- 5.124 However, we highlighted in our December consultation that, to further increase transparency, Royal Mail would explore the feasibility of publishing information about its performance in the Kirkwall PCA split into its two constituent parts: the Orkney Islands and the mainland area. It has since agreed to provide this information and to publish it in its regular quality of service reports. The first report that will include this additional information will be the 2023/24 Quarter 1 report. This will enable additional transparency on Royal Mail's performance in future.
- 5.125 We have also considered the wider argument made by CAS that we should consider introducing targets for all the exempt Scottish island PCAs: Kirkwall (KW); Hebrides (HS), and Lerwick (ZE) as it believes that Royal Mail is not currently incentivised to improve performance.
- 5.126 We are sensitive to the needs of islands communities and recognise that performance for these islands against the First Class PCA target is lower than other non-exempt areas. The reason for the exemptions are that, due to remoteness, it would not be reasonable to ask Royal Mail to meet the 91.5% target in these areas. To deliver mail to these islands Royal Mail uses a combination of ferries, aircraft and land-based delivery. These additional legs, and their scheduling, contribute to longer delivery times. Ferries and aircraft are also particularly susceptible to poor weather conditions.
- 5.127 First Class PCA performance in these exempted island areas over the past two years, during the pandemic and aftermath, has been noticeably poorer than before. For example, in the Hebrides PCA (HS), in 2019/20 performance was 68.2%, but in 2020/21 it was 24.5% and in 2021/22 it was 28.8%.³⁹⁹
- 5.128 Further, while these islands are not subject to the First Class PCA target, it is important to note that there are a number of ways in which Royal Mail's performance is incentivised in these areas. Firstly, we require Royal Mail to publish its performance for the exempted PCAs as part of its regular public reporting, and it has agreed to split island/mainland performance in KW from 2023/24.⁴⁰⁰ This enables monitoring and acts as an incentive for Royal Mail to take steps to improve its performance where possible. Indeed, we note that Royal Mail has been trialling drone technology to serve rural communities. In May 2022, it announced plans to create more than 50 new postal drone routes over the next three years, subject to approval from the Civil Aviation Authority, with the first routes including the Shetland Islands, Orkney Islands and the Hebrides. Royal Mail said that it aims to "provide faster and more convenient services for customers in remote communities."⁴⁰¹

³⁹⁹ See Royal Mail's Annual Adjusted Quality of Service reports for relevant years available [here](#). [accessed 13 June 2022].

⁴⁰⁰ See DUSP 1.10.4 (a). The universal service provider shall notify Ofcom and the consumer advocacy bodies and publish, no later than two months from the end of each quarter, its performance for that quarter in relation to all the standards in Table 1.

⁴⁰¹ Royal Mail, [Royal Mail reveals ambitious vision for more than 50 new postal drone routes in partnership with Windracers Group, May 2022](#) [accessed 17 May 2022].

- 5.129 Secondly, performance in all PCAs, including the three exempted PCAs, counts, albeit in a minor way, when assessing Royal Mail's performance against the First Class national target. And thirdly, there are no exemptions for the other targets (e.g. Second Class, deliveries and collections), so again performance in these areas still matters and counts towards overall national performance.
- 5.130 We have considered the benefits of setting a First Class PCA target, or floor, for these islands, as suggested by CAS. We note that any targets for these areas would need to strike the right balance between being challenging and achievable without requiring disproportionate levels of investment. We would therefore expect any such target to be lower than the existing First Class PCA target. However, we are conscious that significantly poorer performance has only been a feature of the past two years, and it has not been as significant a concern previously as performance before the pandemic was markedly higher. Further, there are already some incentives for Royal Mail's performance in these areas, such as through transparency, despite the fact that they are not subject to the First Class PCA target. Given these factors, we do not think it would be appropriate or proportionate to intervene at this stage. However, we expect Royal Mail's performance to improve and return to pre-pandemic levels and will monitor its progress closely.

Christmas period

- 5.131 We explained in our December consultation that the Christmas period is exempt from the quality of service targets.⁴⁰² This is because of significantly increased volumes of mail over this period, which mean that meeting target levels designed for the rest of the year would not be achievable without disproportionate levels of investment. Instead, the current approach is to require Royal Mail to publish its Christmas performance separately to allow its performance to be monitored.⁴⁰³
- 5.132 We have considered consultation responses on this issue carefully. We note that Royal Mail explained the steps it takes to prepare for the Christmas period. This includes investing in extra staff, vehicles and equipment. It also explained that its performance is incentivised by the threat that its parcels customers could switch to competitors. However, the consumer bodies called for a floor to be set to act as a safety net.
- 5.133 We have also considered Royal Mail's Christmas performance over recent years. Royal Mail's First Class performance has been particularly poor over the past two years. In December 2020, performance was 24.80%.⁴⁰⁴ In December 2021, performance was 33.40%. We are conscious that both periods were seriously affected by the Covid-19 pandemic on top of large volumes of seasonal mail, but note also that in December 2021 Royal Mail had the experience of the challenges of December 2020 to draw on, and had the opportunity to

⁴⁰² DUSP 1.1.2 (g) defines "Christmas period" as the period commencing on the first Monday in December in any year and ending at the start of the first working day after the New Year public holiday in the following year.

⁴⁰³ DUSP 1.10.5 requires the universal service provider to notify Ofcom and the consumer advocacy bodies and publish, no later than two months from the end of each Christmas period, its performance during that Christmas period for most of the quality of service targets.

⁴⁰⁴ Christmas 2020 was during the emergency period.

prepare the ground for a significant improvement in performance should the Covid-19 pandemic continue.

- 5.134 At this point, we believe it is too soon to establish whether there are systemic problems that particularly apply to the Christmas period or not, or to set a floor at this stage. We also note that Christmas performance has not been an issue generally raised with us by stakeholders before now. However, to give confidence that Royal Mail takes all the steps it can to ensure an adequate level of quality of service in Christmas 2022, we have asked Royal Mail to explain its preparation plans for Christmas 2022 with a view to confirming that it is taking all the steps it can to ensure that performance is adequate. We will closely monitor its performance this Christmas, and reserve the right to propose further action in this area if necessary.

Royal Mail's performance

- 5.135 We are concerned that Royal Mail's quality of service has not yet recovered to its typical pre-pandemic levels. We take compliance with our quality of service requirements seriously because of the consumer harm that results when service levels fall below the standards we set. We know that some parts of the UK have been more affected by poor performance than others.⁴⁰⁵ We are clear that it is important that quality of service is improved for users across the UK as quickly as possible.
- 5.136 Following confirmation from Royal Mail that it had not met certain quality of service target during the 2021/22 financial year, we announced on 31 May that we have opened an investigation into Royal Mail's performance in the 2021/22 financial year.⁴⁰⁶ As part of this work, we will consider any reasons Royal Mail puts to us on why it did not meet the targets.
- 5.137 In relation to comments about variation of performance in Scotland and Northern Ireland, the First Class PCA target and associated reporting requirements are intended to incentivise local performance and allow us to intervene where necessary. We note that we have previously investigated poor performance in the Inverness PCA from 2015-19, and our action led to local improvements. On inconsistencies in redirection services in Scotland, we note that our RUN research reported consumers can experience some problems with the service, but we will engage further with Ofcom's Advisory Committee for Scotland to understand its specific concerns.⁴⁰⁷
- 5.138 We have considered the question of whether we need additional levers so we can take quicker action to resolve performance problems during the year. Our view is that we do not need further levers at this time. Our approach of assessing performance on an annual

⁴⁰⁵ Royal Mail has stated that a small proportion (4%) of its c1,200 delivery offices are the cause of a disproportionate number of delayed items (23%). Royal Mail, 19 May 2022, [Full Year Results 2021-22](#), p. 11. [accessed 7 July 2022].

⁴⁰⁶ Ofcom, 31 May 2022, [Ofcom launches investigation into Royal Mail's 2021-22 delivery performance](#)

⁴⁰⁷ These problems included delays in receiving post, some post not being redirected or going missing, and difficulties resolving problems with Royal Mail's customer services. In relation to delays, we noted that the redirection process means mail goes first to the old address and is then forwarded First Class to the new address. This means at least an extra day being added to the mail's journey. Ofcom, 2020, [Review of postal users' needs](#), p. 78.

basis has the benefit of averaging out seasonal factors which affect Royal Mail's performance. However, we receive regular information from Royal Mail about its performance across the UK throughout the year. This includes, for example, information at delivery office-level, identifying problem areas. This informs our regular engagement with Royal Mail and enables us to exert pressure where this is appropriate.

- 5.139 We have considered the suggestion by Helen Hayes MP that we should require Royal Mail to carry out a public consultation when it proposes to close a delivery office, and that Royal Mail should also be required to submit an independent analysis of the impact of the proposed closure on local services for our approval before it could proceed. We appreciate how frustrating local problems have been for users in Dulwich and West Norwood.
- 5.140 Our approach is to set regulatory requirements designed to achieve key outcomes. We set rules on the frequency and speed of services which Royal Mail must provide to users, as well as on the geographic distribution of its access points (e.g. postboxes). We do not set the number or location of delivery offices that Royal Mail must maintain. Royal Mail has flexibility in the way it configures its network and operations to meet our rules. We believe that this remains the right approach, as we consider that Royal Mail is best-placed to make these decisions to meet its obligations, and there may be more than one valid approach. Nonetheless, we are still able to intervene if Royal Mail does not meet its regulatory requirements.

The impact of Covid-19

Communication with customers

- 5.141 We understand concerns voiced by some stakeholders about the extent of information Royal Mail provided to customers about problems with its service during the emergency period, when quality of service problems were at their worst. We discuss our response to these points, and wider concerns raised about Royal Mail's communication about delivery delays, in the "Reporting and consumer communications" section below.

Emergency period rules

- 5.142 We have considered stakeholder comments about the regulatory emergency period in relation to universal postal services (which in practice covered the period from April 2020 to August 2021). As explained in the December consultation, section 31 of the PSA 2011 sets out the minimum requirements that must be provided as part of a universal postal service in the UK. However, it also provides that nothing in that section is to be read as requiring a service to continue without interruption, suspension or restriction in the event of an emergency.⁴⁰⁸ This is reflected in DUSP 1.3.4 which provides that nothing in the DUSP Condition is to be read as requiring a service to continue without interruption, suspension or restriction in an emergency.
- 5.143 Throughout the period from April 2020 to August 2021, we agreed with Royal Mail that the pandemic constituted an emergency for the purposes of the regulatory and statutory

⁴⁰⁸ See [Postal Services Act 2011](#), section 33(3), Exceptions to minimum requirements.

framework. This afforded Royal Mail the flexibility to take steps, in response to the impact of the pandemic, to temporarily reduce service levels or change product specifications, without the need for formal Ofcom authorisation. In our view, this flexibility was important in enabling Royal Mail to have in place the tools it needed to protect its customers and its employees.

- 5.144 We recognise the concern of stakeholders that Ofcom should be able, even during an emergency, to hold Royal Mail to account and to protect consumers. While the obligations on Royal Mail to provide a universal service during an emergency are necessarily limited by the statutory exemption, this does not prevent Ofcom from furthering the interests of citizens and consumers. During the recent emergency period, Ofcom closely monitored the steps Royal Mail took to respond to, and minimise the impact of, the pandemic on its provision of the USO. We challenged it to justify key decisions, sought appropriate evidence (e.g. on staff absence levels), and set out our expectation that the emergency period should be brought to an end as quickly as possible.⁴⁰⁹ In the summer of 2021, we considered the evidence supporting the need for such an exception was falling away and accepted Royal Mail's decision to bring it to an end on 31 August 2021.
- 5.145 Further, while we did not consider it appropriate to investigate Royal Mail's compliance with the quality of service targets during 2020/21, this decision took account of the uniquely difficult circumstances of the pandemic, which we considered at that time were a factor beyond Royal Mail's control and which had a substantial impact on quality of service.⁴¹⁰ This decision was also consistent with our decision to not investigate Openreach in respect of its quality of service for key telecoms services during that period.⁴¹¹ However, as explained above, we have recently opened an investigation into Royal Mail's compliance with its QoS targets during 2021/22.
- 5.146 In terms of the procedures in place for future emergency periods, we explained in our consultation that we did not agree with some stakeholders who suggested that we should set criteria on how the length of any future period should be decided. We explained that emergency periods are a statutory exemption set by Parliament, and that Parliament has not prescribed the procedure that Ofcom and Royal Mail must follow in the event of an emergency.
- 5.147 While the statutory framework is not designed in a way that gives Ofcom the power to determine definitively whether the emergency exception applies, Ofcom does retain the power to take enforcement action if it considers there is no emergency and that there is a material failure in respect of Royal Mail's compliance with its obligations under the universal service. Accordingly, we remain of the view that it would not be appropriate to set out specific procedures and guidance seeking to address any future emergency periods. We are mindful that the circumstances and implications of any future emergencies cannot

⁴⁰⁹ Section 5 of the 2021 Annual Monitoring Update explains our interactions with Royal Mail on this matter in more detail.

⁴¹⁰ Ofcom, August 2021. [Decision re Royal Mail's quality of service performance in 2020/21](#)

⁴¹¹ Ofcom, November 2021. [Decision re Openreach's quality of service performance in leased lines and wholesale local access in 2020/21](#)

be predicted and that it is instead important that Ofcom can consider its response on a case-by-case basis.

- 5.148 We recognise the concern from consumer bodies about the importance of safeguarding transparency on quality of service performance and consultation with consumer bodies in future emergency periods. As we explained in our December consultation, Royal Mail did not publish certain of its quarterly performance updates during 2020/21. Royal Mail delayed publication of the Q1, Q2 and Q3 data until Spring 2021, when it was published along the Q4 and cumulative year data. Royal Mail has a regulatory obligation to publish this data. This was not removed by the existence of the emergency period. However, we used our discretion and decided that, in light of the extraordinary circumstances prevailing, it was not appropriate to take enforcement action pending full publication at year-end. During this period we had access to the data we required to scrutinise Royal Mail's performance at all times, and we required Royal Mail to make it available to the relevant consumer advocacy bodies.
- 5.149 In any future emergency periods, the obligation on Royal Mail to publish its quality of service reports would remain despite the emergency period. Our strong expectation is that Royal Mail would publish its reports to the usual timetable. If it did not, we would consider the reasons provided to us by Royal Mail at the time, and use our discretion in relation to enforcement action.

Reporting and consumer communications

Quality of service reporting at a more granular level

- 5.150 Royal Mail is required to report publicly on its quality of service performance every quarter and annually, both at a national and PCA-level. These requirements ensure that we can understand whether it has met its quality of service targets, and therefore whether we should open an enforcement investigation. More generally, the quality of service information Royal Mail is required to publish also helps to keep external stakeholders, such as the consumer advocacy bodies, elected representatives, and journalists, informed about its performance both nationally and in every PCA in the country.
- 5.151 We also note that Royal Mail updates its website daily to provide information to consumers on delivery delays and at a more granular level than PCA i.e. at postcode district. We discuss this further in the next sub-section.
- 5.152 We disagree with Citizens Advice and Helen Hayes MP that we should require Royal Mail to report on its quality of service performance at a more granular level. This is because the reporting requirements are designed and used to reflect the annual performance targets Royal Mail is subject to, which are at a national and PCA-level, and are necessary as a regulatory compliance function. We do not consider that it would be proportionate for the reporting requirements to be more granular than the targets Royal Mail must meet.
- 5.153 In addition, we would note that Royal Mail's quality of service performance data is produced through a survey conducted through a sample of anonymised mailing items. This survey is subject to strict statistical requirements to ensure that the data is reliable and

robust at a national and PCA level. For more granular data to be produced, the survey would need to be substantially expanded and we do not consider that it would be proportionate to impose this requirement.

- 5.154 We also consider that we, as the regulator, are well-sighted on Royal Mail's quality of service performance across the UK, including at a sub-PCA level. In addition to the publicly available information, we receive additional relevant operational information from Royal Mail directly (for example, about individual delivery offices, under the DUSP 1.9.6 Code of Practice). We use this information when engaging with Royal Mail to ensure that it is doing all it can to improve performance in lower-performing delivery offices. In addition, we can request further information from Royal Mail on an ad hoc basis where necessary, either informally or using our statutory information gathering powers.
- 5.155 We do not think it is necessary to require Royal Mail to make its quality of service reports more accessible, as suggested by Citizens Advice. In our view, given that these are primarily a statement of performance results, the information is most clearly and accessibly presented in tables, as now. We appreciate performance information is of interest to consumers but we would expect that consumers would be primarily interested in real-time information, rather than information about past performance. We discuss this further below.

Communication with customers

- 5.156 Citizens Advice argued that Royal Mail should provide better, more up-to-date and actionable information for consumers when there are delivery delays.
- 5.157 We think transparency for consumers about delivery delays and issues is very important, as people value being able to check if there are problems which affect their area. Up-to-date information about delays helps consumers to know whether there are problems in their local area and equips them to take any necessary action or use the information to explain why they have not yet received an expected item.
- 5.158 We note that Royal Mail has started to update its website daily to provide information to consumers on delivery delays, including about specific delivery offices and postcode districts (i.e. delivery offices that are experiencing delivery issues), and updates on the delivery of mail through the network. The update provides information on the delivery office and the postcode district affected (e.g. East Dulwich, SE22). The website also enables customers to sign up for email updates about delivery issues.⁴¹²
- 5.159 We welcome this development and encourage Royal Mail to continue to consider further how it can enhance this feature to ensure it is actionable, and as helpful as possible for consumers seeking information about delivery issues. We also encourage Royal Mail to engage with consumer bodies on this work.
- 5.160 As Royal Mail has started doing so voluntarily, we do not think it would be appropriate at this stage to mandate it to provide information to consumers. We are mindful, in

⁴¹² Royal Mail, 2022, [Service updates](#) information [accessed 7 July 2022].

particular, that Royal Mail, not the regulator, is likely to be best-placed to establish what information best reflects what is happening on the ground across its network, what customers need, and how this can be provided to users in an easy-to-understand and engaging way.

- 5.161 However, we think that there are some key principles that Royal Mail should bear in mind when considering what information it presents to consumers. These include that the information should: be timely and kept-up-to-date; be sufficiently clear about which areas are affected; explain what the impact of the problem is likely to be for users; say how long the problems are likely to go on for; and be easily accessible. We will monitor Royal Mail's work in this area and will consider further action in this area if necessary.

Ensuring everyone can access USO services

Requirements on the geographic distribution of USO access points (e.g. post boxes) help to ensure that users can post letters and parcels near where they live and work.

Additional requirements are designed to support the inclusion of specific vulnerable groups. These include the articles for the blind service and the requirement for Royal Mail to set out its arrangements for disabled users.

Taking into account responses on both these issues, we have decided to maintain our consultation position and we are not making any changes to regulation in these areas.

Introduction and background

- 5.162 It is important that people and businesses across the UK can access USO postal services, and send and receive USO letters and parcels regularly.

General access, including in remote areas

- 5.163 To support widespread access, we require Royal Mail to have an extensive network of access points (e.g. post boxes) for the universal service.⁴¹³ Overall, there are around 115,000 post boxes across the UK, and users can also access USO services at approximately 11,600 post offices.⁴¹⁴ We also require Royal Mail to have a statement of arrangements to ensure that those in remote areas, whose premises are not within 10km of an access point, are provided with reasonable access to such facilities. This means that, in practice, the vast majority of users have a range of access points available to them.

⁴¹³ DUSP 1.8.2 (a) requires Royal Mail to ensure that in the UK as a whole, there is a letter box within half a mile of the premises of not less than 98% of users of postal services. DUSP 1.8.2 (c) (i) requires Royal Mail to ensure that in the UK as a whole the premises of not less than 95% of users of postal services are within 5 kilometres of an access point capable of receiving the largest postal packets and registered items. DUSP 1.8.2 (c) (ii) requires Royal Mail to ensure that in all postcode areas the premises of not less than 95% of users of postal services are within 10 kilometres of an access point capable of receiving the largest postal packets and registered items.

⁴¹⁴ Ofcom does not regulate the Post Office, but we note that it is required to meet six access criteria set by Government on the distribution of post offices across the UK. It must also report annually to the Government, and to Parliament, on the accessibility of the post office network.

Vulnerable users

- 5.164 To ensure that the needs of vulnerable people and those who may be more reliant on postal services are met, Royal Mail is required to:
- a) offer the articles for the blind service. This is a free First Class service for qualifying items when sent to blind and partially sighted people (and which is a minimum requirement of the universal service set in the PSA 2011).⁴¹⁵
 - b) have, and review annually, a statement of arrangements with the aim of ensuring that users who are blind, partially sighted, infirm through age, chronically sick or disabled are able to post letters and parcels using the universal service regularly, and as far as possible without significant cost to those users which are attributable to their situation.⁴¹⁶ In its August 2021 statement, Royal Mail explained the steps it takes in relation to access points and collections.⁴¹⁷
- 5.165 Further, to benefit from USO services we recognise that people must also have safe access to an address where they can receive mail. We are aware of ongoing work by stakeholders to ensure that particular groups, for example those who are homeless or have unsafe living situations (e.g. victims of domestic abuse), are not prevented from receiving mail. Following a report from Citizens Advice in 2018, Royal Mail trialled allowing homeless people to collect their mail free of charge from its delivery offices. This trial recognised that, to access postal services, people also need an address where they can receive mail. Citizens Advice explored this issue further, considering the needs of those who are homeless and those in unsafe living situations.⁴¹⁸ In its most recent reports, Citizens Advice called for the Government to fund a service where specific groups could collect their mail free of charge from Post Offices.⁴¹⁹

Our proposals

General access, including remote areas

- 5.166 We did not propose to make any changes to the existing regulation we place on Royal Mail in relation to the distribution of access points (e.g. postboxes). This is because we considered that they remain appropriate to ensure widespread access to USO services, and

⁴¹⁵ A free articles for the blind service is a minimum requirement of the universal postal service set by the PSA 2011. Ofcom's Universal Service Order requires this service to be First Class and specifies the items eligible to use the service.

⁴¹⁶ See DUSP Condition 1.8.4.

⁴¹⁷ Royal Mail, 2021. [Statement on the arrangements for arrangements for users of postal services who are blind, partially sighted, infirm through age, chronically sick, or disabled](#) [accessed 7 July 2022]. Royal Mail explains that, in relation to access points (e.g. post boxes), it takes great care when installing or relocating a post box to ensure that a location is reasonably accessible for all users subject to cost and other legal constraints. In relation to collection, it states that its operational managers will endeavour to respond sympathetically to users who have special needs and deal flexibly with their requirements wherever possible. It also notes that all customers in rural areas can give stamped, letterbox-sized mail to delivery staff when their delivery is being made (without leaving home). It also highlights its new Parcel Collect service where, for a fee, Royal Mail will collect barcoded parcels from a user's address.

⁴¹⁸ Citizens Advice, 2020. [Millions without mail](#); Citizens Advice, 2020. [On the receiving end: how post can enable domestic abuse](#); Citizens Advice, 2018. [The postal paradox: how having no address keeps people homeless](#).

⁴¹⁹ See Citizens Advice reports [Millions without mail](#) and [On the receiving end: how post can enable domestic abuse](#).

there are separate requirements set by Government which ensure additional access via the Post Office network.

- 5.167 We did not propose to make any changes to existing regulation which applies where Royal Mail proposes to change the collection times of specific postboxes (i.e. to earlier collection times) as part of its ongoing Postbox Strategy, which it states is necessary to deliver efficiency improvements.⁴²⁰ This was because our current rules require Royal Mail to publish clear and up-to-date information on key features of its service, including collection times, and publicise planned changes.⁴²¹

Vulnerable users

- 5.168 We welcomed the work being undertaken by stakeholders to improve access to post for specific groups who need an address where they can receive mail without risk, and without incurring charges associated with a long-term Redirection or PO Box service. However, we did not currently see any role for regulatory intervention.
- 5.169 We welcomed Royal Mail's continuing consideration of how it could improve access to post for vulnerable users, and expressed our support for the potential extension to urban areas of the service whereby, if vulnerable, your postperson will collect stamped letters from you when they deliver your post (i.e. without such users leaving their home). However, we did not propose to introduce broad obligations on Royal Mail to identify users in vulnerable circumstances and maintain a register of such users.
- 5.170 In relation to the scope of the articles for the blind service, we said that we were not currently minded to expand the scope of the USO to require the provision of a free service for the posting of audio recordings (talking newspapers), as requested by one respondent to our March CFI.⁴²² However, as our RUN did not consider this specific issue, we said that we remained open to any further evidence.

Consultation responses

Vulnerable users

- 5.171 Citizens Advice said that it would continue its work with other relevant stakeholders to develop a solution for those who are currently excluded. It called for our proactive support for this work to ensure that everyone can access USO services, including those who are homeless, in insecure accommodation, or have experienced domestic abuse.⁴²³
- 5.172 CCP ACOD and ACNI voiced their support for initiatives to ensure that those without a permanent address can access postal services.⁴²⁴ ACNI said that, where regulation is not

⁴²⁰ Royal Mail, May 2018. [Annual Report and Financial Statements 2017-18](#), p. 9. [accessed 7 July 2022].

⁴²¹ See DUSP 1.10.1 (c) and (d).

⁴²² Elmbridge, Runnymede and Spelthorne Talking Newspaper response to our March 2021 CFI.

⁴²³ Citizens Advice response to December consultation, p. 51.

⁴²⁴ CCP ACOD response to December consultation, p. 4; ACNI response to December consultation, p. 2.

the best way to achieve this, we should use our convening and advisory powers to help bring about change.⁴²⁵

Remote and rural users

- 5.173 CAS said it was concerned about access to priority postboxes (those with late collections for sending COVID tests) in rural and remote areas in Scotland. It said some consumers did not have reasonable access to these, as they were required to travel significant distances to reach them. It called for us to monitor remote and rural Scottish users' access to postal services.⁴²⁶
- 5.174 The Welsh Government highlighted the importance of access to postal services for the most vulnerable and isolated communities. It said that these groups deserve good quality, affordable services so they can keep in touch and access the goods and services that they need.⁴²⁷
- 5.175 NALC highlighted the experience of Antrobus Parish Council, in Cheshire, after a postbox was decommissioned in the village without notice from Royal Mail. The parish council had experienced difficulties engaging with Royal Mail to get the postbox reinstated. NALC suggested that Royal Mail should adopt a structured approach to dealing with customer concerns to help resolve such issues.⁴²⁸

Our assessment

Vulnerable users

- 5.176 We welcome the responses from Citizens Advice, CCP ACOD and ACNI expressing their continued support for initiatives to improve access of specific groups to USO services. We note that Citizens Advice, Royal Mail and Post Office are working on a small pilot of an 'address and collect' scheme. As we set out in our consultation, our regulatory powers are limited to postal operators (i.e. in this case to Royal Mail). As any scheme is likely to require cooperation between Royal Mail, Post Office, Government and charities, we cannot see any role for regulatory intervention currently. However, we welcome the work being undertaken in this area and continue to believe that this is an important issue, which if addressed, would help to support the inclusion of vulnerable groups. In response to ACNI, we are open to approaches from relevant stakeholders if they believe that we could help support this work (e.g. by convening relevant parties or providing technical advice).
- 5.177 We did not receive any responses on our initial view that placing broad obligations on Royal Mail to maintain a list of vulnerable users would be not practical, and that it was unclear what the specific benefits of being on such a list would be beyond existing services offered by Royal Mail. These include, for example, collection of stamped letterboxable-sized mail by your postperson when your mail is being delivered in rural areas, or the new

⁴²⁵ ACNI response to December consultation, p. 2.

⁴²⁶ CAS response to December consultation.

⁴²⁷ Welsh Government response to December consultation p. 3.

⁴²⁸ NALC response to December consultation p. 4.

Parcel Collect service which is available in all areas.⁴²⁹ Therefore, we are not requiring Royal Mail to have such a list. However, we continue to encourage Royal Mail to extend to urban areas the service whereby, if vulnerable, your postperson will collect stamped letters from you when they deliver your post (i.e. without leaving your home). Currently it is a service offered by Royal Mail to all users in rural areas only.

- 5.178 We did not receive any further evidence from stakeholders on the scope of the Articles for the Blind service. Therefore, the scope will remain unchanged. The Universal Service Order sets the specification of services that should be provided without charge to “blind” or “partially sighted” persons, and defines them.⁴³⁰ Users that fall within the relatively wide definition will continue to benefit from the service.
- 5.179 We note that as part of this statement, we have decided to set new rules requiring parcel operators (including Royal Mail) to have policies and procedures in place that are designed to improve the experience of disabled consumers. For Royal Mail, these policies should explain how its USO parcel services, as well as its commercial services, will meet the needs of disabled consumers using these services.

Remote and rural users

- 5.180 In response to the Welsh Government, we recognise the importance of ensuring reasonable access to postal services for the most vulnerable and isolated communities. We believe that our existing rules help to ensure widespread access for such groups. This includes our requirements on the distribution of access points, which is complemented by access to the Post Office network ensured by rules set by the Government⁴³¹; and our further requirement for Royal Mail to have a statement of arrangements to ensure that those in remote areas are provided with reasonable access to postal facilities.
- 5.181 We appreciate concerns about ensuring users have reasonable access to priority postboxes in rural and remote areas in Scotland. We understand that, as most people are no longer advised to get tested if they have Covid-19 symptoms, Royal Mail is reviewing the need for the priority postbox scheme. However, this concern is also relevant to the Postbox Strategy programme where, to deliver efficiency improvements, Royal Mail plans to move post box collection times to earlier in the day, and retain a smaller, core network of post boxes with end-of-day collections.

⁴²⁹ Royal Mail states that customers in rural areas can hand letterboxable-sized mail carrying the appropriate postage directly to delivery staff while their delivery of mail is being made. Parcel Collect is a collection service available in all areas where, for a fee, delivery staff will collect an item from an address. See Royal Mail, 2021. [Statement of arrangements for users of postal services who are blind, partially sighted, infirm through age, chronically sick, or disabled](#), p. 4. [accessed 7 July 2022].

⁴³⁰ The Postal Services (Universal Postal Service) Order 2012, paragraph 2. “Blind” means registered blind under the provisions of the National Assistance Act 1948 c.29; “partially sighted means certified by an ophthalmologist, doctor or ophthalmic optician as having vision which cannot be improved using optical aids (including magnifiers) or additional illumination to allow 12 point sized print to be read at a comfortable reading distance.”

⁴³¹ Ofcom does not regulate Post Office Limited, but we note that it is required to meet six access criteria set by Government on the distribution of post offices across the UK. It must also report annually to the Government, and to Parliament, on the accessibility of the post office network.

- 5.182 As explained above, our current rules require Royal Mail to publish clear and up-to-date information on key features of its service, including collection times.⁴³² In addition, where Royal Mail proposes to change collection times, we already require it to publish its plans in such a way as to ensure reasonable publicity for them, and to notify us and the consumer advocacy bodies at least a month in advance of the change.⁴³³ As the rollout of the Postbox Strategy programme continues, we encourage Royal Mail to communicate clearly with stakeholders and users on proposed changes, and take account of local feedback. For rural users, who are a considerable distance from a post box with an end-of-day collection, it should also promote alternative options, including handing stamped letterboxable-sized items to their postperson on delivery of their mail and/or the new Parcel Collect service.
- 5.183 In response to NALC, as explained above, we set rules which require Royal Mail to have an extensive network of access points. It is for Royal Mail to ensure that its decisions about the location of specific post boxes ensure that it continues to comply with these rules. Royal Mail has told us that its collections team follows a set process to decide whether to remove or relocate a post box (i.e. if it is damaged). Royal Mail has told us that this involves placing a notice near to the site, seeking feedback, and its assessment of factors like the number of alternative post boxes within half a mile, the costs of replacement, and the impact on customers. We expect Royal Mail to communicate clearly with users where it proposes to remove or relocate a post box. This should include ensuring reasonable publicity for the proposed change, explaining the consultation process, if appropriate, and how it will reach its decision.

Special Delivery, Signed For and additional services

Special Delivery Guaranteed and Signed For services are essential to customers, so are important features within the USO.

We have decided not to make changes to our requirements for either Special Delivery Guaranteed, or Signed For. We are not persuaded that there is compelling evidence showing that changes are justified to meet user needs. In any future review of users' needs, we may consider whether there is evidence to justify changing our requirements.

Introduction and background

- 5.184 Special Delivery Guaranteed ("SDG") by 1pm and Signed For services offered by Royal Mail are universal postal service products.
- 5.185 The minimum requirements of the universal postal service include a requirement for the provision of a registered items service and an insured items service.⁴³⁴ The Universal Service Order and DUSP Condition 1 require Royal Mail to offer one or more registered and insured service(s). These services must also have a target delivery time of next day by 1pm

⁴³² See DUSP 1.10.1 (c).

⁴³³ See DUSP 1.10.2 (c), (d).

⁴³⁴ See PSA 2011, section 31, requirements 4 and 5.

(except where this is not reasonably possible) and should include tracking and offer proof of delivery.⁴³⁵ Royal Mail is meeting this requirement by offering the SDG service.⁴³⁶

- 5.186 The DUSP Condition also requires Royal Mail to offer an optional ‘add-on’ to its First Class and Second Class services which includes provision of proof of delivery from the recipient on application by the sender.⁴³⁷ Royal Mail is meeting this requirement by offering the Signed For service.
- 5.187 Our RUN research found there was substantial usage of both SDG and Signed For services among residential and business users in 2019/20,⁴³⁸ signalling that there is an appetite for these services. Although they are used less often than First Class and Second Class services, they are seen as “essential” when they are used.⁴³⁹

Our consultation position

Special Delivery Guaranteed – time of delivery, and Registered and Insured elements

- 5.188 Our provisional assessment of the currently available evidence suggested that there remains a user need for a SDG service.
- 5.189 We noted Royal Mail’s suggestion that the rules on SDG should explicitly allow registered and insured services to be offered as separate universal service products. We considered that greater clarity was needed from Royal Mail about its proposal and its reasoning before we would consider such a change. We therefore did not propose a change to the SDG requirements at that stage, but said that we would welcome stakeholder views on the separation of registered and insured services.
- 5.190 We also explained that we had not seen evidence that would justify the removal of the requirement for delivery by 1pm the following day, as Royal Mail had asked. Although we did have some research indicating the SDG service may be over-prescribed for some postal users,⁴⁴⁰ we were of the view that we had not conducted sufficient research to justify a change to its features (and, in particular, the removal of the 1pm delivery target). We therefore did not propose a change to that particular requirement, but noted that we would be interested in stakeholder views as to whether user needs have changed in this regard.

⁴³⁵ See DUSP Condition 1.6.1(d).

⁴³⁶ Royal Mail also offers a Special Delivery Guaranteed by 9am service. It offers this on a commercial basis. It is outside the USO specification.

⁴³⁷ See DUSP Condition 1.6.1 (a)(d); and DUSP Condition 1.6.1(b)(d).

⁴³⁸ [Jigsaw Research, 2020. UK Postal User Needs: Qualitative Research Report](#). Approximately 40% of residential users used the Recorded/Signed For service and one in five used the SDG service in the last 12 months for both letters and parcels.

⁴³⁹ [Jigsaw Research, 2020. UK Postal User Needs: Qualitative Research Report](#), p. 32. We asked participants whether they considered specific services to be “essential”, “nice to have” or “not required”.

⁴⁴⁰ [Jigsaw Research, 2020. UK Postal User Needs: Qualitative Research Report](#), p.19 and p.32. Note that our commissioned research did not test user views on specific elements of Special Delivery or other USO services.

Signed For and proof of delivery

- 5.191 Our provisional view was that the requirement on Royal Mail to offer a “proof of delivery” option fulfilled specific user needs, and we had not seen evidence to suggest that this need would be met without requiring evidence from the recipient to demonstrate proof of delivery.
- 5.192 We also noted that the existing definition of “proof of delivery” in DUSP 1.1.2(z) allows for the recipient to confirm delivery by means other than a signature.⁴⁴¹ This permits Royal Mail to develop procedures that use alternative methods for acquiring evidence from the recipient, so long as they adhere to the DUSP Conditions that we have laid out.
- 5.193 Therefore, we were of the initial view that it would not be appropriate to update the definition of “proof of delivery” and remove the requirement for evidence from the recipient as Royal Mail had proposed. However, we said that we welcomed the views of stakeholders on this issue.

Clarity of information regarding Special Delivery Guaranteed by 1pm and Signed For features

- 5.194 We found from our own research, and comments from stakeholders, that users were often unclear about the specific features of SDG and Signed For, as well as the differences between them. We suggested that Royal Mail should take note of these points as it progressed its product simplification initiative.

Consultation responses

- 5.195 Only a small number of stakeholders commented on Special Delivery Guaranteed, Signed For and additional services. ACNI⁴⁴² noted the importance of both Special Delivery Guaranteed and Signed For, and agreed that customers would benefit from clearer information about what each service provided, so that they could choose the best service for their needs.

Special Delivery Guaranteed – Royal Mail’s proposal for a 6pm option

- 5.196 Royal Mail proposed that Ofcom require the addition of a 6pm service to the Special Delivery Guaranteed USO product, alongside the existing 1pm service.⁴⁴³ It argued that including a 6pm option would:
- d) reduce the number of costly, inefficient diversions required in order to deliver SDG items on time, and in so doing save [£]. It argued that the current 1pm-only SDG delivery requirement drove inefficiency in its operation, and that an additional 6pm option would allow it to be more efficient; and
 - e) better meet some customers’ needs. Royal Mail presented insights from its own consumer research, showing that for [£] of customers, end of day rather than 1pm

⁴⁴¹ See DUSP Condition 1.1.2(z), “...or other evidence from the recipient in confirmation of receipt”

⁴⁴² ACNI response to our December consultation, p. 3.

⁴⁴³ Royal Mail response to our December consultation, p. 31 and pp. 32 – 35.

delivery would have met their needs, and that if a 6pm option were offered alongside 9am and 1pm, it would be popular among consumers. Royal Mail said that with the current 1pm option, SDG items are often delivered when the recipient is not at home, for example because they are at work, school or university, which means they need to either collect the item from the Delivery Office or arrange redelivery.⁴⁴⁴ Royal Mail said that “having the flexibility to offer a range of SDG delivery times that fit with how people live their lives, including an end-of-day option, would make the product more convenient and would better meet the needs of modern consumers”.

Signed For and proof of delivery

- 5.197 Royal Mail asked Ofcom to confirm that proof of delivery via photo only (i.e. not with a signature as well) meets the requirement for “evidence from the recipient”.⁴⁴⁵ Royal Mail said that a photo-only option for proof of delivery would meet many consumers’ needs for proof of delivery. It cited evidence from 2021 where it trialled photo-only proof of delivery on non-USO tracked items, which received “overwhelmingly positive” retailer feedback – and we note that it has since rolled out photographic proof of delivery as a default feature across its commercial Tracked products.⁴⁴⁶ Royal Mail argued that other providers (e.g. Evri and DPD) provided proof of delivery by photograph, and that Royal Mail should be able to offer a similar service to meet customers’ expectations and keep pace with technological developments. .
- 5.198 Royal Mail said that it agreed with Ofcom that some customers valued a signature specifically, so intended to retain the option of signature plus photo for those senders who specifically required the item to be signed for. But it argued that always requiring a signature could go beyond some customers’ needs. It also said that requiring both a name and a photo for USO products, but only a photo for commercial Tracked products, would lead to more complicated delivery processes, with complexity adding time and thus cost.

Registered and insured elements

- 5.199 Royal Mail did not repeat its March CFI call for Ofcom to separate out registration and insurance from having to be offered together for Special Delivery items, so that they could be offered as separate products for customers to choose according to their needs.
- 5.200 Pitney Bowes and techUK both supported Royal Mail’s previous call.⁴⁴⁷ They noted that customers who do not need the high level of insurance offered by SDG had no choice but to accept it if their item was urgent or important but not valuable, and argued that

⁴⁴⁴ SDG items cannot be signed for by a neighbour, or be left in a safe place.

⁴⁴⁵ DUSP 1.1.2 (z) defines “proof of delivery” as “a copy of a signature, or other evidence from the recipient in confirmation of receipt, obtained on delivery of a postal packet”. Proof of delivery is required as an option for first class (DUSP 1.6.1(a)), Second Class (DUSP 1.6.1(b)) and Special Delivery Guaranteed (DUSP 1.6.1 (d)) services.

⁴⁴⁶ Royal Mail, [Royal Mail launches feature for posties to capture photos on delivery](https://www.royalmail.com/photo-on-delivery), 10 March 2022. See also <https://www.royalmail.com/photo-on-delivery>, [accessed 26 April 2022].

⁴⁴⁷ Pitney Bowes response to our December consultation, p. 4; techUK response to our December consultation, p. 3.

requiring both elements to be included made Royal Mail's service less competitive relative to other operators.

Our assessment and decision

5.201 We have decided not to make changes to our requirements for either Special Delivery Guaranteed, or Signed For.

Special Delivery Guaranteed – Royal Mail's request for an additional 6pm service within the USO

5.202 A guaranteed next day delivery service, with registration and insurance for important and/or valuable items, is seen by most customers as an essential service.⁴⁴⁸ For this reason, it is specified as a requirement in the USO. The current DUSP condition requires that this service gives delivery by 1pm.⁴⁴⁹

5.203 Royal Mail fulfils this requirement through its Special Delivery Guaranteed by 1pm service.⁴⁵⁰ This existing USO SDG service meets the needs of users who need a guarantee that their documents or parcel will get to the recipient during the next working day, and/or need protection for valuable or important items. Our RUN work showed that users regarded SDG as an essential service within the USO, and that customers used it when sending important and urgent items which needed to arrive the next day, sometimes by a certain time.⁴⁵¹ Royal Mail's customer research also showed that a significant proportion of customers using SDG did so because they needed the item to arrive by early afternoon the next day ([X] of consumers, and [X] of business customers).⁴⁵²

5.204 In addition to this SDG 1pm service required by the USO, Royal Mail also provides, on a commercial basis, Special Delivery Guaranteed by 9am, and a guarantee of Saturday delivery.⁴⁵³

5.205 Royal Mail has asked, in its consultation response, that Ofcom require a 6pm service, in addition to the current 1pm service, within the USO Order and DUSP Conditions. No other stakeholders submitted evidence about how SDG should be changed to meet users' needs, or suggested that the current 1pm service is not meeting users' needs. Therefore we have not considered any changes to SDG 1pm service in the USO any further. However, we have considered whether imposing a new obligation requiring Royal Mail to provide an additional 6pm SDG service as part of the USO (as proposed by Royal Mail) is justified.

⁴⁴⁸ Ofcom, 2020. Review of postal users' needs, paragraph 6.39.

⁴⁴⁹ Full specification in [DUSP condition 1.6.1\(d\)](#)

⁴⁵⁰ Full details of Royal Mail's Special Delivery Guaranteed service can be found here: <https://www.royalmail.com/sending/uk/special-delivery-guaranteed-1pm> [accessed 27 May 2022]

⁴⁵¹ Ofcom Review of Users' needs 2020, paragraphs 6.38 – 6.43.

⁴⁵² Royal Mail response to our December consultation, paragraph 1.68 and [X.]

⁴⁵³ See <https://www.royalmail.com/sending/uk/special-delivery-guaranteed-9am> and <https://www.royalmail.com/sending/uk/special-delivery-guaranteed-1pm> for details of the commercial 9am service and Saturday guarantee for both 1pm and 9am services [accessed 7 July 2022].

- 5.206 Before making such a modification to the USO, we are required by section 30 of the PSA to assess the extent to which the market is meeting users' reasonable needs.⁴⁵⁴ To do this, we have considered the available evidence of user needs for an additional 6pm service, and the extent to which the existing USO SDG 1pm service as well as the wider market is meeting this need.
- 5.207 It is worth noting that as described above, USO services are not intended to cater for all the options consumers might want, but rather to provide a basic guarantee of essential services to all users. Ofcom has a bias against intervention, as set out in our Regulatory Principles⁴⁵⁵, as a service being in the USO imposes an obligation on Royal Mail to provide it. Therefore, the addition of services to the USO requires careful consideration against the statutory framework. It is important to note that Royal Mail has freedom to offer alternative services outside of the USO.
- 5.208 We note that the available evidence on the user need for a 'by 6pm' SDG service in addition to the existing 'by 1pm' service is limited: our RUN research did not specifically test different times of day, and some of the evidence provided by Royal Mail is more focused on user preferences than needs. Based on the information we have available we are not persuaded that an additional delivery by 6pm SDG service would fulfil a need that is not met by the current service, and / or would better meet the needs of some postal users. This is because:
- a) We would expect most people who need mail delivered by 6pm would have that need met by guaranteed delivery by 1pm, as it is earlier in the day.
 - b) Royal Mail suggested that a later delivery option could better meet the needs of customers who were not at home during the working day to accept delivery by 1pm. But since delivery could happen at any point *until* 6pm (rather than delivery *at* 6pm), it is not clear how it would help residential consumers not at home during the work day (and in fact, could leave them having to spend longer waiting home for the delivery than they currently do with the 1pm service). Looking more broadly, some other settings, such as schools and GP surgeries, may not be open or fully staffed until 6pm, so a later delivery may serve them less well in terms of receiving the item during the working day.
- 5.209 We recognise that the current SDG service may be over-prescribed for some postal users. For example, our RUN work suggests that an end of next day, rather than timed next day, service may meet the needs of some users.⁴⁵⁶ Royal Mail's research suggests that for a substantial proportion of customers who had used SDG ([\approx] of consumers and [\approx] of businesses), end of next day delivery or later would have met their needs. Royal Mail's research also suggests that some customers may choose 6pm if it were available at a lower

⁴⁵⁴ In considering Royal Mail's request, we have used the same analytical framework as we did to assess whether tracking should be included in the USO (see section 7).

⁴⁵⁵ [Policies and guidelines - Ofcom](#)

⁴⁵⁶ Ofcom, 2020. Review of Postal Users' needs, paragraphs 6.38 – 6.43, and qualitative research.

price than 1pm. However, that does not mean their needs are not being met by the existing 1pm service.

- 5.210 In addition, we note that other parcels operators including DPD, Evri and DHL offer an end of next day service (albeit differently specified than Royal Mail's SDG service),⁴⁵⁷ so customers who want next day delivery with some features of SDG (like tracking and insurance) may be able to shop around to choose the best product for their needs. Other providers' products may not be available with the same geographic reach as Royal Mail's SDG service, but almost all customers in the UK seeking guaranteed next day delivery can get the certainty of it by using SDG by 1pm.⁴⁵⁸ (See Chapter 6 for detailed discussion of parcels market regulation).
- 5.211 In light of the above, we are not persuaded that it would be appropriate or proportionate to require an additional 6pm service in the USO (in addition to the existing 1pm service).
- 5.212 We are however open to changing the USO in line with users' needs where supported by evidence that it is justified, and we would expect any future review of users' needs to consider residential and business users' needs for guaranteed next day/registered/insured services. We would expect to gather more consumer research on this question as part of any future user needs assessment.

Registered and Insured elements

- 5.213 We have decided not to separate out registration and insurance, and allow them to be offered as separate products for Special Delivery services. We note the points made by Tech UK and Pitney Bowes that the current specification of SDG may exceed some users' needs, which also suggests that SDG may be over-specified. However, Royal Mail did not repeat its request, or offer further evidence in support of its initial proposal to decouple registration and insurance from SDG. No other stakeholders offered further evidence. We therefore remain of the view that the evidence broadly suggests that customers' needs are met by the current service, and there is not a current objective justification to change the specification.

Signed For and proof of delivery

- 5.214 Proof of delivery is an important service offered to customers as an additional option on certain USO services. It ensures that the sender of an item can be confident that there will be an interaction between the post person and the recipient when the item is delivered. Royal Mail fulfils its obligation to provide proof of delivery by its Signed For service. If they need it, senders can choose to add on proof of delivery via Signed For, for an extra charge, to First and Second Class USO services.
- 5.215 Our C2X qualitative research suggests that marketplace sellers use the Signed For service as a means of acquiring formal evidence to show that an item has been delivered to their

⁴⁵⁷ [DPD](#), [Evri](#) and [DHL's](#) next day delivery offerings [accessed 17 June 2022].

⁴⁵⁸ Recognising that it is not possible to provide next day delivery to certain remote areas, the DUSP conditions allow some exceptions.

buyers and to protect against fraud.⁴⁵⁹ As noted in Chapter 7 on the parcels USO, our quantitative and qualitative research found that ‘proof of delivery’ was consistently highly valued by users. Marketplace sellers found the Signed For service important for sending high value items. It is seen to provide more effective protection against perceived fraud by marketplace buyers than online delivery confirmation alone - because recipients have to sign for the item on delivery when Signed For is used, it can provide greater proof that the recipient has received it. Although social senders used Signed For less frequently, participants reported using it when sending official documents or returning items.⁴⁶⁰ In addition, participants in our RUN also felt that the Signed For option, as a way of providing proof of delivery, is needed because it could be recommended when sending legal or government documents so that there was a record of an item having been received, which is an important use case.⁴⁶¹ We remain of the view that proof of delivery is important to users, and - given its importance to users – are cautious about making changes to its specification.

- 5.216 The DUSP condition already explicitly allows for some flexibility on proof of delivery from the recipient other than a signature. We remain of the view that this is the right principle for the DUSP condition. This means that Royal Mail has some freedom to innovate within the current rules (as well as to offer other services and features commercially), and to develop other ways to obtain “evidence from the recipient” while also complying with the DUSP condition. Royal Mail have asked that we confirm that a photo would satisfy the DUSP requirements on proof of delivery. We do not intend to give reassurances on particular approaches being within or outside these rules at part of this Review. How the rules are applied will be a matter dealt with by ongoing monitoring, engagement and enforcement action as necessary. Our view may for example, depend on the details and circumstances involved. For example, some uses of photos (or other innovations) may provide evidence from a recipient and others may not, we therefore cannot give a view a priori on photos (or other innovations) in general to provide proof of delivery. We remain open to working with Royal Mail informally as they evolve their practices to keep pace with technology.

Clarity of information for customers regarding Special Delivery Guaranteed by 1pm and Signed For features

- 5.217 Stakeholders did not comment in detail on clarity of information regarding these features. We remain aware that users can be often unclear about the specific features of SDG and Signed For, as well as the differences between them. We continue to suggest that Royal Mail should take note of these points as it continues to develop and market its product range. We expect Royal Mail to be as clear as possible in how it communicates about its products to customers.

⁴⁵⁹ [C2X parcels qualitative research](#), slide 50.

⁴⁶⁰ C2X research, slide 50.

⁴⁶¹ Ofcom, 2020. Review of Postal Users’ Needs qualitative research, p. 32.

Meter mail (franking)

Meter mail is a payment option for letters (and parcels) within the universal service. Our view is that meter mail, as a payment option for single piece services, is consistent with the principles of the universal service. We also conclude that meter mail should be retained within the USO, as it remains important to SMEs, and the market does not offer sufficiently comparable services that can meet the basic needs of SMEs using metered mail.

Introduction and background

- 5.218 Metered (franked) mail is an in-house, pre-paid, postage and payment option that allows businesses and other organisations (such as charities or local authorities) to buy or lease franking machines that print the post mark directly onto envelopes (or label for parcels).⁴⁶²
- 5.219 Royal Mail offers meter mail (franking) at discounted prices relative to regular stamps. For example, a First Class letter as of 2022 costs 84p with standard (legacy) franking and 78p with Mailmark franking, compared to 95p for a regular First Class stamp.⁴⁶³ As in the case of stamps, metered mail prices have risen for letters and large letters since 2013.⁴⁶⁴

Our proposal

- 5.220 In our December consultation, we proposed that metered mail should be retained as a payment channel within the universal service.
- 5.221 Our provisional views were that:
- a) metered mail for single piece services is not inconsistent with the universal service;
 - b) metered mail remains important for SMEs; and
 - c) the market does not offer fully comparable services.
- 5.222 However, we also proposed that we would continue to monitor metered mail within the scope of the universal service and in the context of new services emerging.

Consultation responses

- 5.223 Some stakeholders (Royal Mail, MUA, techUK and franking machine manufacturers such as Pitney Bowes and Quadiant UK)⁴⁶⁵ agreed with our proposal that metered mail should be retained as a payment channel within the universal service.

⁴⁶² From January 2023, Royal Mail will only accept franked mail from customers using Mailmark franking machines, which uses barcode technology. Therefore, businesses using standard franking machines will need to migrate to Mailmark to continue accessing metered mail services. <https://www.royalmail.com/business/shipping/franking> [accessed 15 April 2022].

⁴⁶³ Royal Mail's [standard \(legacy\) franking](#), [Mailmark franking](#) and [Stamp](#) prices from 4 April 2022 [accessed 7 July 2022].

⁴⁶⁴ See Figure 5.1 (Royal Mail USO letter and large letter prices in real terms) in our March [CFI](#).

⁴⁶⁵ Royal Mail response to our December consultation, p. 51; MUA response to our December consultation, p. 7; techUK response to our December consultation, p. 2; Pitney Bowes response to our December consultation, p.2; and Quadiant UK response to our December consultation, p. 2.

- 5.224 In contrast, other stakeholders (DX, MCF and Whistl) argued that metered mail as a payment channel should not be included within the universal service.
- a) DX and the MCF argued that payment by meter mail is subject to a discount related to the use of machine sortation, which is prohibited under the definition of a “single piece service” and therefore that it is not consistent with the universal service.⁴⁶⁶
 - b) DX argued that the need for metered mail amongst businesses dealing with low volumes of mail could be met through bulk mail services. They argued our finding that access operators may require a minimum volume threshold of 250 items per day for unsorted bulk mail services is misleading, as this would only be the case if the operator was not already collecting (i.e. items as part of other services) from the customer’s premises.⁴⁶⁷
 - c) DX, MCF and Whistl argued that the VAT exemption is hindering competition for services such as bulk mail and hybrid mail.⁴⁶⁸ DX pointed out that its customers were unable to claim VAT on its Downstream Access (DSA) service. Whistl argued that both unsorted bulk and hybrid mail services are providing emerging competition, and that Ofcom’s proposal to retain metered mail within the USO was “frustrating the possibility of emerging competition”.

Our assessment

Metered mail for single piece services is not inconsistent with the universal service

- 5.225 Our view is that metered mail may be used as a payment method for universal services, and that this is not, as some stakeholders have suggested, inconsistent with the universal service.
- 5.226 We note that metered mail is an option available to all postal users and therefore consistent with the principles of a universal service. While postal users will need to buy or lease a franking machine and have a license from Royal Mail, this is an option which is available to all users under the same conditions.
- 5.227 The definition of single piece service in the Universal Service Order makes clear that volume and certain other discounts⁴⁶⁹ are not consistent with the provision of a single piece service, and therefore with the universal service. While payment by meter is at a

⁴⁶⁶ DX response to our December consultation, p. 11; MCF response to our December consultation, p. 12.

⁴⁶⁷ DX response to our December consultation, p. 11.

⁴⁶⁸ DX response to our December consultation, p. 11; MCF response to our December consultation, p. 12; Whistl response to our December consultation, p. 5.

⁴⁶⁹ “Single piece service” is defined as a postal service for the conveyance of an individual postal packet to the addressee, for which the price per postal packet is not subject to any discounts related to—

- (a) the number of postal packets sent in connection with the person who paid for the service;
- (b) the positioning or formatting of text on the postal packet;
- (c) the use of markings which facilitate the use of machines to sort postal packets;
- (d) pre-sortation into geographical areas for delivery; or
- (e) the purchase of any other conveyance of the same or any other postal packet.

discounted rate to payment by stamp, we do not think this is by itself inconsistent with the universal service.⁴⁷⁰

- 5.228 DX and MCF both agreed that payment via meter was not a volume-related discount, however MCF argued that meter mail does involve “the use of markings which facilitate the use of machines to sort postal packets”, which is another discount that is inconsistent with the provision of single-piece (USO) services.⁴⁷¹ We consider that our definition of single piece service makes clear the discounts that are specifically prohibited.⁴⁷² If Royal Mail was to use the franking mark or mailmark barcode to aid the sortation of franked items, then this would be inconsistent with our definition of a single piece service, and any such items would not be within the scope of the USO. However, even if this were the case, we note that non-compliance would not justify the removal of metered mail from the universal service, as we consider that metered mail as a payment channel for single piece services is consistent with the principles of the universal service.

Metered mail remains important to some SMEs

- 5.229 Our quantitative RUN research found that while most SMEs use stamps when sending letters, 14% of SMEs use metered/franked mail services. This compares to only 3% of SMEs that use the bulk mail letter services offered by Royal Mail, and 2% that use bulk mail letter services provided by other postal operators.⁴⁷³
- 5.230 Among SMEs that use metered/franked mail services, 85% considered this method of sending mail to be ‘important’ or ‘very important’ to their business.⁴⁷⁴
- 5.231 This view is echoed in our qualitative RUN research which found that although many SMEs do not use metered/franked mail services, those that use these services see them as essential or very important, citing cost and speed as the key benefits.⁴⁷⁵

The market does not offer sufficiently comparable services that can meet the basic needs of SMEs using metered mail

- 5.232 Metered mail is an option available to all postal users and is not subject to any minimum volume thresholds.
- 5.233 The wider postal market (including Royal Mail) does offer services that may potentially be comparable to metered mail for some users.

⁴⁷⁰ Also, while payment by meter is an option for USO services, this does not mean that all services paid for by meter are within the scope of the USO if they do not fit within our definition of single-piece services.

⁴⁷¹ DX response to our December consultation, p. 11; MCF response to our December consultation, p. 12.

⁴⁷² In their responses, DX and MCF also asked Ofcom to explain the basis of the discount and how it is permissible within the universal service. We note that PostComm (the Postal Services Commission, which Ofcom superseded) in 2011 assessed the inclusion of meter mail as a payment channel within the universal service, including the basis of the discount and found it to be consistent with the principles of the universal service. PostComm, p 42, <https://webarchive.nationalarchives.gov.uk/ukgwa/20110824111343/http://www.psc.gov.uk/consultations/universalservice/decision>

⁴⁷³ Ofcom, 2020. [Review of Users’ Needs Quantitative Report, pp. 21-23.](#)

⁴⁷⁴ Ofcom, 2020. Review of Users’ Needs Quantitative Report, p. 22.

⁴⁷⁵ Ofcom, 2020. Review of Users’ Needs Qualitative Report, p. 33.

- 5.234 Some access mail operators such as UK Mail (DHL) and Whistl provide users with bulk mail services. They typically offer two different bulk mail services:
- a) **Sorted mail services** – Targeted at businesses that have the technology to pre-sort their mail, according to format and weight. A minimum volume threshold of 4,000 items per day may be required.⁴⁷⁶
 - b) **Unsorted mail services** – Targeted at businesses that do not necessarily have the volumes to pre-sort their mail and invest in sortation technology. A minimum volume threshold of around 250 items per collection may be required by operators.⁴⁷⁷
- 5.235 The market also provides businesses with other services, for example:
- a) **DX's DSA service** – This is similar to an unsorted mail service and enables businesses to send as few as 30 items per day.⁴⁷⁸ DX have also mentioned that they offer the DSA service with no minimum volume threshold to existing customers that take up their document exchange service (a private business to business delivery network).⁴⁷⁹
 - b) **Hybrid mail services (digital mail solutions)** – Involves electronic copies of mail being sent by the sender to the operator, to be printed, produced, enveloped and then posted. Targeted at businesses who may not have the time or facilities to print; and/or businesses that generate mail from multiple locations. No minimum volume threshold is typically required.⁴⁸⁰
- 5.236 We believe however that the need for metered mail among businesses dealing with low volumes of mail is unlikely to be met through bulk mail services and other services with minimum volume requirements.
- 5.237 In its response, DX recognised that a minimum volume threshold could be a barrier to use. However, it argued that this would only be required if the operator was not already collecting from the customer's premises. In contrast, we note that meter mail gives businesses the flexibility to send variable volumes of letters (and parcels) with no minimum volume requirements, irrespective of whether or not Royal Mail is already collecting mail from the customer.
- 5.238 We also understand that the cost of leasing a franking machine are low. We estimate that a business renting a low volume franking machine could break even by sending around three

⁴⁷⁶ Based on Whistl's sorted mail service offering. See: <https://www.whistl.co.uk/mail/sorted-mail> [accessed date May 2022].

⁴⁷⁷ The Mail Users Association (MUA) noted in its response that access operators tend to have a threshold of 250 letters. This is consistent with Whistl's threshold for some of its unsorted mail delivery services. See: <https://www.whistl.co.uk/mail/unsorted-mail/premiersort-flex> [accessed date May 2022].

⁴⁷⁸ <https://www.dxdelivery.com/services/Downstream-Access> [accessed date May 2022].

⁴⁷⁹ Based on DX's email to Ofcom sent on 14 January 2022. DX's document exchange service is a business-to-business network, that provides document delivery services to companies within the legal and professional services sector. See: <https://www.dxdelivery.com/services/document-exchange> [accessed date May 2022].

⁴⁸⁰ Based on Whistl's and Royal Mail's hybrid mail service offering. See: <https://www.whistl.co.uk/industries/public-sector/pdf-creation-delivery> and <https://www.royalmail.com/business/mail/marketing/hybrid-mail> [accessed date May 2022].

First Class letters per day at a minimum.⁴⁸¹ This is significantly below the minimum volume thresholds that we understand are set by access mail operators.⁴⁸²

- 5.239 We recognise that hybrid mail services may be suited to some businesses with lower postal volume needs, as an alternative to metered mail services. We note that the service proposition of hybrid mail is different to metered mail, in that it covers the printing, enveloping and delivery of mail (it is also considered a digital mail solution). We have not yet seen sufficient evidence to suggest that hybrid mail services meet the basic needs of businesses, who consider metered mail to be important and have the relevant technology and printing facilities required to produce franked mail. In fact, we are aware that businesses using metered mail have in recent years upgraded from using Standard Franking machines to Mailmark compatible ones, to ensure they can continue to have access to metered mail as a payment channel from January 2023.⁴⁸³ Therefore, at present, we consider there are likely to be material risks for businesses who currently use metered mail and require a service that meets their basic needs, if we were to remove this payment channel from the universal service.
- 5.240 We also recognise the concerns raised that the inclusion of metered mail within the universal service – and the resulting VAT-exemption – could deter the possibility of emerging competition. However, we note that in recent years, a range of providers including Royal Mail, have started offering hybrid mail services (all of which are subject to VAT⁴⁸⁴) and the inclusion of metered mail within the universal service has not prevented the emergence of such alternative services.
- 5.241 At present therefore, we remain of the view that the inclusion of meter as a payment channel for single piece services is unlikely to be having a significant adverse effect on competition between metered mail and other lower volume market services.

Our Decision

- 5.242 In light of the importance of meter mail services to SMEs, and the fact that the wider postal market does not appear to offer sufficiently comparable services that can meet the

⁴⁸¹ The monthly cost of a low volume franking machine is likely to be around £20-£40 (excluding expenses associated with printing ink, labels, etc). See: <https://www.frankingmachineexperts.co.uk/how-much-franking-machine-cost/> [accessed 1 May 2022]. For a machine with a monthly lease cost of £40, a business would at a minimum need to send 3 letters per day using First Class rates (mailmark price of £0.78) in order to cover this cost (assuming on average there are 20 working days in a given month).

⁴⁸² DX argued that Ofcom had failed to consider the upfront payment required by Pitney Bowes and Quadient (franking machine manufacturers) from SMEs, in addition to the cost of leasing or purchasing a machine, which could be a barrier to use. In response to our December consultation, we received no comments either from SMEs themselves or on behalf of SMEs (e.g. MUA), in relation to these potential upfront payments and its impact on the cost of using metered mail services. We also note that our qualitative Review of Users' Needs research found that SMEs cite costs as one of the key benefits of using metered mail services.

⁴⁸³ Royal Mail plans to decertify Standard Franking machines. From January 2023, Royal Mail will instead only accept franked mail from customers using Mailmark Franking machines. From a meeting with Royal Mail on 2 September 2021, we understand that around 90% of machines used were Mailmark Franking machines.

⁴⁸⁴ This is in contrast to DX and UK Mail's argument, that hybrid mail services are subject to VAT, when offered by companies other than Royal Mail. We note that Royal Mail's hybrid mail service is not provided pursuant to a regulatory obligation and therefore is not VAT exempt.

basic needs of meter mail users, our view is that it is not appropriate to remove the requirement for Royal Mail to provide metered mail as a payment channel for single piece services.

- 5.243 However, we are aware that Royal Mail benefits from a VAT exemption where it provides services pursuant to a regulatory obligation. In the future, we are also aware that the use of alternative services may continue to grow and/or the needs of meter mail users may potentially change. Therefore, we will continue to monitor meter mail within scope of the universal service and its likely impact on competition.

Online and offline USO pricing

We have considered Post Office's argument that online and offline USO prices should be the same. We do not think that this practice raises obvious enforcement concerns against our current rules, and note that there are likely to be cost differences between online and offline services. As part of our ongoing monitoring regime we will continue to assess Royal Mail's online and offline pricing with a view to identifying any potential concerns should any emerge.

Consultation responses

- 5.244 In its consultation response, Post Office argued that the regulatory framework should require that universal service products are available for the same price, whether they are bought online or offline (for example, in a physical Post Office location or other shop).⁴⁸⁵ Post Office said that offering discounted rates for postage bought online put people without internet access, who are especially dependent on Post Offices and who may be vulnerable, at a disadvantage. Post Office was concerned that online discounts had been getting more significant over time. It said that Royal Mail was applying the discount in particular to parcels, in which Royal Mail competes with other providers, which Post Office said was unfair given Royal Mail's competitive advantage via the VAT exemption, and because it led to letters users subsidising discounts for parcels customers. It also said that letters and parcels transactions represent the single largest source of Post Office's income, so was concerned that customers shifting to online purchase would have a significant impact on the overall sustainability of branches and the access points they offer.
- 5.245 In Post Office's view, Ofcom should take the view that products offered for a discount online should no longer be considered single piece, and therefore not be part of the USO. It said that, if we allowed online discounts to continue, then in our safeguard cap review we should consider whether Royal Mail being able to offer discounts means the safeguard cap is set too high, and that we should take into account Royal Mail's discounting and its impact on revenues and affordability as part of our assessment.
- 5.246 CCNI also commented on this issue. It welcomed Royal Mail's online price reductions as a way to help affordability for customers in Northern Ireland. It noted, however, that

⁴⁸⁵ Post Office response to our December consultation, pages 1, 2 and 4-7.

affordability was a challenge to many customers in Northern Ireland, and said that Ofcom should consider the effect of online discounts on customers who did not have internet access.⁴⁸⁶

Our assessment and decision

- 5.247 Since 2016, Royal Mail has offered discounts when certain USO parcels postage is bought online, via the Royal Mail website or app, relative to buying the services over the counter, for example, at a Post Office. Since the latest set of price changes in April 2022, all Royal Mail parcels products, including USO parcels, are cheaper to buy online than they are over the counter, or ‘offline’. Letters are priced the same whether they are bought online or offline.
- 5.248 The discounts that Royal Mail offers for online purchase are available uniformly across the UK, and they do not constitute a volume discount because they are not limited to customers buying multiple items.⁴⁸⁷ We therefore do not consider a discount, in principle, to contravene existing USO rules. We also recognise that there are likely to be some cost differences between online and offline services.
- 5.249 We note however that the size of online discounts has been increasing in recent years, and that this may have implications for customers who do not have easy access to the internet at home. Fair and affordable prices for those customers who cannot easily buy their stamps online is an important consideration. While we do not regulate the Post Office, we also recognise the important role Post Offices play in providing access to USO services and that the size of online discounts may have implications for Post Office revenues.
- 5.250 At present we do not have evidence to suggest that postal users (including those without easy access to the internet) are facing affordability challenges – beyond those from which they are protected by the safeguard cap - as a result. We will however monitor online and offline USO pricing in future and the size of the differential, as part of our work to ensure that USO services are affordable for customers.

⁴⁸⁶ CCNI response to our December consultation, page 14.

⁴⁸⁷ The [Postal Services Act 2011, section 31](#) requires that USO products be offered at “a public tariff which is uniform throughout the United Kingdom”. [The Postal Services \(Universal Postal Service\) Order 2012, Schedule 1, paragraph 1.](#) excludes from the USO products whose price is discounted because of the volume of items posted.

6. Parcels market regulation

This chapter considers the broader parcels market and how well it is working for consumers. The aims of our regulation in the parcels market are to protect consumers, promote competition and support innovation.

While we recognise that in some parts of the UK, sending and receiving parcels can be more expensive and/or with slower services (for non-USO services), our view is that the parcels market is working well overall, and that competition is driving benefits for consumers. Our evidence also suggests there are some problems for consumers that need to be addressed. We found that:

- consumer complaints and contact handling processes were too often inaccessible or inadequate; and
- disabled consumers were more likely to experience detriment from services failing to meet their needs.

We have therefore decided to take targeted and proportionate steps to address these problems by:

- **Issuing new guidance for all parcel operators (including Royal Mail) setting out the steps we expect operators to take when dealing with consumer complaints to ensure compliance with our complaints handling rules.** We expect parcel operators to make improvements in customer service and complaints handling and may consider enforcement action (or further regulation), as appropriate, if progress is not made. Our new guidance applies to consumer complaints relating to B2C and C2X parcel services; and
- **Introducing a new condition to require parcel operators (including Royal Mail) to publish policies and have in place procedures for the fair and appropriate treatment of disabled consumers, including how delivery staff on the ground will act on their delivery requests.**

With the increasing importance of parcel deliveries to customers over recent years it is crucial the market works well for all customers. We will monitor operators' performance in these areas and will keep under review the need for additional regulation to protect consumers.

Introduction

6.1 In this section we set out our analysis of the broader parcels market and how it is working for consumers. Specific issues on the specification of the universal service for parcels provided by Royal Mail are covered in Chapter 7.

Our research and market analysis

6.2 To develop our understanding of the parcels market, we have commissioned consumer research, issued information requests to some of the main operators and engaged with consumer bodies, parcel operators, and online marketplaces.

Consumer research

- 6.3 In January 2021, we commissioned Yonder to undertake quantitative research to understand the customer experience of receiving deliveries from parcel operators (including Royal Mail) to fulfil online orders, which we refer to as the ‘B2C parcels consumer research’.⁴⁸⁸
- 6.4 In Summer 2021, we undertook a major programme of qualitative and quantitative research with a view to better understanding C2X parcel senders⁴⁸⁹ (referred to as the ‘C2X research’) when using Royal Mail and other parcel operators. In particular, we wanted insight into what drives consumer choice, what service features C2X senders value (with particular emphasis on tracking facilities), the nature and resolution of issues and complaints, and the overall consumer experience in the C2X segment. We commissioned Jigsaw Research to carry out the qualitative research⁴⁹⁰ and BVA-BDRC for the quantitative research.⁴⁹¹
- 6.5 We published our research findings and data tables alongside our December consultation document.⁴⁹²
- 6.6 We have also drawn on other research sources, such as our annual residential consumer and SME postal trackers and research published by stakeholders.

Market analysis

- 6.7 To conduct our market analysis, we rely on a number of sources including public and confidential information from industry stakeholders, our market research and broader engagement with stakeholders throughout the year. This includes market, consumer, and operator data (including analysis on volumes, market shares and pricing) gathered from statutory information requests as well as information provided in response to Our March 2021 Call for Inputs (March CFI) and our December 2021 consultation (December consultation).⁴⁹³

⁴⁸⁸ Yonder undertook 2,019 online interviews with adults across the UK. This research was conducted in January 2021 during a period of significant Covid-19 restrictions when operators experienced high demand and operational pressures, so we recognise this is likely to have had some impact on the research findings.

⁴⁸⁹ C2X senders were defined as having sent at least one parcel in the last 12 months. The sample was designed to be representative of parcels senders using the demographic profile from the Ofcom residential postal tracker. Northern Ireland, Scotland and Wales were ‘over sampled’ to ensure that there were sufficient numbers of interviews for analysis. There were also boosts for rural respondents. Weighting was then applied to correct to their correct proportions. A full unweighted and weighted sample profile can be found in the published research slides.

⁴⁹⁰ In Summer 2021, we carried out qualitative research comprising of eight online groups and 21 in-depth interviews with vulnerable users. Research participants were spread over the UK with different drivers for C2X sending (social senders, online marketplace sellers and SME sellers) and a range of demographic characteristics including digital exclusion.

⁴⁹¹ The July 2021 quantitative research was also split by the four nations within the UK; different C2X sender types; younger and older senders; those living in urban, rural and deep rural areas; as well as disabled senders. We undertook 3,379 30-minute online panel interviews with UK adult C2X senders.

⁴⁹² Yonder, 2021. [2022 Review of Postal Regulation: B2C Parcels Consumer Research](#); BVA BDRC and Jigsaw Research, 2021. [C2X Parcels Consumer Research 2021](#).

⁴⁹³ Ofcom, 2021. [Call for inputs: Review of postal regulation](#) and [Consultation: Review of postal regulation](#).

Market context

- 6.8 Parcels have become increasingly important to the lives of UK citizens and consumers, and this trend is expected to continue. Volumes had already been growing steadily during the review period from 2017, but the impact of Covid-19 sharply accelerated parcel growth, driven by the increase in online shopping linked to the restrictions on physical retailers during 2020-21. The Office for National Statistics (ONS) reported that internet sales made up 28.1% of total UK retail sales in 2020, up from 19.2% in 2019 and 18.0% in 2018.⁴⁹⁴ Total domestic parcel volumes increased by 54% year-on-year in 2020-21, reaching 3.6 billion items.
- 6.9 Since the easing of Covid-19 restrictions and the return of consumers to the high street, e-commerce activity and associated parcel volumes have declined. In the first quarter of 2022, UK internet sales were 27% lower than the previous year⁴⁹⁵ (although this is still 41% higher than pre-pandemic levels).⁴⁹⁶ Although there is uncertainty over the future rate of growth in the short-term, parcel volumes are generally expected to increase over the course of this review period.

Parcel market segments

- 6.10 The UK parcels market is made up of the following segments:
- a) **Business-to-consumer (B2C):** deliveries of items to end consumers made as part of bulk contracts agreed between businesses and parcel operators (e.g. an online retailer sending multiple items bought online by consumers);
 - b) **Consumer-to-business/consumer (C2X):** these are largely single-piece items sent by individual consumers or SMEs to another person or business (e.g. a person sending a birthday present to a relative, a consumer returning an item purchased from an online retailer⁴⁹⁷, or an online marketplace seller fulfilling orders); and
 - c) **Business-to-business (B2B):** bulk deliveries of parcels between businesses (e.g. a clothes manufacturer receiving fabric from a supplier, or a publisher receiving paper and ink in bulk).⁴⁹⁸
- 6.11 B2C is by far the largest segment in the parcels market. In 2020-21, we estimate that B2C accounted for between 70-80% of total domestic parcels volumes across operators.⁴⁹⁹ The

⁴⁹⁴ Office for National Statistics, [Internet sales as a percentage of total retail sales \(ratio\) \(%\)](#). [Accessed 07/07/2022].

⁴⁹⁵ Office for National Statistics, [Retail Sales Index internet sales](#). [Accessed 11/05/22]

⁴⁹⁶ Comparing CY22Q1 with CY20Q1.

⁴⁹⁷ Where the postage charge is covered by the online retailer, the return of items might be regarded as B2C deliveries.

⁴⁹⁸ In this review we focus on the consumer facing segments (C2X and B2C), where issues may directly result in consumer detriment. The B2B segment faces limited regulation and appears to be working well, with several parcel operators offering competing B2B services.

⁴⁹⁹ Ofcom illustrative estimate using 2020-21 parcels market data published at aggregate level in our 2021 annual monitoring update. We use single-piece and bulk parcel volumes as a proxy for C2X and combined B2C/B2B volumes, respectively. To estimate the proportion of bulk parcels that are B2C, we have applied assumptions to the data based on our understanding of each parcel operator's operations. Our C2X estimates exclude returns pre-paid by the retailer, which we generally consider as B2C.

C2X segment accounts for approximately 10% of parcels volumes across operators and is also growing (but at a slower rate than B2C).

- 6.12 Unlike letters, there is end-to-end competition in all of the parcel delivery categories in the UK, with multiple parcel operators competing for customers. In addition, some operators with a relatively limited geographic network, or without a last mile network of their own, also provide parcel services via commercial access agreements (in which they collect, sort and inject parcels into the network of another operator, such as Royal Mail). Other operators specialise in last mile delivery in particular geographies, for example in urban centres or remote areas, on behalf of other operators. The degree and model of competition varies by segment, which we explore in more detail below.

Business to consumer (B2C) parcels segment

- 6.13 The business-to-consumer (B2C) segment is the largest and fastest growing segment of the parcels sector, linked closely to the growth in online shopping. This trend was amplified in 2020-21 as the Covid-19 pandemic changed behaviours and accelerated growth, with domestic bulk parcel volumes (the majority of which are B2C) increasing by around 60% compared to the previous year.⁵⁰⁰

Description of participants

- 6.14 The market dynamics in the B2C segment are more complex than in the C2X segment, due to the number of parties involved and how they interact with each other. There are at least three parties involved when a consumer purchases a retail good for delivery to their home address – the retailer, the parcel operator and the consumer.⁵⁰¹

Retailer (sender)

- 6.15 Retailers tend to buy bulk contracts with parcel operators once they reach a certain volume.⁵⁰² Some retailers also arrange pre-paid returns, whereby they cover the postage charge. The retailer can engage with a single or multiple parcel operators, depending on their specific needs and what they want to offer their customers. Some retailers also engage with multiple parcel operators to reduce the risk of service disruption if a carrier were to experience congestion or service failure. The retailer bears the risk of delivery up to the moment the parcel is physically given to the consumer and is liable in the case of missing or damaged delivery.

⁵⁰⁰ Ofcom analysis based on data collected for Annual monitoring update on the postal market: 2019-20 and 2020-21. We calculate these figures by using bulk piece service shares, which are mostly B2C but also include B2B volumes. Some operators were unable to accurately distinguish between their bulk and single piece parcels. Therefore, these figures should be treated as an approximation only. We received data from Amazon, APC, DHL, DPD, DX, FedEx, Evri, Royal Mail, Tuffnells, UPS and Yodel.

⁵⁰¹ Other important players in the B2C segment include online shopping platforms that bring consumers and retailers together (such as Amazon Marketplace, AliExpress and notonthehighstreet.com), and last mile carriers that provide last mile delivery services to parcel operators, mainly in the Scottish Highlands & Islands.

⁵⁰² For Evri, this appears to be around 150 parcels per week [Can I start a business or credit account? | Evri - The New Hermes](#). [Accessed 14/06/22].

6.16 From the perspective of the parcel operator, there are advantages offered by serving retail customers, compared to C2X customers. These retailers are typically large with an online presence, and therefore tend to send large volumes of items per shipment, and on a more frequent basis. In addition, some retailers, depending on their scale of traffic, inject their parcels directly into the carrier's network (either at the depot level or hub level) reducing costs for the parcel operator.

Parcel operator

6.17 Based on the delivery profile of the retailer, the parcel operator will offer different services (usually bulk) and agree a price for delivery. Therefore, pricing in the B2C segment is often bespoke and depends on a number of factors, such as size, dimension and weight of the parcels, volume of parcels per collection, speed of delivery, sender and recipient distance from sorting centres⁵⁰³, and inclusion of additional features such as proof of delivery and increased options for the recipient.

6.18 Retailers typically require flexibility and speed from parcel operators, and so operators have had to react by investing in automated parcel hubs, boosting their sortation capacity, and offering later acceptance times for next day delivery. In addition, despite there being no universal service obligation for six days a week delivery for parcels, all the main parcel operators, including Royal Mail, offer Saturday delivery, with some also offering Sunday delivery in response to customer demand.

Consumer (recipient)

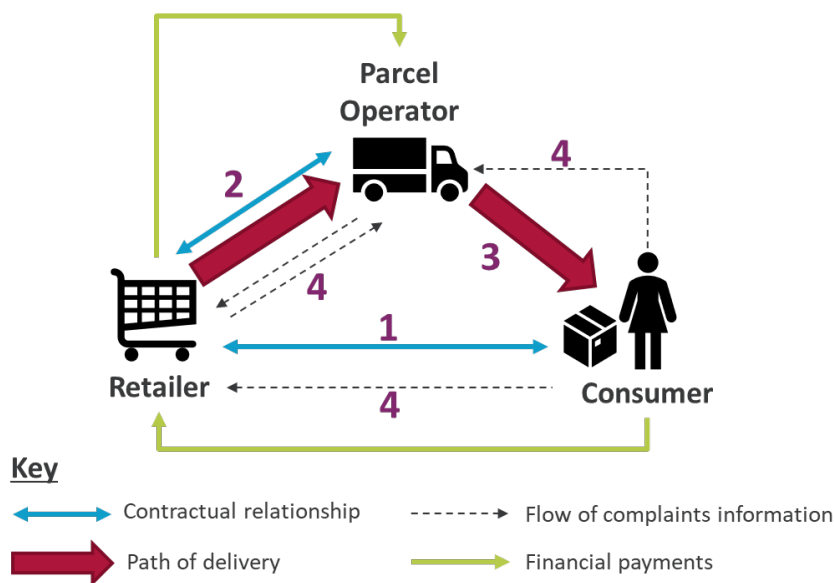
6.19 The consumer (of the retail good and the parcel service) will be given a price for delivery at the point of sale once the delivery destination and target delivery date are set. Depending on the item being purchased and the retailer, the consumer may have little choice about the delivery provider or service (which may impact the consumer's experience for specific deliveries).

Market dynamics

6.20 Figure 6.1 illustrates the interplay between retailer, parcel operator and consumer.

⁵⁰³ In B2C there are geographic variations in terms of the delivery charges. Most operators have a UK-wide footprint but many have differentiated delivery charging on the basis of geographic location, as discussed below.

Figure 6.1: Market dynamics in the B2C segment



Source: Ofcom's analysis

6.21 With reference to the numbering 1 to 4 in Figure 6.1, we summarise the market dynamics and the interplay of relationships between the three main parties:

1. Consumers purchase goods from retailers, usually with limited knowledge or influence over the parcel operator used by the retailer. The retailer and consumer enter into a contractual relationship whereby the purchased item(s) must be delivered to the consumer. It is also the retailer that determines the explicit delivery fee (if any) charged to their customer.
2. Retailers contract with parcel operators based on a number of factors, including price, speed of delivery and quality of service. These contracts will usually be large volume bulk contracts.
3. Parcel operators deliver parcels to consumers. There is no direct contractual relationship between the consumer recipient and the parcel operator.⁵⁰⁴
4. If consumers have a query or complaint with the delivery, they may seek to contact the retailer, the parcel operator or both.⁵⁰⁵

⁵⁰⁴ Parcel operators must however comply with their regulatory obligations when delivering parcels to consumers, including, as set out in more detail below, their obligation under consumer protection condition 3.2.

⁵⁰⁵ Consumer protection legislation is relevant to the B2C market segment. Where the parcel company is delivering an online order, it is the retailer that enters into a direct contractual relationship with the consumer and it is the retailer's contractual responsibility to make sure the item is delivered to the consumer. Depending on the particular circumstances, consumers may therefore be able to rely on provisions of consumer protection legislation, for instance the Consumer Rights Act 2015, to seek redress directly from retailers (for example if items are lost or damaged). A Citizens Advice publication, [If something you ordered hasn't arrived](#) [accessed 12/07/22] contains guidance for consumers in these instances. Consumer protection legislation with regard to retail sales is determined by Parliament and is beyond Ofcom's remit.

Competition in the B2C segment

There are several large nationwide end-to-end parcel delivery networks

- 6.22 There are several end-to-end parcel delivery network operators competing for B2C customers in the UK. Most of these operators have nationwide network footprints.⁵⁰⁶ There are also some parcel operators who only serve specific areas within the UK (e.g. Menzies in the Scottish Highlands).⁵⁰⁷
- 6.23 In 2020-21, our estimates suggest the four largest operators accounted for more than 80% of bulk domestic parcel volumes, as set out in Table 6.2 below.⁵⁰⁸ [§].

⁵⁰⁶ We recognise, however, that there are some geographic variations in the parcel delivery services offered across the UK, such as in Northern Ireland or in the Highlands and Islands. We discuss these variations below.

⁵⁰⁷ Some of these parcel operators also deliver parcels on behalf of other operators, who collect and sort parcels from businesses which they then pass on to an end-to-end parcel operator (often Royal Mail) for delivery.

⁵⁰⁸ These estimates are based on the data collected as part of our annual monitoring regime. We use bulk piece service shares, which is an imperfect approximation for B2C shares as they contain B2B volumes (although most bulk volumes are B2C). In addition, some operators were unable to accurately distinguish between their bulk and single piece parcels. Therefore, these figures should be treated as an approximation only.

Table 6.2: Estimated 2020-21 volume shares for domestic bulk parcel deliveries

	Bulk volume shares
Amazon	[redacted]
APC	[redacted]
DHL	[redacted]
DPD	[redacted]
DX	[redacted]
Evri	[redacted]
FedEx	[redacted]
Royal Mail	[redacted]
Tuffnells	[redacted]
UPS	[redacted]
Yodel	[redacted]

Source: Adjusted AMR volumes. [redacted].

Differentiation in B2C delivery

- 6.24 Parcels differ in terms of size, dimensions, weight, value, fragility, and where they are being picked up from and delivered to. Different businesses also have different preferences in terms of the services they want to offer their customers (e.g. some may want basic, low cost delivery, while others may want to offer a faster, premium service).
- 6.25 Operators have accordingly tailored their products to meet varying customers' sending needs, offering a range of services that provide different combinations of characteristics, including cost and speed of delivery, quality of delivery, and enhanced product features (such as proof of delivery, live tracking and inflight delivery options). For example:
- DPD offers products to customers that require value-add services, having introduced premium features such as by offering Sunday delivery, inflight options, and one-hour delivery windows.
 - Evri has targeted more price sensitive customers, due to its low-cost delivery model.
 - Royal Mail's postal network design has historically been tailored towards the delivery of small (particularly letter-boxable) items, due to its position as the universal postal service provider. This is reflected in its pricing strategy - while it sets higher prices for larger/heavier retail bulk parcels, it sets relatively lower prices for smaller/lightweight retail bulk parcels.⁵⁰⁹ Therefore for customers with a volume profile mainly consisting of smaller/lightweight bulk parcels, Royal Mail has historically held a stronger position.⁵¹⁰

⁵⁰⁹ In its response to our statutory information request, [redacted]

⁵¹⁰ See Chapter 8 for a more detailed discussion on these types of customers. As we explain there, Royal Mail does face some competitive pressure for this type of customer and there are indications of this pressure growing over time.

- d) Yodel offers next day and two-day B2C delivery services across the UK mainland, specialising in sectors such as wine and flowers,⁵¹¹ and has recently relaunched its C2X proposition.
- e) DX Freight, Tuffnells and Parcelforce's delivery networks are more tailored towards serving customers sending larger and heavier items.⁵¹²
- f) DHL and UPS have historically focused on international parcels, although in recent years they have built extensive domestic logistics networks. According to the Oxera report submitted by Royal Mail, [§<].⁵¹³
- g) Amazon has developed a large-scale parcel delivery operation through vertically integrating its own delivery services with its position as a large online retailer (and therefore buyer of parcel services from a variety of operators). Amazon delivers both its own parcels and those of other retailers which sell items on the Amazon Marketplace platform. In addition, in June 2020, Amazon launched 'Amazon Shipping', which allows retailers outside of Amazon Marketplace to send parcels through the Amazon network.⁵¹⁴
- h) Some operators have tailored their networks to be able to offer (or prioritise) niche or high value services:
 - i) Safe shipping. Some specialise in the movement of delicate items (such as flowers and small electrical goods), or high value items (e.g. APC).⁵¹⁵
 - ii) Speed. Some provide fast delivery of time sensitive, 'mission critical' items (e.g. DX Express).⁵¹⁶
 - iii) Locality. Some focus their operations solely on key business cities (e.g. CitySprint).⁵¹⁷

6.26 This means that competition occurs across the B2C market, with some variation in market focus of parcel operators within the market.

There is competition across the B2C segment, including small bulk parcels

6.27 Although some parcel operators have a particular focus on some groups of B2C customers, information provided by stakeholders in response to our statutory information requests⁵¹⁸ indicates that several parcel operators compete for all types of parcel customers. Parcel operators confirmed that once a parcel network is set-up, they can generally carry items of any size/weight.⁵¹⁹ This, combined with parcel operators operating for much of the year

⁵¹¹ <https://www.yodel.co.uk/>. [Accessed 02/12/21].

⁵¹² <https://www.parcelmonkey.co.uk/delivery-services/heavy-parcel-delivery>. [Accessed 02/12/21].

⁵¹³ Oxera confidential report submitted by Royal Mail in response to December 2021 consultation.

⁵¹⁴ <https://ship.amazon.co.uk/requestinfo>. [Accessed 02/12/21].

⁵¹⁵ <https://apc-overnight.com/>. [Accessed 02/12/21].

⁵¹⁶ <https://investors.dxdelivery.com/websites/dxgroup/English/1000/about-dx.html>. [Accessed 02/12/21].

⁵¹⁷ <https://www.citysprint.co.uk/about-us/national-coverage>. [Accessed 02/12/21].

⁵¹⁸ Responses received to our statutory information request from [§<].

⁵¹⁹ Parcel operators however impose upper weight limits, which are generally determined by health and safety rules which consider the weight that can be handled by a single person or two persons.

with excess capacity levels of [redacted]⁵²⁰, means that operators can typically deliver additional B2C volumes under their existing suites of products at a relatively low cost.⁵²¹

- 6.28 Royal Mail has historically accounted for a large share of small B2C parcels. It had a competitive advantage in these parcels because they can be delivered using the same network that delivers universal service obligation (USO) parcels and letters. This position has eroded over time, and the evidence suggests that competition in this segment of the market is growing:
- a) Alternative parcel operators have been expanding their offer of small B2C parcels. In 2019, Evri launched a letter-boxable parcel product which seeks to compete against Royal Mail's small B2C parcels. Other parcel operators have also introduced products which cater for those customers with a small parcel profile.⁵²²
 - b) As mentioned above, Amazon has developed its own delivery capabilities (at a national scale), which has increased its ability to satisfy its own small parcel delivery needs as well as those of other retailers.
 - c) Third, analysis conducted for Royal Mail for this review suggests that alternative parcel operators have been successful at increasing their share of small B2C parcels.⁵²³ The analysis indicates that Royal Mail's share of small B2C parcels has dropped in the period from 2016 to 2020 from [redacted]% to [redacted]% for small letter-boxable items, and from [redacted] to [redacted] for small but non-letter-boxable items.⁵²⁴

Overall, the B2C segment appears to be broadly competitive

- 6.29 The B2C segment has experienced substantial growth in recent years, and is of increasing importance to the lives of UK citizens and consumers. It has benefitted from growing investment and fast-paced product innovation. The upcoming years provide a good opportunity for growth for parcel operators, and will be important in determining how the market and competition develop. Our current view is that the B2C segment is broadly competitive, and that competition is growing for the smaller parcels where Royal Mail was historically stronger. Overall, the market is working well for consumers, as discussed further in the sub-sections below.

Consumer to business/consumer (C2X) parcels segment

- 6.30 The C2X segment is relatively small compared to B2C, but still accounted for approximately 350m parcels in 2020-21.⁵²⁵ Our residential tracker research indicates that most residential

⁵²⁰ Study conducted for Royal Mail to respond to our March 2021 CFI.

⁵²¹ Although recent unforeseen growth in parcels due to Covid-19 has reduced spare capacity in the industry, parcel operators have accelerated their network expansion plans to cope with demand growth. [redacted]

⁵²² Yodel offers Xpress mini for parcels up to 3kg. DPD offers the Expresspak service for parcels up to 5kg.

⁵²³ Royal Mail response to our March 2021 CFI.

⁵²⁴ [redacted].

⁵²⁵ Ofcom analysis based on Annual monitoring update on the postal market: 2020-21 data. We calculate these figures by using single piece service volumes as a proxy for C2X service volumes. Some operators were unable to accurately distinguish between their bulk and single piece parcels. Therefore, these figures should be treated as an approximation only.

users send few parcels.⁵²⁶ However, people are sending and receiving more parcels than previously as a result of the increase in online shopping, which drives sales through online marketplaces and returns of unwanted goods,⁵²⁷ both of which use C2X services.⁵²⁸ In 2020-21, the C2X segment grew by around 25%⁵²⁹, accelerated by the Covid-19 online shopping boom.

- 6.31 Early indications suggest the easing of Covid-19 restrictions and the associated decline in e-commerce activity has impacted C2X parcel volumes. [§<] ⁵³⁰.
- 6.32 Royal Mail is the main provider of C2X services, with its USO parcel products accounting for most of its C2X sales. The USO ensures affordable and universally priced C2X parcel services are available across the UK. Outside of Royal Mail, providers of C2X services include Evri, DHL, Yodel and DPD - offering a range of services across weight steps with varying speeds and features such as tracking facilities and proof of delivery.⁵³¹
- 6.33 People can access C2X services in several ways. Our C2X quantitative research found that the most popular method used to purchase C2X services is via the Post Office (64%), followed by online (either directly from an operator's website, a marketplace such as eBay, or a price comparison site such as Parcel2Go) (43%).⁵³²
- 6.34 Once purchased, there are also different ways for consumers to get their parcel into the delivery network, and their availability and convenience has been increasing over time. Some consumer pick up/ drop off (PUDO) networks provide C2X delivery services, allowing consumers to drop parcels off to return to retailers, or send parcels directly to other recipients. In recent years, operators have expanded the number of access points in their networks as set out in Table 6.3 (which shows the additional points since 2019).⁵³³ There are also now more operators offering C2X services,⁵³⁴ and parcel operators that we spoke

⁵²⁶ Ofcom Postal Residential tracker (Feb 2022) Data table QD1. People on average (mean) send two parcels a month.

⁵²⁷ We make a distinction between pre-paid returns, where the postage charge is covered by the online retailer, and non-pre-paid returns, where the postage charge is covered by the consumer. For the former, the consumer is usually restricted in terms of which parcel operator they can use. In contrast, for non-pre-paid returns the consumer is free to choose which parcel operator to use but they normally have to pay for the service. The focus of our analysis on the C2X segment, where relevant, is on non-pre-paid returns.

⁵²⁸ Ofcom, 2020. [Review of postal users' needs](#), para 4.28; Oxera report submitted by Royal Mail in response to December 2021 consultation, pp.2-3.

⁵²⁹ Ofcom analysis based on our Annual monitoring update on the postal market: 2019-20 and 2020-21 data. See footnote 525.

⁵³⁰ [§<].

⁵³¹ There is some variability in the market (non-Royal Mail) provision of C2X services available to different consumers, such as for those sending parcels to, and/or from, Northern Ireland and the Scottish Highlands & Islands, which we discuss further in Chapter 7.

⁵³² C2X quantitative research data tables, Table 48.

⁵³³ Collect+ operate a network of 10,000 stores and since May 2020 has expanded to process parcels on behalf of a range of parcel operators, including Yodel, DPD, FedEx and Amazon. Evri operates a network of 5,000 ParcelShops including 900 lockers which are accessible 24/7. Source: Collect+, May 2020. [About Collect+](#); Evri, 2020. [ParcelShops: Your local Evri parcel store](#).

⁵³⁴ <https://www.yodel.co.uk/news/2021/july-2021/yodel-launches-consumer-to-consumer-service-via-yodel-direct-expanding-its-offering-to-a-new-market>. [Accessed 02/12/21].

to are expecting growth in the C2X segment⁵³⁵ and networks to grow generally and in harder to reach areas.⁵³⁶

Table 6.3. Number of access points (changes since December consultation highlighted green)

	Parcel Operator	Number of access points	Access points location
Post Office	Royal Mail / Parcelforce ⁵³⁷	11,500	Post Office branches/outlets
CollectPlus	Yodel, DHL, DPD, FedEx	10,000 (+3,000)	Newsagents, convenience stores, supermarkets, petrol stations
ParcelShop	Evri	7,000 (+2500)	Convenience stores, lockers
DPD PickUp	DPD	6,000 (+3,500)	Convenience stores, pharmacies, retail shops
UPS Access Point	UPS	2,800	Convenience stores, supermarkets, petrol stations
InPost parcel lockers	InPost, DHL, Evri	3,000 (+1,800)	Convenience stores, supermarkets, petrol stations
DHL Service Points	DHL	1,300 (+100)	High street/retail outlets

Source: Parcel operator websites (correct as of June 2022). In parentheses, additional access points since January 2019.⁵³⁸

- 6.35 In addition, some operators – including Royal Mail, DPD and Evri – offer home parcel collection services whereby they will collect parcels from consumer properties for an additional charge to deliver elsewhere, or back to retailers in the case of returns. Consumers must pre-book their collection online and pay in advance.
- 6.36 As well as changes to the supply of C2X services, we also observe that people are increasingly using C2X services for different types of activity, for which consumer needs and behaviours appear to vary:
- a) **Social sending:** Mainly people sending parcels to family and friends.

Our C2X research found that 81% of all senders⁵³⁹ do some form of social sending. 19% only do social sending – and of these, people are sending less frequently than for other types of sending (a median of two parcels sent for this purpose in the preceding year).⁵⁴⁰ People that only do social sending ('solus social senders') are more likely to only use Royal Mail (67% use Royal Mail only compared to the average of 37% across

⁵³⁵ Confirmed with Evri (dated 27/06/2022), and DPD (dated 01/07/2022).

⁵³⁶ Confirmed with Evri (dated 27/06/2022).

⁵³⁷ Royal Mail and Post Office no longer have an exclusivity agreement, meaning the Post Office may open itself up to alternative operators in the coming years. Indeed, the Post Office has been trialling partnerships with other operators (however, at this time, the Post Office still does not offer parcel sending services from other parcel operators, only 'Click and Collect' services). See <https://www.onepostoffice.co.uk/secure/latest-news/general-news/post-office-partners-with-dpd-to-roll-out-click-and-collect-services/>. [Accessed 28/06/22].

⁵³⁸ See Ofcom, 2019. [Review of the Second Class Safeguard Caps](#), Table 3.1.

⁵³⁹ Our User Needs quantitative research found that around four in five people sent at least one parcel in the last 12 months. Ofcom, 2020. [Review of postal users' needs](#), Figure 9.

⁵⁴⁰ C2X quantitative research data tables, Table 6.

all senders of C2X services). Moreover, in terms of reasons why they use Royal Mail, solus social senders are significantly more likely to cite reasons related to the Post Office such as accessibility, convenience or friendly staff (74% vs 68% average) and familiarity and trust with Royal Mail (81% vs 72% average).

- b) **Online selling:** This segment includes selling online by residential consumers or some SMEs – from occasional sellers to people that sell items online for a source of income. The most frequent type of online selling is through online marketplaces⁵⁴¹, which often act as a platform for individuals (as well as small businesses), allowing them to sell newly made items (e.g. jewellery) or resell used or unwanted items. Analysis from the Oxera report submitted by Royal Mail highlights the impact that the pandemic had on marketplaces – with significant growth in sales and the numbers of visits to marketplace websites.⁵⁴²

60% of all senders have done some online selling, and these people tend to send a relatively high number of parcels for this purpose (a median of four parcels sent for this purpose in the preceding year).⁵⁴³ Online sellers are more likely to make use of competing parcel operators, with only 27% using only Royal Mail, compared to the average of 37% across all senders of C2X services (meaning 73% of online sellers used non-Royal Mail providers, compared to the overall average of 63%). When asked why sellers used alternatives, the main reasons cited were price (35%) and tracking being included as part of the service (30%).

- c) **Returns:** A consumer returning an item purchased from an online retailer.

On average, people that return parcels send four parcels for this purpose per year.⁵⁴⁴ 36% of senders do returns that they have arranged and paid for themselves.⁵⁴⁵ Returners are also more likely to make use of competing parcel operators, with 73% using non-Royal Mail providers (compared to the average of 63%).^{546 547}

- 6.37 People rarely do only one type of C2X sending. Figure 6.4 shows that most C2X senders have carried out a combination of social sending, marketplace selling and returns, with 35% of senders doing all three.

⁵⁴¹ This category also includes SMEs that rely on single piece parcel services to send occasional parcels (rather than bulk contracts) to customers or other businesses.

⁵⁴² Oxera confidential report submitted by Royal Mail in response to December 2021 consultation.

⁵⁴³ C2X quantitative research data tables, Table 7.

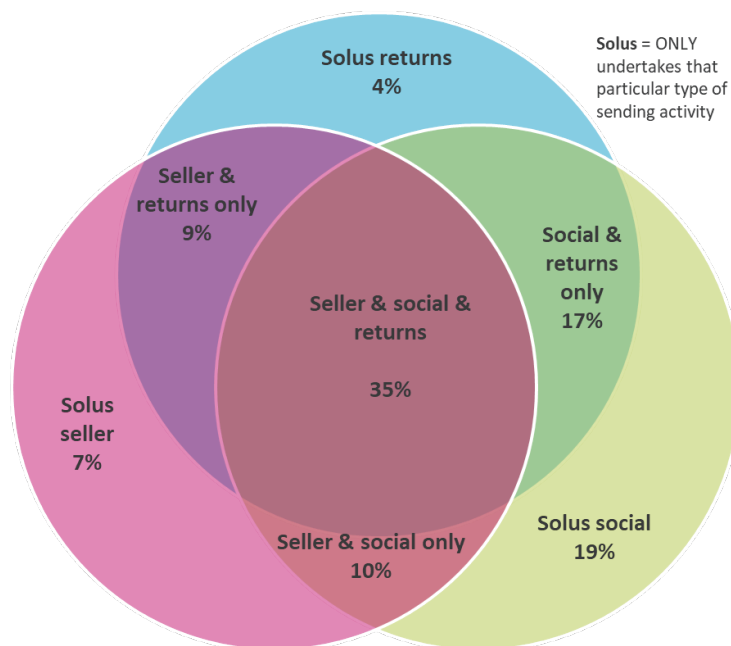
⁵⁴⁴ C2X quantitative research data tables, Table 8. This includes returns that were pre-paid by the retailer.

⁵⁴⁵ This excludes returns pre-paid by the retailer, which we generally consider as B2C.

⁵⁴⁶ C2X quantitative research data tables, Table 20.

⁵⁴⁷ Note, however, that this does not distinguish between 'paid for' and 'non-paid for' returns.

Figure 6.4: Interaction of overall different sender types



Source: C2X research. Note: all groups are mutually exclusive, a respondent only sits in one part of the Venn diagram

Royal Mail continues to have a strong position in C2X, particularly among social senders

6.38 Royal Mail continues to deliver the majority of C2X parcels. As of 2020-21, we estimate Royal Mail’s share of domestic single piece parcel deliveries was over 70% of total volumes.⁵⁴⁸ The next closest competitor was Evri, which accounted for approximately 10-20% of volumes, with all other operators having volume shares below 10%. Our research data aligns with these estimates:

- a) Our C2X research showed that reported use of Royal Mail for parcels is significantly greater than for its competitors. When asked about which operators people used to send a parcel in the preceding 12 months, 82% said Royal Mail. The next most frequent was Evri (37%).
- b) Similarly, our residential tracker asked participants that had sent a parcel in the month prior which parcel operators they had used.⁵⁴⁹ 90%⁵⁵⁰ said they had used Royal Mail, and the next most cited postal operator was Evri (23%).

⁵⁴⁸ These figures are inclusive of Parcelforce. Ofcom analysis based on our Annual monitoring update on the postal market: 2020-21 data. We calculate these figures by using single piece service shares as a proxy for C2X service shares. Some operators were unable to accurately distinguish between their bulk and single piece parcels. Therefore, these figures should be treated as an approximation only.

⁵⁴⁹ Ofcom Residential Tracker (Feb 2022), QD5.

⁵⁵⁰ The base for the figure used here is ‘all senders’. In the December 2021 consultation, paragraph 6.36, we said that 76% of ‘all participants’ had used Royal Mail.

6.39 The source of Royal Mail's strong market position in C2X to date is likely due to a combination of supply and demand side advantages:

- a) **Habit, loyalty and trust.** Royal Mail has an incumbency advantage as the universal service provider, with alternative operators being relatively new in C2X by comparison. It takes time to win customers, and even where alternative operators are available, some consumers may not consider using them due to habit or satisfaction with the existing services. This can make it more challenging for other operators to enter and scale up in C2X – particularly in the consumer facing part of the value chain.⁵⁵¹

For example, our C2X quantitative research found that 72% of people used Royal Mail due to the familiarity and trust associated with them, and 68% of people cited Post Office convenience, accessibility and friendliness as a reason for using Royal Mail.⁵⁵² Similarly, our C2X qualitative research found that some participants did not shop around because they had “no idea how and where to access alternative operators”, and said that sending with Royal Mail via the Post Office was a “force of habit”.⁵⁵³ Qualitative research from CCP ACOD found that, across all service user groups, participants exercised a “limited amount of choice” when sending parcels, usually using the Post Office.⁵⁵⁴

- b) **Large network.** The network of Post Offices remains the most extensive, with 11,500 locations across the UK (CollectPlus has 10,000 and Evri has 7,000). While alternative networks are growing, they tend to have lower coverage in rural areas compared to urban areas, meaning the Post Office (and therefore Royal Mail)⁵⁵⁵ is often likely to still be the closest available to consumers in many rural areas, and some may find it more difficult to access services from alternative providers.
- c) **Economies of scale and scope.** Royal Mail's established collection, processing and delivery network combined with its large market share (and therefore high volumes) provide it with a significant cost advantage. This is particularly the case for small and lightweight parcels which can fit through a letter box, as these can easily share the letter foot delivery network.
- d) **VAT exemption.** Royal Mail's universal services are exempt from VAT, whereas competitors' parcel services are not.

⁵⁵¹ Indeed, some parcel operators told us that aside from the entry costs of establishing a PUDO network, there may be additional costs in targeting and marketing to new consumers. Confirmed with Evri (dated 27/06/2022), and DPD (dated 01/07/2022).

⁵⁵² C2X quantitative research data tables, Table 29.

⁵⁵³ Similarly, our depth interviews found that the digitally excluded tended to be more reliant on Royal Mail and the Post Office. Royal Mail was seen in general as a trusted operator, in particular for rural area participants who found that local or familiar drivers were a real benefit.

⁵⁵⁴ Communications Consumer Panel and Advisory Committee for Older and Disabled People, 2021. [Delivering satisfaction? Meeting service users' needs for parcel services in the pandemic](#), paragraph 5.1.3.

⁵⁵⁵ Royal Mail and Post Office no longer have an exclusivity agreement, meaning the Post Office may open itself up to alternative operators in the coming years. Indeed, the Post Office has been trialling partnerships with other operators (however, at this time, the Post Office still does not offer parcel sending services from other parcel operators, only 'Click and Collect' services). See <https://www.onepostoffice.co.uk/secure/latest-news/general-news/post-office-partners-with-dpd-to-roll-out-click-and-collect-services/>. [Accessed 28/06/22].

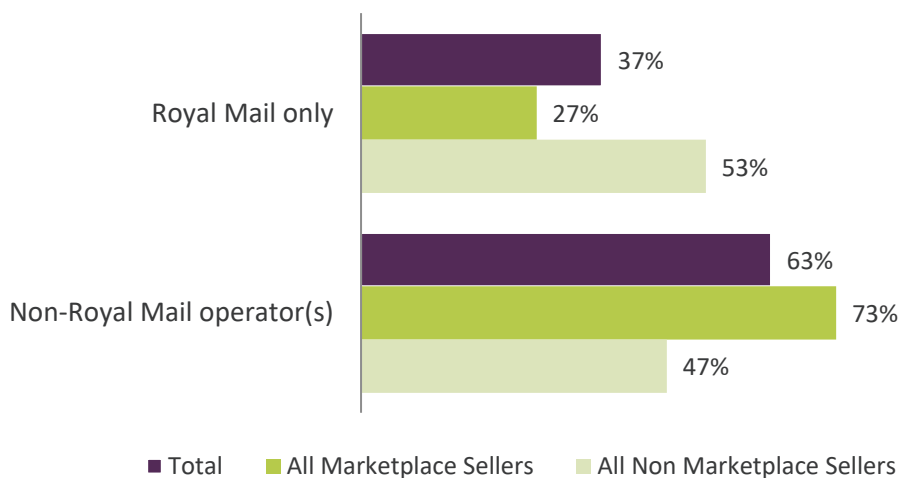
But there is evidence of growing competition in C2X

6.40 Despite Royal Mail’s strong position, there is evidence that competition in the C2X segment has been growing in recent years.

6.41 Sender usage of competing parcel operators has been growing year on year. Our tracker data shows people using Evri to send a parcel in the preceding twelve months is up from 15% in 2016-17 to 22% in 2020-21.⁵⁵⁶ DHL, DPD, FedEx and UPS have also seen higher usage for sending parcels over the past five years. Our C2X research found that 63% of C2X senders had used a supplier other than Royal Mail in the preceding 12 months. In addition, almost three in ten of senders identified an operator other than Royal Mail as the parcel company they use most frequently when sending parcels. This is supported by findings set out in the report prepared by Oxera for Royal Mail that shows that [X].⁵⁵⁷

6.42 The growth in C2X use by marketplace sellers supports expansion by competitors. Our C2X research found that 73% of marketplace sellers had used a supplier other than Royal Mail in the preceding 12 months, which is significantly higher than for non-sellers (47%), illustrated in Figure 6.5 below.

Figure 6.5: Operators used to send a parcel in the preceding 12 months



Source: C2X research. Note: Senders in the non-Royal Mail operator(s) category may also use Royal Mail

6.43 Our C2X qualitative research supports these findings, and suggests that marketplace sellers can be more motivated to shop around for alternative providers:

- a) High frequency senders can be more aware that cheaper alternatives are available and so other providers can be sought.

⁵⁵⁶ Ofcom [2020-21 Residential Postal Tracker](#).

⁵⁵⁷ Oxera confidential report submitted by Royal Mail in response to December 2021 consultation.

- b) Some sellers said they make use of price comparison websites such as Parcel Compare, Parcel2Go and Parcel Monkey.
- 6.44 In addition, as set out in the Oxera report prepared for Royal Mail, the growth in B2C has led to the C2X market segment becoming a more attractive proposition for Royal Mail competitors.⁵⁵⁸ This has enabled them to fund significant investments in their logistics and PUDO networks, which lowers the cost of entry to the C2X market segment, as it provides operators with a means to consolidate collection volumes in a way that mirrors the B2X market segment.⁵⁵⁹
- 6.45 There are other indicators that competitors' position in C2X is improving:
- a) **Competitive offerings.** Alternative operators have been able to respond to the emergence of more price sensitive C2X senders by offering a comparable, competitively priced offering to Royal Mail at sub 2kg weight steps, as set out in Table 6.6 below (above 2kg, competing operators continue to be cheaper than Royal Mail services). Similarly, operators have also differentiated their services, to attract different customer types (e.g. in relation to tracking as discussed further in Chapter 7).

Table 6.6: Cheapest delivery prices for select C2X services (updated 23/06/2022)

Weight Step	RM Special Delivery Guaranteed 1pm*	RM Second Class*	Evri	Yodel	DPD local	DHL
0-1kg	£8.45 (£8.95)	£2.85 (£3.35)	£2.99	£2.79	£6.47	£7.89
1-2kg	£10.65 (£11.15)	£2.85 (£3.35)	£4.34	£3.79	£6.47	£7.89

*Online price, Post Office prices in parentheses. Source: Ofcom desk research. Note: Apart from Royal Mail's Special Delivery Guaranteed, all prices are for later than next day delivery (where available), for a 'non-letter-boxable' small parcel sent from an access point to the receiver's address. Prices are inclusive of VAT. Also note surcharges may apply to deliveries and/or collections for some postcodes.

- b) **Brand awareness.** Historically, Royal Mail has had significant brand advantages over its competitors in C2X.⁵⁶⁰ However, awareness of other operators has grown significantly in recent years, driven in part by increased interactions with other operators when receiving parcels. Our Residential Tracker research found that while 93% of people had

⁵⁵⁸ Oxera report submitted by Royal Mail in response to December 2021 consultation, p.2.

⁵⁵⁹ While we broadly agree with Oxera's assessment of competition in the C2X segment (that the growth in B2C, e-commerce and marketplace sellers has supported competition), our analysis suggests that it overstates the strength of competition. Its fundamental argument is that economies of scope in B2X and C2X means that competition in C2X is resilient. However, it does not consider that (i) Royal Mail benefits from economies of scale and scope as well; (ii) Royal Mail has a well-established position and competitive advantages in C2X, as set out in paragraphs 6.38-6.39; and (iii) there are barriers to entry and expansion in C2X in addition to having an established PUDO network (such as marketing and targeting to new consumers – as set out in FN 551 above). In addition, there are some groups of consumers that continue to be more reliant on Royal Mail, particularly social senders (see paragraph 6.36).

⁵⁶⁰ Ofcom, 2019. [Review of Second Class safeguard caps](#) - Statement, paragraph 3.63.

heard of Royal Mail, awareness of some other operators is now also high, at 82% for Evri, 80% for DHL and 78% for FedEx.⁵⁶¹

- c) **Post Office access.** While one of the main reasons people use Royal Mail is due to the Post Office, we note that alternative operators have invested in improving accessibility and convenience of access (as discussed above), reducing potential barriers to switching.⁵⁶² Our recent Residential Tracker research also suggests people are gradually becoming more familiar with other methods. The proportion of people citing using the Post Office to send parcels has declined slightly from 83% in 2016/17 to 75% in 2021,⁵⁶³ while online collection and delivery services have slowly increased, from 11% in 2016/17 to 16% in 2021.⁵⁶⁴ Similarly, our C2X research found that 36% of senders did not use the Post Office to purchase postage and/or to dispatch parcels in the preceding year, with marketplace sellers significantly higher at 44%.

Summary

- 6.46 Overall, competition appears to be growing in the C2X segment.⁵⁶⁵ While Royal Mail still retains significant competitive advantages, alternative operators have capitalised on the growth of smaller online and marketplace sellers to scale up their operations in C2X. We expect competition to continue to develop as more people become familiar with other operators and other methods of accessing C2X services.⁵⁶⁶

Our assessment of how well the parcels market is working for consumers

Our approach

- 6.47 Over the course of the Review, we have gathered evidence to inform our assessment of how well the parcels market is working for consumers. We draw on our consumer research (explained above) and information gathered from stakeholders (including from the responses to the March CFI, December consultation and information requests).
- 6.48 While this is an overall assessment of the parcels market (covering both the C2X and B2C segments), we do highlight important differences in consumer experience and research findings between the B2C and C2X segments. This is particularly relevant when discussing differences in experience between parcel senders and receivers.

⁵⁶¹ Ofcom Residential tracker (Feb 2022), Q11.

⁵⁶² Royal Mail and Post Office no longer have an exclusivity agreement, meaning the Post Office may open itself up to alternative operators in the coming years.

⁵⁶³ The increased rate of decline in Post Office usage in 2020-21 may in part be explained by increased caution and/or limited opening hours as a result of Covid-19.

⁵⁶⁴ 2021 Residential tracker QD6.

⁵⁶⁵ Jigsaw, 2020. [UK Postal User Research: Quantitative Research Report](#), Figure 9.

⁵⁶⁶ Indeed, as noted by Oxera in its confidential report submitted by Royal Mail in response to December 2021 consultation, "From a forward-looking perspective. . .there is potential for a further increase in the uptake of the C2X products offered by Royal Mail's competitors". Oxera confidential report submitted by Royal Mail in response to December 2021 consultation.

Our consultation position

- 6.49 In the December consultation, we set out the evidence that suggested the parcels market (including the USO) was working well overall for customers, resulting in generally high levels of satisfaction. Increased competition in both the B2C and C2X segments appeared to be providing benefits to consumers in the form of increased investment and innovation.
- 6.50 However, we identified evidence of specific areas of concern. First, operators' complaints processes appeared to be a potential barrier to raising issues when they occurred and were more difficult to navigate through than should be the case. Second, disabled consumers were disproportionately more likely to have experienced significant issues with parcel services.

Consultation responses

- 6.51 The majority of parcel operators and parcel operator groups agreed that the parcels market was generally working well. Royal Mail said that competition is driving benefits for consumers, and it expects competition to intensify further.⁵⁶⁷ Evri said that operators have innovated to meet consumers' changing needs with faster delivery, competitive and affordable delivery options, enhanced messaging information and real time changes.⁵⁶⁸
- 6.52 However, Citizens Advice presented evidence that delivery problems are more frequent and have higher detriment than suggested in the December consultation. It presented research that showed in a single week 41% of adults expecting a parcel have had a delivery problem,⁵⁶⁹ and 12% of consumers have at least one failed first-time delivery in a week – with most using non-USO parcel operators.⁵⁷⁰ It said these harms disproportionately impact time-poor groups, disabled people and those with specific access needs.⁵⁷¹
- 6.53 Some stakeholders also said the market was not working well due to geographic variations in parcel services (including surcharging), inaccessibility of Pick Up Drop Off (PUDO) points, inadequate complaints handling processes and difficulty in meeting the needs of disabled users. We set out and discuss these comments in more detail in the relevant subsections of this chapter.

Competition is driving innovation in the parcels market

- 6.54 As explained above, there is end-to-end competition in the provision of parcels services in the UK. This has fuelled investment and innovation in the parcels market to the benefit of all users (C2X and B2C) as the market adapts to meet changing consumer demands. For example:
- a) Improvements in the accessibility and convenience of accessing parcel services, e.g.

⁵⁶⁷ Royal Mail response to December 2021 consultation, p. 15.

⁵⁶⁸ Evri response to December 2021 consultation, p. 2.

⁵⁶⁹ Citizens Advice response to December 2021 consultation, paragraph 7.14.

⁵⁷⁰ Citizens Advice response to December 2021 consultation, paragraph 7.32.

⁵⁷¹ Citizens Advice response to December 2021 consultation, paragraph 7.19-7.23.

- i) With the expansion of consumer PUDO points. These provide both C2X and B2C services, allowing people to send, collect and return parcels from collection points, such as convenience stores or train stations. In addition, there are now more access methods available for C2X and B2C services, such as parcel lockers.
 - ii) Home parcel collection services, whereby operators will collect parcels from the homes of consumers to deliver to other consumers, or back to retailers in the case of returns.
- b) Developments in proof of delivery (in addition to signature on delivery), e.g.
- i) SafePlace Photos, which provides the consumer and retailer with photographic evidence of place of delivery.
 - ii) 'Geo fencing', which provides a location of a delivery within a map, within a specified radius.
- c) **Improvements to consumer experience / control**, e.g. nominated delivery windows; inflight diversion options; and the ability for consumers to specify delivery preferences.

6.55 There is also some evidence to indicate that this competition between parcel operators is driving pricing pressures. Our AMU data shows that the average unit revenue across all domestic parcels in 2020-21 was £2.63, 7.8% lower than the 2019-20 average of £2.85 (although note that the reduction in average unit revenues may also be driven by a change in the volume mix rather than only a reduction in price).⁵⁷²

While many delivery issues occur, half of consumers told us their parcels were always delivered without any issues

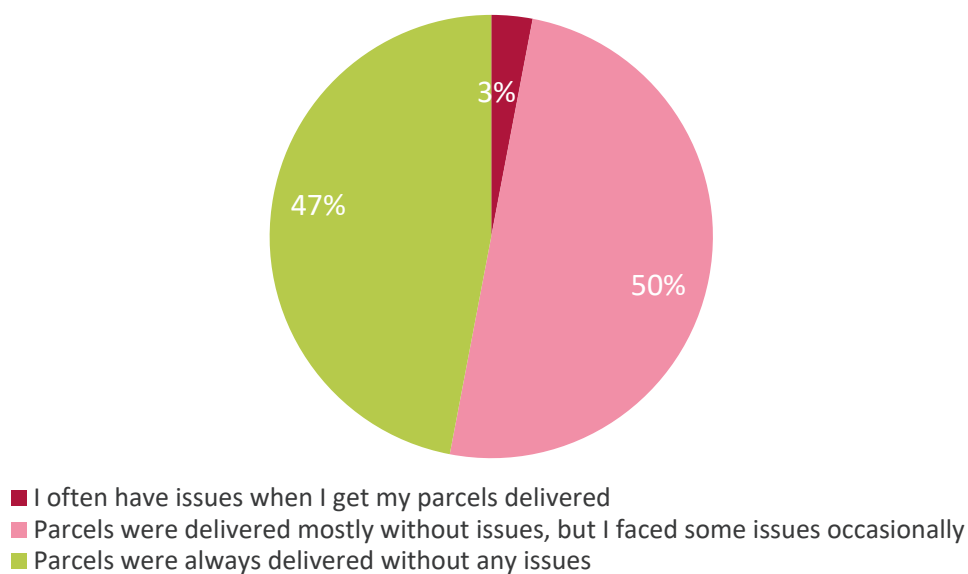
6.56 Around four billion parcels are now received each year in the UK (more than ten million a day). Our B2C parcels consumer research found that, on average, users received around 18 parcels in the preceding three months, with 35% receiving parcels every week. Our C2X research found that people sent on average seven parcels in the past year.

6.57 Despite this significant volume of parcels, most people say that they do not experience any issues with parcel deliveries or only experience issues occasionally. In the context of receiving parcels, our B2C parcels consumer research found that in the three months leading up to the research, half said parcels were delivered mostly without issues, and just under half said parcels were delivered without any issues, as shown in Figure 6.7 Only 3% of respondents said they often experienced issues with parcel deliveries.⁵⁷³

⁵⁷² Ofcom, December 2021. [Annual Monitoring Update on the Postal Market](#), para 4.18.

⁵⁷³ Similarly, research from Citizens Advice found that, in a single week, two in every five UK adults (41%) expecting a parcel had at least one delivery problem. It also noted significant increases in site visits to its parcels advice web pages since the pandemic and significant increases in the number of people ringing its Consumer Service helpline for advice about parcel-related problems. Citizens Advice response to December 2021 consultation, paragraphs 7.14-7.18.

Figure 6.7: issues when getting parcels delivered in the last three months



Source: B2C parcels consumer research; Base: All respondents

6.58 However, when prompted with a list of issues with deliveries, 64% of parcel receivers recognised they had experienced at least one.⁵⁷⁴ As set out in Figure 6.8, the main issues experienced were parcel delays (31% of all respondents), damaged packaging (18%), parcel left exposed to atmospheric conditions (17%) and parcel not being delivered (16%).

⁵⁷⁴ We note similar research findings from Citizens Advice, which finds 71% of consumers claimed to have experienced a parcel delivery problem. The most frequent issues identified were having to stay home to receive parcels, parcels arriving late, drivers leaving parcels or slips before they can get to the door, and deliveries being left in insecure locations. Citizens Advice response to our March 2021 CFI, paras 7.9-7.10.

Figure 6.8: Experienced issues with deliveries in the preceding three months (Top 10 issues displayed)



Source: B2C parcels consumer research; Base: All respondents

6.59 For senders, our C2X research found that, when prompted with a list of issues around sending a parcel, 50% said they had experienced at least one. The most frequent issues were time taken for delivery not meeting expectations (26%), parcel delivered to wrong address/place or getting lost (23%), and incorrect or insufficient tracking information (23%).

Figure 6.9: Issues with any supplier when sending parcel in the past 12 months



Source: C2X research; Base: All respondents

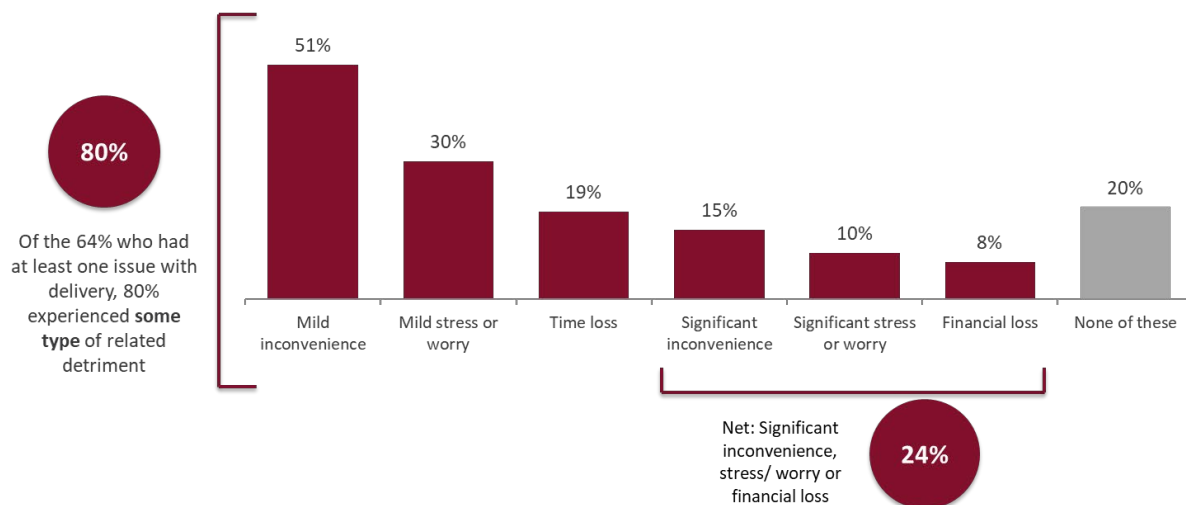
6.60 In addition, the C2X research found variation in issues experienced by senders across suppliers. Users of Royal Mail were significantly less likely to have experienced an issue (43%) compared to those using other suppliers (average of 64%).

When delivery issues do occur, they have a limited impact on most consumers

6.61 Most people only experienced mild inconvenience or stress as a result of a parcel delivery issue. Our B2C parcels consumer research found that 20% of receivers who had a delivery issue did not experience detriment. While 80% with a delivery issue experienced some type of detriment, half of them reported experiencing mild inconvenience, 30% faced mild stress or worry and 19% lost time. There are, however, an appreciable minority of receivers (approximately 12% of all participants) who experienced significant inconvenience, stress or worry, or financial loss.⁵⁷⁵

⁵⁷⁵ We acknowledge findings from Citizens Advice that 1 in 10 incurred financial losses due to parcel problems, and the average amount lost was £10.30. This corroborates our research set out in figure 6.10. Citizens Advice response to December 2021 consultation, paragraph 7.15.

Figure 6.10: Impact experienced in preceding three months



Source: B2C parcels consumer research. There were participants that had experienced multiple impacts; hence the sum is greater than 100%.

6.62 This finding is supported by other parts of the research that also suggest some delivery issues do not cause significant detriment to consumers. Among receivers who experienced a delivery issue but did not make contact with the parcel operator, 65% said this was because they did not consider it to be a sufficiently big problem. For senders, the C2X research found that 33% did not contact the parcel operator after experiencing an issue with a parcel delivery. Where senders did not raise complaints or contact a provider, for many this was because it was not a major issue (21%), or the problem was sorted without needing to complain (23%).

6.63 We also note that a simple and straightforward complaints process which facilitates the fair and prompt settlement of an issue can help reduce the overall negative impact from a delivery issue. Of those that did make contact about an issue, our B2C parcels consumer research found that over two thirds said the issue was resolved to satisfaction. For senders, our C2X research found that just under one in ten said the issue was not resolved at all (although a significant proportion of issues were not fully resolved, which we discuss further below).

Overall consumer satisfaction with parcel services is high

6.64 Although issues do arise, satisfaction with parcel services is high. For senders, our C2X research data finds that the majority are satisfied with the parcel operators they have used. 89% of those who used Royal Mail were satisfied – the highest of all operators – compared to a mean average of 72% for other operators.

6.65 In the context of receiving parcels, there is variation in satisfaction with delivery companies. Our B2C parcels consumer research data shows that the net satisfaction for delivery companies was highest for Amazon (89%), DPD (85%), and DHL (81%) and lowest for Evri (57%) and Yodel (61%). In all cases the majority were satisfied.

- 6.66 In addition, qualitative research from the Communications Consumer Panel and Advisory Committee for Older and Disabled People (CCP ACOD) found that, in the context of sending parcels, participants overall felt neutral or positively about parcel sending services.⁵⁷⁶ Parcels were described as tending to arrive at their destination in an acceptable timeframe and in good condition. However, consumers not exercising choice suggests that more could be done to ensure consumers are getting a value for money and affordable service.
- 6.67 CCP ACOD also found that, in the context of receiving parcels, participants felt highly satisfied with their experiences. Consumers were particularly impressed with the reliability of services despite increased demand.

While overall the market appears to be working well, we have found some specific areas of concern

- 6.68 While the majority of consumers make contact with the parcel operator and/or retailer when they experience a delivery issue, our research does provide some evidence of problems with the **complaints process**. In particular:⁵⁷⁷
- a) Difficulties making a complaint: Our C2X research found that around a quarter of senders found it difficult to make a complaint or contact parcel operators;
 - b) Complexities with the complaints process itself: Our B2C parcels consumer research found the experience of the process for resolving issues varied widely between parcel operators;
 - c) Unsatisfactory outcomes: Our C2X research found that 9% of the complaints described by senders were not resolved at all, and more than 40% were only partly resolved.
- 6.69 In addition, while many millions of parcels are delivered without issue, the research uncovered some concerns around the **safety and security of parcels**. Our B2C parcels consumer research found that almost one in five experienced damaged packaging (18%), 17% experienced a parcel being left exposed to atmospheric conditions and 16% experienced their parcel not being delivered.
- 6.70 **Users with disabilities** were more likely to have experienced significant issues. Our B2C parcels consumer research found that almost one in three that had a delivery issue experienced significant detriment, compared to one in five for consumers without disabilities.
- 6.71 Stakeholders have also reiterated concerns about **geographic variation** in service levels and **surcharging**, with this remaining an extremely important issue for customers in Northern Ireland and large parts of Scotland, including the Highlands and Islands.

⁵⁷⁶ Communications Consumer Panel and Advisory Committee for Older and Disabled People, April 2021. [Delivering satisfaction? Meeting service users' needs for parcel services in the pandemic](#), paras 5.1.1, 5.13 and 6.1.1.

⁵⁷⁷ In its response to our March 2021 CFI, Citizens Advice set out its research which found that 76% of consumers took no action after their latest parcel delivery problem, with 32% not taking action because they did not think it would make a difference and 12% because they did not have time. Citizens Advice response to our March 2021 CFI, Table 3.

- 6.72 In addition, stakeholders commented on the **scarcity of PUDO points**, particularly in rural locations, which can create a “significant inconvenience” due to consumers needing to travel for their parcels.
- 6.73 We discuss geographic variation in parcels services and PUDO points in more detail in the following sections.

Conclusion

- 6.74 Around four billion parcels are now received each year in the UK (more than ten million a day). Our research indicated that, while half of consumers told us their parcels were always delivered without any issues, many delivery issues do occur. In addition, when issues occur, it can have a harmful impact on users, as raised by Citizens’ Advice. We also acknowledge the geographic variability in price and service levels, which can be particularly prevalent in Northern Ireland and large parts of Scotland, including the Highlands and Islands.
- 6.75 Despite this, our evidence suggests that, for most people, any negative impact experienced from delivery issues is limited. Moreover, overall consumer satisfaction with parcel services is high. As a result, we remain of the view that, overall, the evidence suggests that the parcels market (including the USO) is working well for most customers. Increased competition in both the B2C and C2X segments is providing benefits to consumers in the form of increased investment and innovation.
- 6.76 However, as identified by us and several stakeholders, there is evidence of specific areas of concern. First, operators’ complaints processes appear to be a potential barrier to raising issues when they occur and are more difficult to navigate through than they should be. Second, a significant minority of customers do experience more material detriment, particularly those with disabilities.
- 6.77 We discuss these areas in more detail in the following sections.

Improvements in complaints handling are needed

Our decision

Our evidence and research have identified problems with the handling of complaints by parcel operators, leading to consumer harm. We expect parcel operators to make improvements in customer service and complaints handling.

With more than ten million parcels received every day, sometimes things go wrong. However, with the increasing importance of parcel deliveries to consumers across the UK it is crucial that parcel operators have appropriate processes and systems in place to deal effectively and efficiently with consumers when this happens.

We have therefore decided to introduce new guidance to operators (including Royal Mail) on how complaints should be managed, and the information to be kept to ensure compliance on complaints handling. Our guidance applies to consumer complaints relating to B2C and C2X parcel services. We will also use the information that operators collect on complaints levels and customer satisfaction to enhance our monitoring and scrutiny of operators' performance.

Introduction and background

- 6.78 Customers of parcel services should receive a service that meets their needs. Around four billion parcels are now received each year in the UK (more than ten million a day) and while the majority of deliveries are problem free and overall satisfaction is high, the service provided in some cases can be well below consumers' expectations.
- 6.79 Where consumers have a negative experience and have not received a satisfactory level of service, it should be simple and straightforward for them to complain and receive appropriate redress (where relevant).
- 6.80 Our regulation aims to protect consumers who may have negative experiences by imposing consumer protection conditions (CPs) on all parcel operators. CP 3, introduced in 2012 and modified in 2017, deals with complaints handling and redress.
- 6.81 CP 3.2 requires all postal operators, including parcel operators,⁵⁷⁸ to establish, make available and comply with transparent, simple and inexpensive procedures for dealing with complaints of consumers of postal services, which facilitate the fair and prompt settlement of disputes. For the purpose of CP 3.2, a 'consumer' is any person who uses postal services either as a sender or an addressee.⁵⁷⁹
- 6.82 In addition to CP 3.2, Royal Mail is subject to more specific requirements under CP 3.3 in relation to complaints from consumers of universal services. CP 3.3 sets out, amongst other things, a requirement to establish a complaints handling procedure which complies

⁵⁷⁸ For the purpose of CP 3.2 a 'postal operator' is defined by reference to s.27(3) of the PSA 2011: a person who provides (a) the service of conveying postal packets from one place to another by post, or (b) any of the incidental services of receiving, collecting, sorting and delivering postal packets.

⁵⁷⁹ CP 3.1.2(g).

with certain detailed conditions; a requirement to publish quarterly reports on complaints volumes; and a requirement to be a member of a qualifying redress scheme.⁵⁸⁰

- 6.83 How complaints are dealt with is also different for C2X and B2C customers. For C2X services the individual residential consumer, marketplace sender or small business sending the item will be entering into a direct relationship with the parcel operator. The sender and/or recipient will need to deal directly with the parcel operator to resolve delivery issues. These consumers will therefore rely on the quality of the complaints and contact handling services put in place by parcel operators.
- 6.84 For B2C services, unlike C2X, the retailer plays a key role. For goods purchased online (B2C services) a consumer's contract is with the retailer the customer bought the goods from. It is the retailer who is responsible for the goods until they are in a customer's physical possession.⁵⁸¹ If goods are not delivered to the customer (for example, they are lost or stolen) or the goods that are delivered are damaged, it is ordinarily the retailer who is legally responsible for resolving these issues.⁵⁸²
- 6.85 Given this legal position, it will often be more appropriate for the consumer to contact the relevant retailer in the first instance. However, in practice it can be unclear to a consumer whether they should contact the retailer or the parcel operator and in some cases consumers will likely complain to the parcel operator (either in addition to, or instead of, contacting the retailer), given the parcel operator may have been communicating with them about their delivery. Furthermore, in some cases, consumers may wish to complain to the parcel operator about the delivery service they received (for example, about the behaviour of the delivery driver) either in addition to, or instead of, the retailer. In these situations, it is important that the parcel operator's contact and complaints processes work well for recipients of B2C services (as parcel operators will need to ensure compliance with the obligation set out in CP 3.2).
- 6.86 In practice, consumers of parcel services will often want to contact the parcel operator and/or the retailer about their delivery to find out more information about their delivery (rather than to make a complaint). We also appreciate that with four billion parcels delivered a year the number of customer contacts could be extremely large and they will need to be managed cost effectively by parcel operators.
- 6.87 Our regulation focuses on complaints and ensuring customers have access to fair and prompt processes for dealing with problems when they arise, as this is where consumer detriment has occurred. A complaint is clearly defined in our regulations as an expression

⁵⁸⁰ For a more detailed description of the requirements set out in CP 3, please see Annex 2 – Legal.

⁵⁸¹ Or in the possession of someone appointed by the customer to accept them, or delivered to the customer's nominated safe place.

⁵⁸² Consumers' statutory rights and remedies for goods contracts are set out in Chapter 2 of Part 1 of the Consumer Rights Act 2015. In relation to deliveries, see in particular section 28 of that Act.

of dissatisfaction.⁵⁸³ We expect parcel operators to be able to distinguish complaints from contacts and deal with them appropriately.

- 6.88 Given the importance of these complaints processes, we undertook consumer research in advance of our consultation to better understand the consumer experience of contacting and complaining to parcels operators or retailers when customers have delivery issues. Our research identified a number of issues with operators' complaints handling processes, which informed our December consultation proposal.

Our proposal

- 6.89 Our research identified problems with the way complaints are being handled. We found that the consumer experience of the complaints handling process varies from one operator to another, both in terms of the outcome and the experience of the process itself. While some operators are performing better than others, we were concerned that in some cases performance is falling short of providing a simple, transparent process for settling consumers' disputes fairly and promptly.
- 6.90 We therefore decided that targeted and proportionate steps to secure better outcomes for consumers were necessary, and to that end we proposed new guidance on complaints handling processes for parcel operators. The guidance would apply to C2X and B2C services and to all parcel operators, including Royal Mail.
- 6.91 This guidance is intended to support parcels operators in complying with their obligations under CP 3.2 and improving their processes in these areas. We considered that it will help address the problems consumers have been experiencing, ultimately helping to resolve complaints more effectively and achieve better outcomes for consumers.
- 6.92 Our proposed guidance (see Annex 7 of the December consultation) described the steps that we expect all parcel operators to take to ensure compliance with our existing Consumer Protection Condition 3.2. It aims to ensure that parcel operators properly understand their obligations under CP 3.2 and described the data and records we would expect operators to retain to monitor complaints handling effectively.

⁵⁸³ In CP 3 "complaint" means any expression of dissatisfaction made to a postal operator, related to one or more of its products or services or the manner in which the postal operator has dealt with any such expression of dissatisfaction, where a response is explicitly or implicitly required or expected to be provided.

Consultation responses

The need for guidance on CP 3.2

- 6.93 Most respondents, including parcel operators⁵⁸⁴ and consumer groups⁵⁸⁵ as well as other organisations,⁵⁸⁶ were supportive of our intention to see substantial improvements in complaints handling by parcel operators.
- 6.94 Individual parcel operators, including Evri, UPS, Whistl, Amazon and Royal Mail, broadly agreed with our proposals. Evri in particular welcomed that our proposed guidance provided clarity to operators and noted its particular importance in the context of rising parcel volumes. UPS agreed with our proposals, although also noted that it considers that it has a strong commercial incentive to offer good customer service without additional regulation. UPS also set out the ways in which it considers its existing procedures meet the expectations set out in the guidance, while Evri set out a number of steps it is taking to improve its customer service, including complaints handling.⁵⁸⁷ Amazon noted that its view that our approach of setting guidance rather than prescriptive rules would allow for continued innovation in the sector, driven by competition.
- 6.95 The Association of International Courier and Express Services (AICES), the UK trade organisation for companies handling international express documents and package shipments, opposed the introduction of the guidance on the grounds that it is disproportionate and unnecessary, as strong competition between parcel operators incentivises high customer service standards. It also argued that the proportion of parcel deliveries that result in problems is very small and that it is straightforward for customers to make a complaint.⁵⁸⁸
- 6.96 DX and MCF also noted that they consider strong competition in the parcels market incentivises good customer service and effective resolution of disputes and complaints, but ultimately supported our proposed guidance.⁵⁸⁹

Whether the guidance is sufficient to address the problems we identified

- 6.97 While supportive of our objective, Citizens Advice, Citizens Advice Scotland and CWU said that they did not consider that guidance alone would sufficiently improve operators'

⁵⁸⁴ Royal Mail response to December 2021 consultation, p. 40; Evri response to December 2021 consultation, p. 3; UPS response to December 2021 consultation, p. 3; Whistl response to December 2021 consultation, p. 6; DX response to December 2021 consultation, p. 14; Amazon response to December 2021 consultation, p. 6.

⁵⁸⁵ Citizens Advice response to December 2021 consultation, p. 89; Citizens Advice Scotland response to December 2021 consultation, pp. 21-23; CCNI response to December 2021 consultation, pp. 19-20.

⁵⁸⁶ Welsh Government response to December 2021 consultation, p. 3-4; Rural Services Network response to December 2021 consultation, p. 5; ACRE response to December 2021 consultation, p.3; NALC response to December 2021 consultation, p. 5; MCF response to December 2021 consultation, p. 14; Advisory Committee for Scotland response to December 2021 consultation, p. 8.

⁵⁸⁷ Evri response to December 2021 consultation p. 3; UPS response to December 2021 consultation pp. 3-4.

⁵⁸⁸ AICES response to December 2021 consultation, pp. 1-2.

⁵⁸⁹ DX response to December 2021 consultation, p. 14; MCF response to December 2021 consultation, p. 14.

complaints processes.⁵⁹⁰ Citizens Advice Scotland argued that we should go further and impose regulatory requirements in relation to complaints processes, or ensure that there are consequences (in the form of penalties or sanctions) for operators who do not comply. CWU argued that we should extend CP 3.3 (which requires the universal service provider, Royal Mail to comply with a number of further requirements relating to complaints handling and compensation), to all parcel operators, and accompany this with enforcement action.⁵⁹¹

- 6.98 Citizens Advice and Citizens Advice Scotland queried how the guidance would help to improve operators' complaints handling processes given their view that some operators' existing complaints processes fall short of our requirements.⁵⁹²
- 6.99 Several respondents wanted to understand what action we would take if a parcel operator did not comply with the guidance.⁵⁹³ Citizens Advice Scotland argued that, in order for the guidance to be effective, there should be consequences in the form of penalties or sanctions for those who do not comply.⁵⁹⁴

How we will monitor

- 6.100 Consumer groups and others were generally supportive of our proposals to monitor operators' performance on complaints handling, and to take further action if improvements are not seen.
- 6.101 There were requests from some stakeholders for more detail about what and how we will monitor, while some respondents (including CCNI and Pitney Bowes) suggested that we should publish data in order to increase transparency and incentivise good performance.⁵⁹⁵ Royal Mail said that it would be important to ensure that our analysis takes into account differences in parcel volumes handled by operators, to ensure accurate comparisons.
- 6.102 AICES did not support our proposal for operators to collect and hold data on customer complaints, arguing that this is not justified and would be burdensome for operators. It noted that there should be a clear distinction between an enquiry and a complaint.

The link between tracking and complaints handling

- 6.103 Royal Mail argued that tracking on USO parcel services would lead to a better complaints handling process and reduce the number of customer queries and complaints. Citizens

⁵⁹⁰ Citizens Advice response to December 2021 consultation pp. 85-91; Citizens Advice Scotland response to December 2021 consultation, pp. 20-24; CWU response to December 2021 consultation, p. 10.

⁵⁹¹ CWU response to December 2021 consultation, p. 10.

⁵⁹² Citizens Advice response to December 2021 consultation, p. 90; Citizens Advice Scotland response to December 2021 consultation, p. 23.

⁵⁹³ Citizens Advice response to December 2021 consultation, pp. 85-91; DX response to December 2021 consultation, p. 14

⁵⁹⁴ Citizens Advice Scotland response to December 2021 consultation, p. 23.

⁵⁹⁵ CCNI response to December 2021 consultation, pp. 19-20; Pitney Bowes response to December 2021 consultation, p.5, DX response to December 2021 consultation, p. 14; MCF response to December 2021 consultation, p. 14; Citizens Advice Scotland response to December 2021 consultation, p. 23.

Advice argued that tracking could help with effective dispute resolution and make it easier for consumers to gain redress.⁵⁹⁶

6.104 We deal with comments relating to tracking and complaints handling in Chapter 7.

Comments on specific elements of the guidance

6.105 AICES, UPS and Royal Mail commented on specific aspects of the guidance.⁵⁹⁷ These comments were mainly around the role of the parcel operator in signposting the complainant to the retailer, chatbots, and how they would be used, and clarification on the communications needed when a complaint is resolved immediately.

Other comments

6.106 Several respondents, including DX and MCF, asked us to set out when the guidance comes into force.⁵⁹⁸

6.107 Four individual respondents reported negative experiences they had had with parcel operators, including that they had found it difficult to make a complaint.⁵⁹⁹

Our assessment

The need for guidance on CP 3.2

6.108 This section considers the need for our additional guidance on complaints handling following the views provided by some stakeholders in their responses.

6.109 As required by CP 3.2, our evidence suggests that parcel operators have existing complaints handling processes in place across their C2X and B2C services. For example, we are aware that operators such as DHL, DPD, Evri, Royal Mail and Yodel all provide contact channels for consumers or details of the channels available for making complaints (e.g. chat function, telephone number, call back option), typically via their website.⁶⁰⁰ We are also aware that some operators have internal targets on the response time for resolving consumer complaints.⁶⁰¹

6.110 Despite this, in our December consultation we set out the evidence we gathered from consumers on their experience of making and pursuing complaints about their parcel deliveries. Across our B2C and C2X research, the issues raised with the complaints process can broadly be grouped into the following categories:

- a) Barriers to being able to make a complaint in the first place;

⁵⁹⁶ Royal Mail response to December 2021 consultation, p. 40; Citizens Advice response to December 2021 consultation p. 98.

⁵⁹⁷ Royal Mail response to December 2021 consultation, pp.40-43; UPS response to December 2021 consultation, p. 3, AICES response to December 2021 consultation, p. 2.

⁵⁹⁸ DX response to December 2021 consultation, p. 14; MCF response to December 2021 consultation, p. 14.

⁵⁹⁹ Peter Brown response to December 2021 consultation, p.1; Peter Styles response to December 2021 consultation p.1; Geoff Lambert response to December 2021 consultation p.1; [redacted] response to December 2021 consultation [redacted].

⁶⁰⁰ Based on examining parcel operators' websites.

⁶⁰¹ Based on parcel operators' response to our formal information request (sent June 2021).

- b) Complicated, unclear and slow complaints process; and
- c) Outcomes of the complaint process were too often unsatisfactory for customers.

6.111 We note that there is variation in consumers' experiences of complaints handling across parcels operators reflected in the consumer research, with some performing reasonably well, and others falling short. Where relevant, we have provided information on the range of research results across operators below.

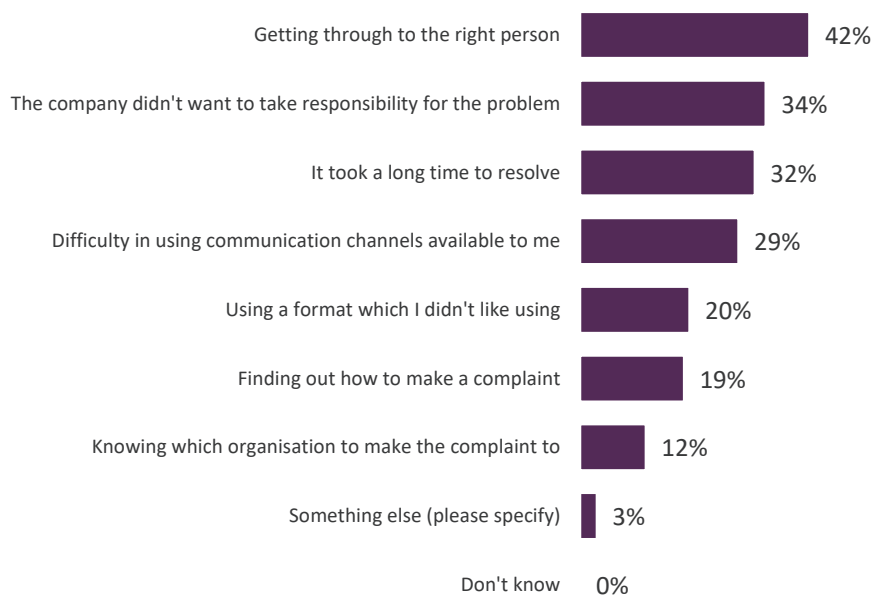
Barriers to being able to make a complaint in the first place

6.112 Parcel operators are required by CP 3.2 to have transparent, simple and inexpensive procedures for dealing with complaints. We consider this means that consumers should be able to easily find the right contact details for the relevant parcel operator. However, our research found that some consumers find it hard to locate the right contact details to make a complaint, or raise an issue, with their parcel operator. This was a common issue for both B2C and C2X services.

6.113 Our B2C parcels consumer research found that for some large parcel operators, only 25% of consumers who want to get in touch with the operator about a delivery issue found it easy to find the operator's contact details. Even the operators who scored better on this measure still only had 55-59% of consumers who would consider it easy to find the appropriate contact details. This suggests that many people who experience problems with their delivery are forced to spend too much time searching for contact details when it should be easy for them to make contact.

6.114 In addition, our C2X research found that around a quarter of senders found it difficult to make a complaint or contact parcel operators. In terms of the nature of problems people have when contacting a parcel operator, we found that getting through to the right person was the most widely experienced difficulty, as set out in Figure 6.11 below. Nearly 20% of customers also had difficulty finding out how to make a complaint, and 29% had difficulty using the communication channel made available by the operator.

Figure 6.11: Difficulties experienced when making a complaint/ contacting a supplier (C2X)



Source: C2X research

- 6.115 Uncertainty around where to go/who to complain to was also cited by 19% of those who had a delivery issue but did not contact or make a complaint as the reason for not doing so in our C2X research.
- 6.116 These findings are broadly consistent with Citizens Advice’s research on consumer experience in the parcels market. It found that for consumers sending parcels more than 40% who had a problem said they found it difficult to find contact information for the parcel delivery company.⁶⁰²
- 6.117 Our guidance seeks to address these issues by setting an expectation that parcel operators have clear and easily accessible complaints channels. For example, we expect parcel operators to take steps to ensure that consumers understand who they should contact and what contact channels they can use to make a complaint. This information and contact channel(s) should be clearly and prominently set out to consumers (for example, on the operator’s website and in any communications with customers).

A complicated, unclear and slow complaints process

- 6.118 Parcel operators are required by CP 3.2 to have simple and transparent complaints procedures. In practice, we consider that the requirement for parcel operators under CP 3.2 to have simple and transparent complaints procedures means that the process to be followed should be clear, transparent and easy to navigate for a consumer. A parcel operator should actively and promptly progress the complaint that has been raised and seek to find a solution that is satisfactory to the complainant. Communication with

⁶⁰² Citizens Advice response to March 2021 CFI, table 3, paragraphs 6.31, 7.18.

customers should also be clear, easy to understand and timely. Our consumer research suggests this often is not the experience of consumers.

- 6.119 We found the experience of the process for resolving issues varied widely between parcel operators. As set out in Table 6.12 below, we found that consumers had both good and bad experiences with the resolution process, depending on which operator they made contact with.

Table 6.12: Consumer experience in resolving delivery issues

% of consumers...	Range of responses, by operator (lowest-highest)
...finding the process clear and easy to follow	25-64%
...saying the process for resolving the issues took a long time	28-59%
...that needed to make multiple contacts to resolve their delivery issue	33-57%

Source: B2C parcels consumer research

- 6.120 As Figure 6.11 shows, for C2X consumers, 34% of those who experienced difficulties in making a complaint /contacting the parcel operator found that the company contacted did not want to take responsibility for the problem; and 32% said it took a long time to resolve the issue.
- 6.121 Our C2X qualitative research also uncovered individual examples of consumer experiences of the complaint handling process, which fell significantly short of their expectations for customer service.⁶⁰³
- 6.122 Our guidance seeks to address these issues by making clear that operators should take active steps for the prompt and active management of complaints, as well as ensuring clear and timely communications with the complainant. For example, we expect operators to promptly inform the complainant of the process that will be followed to investigate the complaint, and the timeframes within which the operator will endeavour to carry out its handling of the complaint. In addition, we expect that communications with customers are clear and easy to understand, and appropriately responsive to the individual customer’s complaint.

Outcomes of the complaints process are too often unsatisfactory

- 6.123 Parcel operators are required by CP 3.2 to ensure that their complaints procedures facilitate the fair and prompt settlement of disputes. We consider this means that parcel operators should work to resolve complaints from customers in a fair and timely manner, with the aim of reaching a resolution that is to the satisfaction of the consumer. Our research found potential problems with the level of consumer satisfaction with the resolutions provided by operators, and significant variation between operators.

⁶⁰³ C2X research – slide 102.

- 6.124 Our C2X research found that 9% of complaints raised by senders were not resolved at all, and 42% were only partly resolved.⁶⁰⁴
- 6.125 The C2X research found that where financial compensation was sought from parcel operators following an issue, many were not satisfied with the outcome. Almost half (47%) of people who contacted a parcel operator about an issue did not receive the financial redress they were expecting.⁶⁰⁵ This may point to problems with operators' transparency and communication over the level of compensation consumers are entitled to when deliveries go wrong.
- 6.126 Our B2C parcels consumer research found that when consumers complained to parcel operators about delivery issues, there was a large disparity between operators regarding satisfaction of outcome. For example, when asked if they were satisfied that their complaint was handled fairly, the percentage of complainants agreeing ranged from 29% for one operator to 71% for another.
- 6.127 Furthermore, expectations around the outcome prevented some consumers from contacting the parcel operator after experiencing an issue with parcel delivery in the first place. Our C2X research found that 37% of those consumers who did not contact or complain when they experienced a delivery issue said it 'wouldn't change anything anyway'. Similarly, our B2C parcels consumer research found that among those who did not contact either the retailer or parcel operator after experiencing an issue, 23% said they did not think either of them would do anything about it, and 7% said they have tried contacting the delivery company before and nothing happened.
- 6.128 We acknowledge that consumers may have different expectations around what a suitable resolution is, and parcel operators cannot necessarily control for that. However, we are concerned that a number of consumers who complained did not feel they were treated fairly, and some are being deterred from raising a complaint based on past poor experience. Our guidance seeks to address this by increasing transparency over processes (as described above), to try and better align consumer expectations with operator policies, and setting an expectation that parcel operators have internal processes in place (e.g. internal review; escalation) to address concerns consumers may have with the way their complaint has been dealt with (e.g. if they consider it unresolved, or were treated unfairly).

Information and data held by parcel operators

- 6.129 Given the problems our research identified on complaints handling, our guidance also describes the data and records we would expect operators to retain to monitor complaints handling effectively.
- 6.130 This data includes internal records of the number of complaints received, resolved and unresolved (or escalated) over a specific period (e.g. monthly), the nature of the complaints received, and dates on which complaints have been received and resolved. For complaints resolved by the operator, we would expect operators to have systems in place

⁶⁰⁴ C2X research – slide 101.

⁶⁰⁵ C2X research – slide 103.

for recording and monitoring customers' satisfaction with the resolution of their complaint.

- 6.131 We consider that this would help them to ensure that they can effectively monitor the way complaints are being handled and their compliance with CP 3.2, and that complaints are being dealt with appropriately and in accordance with the operators' complaints procedures and processes.
- 6.132 As set out further below, data held by operators in relation to complaints is also likely to be useful for our monitoring. We intend to further engage with operators regarding their complaints data, and request some data from them using our statutory powers to help us to monitor complaints handling performance and parcels market issues more widely.

Conclusion

- 6.133 Given the evidence of the problems consumers are experiencing with the complaints handling process we consider new guidance providing more detail on what is expected of operators is a necessary and proportionate step to improve complaints handling for consumers. Reflecting the findings of our consumer research (described above), we think it should cover two main areas:
- a) ensuring clear and easily accessible complaints channels for consumers; and
 - b) resolving complaints through fair, transparent, and effective processes (including the internal records and data we would expect them to keep).

Our approach to improving complaints handling

- 6.134 We note that there is variation in consumers' experiences of parcels operators' handling of consumer complaints, with some performing reasonably well, and others falling short of providing simple and transparent processes for fair and prompt resolution. For example, we consider that some operators could do more to ensure their contact channels are provided sufficient prominence, to ensure that consumers have clear and easily accessible contact channels. The problems consumers are experiencing demonstrate that commercial incentives alone are insufficient to remedy the issue across the market.

Proportionality of our guidance

- 6.135 We consider that our new guidance to operators on how complaints should be managed, and the information operators should retain, is proportionate to the problems we have identified and will support improvements in the complaints handling processes of operators, and enable effective monitoring of this in future, for the benefit of consumers.
- 6.136 Given we are issuing guidance, in a non-prescriptive way, for an existing condition and operators are already required to have complaints handling processes in place, we do not consider it is necessary to undertake a detailed impact assessment. However, to ensure that our intervention is proportionate to the issues identified, we give some consideration below to the potential impact on consumers and parcel operators.

Impact on consumers

- 6.137 As we have explained above, we expect our guidance will reduce the potential harm experienced by consumers, as it provides operators:
- a) more clarity around how we expect them to ensure that consumers have clear and accessible complaints channels, which will in turn ensure that consumers are able to raise complaints without facing unnecessary barriers;
 - b) more clarity around how we expect them to ensure that consumers have fair, transparent and effective complaints processes in place, which will in turn improve the way consumer complaints are dealt with; and
 - c) an understanding of the data we expect them to record in relation to complaints, so that parcel operators, and Ofcom, can effectively monitor operators' complaints handling processes and consumers' experience of these processes over time.

Impact on parcel operators

- 6.138 We consider that, along with the incentives provided by competition, our guidance will improve operators' existing complaints handling processes and ensure all operators have clarity as to what Ofcom considers is an effective complaints handling process. As operators already have existing complaints handling processes in place, we expect the type and extent of any improvements needed will vary across operators. However, the types of changes could be in relation to systems changes (e.g. to improve the accessibility of contact channels for consumers with accessibility needs), specific IT changes (e.g. updating contact information on a website), and staff training (e.g. in relation to any changes to complaints processes).
- 6.139 Nonetheless, we consider our guidance is a proportionate intervention to address the harm that may arise to consumers from slow, complicated and/or unsatisfactory complaints processes, and is the least onerous means of doing so for the following reasons:
- a) Our guidance focuses on providing operators with clarity around an existing condition, to address the consumer detriment identified.
 - b) As a result, it is targeted at those parcel operators who are currently falling short in any of the areas identified, with no impact on those who are already meeting (or exceeding) the guidance.
 - c) We have chosen to provide greater transparency on what we expect operators to do to comply with CP 3.2 through the use of guidance (rather than, for example, the imposition of additional or more prescriptive regulatory conditions). While we would normally expect to have regard to this guidance when investigating any potential failure to comply with CP 3.2, our guidance recognises that we may depart from the principles set out in the guidance if we consider it appropriate to do so.
 - d) Our guidance sets expectations around the types of internal records and data we would expect operators to retain on complaints handling. This acknowledges that operators may have different approaches to collecting internal records and data, and that the type and extent of any improvements needed over time may vary across operators.

- e) Where parcel operators did raise concerns around the proportionality of certain steps, such as signposting to retailers' contact channels, we have taken these into consideration in finalising our guidance (see paragraphs 6.147-6.160 below).
- f) Other than AICES (a trade organisation for some operators), we did not receive any comments directly from parcel operators to suggest that our guidance overall was disproportionate. Amongst those operators that responded, we note that DX, Evri, Royal Mail, UPS, Amazon and Whistl supported our guidance.

Why we consider guidance is sufficient, and how it relates to CP 3.2

- 6.140 In response to Citizens Advice, Citizens Advice Scotland and CWU, our view is that the introduction of new guidance at this stage should make it clearer for parcel operators to understand what we expect of them with regards to CP 3.2, and therefore easier for them to comply. This should therefore help to address our concerns (echoed by Citizens Advice and Citizens Advice Scotland) that consumer experience of the complaints handling process varies from one operator to another, with some parcel operators falling below the necessary standards. We consider that the principles set out in this condition remain appropriate for complaints and redress processes, and if applied effectively would address the issues we have identified above.
- 6.141 In addition, we consider that introducing new prescriptive rules for all operators at this stage could be disproportionate and potentially counter-productive, as it risks reducing the quality and flexibility of some complaints processes already in place for customers.
- 6.142 Competition between operators also provides commercial incentives to make improvements in customer service. Overall, while we have identified certain areas of poor performance, we consider that competition, supported by the new guidance, should help improve complaints handling, without the need for additional prescriptive regulatory conditions at this stage.
- 6.143 For these reasons, we consider that the introduction of new guidance on CP 3.2 is sufficient. However, we are clear that if the new guidance and increasingly active monitoring of parcel operators' approaches to resolving complaints does not lead to significant improvements in complaints handling processes and, ultimately, outcomes for customers, we may consider enforcement or further regulation, as appropriate.
- 6.144 In response to queries about the status of the guidance compared to CP 3.2, and what the consequences would be if an operator did not comply with the guidance, we note that the guidance aims to ensure that parcel operators properly understand their obligations under CP 3.2 and sets out what we expect from them. While any potential future enforcement action will turn on the specific facts and merit of the case, we would normally expect to have regard to the guidance, and the steps taken by parcel operators in line with that guidance, when investigating potential non-compliance with CP 3.2.

Comments on specific elements of the guidance

- 6.145 Our guidance describes the steps we expect operators to follow when handling consumers' complaints. It covers two main areas, reflecting the findings of our consumer research:
- a) ensuring clear and easily accessible complaints channels for consumers; and
 - b) resolving complaints through fair, transparent, and effective processes.
- 6.146 Some stakeholders have commented and made suggested amendments to our proposed guidance wording in their responses. We set out our response to these points in turn below. Annex 3 contains a version of the guidance with our changes marked up, and Annex 4 contains a final, clean version.

Signposting to the retailer

Relevant extract from the guidance (paragraph 6): "Where postal operators receive complaints from consumers that need to be dealt with by a retailer, postal operators should provide clear and timely information to the customer regarding the need to contact the retailer, and where possible could signpost to the relevant retailer's complaints channel."

- 6.147 Royal Mail, UPS and AICES argued that postal operators providing specific details of the relevant retailers' contact and complaints channels would be too onerous, as it would entail operators keeping a large database of information regularly updated, and is not justified by our research.⁶⁰⁶ While we did provide some caveats within the guidance on this point (including noting that operators 'could' do this 'where possible'), we have decided, following representations from operators, and for the avoidance of doubt, to remove this clause from the final version of the guidance (see updated extract below and full guidance in Annex 4).
- 6.148 Our objective was to ensure that where the customer has contacted the parcel operator, but the complaint needs to be dealt with by the retailer, this is made clear to the customer in a timely manner. This is important because without this information the customer may end up wasting time trying to speak to the operator, ultimately increasing the time spent by the customer to resolve the issue.
- 6.149 We appreciate that to maintain an accurate and up-to-date database of retailers' contact information could entail a significant administrative burden for parcel operators. We also consider that, as long as the customer is clearly and quickly told that they need to speak to the retailer if the operator cannot resolve the complaint, (i.e. without being given the specific contact details) this is sufficient.

⁶⁰⁶ Royal Mail response to December 2021 consultation, p. 41; UPS response to December 2021 consultation, pp. 3-4; AICES response to December 2021 consultation, p.2.

- 6.150 For B2C services, the customer will have access to their retailer’s contact information via their order confirmation or receipt. If not, it should be straightforward for the customer to find the retailer’s contact information by an online search.
- 6.151 Royal Mail also argued that the wording of this section of the guidance risks the parcel operator referring all customers to the retailer, even when they can resolve the issue themselves, and that this could lead to an unnecessary delay for the customer.
- 6.152 As noted above and in the December consultation, for B2C services, it is often more appropriate for the customer to contact the retailer in the first instance, not the parcel operator. For this reason, we have made clear in the guidance that the parcel operator should only direct the customer to the retailer where the complaint ‘need(s)’ to be dealt with by the retailer. We consider that this wording is sufficient to address Royal Mail’s concern that operators will pass customers over to the retailer, while also taking into account the fact that some complaints raised with a parcel operator may relate to the contract between the retailer and the customer.

Updated extract from the guidance (paragraph 6) with marked-up change:

“Where postal operators receive complaints from consumers that need to be dealt with by a retailer, postal operators should provide clear and timely information to the customer regarding the need to contact the retailer, ~~and where possible could signpost to the relevant retailer’s complaints channel.~~”

Use of chatbots in the complaints handling process

Relevant extract from the guidance (paragraph 10):

“Where ‘chat bots’ are used as part of the process they must also be highly capable of identifying complaints and dealing with additional accessibility needs.”

- 6.153 Royal Mail suggested that the extract above requires operators’ chatbots to be able to identify whether a customer has additional accessibility needs, and that it would preclude the use of simple chatbots, which it currently uses to help customers find answers to common questions (for example, about redelivery).⁶⁰⁷
- 6.154 In response to Royal Mail, we appreciate that simple chatbots (which usually contain pre-programmed responses to frequently asked questions) can be a helpful tool to answer common queries from customers or to point them in the direction of further help or information. In doing so, such chatbots could help to reduce customer contacts that take up time for both customers and operators.
- 6.155 We recognise that simple chatbots are unlikely to be able to *identify* accessibility needs. The wording of the guidance says that chatbots, when they are used as part of the complaints process, should be able to *deal* with additional accessibility needs, (for example, being compatible with screen reading technology). This is in line with our

⁶⁰⁷ Royal Mail response to December 2021 consultation, p. 42.

expectation, set out in paragraph 5 of the guidance, that all contact channels should be accessible to consumers with accessibility needs.

- 6.156 We therefore consider that the existing wording of the guidance does not stop parcel operators from using simple chatbots, even if they cannot identify accessibility needs, as long as they can deal with accessibility needs. However, as a general rule, we expect that where a customer is making a complaint to a parcel operator (as opposed to an enquiry), simple chatbots are unlikely to be appropriate given the likely complexity of the information being shared.

Explanation of the complaints process

Relevant extract from the guidance (paragraph 9):

“For example, we consider that it would be reasonable to expect that, after having received a complaint, the postal operator promptly inform the complainant of: (a) the process it will follow to investigate the complaint with a view to resolving it fairly; and (b) the timeframes in which the postal operator will endeavour to carry out its handling of the complaint. After the postal operator has investigated the complaint, we would expect that it promptly communicates the outcome of its investigation to the complainant, and where necessary, set out what compensation or redress will be provided (if any).”

- 6.157 Royal Mail argued that operators should not have to provide the information set out in the extract above to a customer, if the operator has been able to resolve their complaint immediately (for example, while on a call with the customer). It argued that if the operator had been able to resolve the customer’s complaint on the phone, this requirement would lead to unnecessarily prolonged phone calls.⁶⁰⁸
- 6.158 We consider it to be important that customers who make a complaint understand how the complaints process will work and the timeframe in which they can expect their complaint to be resolved. This is because our research found that the complaints process customers had to follow was often unclear and took a long time, with customers sometimes having to contact a parcel operator multiple times for the issue to be resolved.
- 6.159 However, we agree with Royal Mail that we do not want the guidance to have the unintended consequence of prolonging conversations or contacts between customers and parcel operators. We also appreciate that if a complaint has been resolved immediately, then information about how the complaint will be handled is not necessary. In such cases, we would expect it to be made clear to the customer that the operator considers the matter closed.
- 6.160 We therefore have decided to amend the guidance (see below) to make clear that where a complaint has been resolved immediately, the parcel operator does not need to inform the complainant of the complaints process and the likely timelines.

⁶⁰⁸ Royal Mail response to December 2021 consultation, p. 41.

Updated extract from the guidance (paragraph 9) with marked up changes in bold:

“For example, we consider that it would be reasonable to expect that, after having received a complaint **that cannot be resolved immediately**, the postal operator promptly inform the complainant of: (a) the process it will follow to investigate the complaint with a view to resolving it fairly; and (b) the timeframes in which the postal operator will endeavour to carry out its handling of the complaint. **For complaints that were not resolved immediately**, after the postal operator has investigated the complaint, we would expect that it promptly communicates the outcome of its investigation to the complainant, and where necessary, set out what compensation or redress will be provided (if any). **For complaints resolved immediately (for example, over the phone), we would expect the postal operator to make clear to the customer that it considers the complaint closed.**”

Our approach to monitoring

- 6.161 As noted above and in the December consultation, we intend to monitor operators’ complaints handling processes more actively in the future. We also intend to continue to improve our understanding of operators’ customer service more generally.
- 6.162 Monitoring parcel operators’ performance is necessary to ensure that we can assess whether improvements in complaints handling processes are materialising following the introduction of the guidance, ensure that we are kept informed about any emerging issues, and will help us to build an evidence base for any future policy work in this area, should it be required. Our expectation is that the new guidance and increasingly active monitoring of parcel operators’ approaches to resolving complaints will improve outcomes for customers. If significant improvements are not made, we may consider enforcement or further regulation, as appropriate.
- 6.163 We intend to draw on three main sources to monitor complaints handling and consumers’ experience - operators’ own data acquired using our statutory powers, consumer research, and regular bilateral engagement with major parcel operators. In response to AICES’ argument that collecting data from operators would be an administrative burden and is not justified, we intend to engage with parcel operators on the data that they hold, to understand what is possible for them to provide and ensure that we receive meaningful data that supports our objectives noted above, without placing undue burdens on operators. We intend to begin this engagement soon after this Statement is published (summer 2022).
- 6.164 We will also review relevant data and information from other sources, for example produced by the Consumer Advocacy Bodies.
- 6.165 Using these sources should enable us to:
- a) understand how many complaints operators receive and the category to which these complaints relate (for example, lost or damaged parcels), how quickly complaints are

resolved, and whether improvements are being made, subject to further engagement with parcel operators on the data they hold, noted above (operator data);

- b) understand consumers' views and experience of operators' complaints handling processes and customer service, and draw some comparisons between operators on these points (consumer research); and
- c) discuss trends and challenge operators on their approaches where necessary through regular and ongoing engagement with major operators.

6.166 We plan to include an update on our parcel monitoring work annually as part of our AMU for Postal Services, with the first substantive update likely to be in the 2022/23 AMU. We expect this to form a picture of how parcel operators are performing in terms of complaints handling, and customer service more generally. We will also internally review the data and information we receive to ensure that we are well-informed about parcel operators' complaints handling processes and customer service.

6.167 In response to CCNI and Pitney Bowes's comment about publishing complaints data, we do not plan to publish operator-specific complaints data (i.e. obtained from parcel operators) at this stage. While we appreciate that this could have some benefits (for example, acting as a reputational incentive for operators to improve their performance), we also recognise that comparisons between operators, and the publishing of information may raise specific challenges (e.g., comparability of data) but is something we might return to in due course if we consider that further steps are needed to incentivise better performance by operators in managing complaints.

Tracking and complaints handling

6.168 We note the points raised by Royal Mail and Citizens Advice in relation to tracking and how it can help to improve the complaints handling process. We set out our response to those points in Chapter 7.

Implementation timetable

6.169 While we did not set a specific implementation timetable for our guidance in our December consultation, having considered responses on this issue, we have decided that we would expect operators to be complying with the guidance on CP 3.2 by 1 April 2023. We consider that this timeframe (just over eight months from publication of this statement) strikes an appropriate balance between ensuring consumers are protected as quickly as possible and ensuring parcel operators have time to make any necessary changes to their systems in order to be compliant with the guidance.

6.170 It also reflects the fact that this guidance relates to a condition that is already in place, and which operators should already be compliant with.

Our decision

- 6.171 Having taken into account responses from stakeholders, and based on the evidence gathered for our December consultation, we have decided to introduce new guidance on complaints handling processes for parcel operators.
- 6.172 We have made some minor changes to the version of the guidance that was proposed in December, in response to stakeholder comments. The full final version of the guidance can be found in Annex 4 to this statement.

Better meeting the needs of disabled consumers

We have decided to introduce a new Consumer Protection Condition that requires all parcel operators (including Royal Mail) to establish, publish and comply with clear and effective policies and procedures for the fair and appropriate treatment of disabled consumers. This aims to address the problems disabled consumers are often experiencing with parcel services.

Our proposal

- 6.173 Our research – and research conducted by other stakeholders – has found that disabled consumers are more likely to experience problems with parcel services across both the B2C and C2X market segments.
- 6.174 To help improve the service received by disabled consumers, we proposed a new Consumer Protection Condition that requires parcel operators to establish, publish and comply with clear and effective policies and procedures for the fair and appropriate treatment of disabled consumers, in relation to the collection, delivery and receipt of parcels.
- 6.175 The proposed condition would apply to all parcel operators, across the B2C and C2X market segments, that collect and/or deliver to disabled consumers, including Royal Mail.
- 6.176 We proposed to include Royal Mail within the scope of our condition, as a major provider of parcel services to disabled consumers. As explained above, our research (which encompassed the services provided by Royal Mail) found that disabled consumers are more likely to experience problems with parcel services across both the B2C and C2X market segments.

Consultation responses

- 6.177 Most respondents, including parcel operators, consumer bodies, private individuals and other organisations, supported our proposed condition and our aim to improve the experience of disabled consumers in the parcels market.⁶⁰⁹
- 6.178 Some parcel operators welcomed the flexibility provided by the proposed condition.⁶¹⁰ Amazon welcomed the fact that it focuses on the outcome for customers but allows parcel operators to innovate in terms of technology, to collaborate and to continuously improve processes for customers.⁶¹¹
- 6.179 AICES and UPS did not support the proposal. They argued that it was unnecessary as parcel operators already have to comply with the Equality Act 2010. AICES also said that some operators are already investing in solutions for disabled users, so competition was working and that there was no need for additional regulation.⁶¹²
- 6.180 Other respondents, who generally supported the proposed condition and its aims, raised some questions and made a number of suggestions which aimed to improve the effectiveness of the condition.
- 6.181 CAS and CWU said that we should be more specific about what parcel operators should do to comply with the condition. They were concerned that by giving operators flexibility to design their own policies, it would not incentivise operators to make substantial enough improvements and they would be free to do the minimum necessary.⁶¹³
- 6.182 Evri and DX raised data protection and consent issues. Evri said that they had concerns about collecting and using data from customers which could identify them as potentially vulnerable. It noted it would need to meet consumers' needs while complying with data protection regulations.⁶¹⁴ DX said that retailers would need consumers' consent to share potentially sensitive information with parcel operators.⁶¹⁵
- 6.183 AICES and UPS stated that it would be better for disabled consumers to communicate their needs through the retailer, not via the parcel operator. This is because the retailer has the contractual relationship with the consumer and that they should then inform the parcel operator.⁶¹⁶

⁶⁰⁹ CCNI response to December 2021 consultation, p. 21; CA response to December 2021 consultation, pp. 92-95; Welsh Government response to December 2021 consultation, pp. 3-4; Rural Services Network response to December 2021 consultation, p. 5; ACRE response to December 2021 consultation, p. 4; Amazon response to December 2021 consultation pp. 6-7; DX response to December 2021 consultation, pp. 14-15; CEDR response to December 2021 consultation, p. 3; CWU response to December 2021 consultation, p. 11. F Cooper response to December 2021 consultation; p. 1; S Davey response to December 2021 consultation, p. 1.

⁶¹⁰ MCF response to December 2021 consultation, p. 15; DX response to December 2021 consultation, p. 15.

⁶¹¹ Amazon response to December 2021 consultation, pp. 6-7.

⁶¹² AICES response to December 2021 consultation, p. 3; UPS response to December 2021 consultation, pp. 4-5.

⁶¹³ CAS response to December 2021 consultation, p. 24; CWU response to December 2021 consultation, p. 11.

⁶¹⁴ Hermes/Evri response to December 2021 consultation, p. 5.

⁶¹⁵ DX response to December 2021 consultation, pp. 14-15.

⁶¹⁶ AICES response to December 2021 consultation, p. 3; UPS response to December 2021 consultation, pp. 4-5.

- 6.184 Royal Mail said that our proposal not to allow tracking as part of First and Second Class services was not in the best interests of disabled consumers.⁶¹⁷ We set out our response to this point in Chapter 7.
- 6.185 Evri and Royal Mail both raised the issue of the costs that may be involved with introducing changes necessary to ensure compliance with the proposed condition. In relation to the condition wording, and linked to costs, Royal Mail suggested three amendments (explained further below), which aimed to ensure the extent to which operators were required to meet the needs of disabled consumers were reasonable and proportionate.⁶¹⁸
- 6.186 A number of stakeholders noted that we had not proposed a definition of “disabled”, and said that there were other groups of people (e.g. elderly; pregnant; those with young children; and people who live in blocks of flats) who would also likely benefit from operator policies and procedures for the fair and appropriate treatment of disabled consumers.⁶¹⁹ Some also said it would be difficult to identify disabled consumers.
- 6.187 Several stakeholders suggested that the implementation period should be extended. We proposed an implementation deadline of April 2023 in our December consultation. However, MCF argued that we should extend it to 12 months from our statement. Evri initially said that 12 months was an appropriate period of time. However, after further thought about the work involved, it suggested that 18 months would be more appropriate.⁶²⁰ Royal Mail asked for the condition to take effect no earlier than April 2024 so it could implement IT changes and train its staff.⁶²¹
- 6.188 Citizens Advice and CCNI encouraged us to proactively monitor and evaluate the effectiveness of the condition. CCNI also asked us to provide guidance to operators on how to comply with the condition. Citizens Advice said that we should be prepared to take enforcement action where necessary.⁶²²

Our assessment

- 6.189 We have assessed the issues raised in response to our proposed Consumer Protection Condition. Central to this assessment is our evidence of the problems experienced by disabled consumers in relation to parcels deliveries, which we have set out below.

Disabled consumers are experiencing problems in the parcels market

Our research has found disabled consumers experience disproportionately more delivery issues

⁶¹⁷ Royal Mail response to December 2021 consultation, p. 44.

⁶¹⁸ Royal Mail response to December 2021 consultation, p. 44.

⁶¹⁹ DX response to December 2021 consultation, p. 15; Evri response to December 2021 consultation, p. 3; MCF response to December 2021 consultation, p. 15.

⁶²⁰ Evri letter to Ofcom, April 2022.

⁶²¹ MCF response to December 2021 consultation, p. 15; Evri response to December 2021 consultation, p. 5; Royal Mail response to December 2021 consultation, pp.44-45.

⁶²² CCNI response to December 2021 consultation, p. 21; Citizens Advice response to December 2021 consultation, p. 95.

- 6.190 Our B2C parcels consumer research found that disabled consumers experienced issues with 70% of deliveries⁶²³. The greatest gap in delivery issues experienced (between respondents with accessibility needs and those without) was being given insufficient time to answer the door. 12% of consumers without disabilities experienced this in the preceding three months, compared with 19% of disabled consumers.
- 6.191 Qualitative research from CCP ACOD also found that consumers with access requirements had some negative experiences in the context of receiving parcels. These include informing the courier that it may take them longer to get to the door, and these delivery instructions not being followed or not being able to select certain delivery options (such as contact-free).⁶²⁴ These experiences tended to follow poor communication (or a lack of communication) about delivery requirements. These respondents wanted parcel operators to be more familiar with their needs.
- 6.192 Citizens Advice provided evidence that the parcels market does not work well for disabled users⁶²⁵ and said it has identified three common issues⁶²⁶ experienced by disabled consumers:
- a) Consumers missing their delivery because they were not given sufficient time to get to the door.
 - b) Consumers being unable to retrieve parcels left in a “safe place” such as on high ledges or under ramps.
 - c) Consumers feeling anxious or rushed when signing for a parcel.
- 6.193 Its research found that a third of disabled consumers missed a delivery because they were not given enough time to get to the door, and a quarter feel rushed, anxious, or irritated when signing for a delivery.⁶²⁷ Citizens Advice has also established a delivery charter for disabled consumers that both retailers and parcel operators can sign up to. The parcel operators’ charter commits signatories to working with retailers to allow disabled consumers to specify any additional needs, and to ensure that all pick up and drop off points are accessible to disabled consumers.⁶²⁸
- 6.194 Which? has also carried out research on this issue and found similar problems: seven in 10 disabled consumers faced one or more delivery problems in the last year. These include not being given enough time to answer the door, parcels left in an inaccessible place, and delivery instructions not being followed.⁶²⁹

⁶²³ This compares to 62% for respondents not identifying as disabled or having additional accessibility needs.

⁶²⁴ Communications Consumer Panel and Advisory Committee for Older and Disabled People, April 2021. [Delivering satisfaction? Meeting service users’ needs for parcel services in the pandemic.](#)

⁶²⁵ Citizens Advice, 2019. [The missing link: why parcel companies must delivery for disabled people.](#)

⁶²⁶ Citizens Advice, 2018. [The customer journey: disabled people’s access to postal services.](#)

⁶²⁷ Citizens Advice, 2018. [Citizens Advice - Delivery charter for disabled consumers.](#)

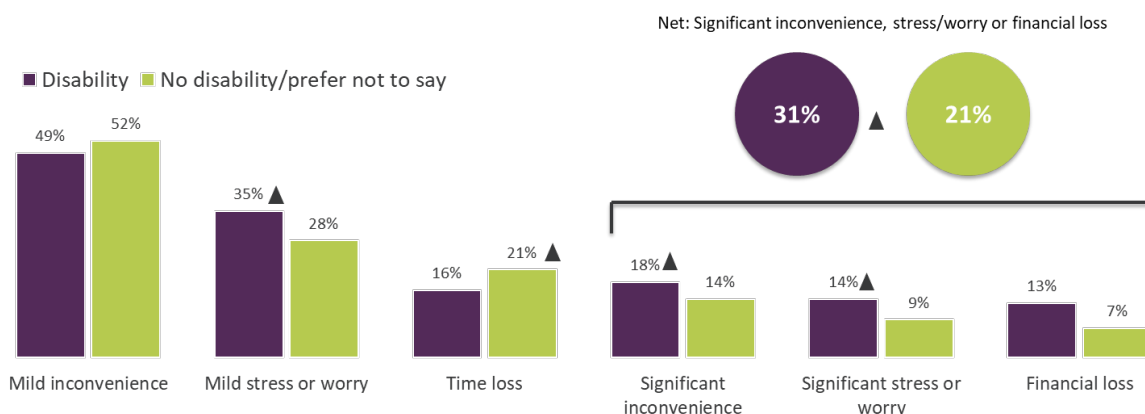
⁶²⁸ [Citizens Advice - Delivery charter: Operators.](#)

⁶²⁹ Which? February 2022, [Major retailers and delivery firms are failing disabled customers.](#) [Accessed 26/06/22].

Disabled consumers are also more likely to experience harm when issues arise

6.195 When issues with parcel deliveries do arise, disabled consumers are more likely to experience significant harms. Our B2C parcels consumer research found that 31% of disabled consumers who had a delivery issue experienced significant inconvenience, stress or financial loss - compared with 21% of consumers who did not identify as disabled. This is set out below in Figure 6.13.

Figure 6.13: Impact of experience of delivery issues (B2C)



Source: B2C parcels consumer research

Disabled consumers also experience more issues when sending parcels

6.196 Disabled consumers are more likely to be heavy senders of parcels. The C2X research found that disabled consumers sent an average of eight parcels per year (compared to the overall average of seven), and 22% of disabled users were “heavy” senders (defined as sending over 21 parcels per year), higher than the overall average of 16%.

6.197 When prompted with a list of issues when sending parcels, 65% of disabled consumers in the C2X research stated that they had experienced an issue, compared with 50% overall. Disabled consumers were significantly more likely to experience all the specific delivery and collection issues tested when sending parcels, compared to senders overall.

Figure 6.14 Issues with any supplier when sending parcel



Source: C2X research. Note: Pink arrows indicate significantly higher than total at a 95% confidence level.

6.198 In conclusion, our research found that disabled consumers are more likely to experience issues when receiving and sending parcels. They are also more likely to experience harm when such issues arise, when compared to other consumers. In our view, this suggests parcel operators are not sufficiently considering and addressing the needs of disabled consumers.

Parcel operators' existing procedures do not sufficiently address disabled consumers' needs

6.199 For our December consultation, we collected information from five of the main B2C/C2X parcel operators about the policies they have in place to identify users with additional needs, and any procedures to meet those needs.⁶³⁰

6.200 Some operators do have some facilities to allow senders and/or recipients to specify their delivery needs. However, we found limited evidence of policies specifically designed to meet the needs of disabled consumers and/or of implementation of procedures that focused on meeting the needs of disabled consumers. We also note that the few policies we have seen are limited in scope. For example, they do not reference staff training or explain how effectiveness is monitored. Furthermore, our evidence, as summarised above, indicates that disabled consumers continue to be disproportionately affected by delivery and collection issues. As a result, we consider that the existing general practices/procedures of operators are insufficient in addressing the specific issues and

⁶³⁰ 2021 information request responses from Amazon, DHL, DPD, Evri and Yodel.

harms experienced by disabled consumers that we have identified, including in relation to ensuring that delivery couriers take account of these needs.

Our assessment of the need for intervention

- 6.201 We recognise that operators already have an obligation to make reasonable adjustments in respect of people with disabilities under the Equality Act 2010, and that some operators have taken steps to improve their service offering over recent years (including in relation to disabled customers). This includes DHL's 'Just a Minute' and DPD's 'More Time Needed' options.
- 6.202 However, we are concerned that disabled consumers' needs are not being consistently addressed across the parcels market. As we have set out above, our consumer research, and the evidence consumer groups have provided over time, suggests that disabled consumers experience significantly more delivery problems than non-disabled consumers, and that they experience significantly more detriment as a result of these problems. While the Equality Act 2010 does place an obligation on service providers to make reasonable adjustments for disabilities, it relies primarily upon legal action by individuals to secure enforcement.⁶³¹
- 6.203 We are concerned that simply relying on commercial provision and individuals challenging parcel operators under the Equality Act 2010 to appropriately serve the additional needs of disabled consumers may not be sufficient in this case, and may not drive improvements as quickly as we think is necessary.
- 6.204 We are mindful, in this regard, of the need for Ofcom in carrying out its functions to have due regard to the need to advance equality of opportunity between persons who share a relevant protected characteristic (which includes those with a disability) and people who do not share it.⁶³² This includes having due regard to, amongst other things, the need to:
- a) remove or minimise disadvantages suffered by persons who share a relevant protected characteristic that are connected to that characteristic; and
 - b) take steps to meet the needs of persons who share a relevant protected characteristic that are different from the needs of persons who do not share it.
- 6.205 We therefore consider that regulatory action, which is targeted and proportionate, is a necessary step to improve the day-to-day experience of disabled consumers in the parcels

⁶³¹ The Equality and Human Rights Commission ('EHRC') also has a role in enforcing the Equality Act 2010 in England, Scotland and Wales, although its remit is wide and is not focused solely on the communications sector (like Ofcom) or, indeed, more specifically on postal services. Guidance issued by the EHRC acknowledge that legal action led by individuals can be "[...] lengthy, expensive and draining [and that it] is likely to be in everyone's interest to try to put things right before a claim is made to a court." See [equality act 2010 summary guidance on services public functions and associations.docx \(live.com\)](#) A report by the House of Commons Women and Equalities Committee, entitled "Enforcing the Equality Act: the law and the role of the Equality and Human Rights Commission" and published on 30 July 2019, considered enforcement of the Equality Act 2010 and set out what it considered to be the limitations of an individual approach to enforcement. See <https://publications.parliament.uk/pa/cm201719/cmselect/cmwomeq/1470/1470.pdf>.

⁶³² See, in particular, the public sector equality duty set out in section 149 of the Equality Act 2010.

market. We would expect such regulation to be complementary to, and consistent with, the aims of the Equality Act 2010.

Our new disabled consumers' condition

Regulatory approach and remedy design

- 6.206 The new condition, which we consulted on in December, would require parcel operators to have policies and procedures in place for the fair and appropriate treatment of disabled consumers.
- 6.207 In our December consultation, we explained that we did not consider it would be appropriate for us to specify detailed requirements regarding what parcel operators should do to comply with the proposed condition. This was because we considered that allowing operators to develop their own policies and procedures, in line with their business model and existing operations, would be the right approach given the needs of consumers will vary and may evolve over time. In comparison, we consider that more prescriptive regulation at this stage risks restricting the responsiveness of the market to changing needs and operational capabilities.
- 6.208 Further, our proposed approach would help to minimise cost implications as it provides flexibility for different operators' business models, and would allow operators to take account of potential cost implications for consumers as a whole. It also recognises that some operators have taken steps in recent years to improve their service offering, including for disabled consumers, and that there is therefore variation across the parcel market in terms of how disabled consumers' needs are already being addressed. We note that several stakeholders agreed with this approach (MCF; DX; and Amazon).
- 6.209 We have considered the views of CAS and CWU that we should be more specific about what operators should do to comply with the condition, and that flexibility may not incentivise operators to make substantial enough improvements. We recognise this risk and accept that there will be differences in the policies and procedures operators offer (as there is now), but we remain of the view that it is not appropriate for us to prescribe in detail what an operator should do at this stage for the reasons explained above. Further, we intend to monitor implementation, including via consumer research, in order to understand the experiences of disabled users. This will help us to identify if further intervention is required in future.

Data protection

- 6.210 The condition requires parcel operators to have policies and procedures in place for the fair and appropriate treatment of disabled consumers and sets out, as a minimum, what these should describe. The condition provides flexibility to operators in how they develop and implement their policies and procedures.
- 6.211 We are conscious that operators are likely to have some experience of data protection requirements already, as they will be processing and handling significant amounts of personal data (e.g. names, addresses, telephone and email contact details) in order to operate their businesses. It is for operators to ensure their compliance with relevant data

protection regulation when they devise their policies and procedures required under this condition.

- 6.212 However, we do not expect that operators will need to ask questions about, and record data on, consumers' specific medical conditions and we do not expect them to maintain a list of their disabled customers. As set out above, it is for operators to ensure compliance with data protection regulation and our condition does not seek to impose any requirement that would not be consistent (or compliant) with data protection rules.

Condition wording, role of retailers, and definitions

- 6.213 Royal Mail proposed three amendments to the wording of the condition with the aim of ensuring operator responses to disabled consumers' needs and costs are proportionate.⁶³³ These were to add the word "reasonable" twice before referring to the needs of disabled consumers. Royal Mail also proposed that an operator's policies and procedures should describe how its staff would meet disabled consumers needs when delivering a parcel, but that they should have "regard to the costs and operational practicalities of doing so". For clarity, the suggested amendments by Royal Mail are shown in bold in the box below.

Relevant extract from the proposed condition with suggested amendments in bold:

"5.2.2 Such policies and procedures must, as a minimum, describe:

(a) how disabled consumers can communicate their **reasonable** needs to the relevant postal operator in relation to the delivery of a relevant parcel that is addressed to them;

(b) how relevant employees of the relevant postal operator should meet the **reasonable** needs of disabled consumers when, delivering a relevant parcel **having regard to the costs and operational practicalities of doing so**;

(c) how the impact and effectiveness of the policies and procedures are monitored and evaluated."

- 6.214 We have considered them carefully, but we do not believe that these amendments are necessary. In relation to the proposed insertion of the word "reasonable", we note that the condition wording requires operators to establish, publish and comply with clear and effective procedures for the "fair and appropriate" treatment of disabled consumers (see CPC 5.2.1). The condition does not suggest that operators would be required to meet *any* need communicated to them by a disabled consumer. Further, we do not think it is necessary to expressly require operators to have regard to "costs and operational practicalities" when describing in their policies and procedures how their staff should meet the needs of disabled consumers when delivering a parcel, as we would expect them to do this as part of determining what constitutes "fair and appropriate treatment". We consider costs of compliance with the condition in the costs section below.

- 6.215 In response to AICES, UPS and DX's points around the role of retailers, we note our condition requires parcel operators to have policies and procedures for the fair and

⁶³³ Royal Mail response to December 2021 consultation, p. 44.

appropriate treatment of disabled consumers. These policies and procedures must, as a minimum, include a description of how disabled consumers can communicate their needs to the relevant parcel operator. It is for each parcel operator to determine the most effective policies and procedures for their business. We recognise that, in the B2C market, one way in which consumers could communicate their needs to the parcel operator may be indirectly via the retailer at the point of sale, with specific delivery instructions then relayed to the parcel operator. We are not however requiring that consumers' needs be communicated indirectly via retailers in our condition; it is for each parcel operator to determine the most effective policies and procedures for their business.

- 6.216 Some respondents noted that we have not provided a definition of "disabled" and pointed out that other groups may have similar needs (such as the elderly; pregnant; those with young children; and those who live in blocks of flats). Our evidence (explained above) and consequent policy objective is to improve the experience of disabled consumers. However, we accept that there may be other groups who could also benefit from measures designed by parcel operators which are aimed primarily to improve the experience of disabled consumers.
- 6.217 In addition, our aim is not to risk excluding people who may stand to benefit from policies and procedures for disabled consumers by defining disability. We consider that if a consumer considers themselves to have a disability, that is likely to be sufficient. Further, we do not believe that a parcel operator would be likely to use such a definition in practice for checking if a consumer is eligible to use any measures which feature in its policies and procedures under this condition.

Implementation timetable

- 6.218 A limited number of stakeholders responded to our December consultation explaining their views and concerns around our proposed implementation timetable, which was for a 1 April 2023 implementation. The submissions we received varied across operators, with some suggesting that a 12-month implementation period would be sufficient, and others suggesting that the condition should not come into force before April 2024 (at the earliest).⁶³⁴
- 6.219 We recognise that some parcel operators may need to develop and implement new policies and procedures to ensure the fair and appropriate treatment of disabled consumers, and that they will need sufficient time for this. We also acknowledge, following engagement with parcel operators, that this work is likely to include ICT systems changes, as well as rolling out training programmes, and that such changes will need to be

⁶³⁴ MCF response to December 2021 consultation, p. 15; Evri response to December 2021 consultation, p. 5; Royal Mail response to December 2021 consultation, pp.44-45.

implemented over time, and, where possible, alongside wider planned operational changes.⁶³⁵ ⁶³⁶

- 6.220 As set out above, however, we have decided that the new condition should set out minimum requirements rather than prescribe detailed rules on how operators should develop and establish their policies and procedures. The condition has been designed to ensure that operators have flexibility in developing and establishing any new policies and procedures, allowing them to take account of their existing processes and systems (including planned ICT systems and training refreshes).
- 6.221 Being mindful of the flexibility we are granting operators, and having considered stakeholder responses and submissions, we have decided to extend the implementation period to 15 months (from eight proposed in our December consultation). The condition will therefore come into force on 1 November 2023 (15 clear months from the date of this Statement) and operators will need to publish their policies (and have in place procedures) by this date.
- 6.222 We consider that extending the implementation period to 15 months strikes the right balance between allowing industry a reasonable time to formulate and implement their policies and procedures, and ensuring that disabled consumers can benefit from improvements as quickly as possible, just ahead of the start of the peak period next year.

Monitoring and evaluation plans

- 6.223 We plan to monitor parcel operators' compliance with our new condition. Following the implementation date, we will scrutinise the availability and content of operators' policies. We will also use our statutory information gathering powers to collect information from parcel operators to support our understanding of how they are implementing and complying with this condition, as appropriate. We also plan to commission consumer research to monitor the experiences of disabled consumers.
- 6.224 We will publish updates from our monitoring work as part of our AMU for Postal Services. During the implementation period, we plan to engage with parcel operators to understand their plans, and to discuss the most effective way to share best practice.
- 6.225 The condition also requires operators to describe in their policies and procedures "how the impact and effectiveness of their policies and procedures will be monitored and evaluated". This is with a view to ensuring continuous improvement and reflects our expectation that policies will evolve over time. We expect ways in which operators could monitor and evaluate the effectiveness of their policies and procedures could include periodic customer research; mystery shopping; analysis of complaints; expert review; and engagement with disabled consumers or groups representing disabled consumers' views.

⁶³⁵ [] letter to Ofcom, April 2022; Ofcom meeting with [] May 2022; response received to our June 2022 statutory information request from [].

⁶³⁶ We expect that the costs of making changes as part of planned ICT systems releases is likely to be lower than making changes on an exceptional basis.

Benefits for disabled consumers

- 6.226 We think our condition (as described above) will help address the concerns we have identified and improve outcomes for disabled consumers in the following ways:
- a) by requiring operators to actively consider the needs of disabled consumers, and have policies and procedures in place for the fair and appropriate treatment of disabled consumers, it should help reduce the disproportionate incidence of delivery issues and detriment experienced by disabled consumers;
 - b) by publishing and publicly committing to these policies and procedures, it will increase transparency around what disabled consumers should expect and enable operators to be held accountable by consumers, improving outcomes; and
 - c) by demonstrating how they will monitor and evaluate the impact and effectiveness of these policies and procedures, it will provide operators with a basis for their policies to improve and evolve over time.
- 6.227 We also think the flexibility operators have in choosing how they comply will enable operators to deliver good outcomes for consumers over time. We do not expect a one-size-fits-all approach to how operators should meet the needs of disabled consumers. Instead, we believe that operators should have the flexibility to develop their policies and procedures over time, as they better understand the needs of disabled consumers and how to best meet those needs (i.e. through ICT and operational changes that reflect the specifics of their business).

Costs for parcel operators

- 6.228 We recognise that operators are likely to incur some implementation and ongoing costs in order to meet the requirements of the new condition.
- a) Initial implementation costs:
 - i) **Establishing policies and procedures:** It is likely that operators will incur some costs in dedicating staff time to review their existing processes, and in identifying and designing policies and procedures for the fair and appropriate treatment of disabled consumers.⁶³⁷
 - ii) **Publishing the policies and procedures:** There are likely to be some costs associated with publication, for example in operators updating their websites to include details of their policies and procedures.
 - iii) **Ensuring that consumers have a way to communicate their delivery needs:** We expect there may be costs associated with systems development, if adjustments are necessary to ensure operators' existing communication channels can be used by disabled consumers.

⁶³⁷ For example, in a meeting with Ofcom on 27 May 2022, Evri said that they had started discussions with the Research Institute for Disabled Consumers to better understand the needs of disabled consumers.

- iv) **Ensuring that operator staff are able to meet the needs of disabled consumers when delivering a parcel:** We expect there are likely to be some costs associated with providing additional training to ensure staff are made aware of the policies and procedures, and how to comply with them.⁶³⁸
- b) Ongoing costs:
 - i) **Ensuring that operator staff action the delivery needs of users:** We expect this may include costs associated with regular staff training, and potential adjustments to delivery schedules to accommodate any new procedures (for example, if certain deliveries have to take more time in order to meet the needs of disabled consumers).
 - ii) **Monitoring and evaluating the impact and effectiveness of policies and procedures:** We would expect operators to incur some costs in relation to research and/or feedback gathering; and staff time in analysing the results of their monitoring and taking these into account.
 - iii) **Retaining and providing to Ofcom, on request, any information considered necessary to demonstrate compliance:** There may be some costs in providing relevant information to Ofcom if requested, however, in doing so, we will engage with operators to understand the data that is possible for them to provide and ensure any information requested is proportionate to our objectives.

6.229 As well as incurring costs in relation to the above areas, we also note that any new policies and procedures that parcel operators introduce to comply with the condition could:

- a) bring about some offsetting cost savings. For example, by ensuring that disabled consumers have effective ways to communicate their delivery needs, operators may see an increase in the number of successful deliveries made first time. In turn, this could lead to cost savings for operators by reducing the need for re-delivery attempts, storage of items and potentially return of items to senders. It could also reduce costs associated with consumer contacts and the handling of complaints if disabled consumers are more likely to be satisfied with operators' parcel services; and
- b) be used to demonstrate compliance with the separate (but complementary) requirement, under the Equality Act 2010, for service providers to make reasonable adjustments in respect of persons with a disability. Indeed, some of the costs associated with these new policies and procedures might be incurred in any event by parcel operators to comply with the Equality Act 2010.⁶³⁹

⁶³⁸ In a meeting with Ofcom on 27 May 2022, Evri suggested they may need to produce some additional training material for delivery couriers, in response to our condition.

⁶³⁹ We recognise that operators have an obligation to make reasonable adjustments under the Equality Act 2010, and that some operators may already have taken steps, and incurred costs associated with these steps, to improve their service offering over recent years. As set out above, our consumer research, and evidence provided by consumer groups, also shows that disabled consumers still experience significantly more delivery problems than non-disabled consumers and suffer more detriment as a result. Some of the costs associated with the new policies and procedures might therefore be incurred, in any event, by parcel operators to ensure compliance with the Equality Act 2010.

6.230 However, the scale of operators' costs (as well as the potential for some offsetting cost savings) are all highly dependent on the specific policies and procedures operators choose to introduce as a result of the condition, and also the existing procedures, processes and systems already in place. For example, we note that:

- a) there is likely to be variation in how the Equality Act 2010 has been implemented to date. We also understand that some operators, that have signed up to the Citizens Advice delivery charter, have already begun to go further in addressing some of the issues we have identified for disabled consumers. For example, DHL and DPD have recently developed options that enable recipients with accessibility issues to request more time at the door.⁶⁴⁰ This means the starting position is likely to vary among operators.
- b) policies and procedures which build on existing processes (e.g. in relation to how consumers can communicate their needs,⁶⁴¹ or collecting feedback from customers⁶⁴²) are – all else equal – likely to have lower implementation costs. For example, providing the option of specifying a safe place could enable disabled consumers to nominate a location that is more accessible for them, and our evidence suggests that many operators already allow this functionality in some form (although it also requires action by the delivery courier to follow the request, which may have an impact on on-going costs).⁶⁴³ Similarly, training costs are likely to be lower for those operators who already have systems in place to provide regular training to ensure that staff are up to date with existing processes, meaning new requirements can be built into regular business as usual training cycles.
- c) the on-going costs of actioning the delivery needs of disabled consumers will also vary depending on the policies and procedures adopted. For example, initiatives that aim to provide recipients more time at the door are likely to involve different types of costs, compared to those that allow recipients to specify safe places.

6.231 As outlined above, due to the potential variation in the costs that could be incurred, we have not attempted to quantify the costs to each and every operator. However, by requiring operators to develop their own policies and procedures, we consider that operators will have the flexibility to choose how they comply with the condition and therefore, any costs are unlikely to be unduly onerous or disproportionate to the issues we are trying to address, since:

⁶⁴⁰ DHL's "Just a Minute" initiative and DPD's "More Time Needed" initiative.

⁶⁴¹ We understand that many C2X and B2C operators (e.g. DPD, DHL, Evri, Royal Mail and Yodel) already have systems in place that disabled consumers could potentially use to communicate delivery preferences. For example, customers can typically communicate delivery preferences to parcel operators through at least one of the following channels: websites, mobile apps and/or 'out for delivery' notifications or emails. Operators may use these channels to provide customers the ability to enter special delivery instructions, set their preferred delivery options and/or the option to directly call or text the courier prior to a delivery.

⁶⁴² Our evidence suggests that operators such as DPD, DHL, Evri, Royal Mail and Yodel tend to send out customer satisfaction surveys once a delivery is made, so there is the potential to utilise existing feedback systems.

⁶⁴³ Our evidence suggests that operators such as DPD, DHL, Evri, Royal Mail and Yodel tend to provide inflight diversion options, which can enable customers to divert a parcel to a safe place or neighbour.

- a) each operator can make its own commercial decisions on the policies and procedures they introduce to facilitate the fair and appropriate treatment of disabled consumers, reflecting on their own assessments of the net cost they will incur.
- b) for any given policy or procedure an operator chooses, we expect it would have the incentive to minimise any associated costs, for example by utilising existing processes or systems where feasible.
- c) the 15-month implementation period (which is longer than we had originally proposed) means it is likely that many operators will be able to incorporate more of any systems changes and/or publication of their policies and procedures as part of their business as usual system or ICT updates.
- d) the fact that completely new initiatives which allow recipients to request more time at the door have already been introduced by some operators – in the absence of a regulatory requirement – suggests that the net costs associated with potentially bigger changes to existing policies and procedures are not necessarily prohibitive from a commercial perspective.

Our decision

- 6.232 We believe that our condition will deliver significant benefits by ensuring that parcel operators consider the fair and appropriate treatment of disabled consumers, provide greater transparency on their policies, and ensure their policies and procedures are monitored for effectiveness. It also provides flexibility to parcel operators, to ensure that they are able to update their policies and procedures over time in light of changing needs and operational capabilities.
- 6.233 We acknowledge that parcel operators are likely to incur some costs in complying with the requirements of our condition. Our evidence suggests that operators will have the potential to use or adapt their existing systems and technologies already in place. In addition, we believe that providing operators an implementation period of 15 months (which is longer than the April 2023 deadline on which we had consulted), along with flexibility as to how these policies and procedures are designed should help operators to minimise costs. Operators are also free to go above and beyond the requirements of our condition, but this is a commercial decision for them to make based on their own operations and business models.
- 6.234 We are also aware that there could be potential cost savings for operators which could in part help offset implementation costs, by improving their success rate for first-time deliveries and improving customer satisfaction if their policies and procedures meet the needs of disabled consumers effectively.
- 6.235 For the above reasons, we are satisfied that our regulation and the costs that operators may incur are proportionate to the benefits we have identified. Therefore, having taken into account the responses to our proposal, and the evidence gathered throughout the review process, **we have decided to introduce a new Consumer Protection Condition to improve the experience of disabled consumers.** This condition requires all parcel

operators to establish, publish and comply with policies and procedures to ensure the fair and appropriate treatment of disabled consumers.

6.236 The final version of the condition can be found in Annex 5 to this statement.

Legal tests

6.237 Having carefully considered evidence received in response to our December consultation, as well as the findings of consumer research we commissioned, we are satisfied that the new Consumer Protection Condition on Disabled Consumers, as described above and set out in Annex 5, meets the relevant tests set out in paragraph 1 of Schedule 6 to the 2011 Act.

6.238 In particular, that it is:

- a) **objectively justifiable** – we believe that our new Consumer Protection Condition is objectively justifiable because it is aimed at remedying the harm, clearly identified in our research, that disabled consumers are disproportionately suffering when receiving or sending parcels. In particular, it advances equality of opportunity between persons who are disabled and those who are not, by seeking to remove or minimise the disadvantages that they suffer as a result of their disability and meet their needs. In doing so, we consider that this condition is important as a means of achieving Ofcom’s statutory duties under both the Equality Act 2010 and the Communications Act 2003 to have regard to the need to advance equality of opportunity (including for disabled persons), and more generally to have regard to the needs of disabled persons.
- b) **not unduly discriminatory** – we believe that our new Consumer Protection Condition is not unduly discriminatory as it applies to all postal operators providing “relevant parcels postal services” (as defined in the new condition). Our new condition also requires operators to have policies and procedures for the fair and appropriate treatment of all disabled consumers, irrespective of the nature of their disability and the different needs they may have due to their disability.
- c) **proportionate** – we believe that our new Consumer Protection Condition is proportionate as it is targeted at remedying the harm suffered by disabled consumers and is, in our view, the least onerous means of achieving our aim. In particular, by setting out minimum requirements, rather than prescribing detailed rules, it grants flexibility to operators in how they establish, publish and comply with their policies and procedures, allowing them to build on any existing systems or process that they may already have. For this reason, and for the reasons set out above, we also believe that any potential additional costs parcel operators may incur in order to comply with our new condition will be contained.
- d) **transparent in relation to what it is intended to achieve** – while it does not prescribe detailed rules, it clearly sets out what is expected from relevant postal operators and the reasons for introducing our new condition are set out in detail above.

Safety and security of parcels

Our decision

We have decided not to extend the scope of the Essential Condition beyond Royal Mail to other parcel operators at this stage. This is because the incidence of parcel loss and damage appears to be reasonably limited, and there are existing commercial incentives which encourage parcel operators to minimise damage and loss. In addition, we are providing new guidance to improve complaints handling by parcel operators, which should help ensure that there is effective redress for problems.

The safety and security of parcels when they move through networks remains a key consumer concern and we plan to monitor the issue over this review period.

Introduction and background

6.239 Our Essential Condition⁶⁴⁴ is designed to protect the integrity of mail by imposing a high-level requirement on ‘relevant postal operators’ to:

- a) take all reasonable steps to minimise the exposure of relevant postal packets to the risk of loss, theft, damage and/or interference; and
- b) take all reasonable steps to address mail integrity issues promptly when they arise.

6.240 Currently the scope of the Essential Condition is effectively restricted to Royal Mail’s USO letters and parcels services, as access mail and ‘express and secured parcel services’ are excluded.⁶⁴⁵

6.241 The Essential Condition also places more detailed requirements on Royal Mail, including in relation to recruitment and training policies, and reporting requirements for mail integrity incidents.

Our proposal

6.242 We proposed to retain the existing scope of the Essential Condition so that it would continue to apply to Royal Mail’s USO letters and parcels services, but not to expand it to cover other parcel operators.

Consultation responses

6.243 Citizens Advice⁶⁴⁶, CCNI⁶⁴⁷ and CWU⁶⁴⁸ disagreed with Ofcom’s proposal to not extend Essential Condition 1 to all parcel operators. All three organisations noted issues of

⁶⁴⁴ [Essential Condition 1](#). ‘Relevant postal operator’ is defined in the condition.

⁶⁴⁵ Any other end-to-end letters operator would also be covered by the condition, but access mail is specifically excluded. The definition of express and secured services excludes the tracked and/or guaranteed time delivery services provided by parcel operators.

⁶⁴⁶ Citizens Advice response to our December 2021 consultation, pp. 81-84.

⁶⁴⁷ CCNI response to our December 2021 consultation, pp. 20-21.

⁶⁴⁸ CWU response to our December 2021 consultation, pp. 6-7.

damage, theft, loss and interference in the parcels market and argued that this created a need to extend Essential Condition 1 to all parcel operators, beyond Royal Mail.

- 6.244 Citizens Advice and CCNI presented research regarding consumers' experiences in the parcels market, as evidence that mail integrity conditions should be extended to all parcel operators. Citizens Advice, though pleased with the direction of travel, argued that too many people experience issues for a "light-touch" approach to be appropriate. It highlighted research which found that 10 people have parcels stolen every minute, and that 11% of consumers experience mis-delivery issues every week where parcels are at risk of being lost or stolen. CCNI highlighted research findings which suggested that some consumers experience issues when sending and receiving parcels in Northern Ireland. For example, in the previous 12 months, when sending a parcel, 11% of respondents said it was lost or did not arrive and, when receiving a parcel, 19% said their item was left in an unsecure location.
- 6.245 CCNI said that if we decided not to extend Essential Condition 1, we should instead require operators to publish complaints data including the number of complaints received, types of issues experienced, consumer outcome measures, and how operators will address root cause issues. CCNI state that this would improve transparency and accountability and reduce the root causes of consumer complaints.
- 6.246 Citizens Advice and CWU noted that parcel operators' business models caused problems with parcel safety and security. Citizen's Advice raised concerns that pressure on delivery drivers working for parcel companies leads to mistakes or choices to leave parcels in insecure locations and CWU said that competition has failed to solve the problems of poor-quality service. Additionally, CWU argued that the low cost of entry and 'gig economy' employment models used by unregulated parcels operators has made it impossible for Royal Mail to compete on a level footing with others in the parcels market.

Our assessment

Consumers do occasionally experience loss of, or damage to, parcels

- 6.247 Our research found that a significant minority of consumers have experienced a problem with parcel safety and security.
- 6.248 Our C2X research provides some evidence of consumers experiencing the loss of parcels or damage to contents/packaging. Among C2X senders, 23% said their recipients had experienced parcels getting lost or mis-delivered in the preceding 12 months. 22% had experienced parcel contents/packaging being damaged.
- 6.249 Our quantitative B2C parcels consumer research in relation to parcel deliveries found:
- in the preceding three months, 18% had experienced 'parcel packaging was damaged'; 16% 'parcel was not delivered' and 10% 'goods in packaging were damaged'; and
 - among those respondents who had experienced issues with deliveries, 15% had experienced 'significant inconvenience', 10% 'significant stress and worry' and 8% 'financial loss'.

6.250 We recognise the experiences of consumers, as raised by Citizens Advice, CCNI and CWU, and understand that detriment can be caused by loss, theft and damage to parcels. However, we consider that this needs to be considered in the wider context of the millions of parcels which are delivered every day. We note that our consumer research found that, on average, users received approximately 18 parcels in the preceding three months and sent seven parcels in the past year. While information we collected under our statutory powers on complaints to operators regarding lost and damaged parcels found that there is no consistent approach for measurement, the information suggests that the incidence of parcels that are lost or damaged is relatively small when compared to the total number of daily deliveries.⁶⁴⁹

There are incentives for operators to reduce the risk of parcels loss or damage

6.251 We disagree with Citizens Advice and CWU that parcel operators' business models and competition in the parcels market allow for significant problems with the safety and security of parcels. For the B2C segment of the parcels market, there are commercial incentives for good quality delivery services. The commercial agreements between parcel operators and retailers are likely to include some performance indicators, as well as potential for redress if things go wrong, which should provide some incentives to minimise the risk of loss, theft and/or damage of parcels. For example, given consumer protection legislation offers rights of redress to consumers in the form of refund, repair or replacement for lost or damaged goods from retailers, they may seek compensation from operators where they are at fault. Furthermore, there are a number of competing parcel operators, and consistently poor service could risk the operator losing a retailer to a rival, which could also strengthen these incentives for secure delivery.

6.252 Similarly, the C2X segment of the parcels market also includes commercial incentives to take reasonable steps to ensure the safety and security of parcels. Most consumers of C2X services can easily switch to other operators the next time they send a parcel if they experience a poor service and/or they do not receive adequate redress. For those in remote or rural areas where there is less competition, the USO provides a backstop option. Additionally, while consumer protections for C2X parcel services can differ from a B2C service, and it may sometimes be harder to replace lost or damaged items⁶⁵⁰, the consumer sending the parcel (for example, a private marketplace seller) enters into a contract with

⁶⁴⁹ We asked parcel operators about the volumes of complaints they receive from parcel users and how complaints are recorded and categorised. We found that there are differences in approach to this, partly because some complaints from recipients in relation to lost and damaged parcels are made directly to retailers. We plan to engage further with operators to help us understand the data that they collect on key delivery issues such as lost and damaged parcels. As outlined above, we are also confirming new guidance for parcel operators, which includes our expectations on the data we would expect them to collect in relation to complaints handling.

⁶⁵⁰ When a consumer buys a good via an online marketplace from a private seller who is not defined as a 'trader' they have fewer consumer rights than applies when buying from retail businesses. So, there could be a greater impact on consumers if the parcel is lost, stolen or damaged before it arrives with the recipient. Furthermore, some items bought and sold via online marketplaces (e.g. second hand; hand-crafted) may not be easy to replace.

the parcel operator. Under the Consumer Rights Act 2015, the operator must perform the delivery service with “reasonable care and skill”.⁶⁵¹

- 6.253 These incentives can be seen in practice with parcel operators, such as Evri, noting that while sometimes parcels do get lost or damaged, they take steps to ensure that any detriment is minimal and resolved as quickly as possible. For example, Evri said that in October 2021, it started using Reunite, a service which allows companies to upload photos of lost items to help reunite them with their owners. Evri also launched a system in December 2021 where it provides a certificate of damage to consumers which they can share with a retailer to help them obtain a faster refund or replacement for a damaged item.⁶⁵²
- 6.254 In response to CWU’s comment concerning the employment models of parcel operators, Ofcom does not regulate parcel operators’ employment models, and this extends to Royal Mail also. We note that CWU would like Ofcom to push for more powers from the Government to regulate parcel operators in order to improve quality of service and protect parcel workers.

Ofcom’s revised approach to complaints handling

- 6.255 In response to CCNI’s request for Ofcom to require operators to publish complaints data if we did not decide to extend Essential Condition 1 to all parcel companies, please refer to the complaints handling section above. As explained there, we are taking action to improve complaints handling by publishing guidance for parcel operators, and at this stage we are not planning to require operators to publish their complaints data.

Our decision

- 6.256 We have carefully considered the responses received, and have decided to maintain our December consultation position, which was not to extend the scope of the Essential Condition beyond Royal Mail to parcel operators at this stage.

Geographic variations in parcels services

We have decided not to introduce any new regulations relating to geographic variations in parcel services. We will continue to engage with stakeholders and policy makers on this issue.

Introduction and background

- 6.257 Stakeholders have previously identified geographic variations in pricing for delivery of retail goods bought online as a concern.
- 6.258 As outlined in our March CFI, in 2019 we used our statutory powers to collect information from parcel operators relating to variations in the delivery of B2C parcels based on

⁶⁵¹ Consumer Rights Act 2015.

⁶⁵² See Evri response our March 2021 CFI, p.4.

geographical location. We published our findings in the 2020 AMU for Postal Services and have presented our findings to consumer groups and interested parties. In summary, we found that:

- a) There were several providers offering B2C parcel services across the UK.⁶⁵³
- b) Operators took different approaches to the pricing of parcel delivery based on geographic location. The approach taken could depend on the extent to which B2C is a core part of their business model. Negotiations with retailers will impact upon actual prices agreed.
- c) Some operators differentiated their delivery charging on the basis of geographic location to some extent. This was most likely to affect deliveries to the Scottish Highlands and Islands, and Northern Ireland. Operators provided some reasons why they may incur additional costs when delivering to these locations, such as lower volumes/drop density and higher transport costs.
- d) Retailers sometimes have the choice of operators that do not vary their prices on the basis of geography, or can negotiate universal prices with them.
- e) The retailer determines whether to pass on any differential charges incurred to the end customer.

6.259 While there has been significant growth in the parcels market and some changes in geographic pricing policies from individual providers since then, these findings still broadly reflect the current situation with regard to geographic variations in B2C parcel services.

6.260 Meanwhile, our new C2X research found that 19% of senders had experienced a location surcharge for delivery to the recipient's address in the preceding 12 months.⁶⁵⁴

Our proposal

6.261 We did not propose any new regulation relating to geographic variations in parcel services in our consultation. We explained that we will continue to engage with stakeholders and policy makers on this important issue.

Consultation responses

6.262 CCNI⁶⁵⁵, CCP ACOD⁶⁵⁶ and the Rural Services Network (RSN)⁶⁵⁷, disagreed with us that the parcels market is generally working well for consumers. All commented that the parcels market is not always working well for consumers in Northern Ireland. CCNI presented

⁶⁵³ While some parcel operators sometimes used third-party 'last mile' delivery services for delivery to locations in the Scottish Highlands and Islands, we found that that they usually had a choice of at least two third parties they can use. In addition, Royal Mail has an end-to-end post network across the whole of the UK.

⁶⁵⁴ The national breakdowns for this data (England – 19%, Scotland – 21%, Wales – 17%, Northern Ireland – 16%) do not show significant differences, perhaps because senders of parcels to areas subject to delivery surcharges can be based anywhere in the UK.

⁶⁵⁵ CCNI response to December 2021 consultation, pp. 17-19, 23.

⁶⁵⁶ CCP ACOD response to December 2021 consultation, p. 2.

⁶⁵⁷ RSN response to December 2021 consultation, pp. 4-5.

research that in the preceding 12 months 25% of customers in Northern Ireland had to pay a higher delivery price to get the item delivered. It also took issue with Evri for no longer having a uniform pricing policy in the C2X market for Northern Ireland. CCNI made various recommendations, such as requesting Ofcom seek to understand the drivers of higher prices, whether increasing parcel volumes should be reducing costs for customers in Northern Ireland, and assessing whether regulatory intervention, such as mandated access to Royal Mail's network, could help to reduce surcharging. CCP ACOD stated that it had heard from consumers in Northern Ireland that surcharging caused detriment and unfairness.

- 6.263 CCNI and CCP ACOD expressed concern about online retailers not delivering to Northern Ireland, causing detriment to consumers. CCNI asked Ofcom to monitor this and assess what the future impact would be on the USO. CCP ACOD argued that consumers and microbusinesses in Northern Ireland were particularly affected by the UK's exit from the EU and Covid-19, with retail organisations halting delivery, leaving consumers more isolated and vulnerable.
- 6.264 Several respondents did not agree with Ofcom that the parcels market was generally working well for consumers, based on the experiences of consumers in Scotland.⁶⁵⁸
- 6.265 CAS highlighted that surcharging impacts consumers in rural and urban areas of Scotland, such as consumers in Inverness. It argued it is detrimental to consumers because surcharges are enough to change consumer behaviour and stop people shopping online. Further, CAS is concerned that an increase in competition and higher levels of market activity in the parcels market, in the last two years especially, has not led to better outcomes for Scotland's rural consumers, suggesting surcharging may not always reflect real additional operating costs. It referred to some areas of Scotland that are given blanket surcharge rates, even if some parts of the area are much better connected than others. It acknowledged that the B2C market retailer ultimately makes the decision to pass surcharges to customers. However, CAS encouraged Ofcom to explore cross-regulatory forums to address the issue as well as to take further steps to monitor surcharging practices in the B2C and C2X sections of the parcels market and consider possible interventions to ensure fairness.
- 6.266 Consumer Scotland accepted that in some cases surcharging is necessary but highlighted that surcharging prices have been rising for Scottish consumers year-on-year from 2017 (at £36.3 million) to 2020 (at £43.1 million), as a point of concern.
- 6.267 A number of respondents⁶⁵⁹ raised concerns about the transparency of surcharge prices. Consumer Scotland asked Ofcom to continue working on surcharging issues to ensure that any additional costs to consumers for online deliveries are upfront and transparent. The ACS argued that retailers should be more transparent about surcharges earlier in the

⁶⁵⁸ CCP ACOD response to December 2021 consultation p.2; CAS response to December 2021 consultation, pp. 18-20; Consumer Scotland response to December 2021 consultation p.3; ACS response to December 2021 consultation, pp. 6-7.

⁶⁵⁹ CCNI response to December 2021 consultation, pp. 17-19, 23; CAS response to December 2021 consultation pp. 18-20; Consumer Scotland response to December 2021 consultation, p.3; ACS response to December 2021 consultation pp. 6-7.

purchasing process. Similarly, CAS stated that retailers and parcel operators should provide consumers full transparency to understand the surcharging costs that are being applied. CCNI asked Ofcom to investigate the methodology used by operators to surcharge through zonal pricing practices and whether this can be improved to reduce the need for surcharging.

- 6.268 ACS agreed with Ofcom's assessment that the parcels market generally works well for consumers. However, it noted there are issues surrounding surcharging specifically for Scotland and asked Ofcom to take more action to level the playing field in this area of the parcels market.
- 6.269 ACS also commented on a specific problem with delivering to remote areas in Scotland, where many properties have the same postcode. They suggested that operators should use global positioning system (GPS) or 'what3words' to allow consumers to provide their addresses more accurately.

Our assessment

- 6.270 We note stakeholder concern in relation to surcharging for parcel deliveries to certain locations in the UK and we acknowledge that surcharging remains an extremely important issue for many customers in Northern Ireland and some parts of Scotland, including the Highlands and Islands. We also note the information consumer groups have provided on consumers' views around the unfairness and potential detriment caused by these issues.
- 6.271 However, 90% of parcels delivered are supplied commercially, with retailers determining the charge to consumers.⁶⁶⁰ There are multiple reasons as to why geographic variations in service levels and pricing can occur. Even in a competitive market, prices and service levels may not be uniform if, for example, costs vary significantly by location, and so variations are not automatically an indicator that the market is not working well. Indeed, we note that our Residential Tracker research indicates that there is not a significant disparity in terms of the overall high levels of satisfaction with using postal services to send and receive mail in harder to reach areas.⁶⁶¹
- 6.272 In light of the above, we are not persuaded by the CCNI's suggestion that regulatory intervention by Ofcom, such as a requirement for Royal Mail or another parcel operator to provide access to its parcels network, is appropriate or proportionate. It is retail businesses (i.e. the party contracting with consumers for the goods to be delivered) that ultimately set the charge for delivery to consumers, and Ofcom does not have regulatory powers in relation to retailer charges.⁶⁶² The retailer can therefore set any price for delivery, regardless of the specific price or contractual terms it has agreed with the parcel operator

⁶⁶⁰ We do not have regulatory powers in relation to retailer charges. However, the transparency of delivery charges retailers advertise and charge customers is a matter for the Advertising Standards Authority and Trading Standards.

⁶⁶¹ Ofcom Residential Tracker 2022 (Feb 2022); QG6: Thinking about your experience of using postal services to send and receive mail, how would you rate your overall satisfaction with postal services? 83% of the total were very or fairly satisfied, compared with 82% for remote rural participants; 85% for Northern Ireland; and 87% in the Highlands and Islands of Scotland.

⁶⁶² Ofcom, November 2020. Annual Monitoring Update on Postal Services; paragraphs 3.41-3.43.

actually making the delivery. Therefore it is not clear that a form of parcels access mandation would reduce surcharging on parcel services. Further, as explained elsewhere in this statement, a number of parcel operators already offer bulk parcel services across the UK (see Chapter 6) and extending access regulation to parcels carries the risk of harming parcels competition (see Chapter 8). We are also mindful, as explained above, that geographic variations in pricing are not automatically an indicator that the market is not working well.

- 6.273 Ofcom will continue to engage with relevant stakeholders including consumer groups, UK and devolved Governments and parcel operators to support work on this topic. We will provide relevant information and market analysis to interested stakeholders, to help inform the wider debate about market dynamics and consumer outcomes. Ofcom will also continue to attend meetings of the Consumer Protection Partnership sub-group on surcharging.
- 6.274 In relation to CCNI's concerns about the impact of the UK's exit from the EU on the parcels market in Northern Ireland, we note that the implementation of the Northern Ireland Protocol is a matter for the UK Government. We continue to engage with the UK Government, postal operators and consumer groups to advise on, and understand, the implications for the postal market.
- 6.275 In relation to CCNI's request to assess increases in parcel market volumes and whether this can lead to efficiencies and lower prices for customers in Northern Ireland, we are not planning specific work on this issue, and where increases in drop density provide efficiencies, we expect competition in the market to help pass these benefits on to customers.
- 6.276 We consider that ACS's point around more accurate information on delivery locations in rural areas is best addressed by industry and technology solutions rather than regulation at this stage. For example, geo-fencing and other initiatives discussed in Chapter 2 are providing additional delivery location information.

Pick Up and Drop Off (PUDO) points

Ofcom will not be imposing any new regulatory framework onto the PUDO services market in this statement.

Introduction and background

- 6.277 PUDOs are locations which allow consumers to collect and return parcels, such as convenience stores or train stations. Some PUDO networks also provide C2X delivery services, allowing consumers to drop parcels off to return to retailers, or send parcels directly to other recipients.⁶⁶³

⁶⁶³ Ofcom, March 2021: [Review of postal regulation: Call for Inputs](#), p. 5.

Our proposal

6.278 In our December consultation we did not propose to intervene in the PUDOs market to address the issues raised by stakeholders in response to our March CFI. We explained that there was an absence of evidence of significant detriment or market failure in the PUDOs market, so we could not justify intervention at the time.

Consultation responses

6.279 RSN said that in rural areas there are relatively fewer PUDO services, when excluding Post Offices, which can create “significant inconveniences” due to consumers needing to travel for their parcels. RSN argued that the lack of provision in certain areas pointed to “a market failure in many rural areas”. RSN said that Ofcom should “state its expectation that parcel operators will address gaps in their PUDO networks”.⁶⁶⁴

6.280 Action with Communities in Rural England (ACRE) said rural users would like more active investment and regulation by the Government to improve the Post Office, PUDO and mail service. It said that the market may appear healthy when averaged across all areas, but due to providers competing for urban business it has created “a confusing and hard to access market.”⁶⁶⁵

6.281 Apex Insight broadly agreed with Ofcom’s assessment of the market, but asked Ofcom to reconsider its views on facilitating the growth of open parcel shop / locker networks and locations where consumers can receive parcels from any carrier. It argued that the full benefits for all parties, and for the environment, from PUDOs’ locations could “only be derived if external co-ordination and regulation increased their openness and density”.⁶⁶⁶

6.282 Post Office agreed with Ofcom’s assessment that currently there has not been evidence of increased losses of parcels due to the growth in PUDO services. However, it said that misrouting of parcels is likely to become a more common issue as multi-operator PUDO services grow in the market.⁶⁶⁷ Post Office asked Ofcom to clarify when regulatory intervention will be appropriate in the absence of a voluntary arrangement among operators⁶⁶⁸, through classifying what it considers “significant detriment” or “market failure”.⁶⁶⁹

Our assessment

6.283 PUDO locations are currently growing and expanding. Ofcom research found that at least 10,900 additional access points were created between January 2019 and June 2022.⁶⁷⁰ The

⁶⁶⁴ Rural Services Network response to December 2021 consultation, p. 4.

⁶⁶⁵ ACRE response to December 2021 consultation, p.2.

⁶⁶⁶ Apex Insight response to December 2021 consultation, p. 3-4.

⁶⁶⁷ Post Office response to December 2021 consultation, p12.

⁶⁶⁸ Post Office response to December 2021 consultation, p1.

⁶⁶⁹ Post Office response to December 2021 consultation, p12.

⁶⁷⁰ Parcel operator websites (correct as of June 2022). Ofcom, 2019: [Review of the Second Class Safeguard Caps](#), p.29, see Table 3.1.

market is currently providing consumers with more access points and increased choice, without Ofcom intervening. Many rural customers are able to find nearby PUDO locations⁶⁷¹, however for those who are unable to find a nearby PUDO service, the universal service is in place to ensure there is a postal access point for even the most rural customer in the UK.⁶⁷²

6.284 There are no regulatory barriers stopping PUDO providers from entering access arrangements with multiple parcel operators, and there are some examples of this occurring.⁶⁷³

6.285 As explained above, PUDO points are growing – as is consumer usage of them. Therefore, in the absence of clear evidence of a material problem, and given our bias against intervention, we think it is appropriate to allow the market time to develop. This is because we expect both PUDO providers and parcel operators to have incentives to improve outcomes for consumers and themselves should misrouting become a common issue – without the need for intervention from Ofcom – due to competitive market forces. It is also our view that at this stage it is not possible to set a threshold for when a regulatory intervention would occur, and we would need to consider the circumstances and available evidence at the time. Ofcom will continue to monitor this market and engage with stakeholders on the issues raised.

Our decision

6.286 We maintain the same position as we set out in our December consultation: there currently does not appear to be a need for Ofcom to design a regulatory process in the PUDO market.

⁶⁷¹ For example, according to its website, 90% of the rural population live within 5 miles of a store that is part of the Collect+ network.

⁶⁷² Ofcom, [DUSP](#), p. 17, paragraph 1.8.2.

⁶⁷³ For example, the Collect+ network has arrangements with Yodel, DPD, DHL and FedEx <https://www.collectplus.co.uk/about>. [Accessed 15/06/22].

7. USO parcels regulation

This chapter focuses on the regulation of parcel services within the universal service. These ‘single piece’ or ‘C2X’ parcel services make up around 10% of total parcel volumes. They could be individual consumers sending a birthday present to friends and family, marketplace sellers sending items sold on eBay (or another marketplace platform) to their buyers, or small businesses sending goods to customers placing online orders.

The C2X parcels segment is growing, and competition has potential to develop further. Royal Mail’s share of C2X parcel deliveries is still over 70% in terms of both volumes and revenues. However, there is developing competition from Evri and others, which is likely to deliver benefits to consumers.

Our decisions for USO parcel regulation seek to ensure postal users continue to have access to simple, affordable, and reliable parcel services that meet their needs, while supporting effective competition for the benefit of consumers.

We have decided:

- **Not to extend regulation by requiring Royal Mail to provide tracking facilities on First and Second Class USO parcel services**, given that our research shows high levels of user satisfaction with current USO services, and we are concerned that extending regulation to include tracking on First and Second Class USO parcel services could harm the further development of competition in the C2X segment.
- **To maintain the current requirements on Royal Mail to deliver USO parcels on a minimum of five days per week**, and not increase that requirement, which is already exceeded in practice by Royal Mail.
- **To maintain the current requirements on Royal Mail to provide USO services for parcels weighing up to 20kg**, given some risk of consumer detriment from reducing the limit.

Introduction

7.1 In this chapter⁶⁷⁴ we consider the following USO parcels regulation issues:

- a) Rules around tracking facilities on First and Second Class USO parcel services;
- b) The number of parcel delivery days per week that is required by USO rules; and
- c) The rules around the weight limit for parcels within the universal service.

⁶⁷⁴ Our discussion in this chapter is informed by our analysis of the parcels market as a whole which we set out in Chapter 6.

USO for First and Second Class services – Tracking

The current ‘untracked’ First and Second Class services in the USO meet the needs of most users. Though some specific users may place value on adding tracking to these services, this is context dependent (specific subgroups of users or high value items).

The market for postal services – including Royal Mail’s non-USO services and services provided by other parcel operators – offers a range of tracked parcel services which compete on a ‘level-playing field’, and competition has the potential to develop further in future. USO services are currently VAT exempt, meaning that regulatory intervention to extend the scope of USO services would give Royal Mail a material advantage over competitors’ C2X services. Royal Mail has the option to compete using its commercial tracked parcel products outside of the USO.

Having had regard to our findings on user needs evidence and existing market provision for postal services, as well as our statutory duties, we have decided that, on balance, regulatory intervention is not warranted at this point in time and that the current scope of the universal service should not be extended.

Introduction and background

- 7.2 A tracked service enables a sender and/or a recipient to monitor the progress of an item through the postal network.
- 7.3 Our current regulation specifies that First and Second Class services provided by Royal Mail as part of the USO do not include a tracking facility.⁶⁷⁵ However, tracking is required to be included as part of the USO Special Delivery service. In addition, Royal Mail is required to offer a ‘proof of delivery’ option within the USO for First and Second Class services (which it currently does through its ‘Signed For’ feature). Royal Mail also offers a free confirmation of delivery feature as standard for all its universal service parcel products.⁶⁷⁶
- 7.4 As set out in Chapter 5, our regulation is aimed at setting out the scope of the USO, and the universal postal services that should be delivered by Royal Mail as the designated universal provider. It is not aimed at regulating, or preventing, commercial offerings for tracked services that are provided by the market and therefore outside of the universal service. Several operators (including Royal Mail) do offer tracked services on a commercial basis, and we describe these commercial services in more detail below (including the tracked services that Royal Mail offers on a commercial basis, i.e., Tracked 24/48).

⁶⁷⁵ Ofcom, 27 March 2012: [Securing the Universal Postal Service – Decision on the new regulatory framework](#), p.31, paragraph 4.39-4.43 and p.128, paragraph 8.135. The requirement to provide priority and standard service(s) that do not include the provision of a tracking facility is set under [DUSP Condition](#) 1.6.1 (a) and (b). In the context of the DUSP Condition 1, ‘Tracking facility’ is defined as a ‘facility enabling a sender to monitor the progress of a postal packet through the postal network.’

⁶⁷⁶ While these services are not tracked, both provide varying degrees of proof of delivery. With ‘proof of delivery’, Royal Mail is required to obtain a copy of a signature, or other evidence from the recipient in confirmation of receipt, on delivery of the mail to provide proof that the recipient has received it. Online delivery confirmation allows senders (and recipients if they have access to a reference number) to check online if a parcel has arrived.

- 7.5 In response to our March CFI and December consultation, Royal Mail requested for tracking facilities to be included within First Class and Second Class USO services, meaning that the scope of the universal service and the scope of our regulation, would be extended. As part of this Review, we have therefore assessed whether regulatory intervention would be warranted to bring tracked First and Second Class services within the scope of the universal service.
- 7.6 As set out in Chapter 5, the universal postal service is aimed at meeting the reasonable needs of users which are not otherwise being sufficiently met by the wider market. In deciding whether we should be intervening to extend the scope of the current USO, we must - in accordance with the statutory framework - therefore have regard to the following:
- a) evidence of user need for tracking to be included within First and Second Class services,
 - b) the extent to which the market is meeting the reasonable needs of postal users for tracking, and
 - c) our statutory duties. This includes our duty under the PSA 2011 to secure the provision of a universal postal service having regard to the need for that service to be financially sustainable and efficient, and our more general duty under the CA 2003 to further the interests of citizens and consumers, where relevant by promoting competition.⁶⁷⁷ As USO services are currently VAT exempt, extending the scope of the USO would extend the scope of those services that benefit from VAT exemption. In line with our statutory duties, we have therefore had regard to the potential impact that extending the scope of the USO, and the VAT exemption, would have on competition. Our assessment is set out in more detail below.
- 7.7 In Chapter 6, we set out our assessment of the extent of competition in parcel services (including in C2X services) and explain our view that there is evidence of growing competition in C2X parcel services in recent years, which we expect to continue. We also recognise that competition is supporting increased choice, value for money and product innovation in parcel services, for the benefit of consumers.
- 7.8 While we remain open to changing the scope of the USO in light of changing users' needs,⁶⁷⁸ any decision to extend Royal Mail's universal service obligations must be made in accordance with the statutory framework. As explained in Chapter 5, there is no starting assumption that the scope of the USO should be expanded over time to reflect developments provided by the wider market or changes in users' expectations (as opposed to their needs). Ofcom also operates with a bias against intervention, meaning that in reaching a view as to whether regulatory intervention is warranted, we should also

⁶⁷⁷ Section 3(1) of the [CA 2003](#). In performing the duties set out at section 3(1), Ofcom must also have regard, amongst other things, to the different interests of persons in the different parts of the United Kingdom, of the different ethnic communities within the United Kingdom and of persons living in rural and in urban areas, as appear relevant in the circumstances (section 3(4) of the CA 2003).

⁶⁷⁸ Ofcom, 2020: [Review of user' needs. An assessment of whether the minimum requirements of the universal postal service reflect the reasonable needs of the users of postal services in the United Kingdom, p.5.](#)

consider whether markets can achieve our objectives, and that regulatory intervention must always be supported by strong evidence as to what markets cannot deliver.⁶⁷⁹

Our proposal

7.9 In our December consultation, we proposed to maintain the current restriction preventing Royal Mail from incorporating tracking facilities on First and Second Class USO services, given high levels of customer satisfaction with the existing untracked service, and the wider market provision of tracked options. In addition, we were concerned that extending the scope of the USO by including tracked First and Second Class USO parcel services would potentially harm developing competition, as it would result in broadening the application of the VAT exemption, thus creating an unlevel playing field in the C2X segment by providing Royal Mail with a pricing advantage.

Consultation responses

7.10 The majority of parcel operators⁶⁸⁰ and some other respondents⁶⁸¹ supported our proposal not to amend the DUSP Condition to extend regulation to include tracking on First and Second Class USO parcel services.

7.11 A number of stakeholders disagreed to varying degrees.⁶⁸² Consumer groups generally supported tracking being included in the USO, but said that it should not negatively impact the affordability or pricing of First and Second Class services.⁶⁸³ Royal Mail and Post Office requested that we remove the prohibition on allowing tracked services in the USO.⁶⁸⁴

7.12 Stakeholders commented on the level of user need for tracking, the market provision of tracked services (particularly in hard-to-reach areas), the impact on competition if it were provided as part of the universal service, and the extent to which the addition of tracking to the USO is important to support a relevant, modern, and financially sustainable universal service. We summarise those comments below.

⁶⁷⁹ See our [regulatory principles](#).

⁶⁸⁰ Evri response to December 2021 consultation, p.5. DX response to December 2021 consultation, p.16. UPS response to December 2021 consultation p.5. Mail Competition Forum response to December 2021 consultation p.16. AICES response to December 2021 Consultation p.3. Links to all stakeholder responses to the December 2021 consultation can be found [here](#) [accessed 06 /07/2022].

⁶⁸¹ Advisory Committee for Scotland response to December 2021 consultation p.7. NALC response to December 2021 consultation p.6. CEDR response to December 2021 consultation p.2.

⁶⁸² ACRE response to December 2021 consultation, p.3. Citizens Advice response to December 2021 consultation, p.96. Citizens Advice Scotland response to December 2021 consultation, p.23. CWU response to December 2021 consultation, p.3. Communications Consumer Panel and ACOD response to December 2021 consultation, p.1. CCNI response to December 2021 consultation, p.22. eBay response to December 2021 consultation, p.1. Etsy response to December 2021 consultation, p.2. Pitney Bowes response to December 2021 consultation, p.5. Post Office response to December 2021 consultation, p.8. Quadiant response to December 2021cConsultation, p.4. Royal Mail response to December 2021 consultation, p.19. RSN response to December 2021 consultation, p.4. techUK response to December 2021 consultation, p.4. Welsh Government response to December 2021 consultation, p.4.

⁶⁸³ For example: Citizens Advice response to December 2021 consultation, p. 96, and CCNI response to December 2021 consultation, p.23.

⁶⁸⁴ Royal Mail response to December 2021 consultation, p.29, paragraph.1.61. Post Office response to December 2021 consultation, p.12, paragraph ii.

User needs in relation to tracking

- 7.13 Some parcel operators said that the current First and Second Class services meet the needs of most users. Evri said our User Needs review showed that most C2X senders currently choose non-tracked services, and that tracking was not regarded as a priority issue for consumers when deciding which operator to use.
- 7.14 Consumer bodies said that tracking is generally important. Citizens Advice said that tracking:
- e) is valued by consumers. Its research showed half (49%) of consumers listed the ability to track their parcels as very important and listed tracking among the three most important attributes of a delivery service. When sending and receiving a parcel, two in five (42%) consumers say that tracking is essential, with only 4% saying that tracking isn't important.
 - f) protects consumers from harms in the parcels market. It said tracking gives the ability to forward plan, provides peace of mind, aids in effective dispute resolution (making it easier for consumers to get redress by providing evidence of a service or delivery failure).⁶⁸⁵
 - g) is a widely accepted industry standard and noted that all major companies offer tracking as standard. It said consumers expect this feature and that consumers whose last parcel was delivered by Royal Mail were less likely than average to say that the amount of information they received was “about the right amount”.
- 7.15 Similarly, consumer groups CCNI and Citizens Advice Scotland presented research that showed that consumers in Northern Ireland and Scotland generally find the ability to track items important. CCNI’s research found that nearly nine in ten (87%) of Northern Ireland consumers believe tracking should be a standard feature on parcel services (but also that adding tracking to the universal postal service should not result in additional costs). Citizen Advice Scotland’s research shows that the majority of consumers (60%) would like to see tracking included as standard in some of Royal Mail’s USO parcel services. 42% responded that tracking should be part of the standard service for all parcels, while 18% were in favour of tracking only for high value items.
- 7.16 Royal Mail said that our consumer research shows that tracking is the most important factor when choosing a parcel operator, and that we had erred in our interpretation of the key findings of our research, in particular when interpreting the results of our ‘Max Diff’ analysis.
- 7.17 It also argued that tracking on USO First and Second Class parcel services would lead to a better complaint handling process and reduce the number of customer queries and complaints, as customers would have less need to enquire about the whereabouts of their

⁶⁸⁵ Citizens Advice response to December 2021 consultation, p. 98.

parcel. In addition, it argued that when problems do arise, tracking information can make it easier for a complaint handler to locate the item and resolve the issue.⁶⁸⁶

- 7.18 Furthermore, it argued that tracking enabled consumers to know when a parcel would be delivered and plan their day, which was of particular benefit for disabled consumers. Royal Mail said that tracking also supported the provision of in-flight options (e.g. delivery to a neighbour or a safe place on the property, or delivery on another day).⁶⁸⁷
- 7.19 Marketplace respondents eBay and Etsy said that tracking is increasingly important to marketplace users. eBay said tracking is important for three reasons:⁶⁸⁸
- a) Greater trust through greater certainty as tracked services are less likely to generate customer service calls.
 - b) Greater confidence in purchasing as it provides more robust seller and buyer protection.
 - c) Improved sales for sellers as it can offer incentives to sellers who use tracked services.
- 7.20 Etsy said that allowing tracking on USO services would enable small businesses that rely on single piece parcels to better compete with larger retailers, who tend to have bulk parcel contracts that include tracked parcel services. It said tracking is important to buyers and sellers due to improved buyer visibility, financial protection for sellers, better transparency and trust, and high buyer expectations.⁶⁸⁹

Market provision of tracked parcel services

- 7.21 The majority of parcel operators noted that single-piece tracked services are already being provided by the market. Evri said tracked parcel services are widely available at competitive prices.
- 7.22 The MCF said it is very likely that, without being under any regulatory obligation, Royal Mail would continue to offer tracked services on a commercial (non-USO) basis. It said that our proposal ensures that Royal Mail continues to offer non-tracked, standard First Class/Second Class services - and hence means that customers will continue to have the choice of tracked and untracked services.
- 7.23 However, other stakeholders, including consumer groups CCNI and CAS, said the parcels market is not delivering for consumers in Northern Ireland and the Highlands and Islands. They said some operators who offer tracking do not operate in certain areas, and of those who do, some apply surcharges.
- 7.24 Royal Mail also said the market is not delivering for customers in more rural and remote areas of the UK, noting the use of surcharges and/or failure to provide a next day service in these areas.⁶⁹⁰ Similarly, the Oxera report (provided with Royal Mail's consultation

⁶⁸⁶ Royal Mail response to December 2021 consultation, p. 40.

⁶⁸⁷ Royal Mail response to December 2021 consultation, p. 44.

⁶⁸⁸ eBay response to December 2021 consultation, p. 1-2.

⁶⁸⁹ Etsy response to December 2021 consultation p. 2-3.

⁶⁹⁰ Royal Mail response to December 2021 consultation p.24-25.

response) said that the introduction of tracking on USO parcels would benefit consumers in remote areas. It concluded that customers in the most remote UK locations are not able to fully benefit from the range and quality of services available to others across the UK.⁶⁹¹

Potential impact on competition in the C2X market segment

- 7.25 Parcel operators said that including tracking in the USO would give Royal Mail a competitive advantage over other operators due to the VAT exemption on USO services. For example, Evri said: “The inclusion of tracking for parcels in the USO would give Royal Mail an unfair competitive advantage over other parcel companies due to the absence of VAT on USO products, meaning Royal Mail would have a 20% price advantage.”⁶⁹²
- 7.26 Evri also said that including tracking in the USO would give Royal Mail further dominance in the lightweight parcels segment and make it potentially impossible for other operators to compete on price. It said this could create a de facto monopoly in certain weight categories.
- 7.27 Consumer groups CCNI and Citizens Advice Scotland acknowledged that including tracking in the USO would have an impact on competition but considered that this is justified on the basis that competition is not delivering for consumers in Northern Ireland and Highlands and Islands.
- 7.28 Royal Mail said there is no evidence that suggests that if tracking was offered on USO services, it would drive out or materially undermine competition. As set out in Chapter 6, Royal Mail commissioned Oxera to undertake analysis of the C2X market and how tracking in the USO would affect competitive dynamics. The report said that competition in the C2X market is strong and would not be reduced were Royal Mail to add tracking to its USO parcels products.⁶⁹³ It said that operators face clear incentives to grow C2X parcels volumes, and their established networks enable them to offer C2X services at low marginal costs. Therefore, competition in this sector can be considered to be sustainable, even in the event that Royal Mail enhances its USO product offering through including tracking.⁶⁹⁴
- 7.29 Royal Mail also said the VAT exemption is in place for services in the ‘public interest’.⁶⁹⁵ Therefore, it said that USO services should be free of VAT to help increase consumer demand and that there is a significant cost to providing the Universal Service. It presented analysis which showed that it incurs a [£<] net cost delivering its ‘public postal services’ obligations.⁶⁹⁶
- 7.30 Post Office said the impact on competition can be mitigated by removing services sold at a discount online from the definition of ‘single piece service’ in the Designated Universal Service Provider condition.⁶⁹⁷ It also said that it should not be for Ofcom to address the

⁶⁹¹ Oxera Report submitted by Royal Mail in response to December 2021 consultation p.4-5.

⁶⁹² Evri response to December 2021 consultation p.5.

⁶⁹³ Oxera Report submitted by Royal Mail in response to December 2021 consultation p.4.

⁶⁹⁴ Oxera Report submitted by Royal Mail in response to December 2021 consultation p.5.

⁶⁹⁵ Royal Mail response to December 2021 consultation, p.28.

⁶⁹⁶ Royal Mail response to December 2021 consultation, p.28, fig 1.8.

⁶⁹⁷ Post Office response to December 2021 consultation, p.10, paragraph dd.

possible distortion to competition – the proper course of action is for HMRC to review its policy.⁶⁹⁸

The importance of tracking in the USO in supporting a relevant, modern, and financially sustainable universal service

- 7.31 The MCF and Evri said the USO suite of products is intended to ensure that, regardless of market developments, all consumers can access affordable postal services which meet their reasonable needs. They said there is no evidence that consumers who wish to access tracked services cannot do so easily at affordable prices.
- 7.32 AICES and UPS said it is important to ensure that the definition of universal services is clearly delimited and is not expanded to include value-added services which are provided in a competitive marketplace.
- 7.33 Royal Mail said that a modern, 21st century USO requires tracking to remain relevant and sustainable. It said:
- a) In the UK, tracking is offered as standard by other parcel operators. It said it has the capability to offer tracking to USO parcels customers, which would allow it to simplify its product set.⁶⁹⁹
 - b) Our proposal would lead to a “rapid migration” away from USO services because the strategic direction of marketplaces is towards requiring tracking.⁷⁰⁰ It said that this leads to a greater reliance on non-USO (commercial) revenue streams to support the high fixed costs of the USO.
 - c) We did not recognise the extent of stakeholder desire for tracking in our review of responses to our March 2021 Call for Inputs and did not appear to have engaged some of the largest UK online marketplaces.⁷⁰¹
- 7.34 Similarly, Post Office said that our proposal risks “fossilising” the Universal Service.⁷⁰² It also said that within the EU, at least 18 of the 27 Member States have tracking as a feature within their Universal Service, despite this not being a requirement of the EU Postal Services Directive.⁷⁰³
- 7.35 eBay said that there is a risk that the USO will become less attractive to consumer sellers unless it is fully tracked, and the direction of marketplaces is towards potentially requiring it for sellers.⁷⁰⁴

⁶⁹⁸ Post Office response to December 2021 consultation, p.9, paragraph aa.

⁶⁹⁹ Royal Mail response to December 2021 consultation, p.25, paragraph 1.39.

⁷⁰⁰ Royal Mail response to December 2021 consultation, p.26, paragraph 1.47.

⁷⁰¹ Royal Mail response to December 2021 consultation, p.28, paragraph 1.57, paragraph 1.59.

⁷⁰² Post Office response to Call For Inputs, p.27, paragraph 6.4.6.

⁷⁰³ Post Office response to December 2021 consultation, p.11, paragraph ff.

⁷⁰⁴ eBay response to December 2021 consultation, p.2.

Our assessment

Analytical approach

- 7.36 As explained in Chapter 2, the Universal Service Order describes the services that should be provided as part of the universal postal service in the UK. It specifies, among other things, that single piece priority and standard services should be provided as part of the USO (and that proof of delivery should be available where requested by the sender), but it does not require that tracking be offered to postal users.
- 7.37 The DUSP Condition places the requirement to provide USO services on Royal Mail and specifies the obligation for Royal Mail to provide single piece priority and standard service(s) that meet the description set out in the DUSP Condition. Royal Mail does this through its First and Second Class services. The DUSP Condition states that single priority and standard service(s) “[...] do not include provision of a tracking facility”⁷⁰⁵.
- 7.38 In its response to the December consultation and the March CFI, Royal Mail requested that the exclusion of tracking facilities in the DUSP Condition be removed,⁷⁰⁶ so as to “provide it with flexibility to provide tracked services within the USO”. We have therefore assessed whether regulatory intervention would be warranted in order to bring tracked First and Second Class services within the scope of the universal service (that is, to require Royal Mail to provide these as the designated universal service provider).
- 7.39 We are mindful that, under the existing statutory framework, we are required to set out a description of the services that should be provided as part of the universal postal service, and that, as set out above, the Universal Service Order does not currently specify that tracking services should be provided as part of the USO offering.⁷⁰⁷ The statutory framework further specifies that:
- a) before modifying the description of the services that should be provided as part of the USO, Ofcom must have regard to the reasonable needs of users and assess the extent to which the market for the provision of postal services is meeting those needs; and
 - b) before modifying any regulatory condition imposed on Royal Mail (such as the DUSP Condition), Ofcom must also be satisfied that any modification would be, amongst other things, objectively justifiable and proportionate.⁷⁰⁸
- 7.40 Any decision to extend the scope of Royal Mail’s obligations as a universal service provider must be made in accordance with this statutory framework. While we recognise that users’ needs may change over time⁷⁰⁹, there is no starting assumption that the scope of the USO

⁷⁰⁵ DUSP 1.6.1(a) and 1.6.1(b). In line with the Universal Service Order, Royal Mail is required to include a tracking facility as part of registered and insured services (items up to 10kg). Royal Mail can – and does – provide ‘non-USO’ C2X services that include tracking facilities.

⁷⁰⁶ Royal Mail response to December 2021 consultation, p.29, paragraph 1.61.

⁷⁰⁷ Section 30 of the PSA 2011.

⁷⁰⁸ Schedule 6 paragraph 1 of the PSA 2011.

⁷⁰⁹ Ofcom, 2020: [Review of user’ needs. An assessment of whether the minimum requirements of the universal postal service reflect the reasonable needs of the users of postal services in the United Kingdom.](#) .

should be expanded over time in order to reflect developments in the wider postal sector or users' changing expectations (as opposed to needs),

- 7.41 To reach our view on whether we should be intervening to extend the scope of the universal service, and modify the DUSP Condition accordingly, we have – in line with the statutory framework summarised above – therefore:
- a) undertaken consumer research to help us determine the extent to which the current 'untracked' First and Second Class services meet the needs of users, and the extent to which users need tracking; and
 - b) considered the extent to which the wider parcels market is meeting the reasonable needs of postal users for tracking.
- 7.42 In deciding whether regulatory intervention would be warranted, and whether the scope of the universal should be extended, we are also required to have regard to our wider statutory duties (including our duty to further the interests of citizens and consumers, where relevant by promoting competition). In reaching our view, we have therefore considered the potential impact that extending the scope of the universal service will have on competition, and any substantive implications for the financial sustainability of the universal postal service.⁷¹⁰
- 7.43 As explained in Chapter 5, Ofcom operates with a bias against intervention, and regulatory intervention must be supported by strong evidence that the market cannot and/or is not delivering.⁷¹¹
- 7.44 In order to inform our assessment, we have engaged with a variety of stakeholders, including parcel operators, consumer groups and marketplaces. Having had regard to the above considerations, and for the reasons set out below, we have reached the view that, at this point in time, we should not be intervening to extend the scope of the universal service.

User needs in relation to tracking

- 7.45 This section sets out our assessment of postal users' needs in relation to tracking facilities. It takes account of the consultation responses and other evidence received from stakeholders as part of our consultation process, as well as the detailed consumer C2X research that we have undertaken to inform our understanding of users' needs.⁷¹²

The current 'untracked' First and Second Class services meet the needs of most users

- 7.46 We found relatively high levels of satisfaction with Royal Mail's existing services. Our C2X research found nine in ten of those sending parcels using Royal Mail are satisfied with the service they receive, compared to an average of around seven in ten for other operators.

⁷¹⁰ We set out our assessment of the potential impacts of a change in approach to tracking on competition in the C2X segment further below.

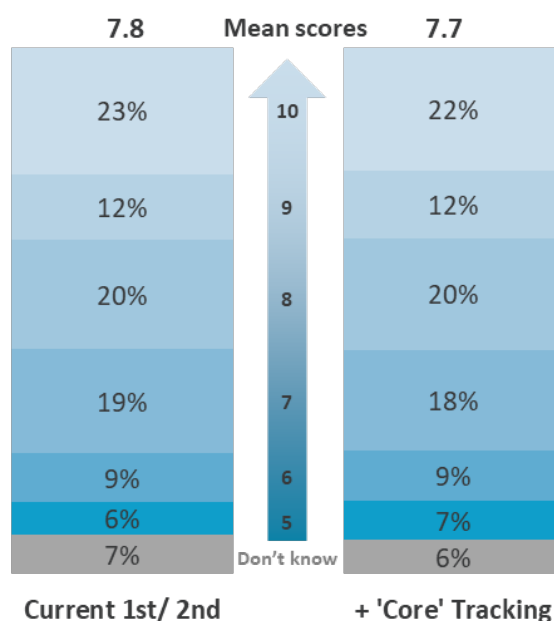
⁷¹¹ Section 3(3) of the CA 2003 and our [regulatory principles](#).

⁷¹² We describe our C2X research more fully in Chapter 6 of this statement. See also Ofcom, 2021: [C2X Consumer Parcels Research 2021](#).

7.47 In addition, people who use Royal Mail’s First or Second Class services (which do not include tracking) said that these services have most of the features they were looking for. In our C2X research, we asked people whether the last Royal Mail First or Second Class parcel sent met the requirements they had for sending that parcel. Overall, respondents gave high scores, as set out in Figure 7.1. The mean score was around eight, with zero being “None of the product features I require” and 10 being “All of the product features I require”.

7.48 We then hypothetically added “core tracking”⁷¹³ to the product design of the standard First or Second Class service and asked the question again. As shown in Figure 7.1, this did not enhance the mean scores.

Figure 7.1: Extent to which each service did/would meet each user’s requirements they had for sending that parcel

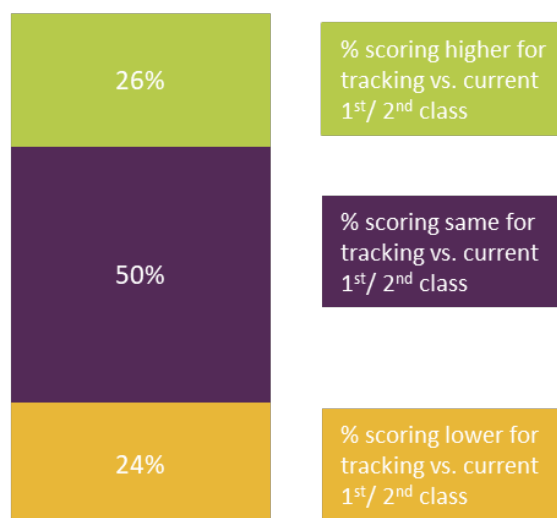


Source: C2X research. Note: Respondents answer on a scale of 0-10, with 0 being “None of the product features I require” and 10 being “All of the product features I require”.

7.49 Furthermore, Figure 7.2 below shows that three quarters of people did not increase their individual score at all when tracking was added to First/Second Class parcels.

⁷¹³ “Core” tracking was defined as stage and day of delivery tracking, as opposed to “enhanced” tracking, which was defined as real time information and a two-hour delivery slot.

Figure 7.2: Score for the tracking service compared to current First and Second Class services



Source: C2X research

- 7.50 Those people in rural areas that choose only to use Royal Mail for sending parcels gave the highest scores of any subgroup for the existing services, and hypothetically adding tracking to the service had no impact. This subgroup gave an average score of 8.2 for the existing service and adding tracking did not significantly change the score.⁷¹⁴ This suggests that users who are most reliant on the universal service consider that it is already meeting their requirements.
- 7.51 Evri’s response to the consultation commented that most C2X senders opt for Royal Mail’s untracked services. Our evidence also suggests that untracked services remain the most used services in C2X. As set out in Chapter 6, Royal Mail have a volume share of over 70% in C2X. As part of our C2X research, we asked what types of Royal Mail services were used, and which Royal Mail service was used most often. We found that, of those that had sent a parcel using Royal Mail, 96% indicated that Royal Mail untracked services are the services they use ‘most often’.⁷¹⁵ Since Royal Mail have a volume share of over 70% in C2X, this implies that the majority of C2X parcels are not tracked at present.
- 7.52 Overall, our consumer research shows that there are relatively high levels of satisfaction with Royal Mail’s existing services (with nine in ten of those sending parcels using Royal Mail saying that they are satisfied with the service they receive). Users of those First and Second Class services that are provided by Royal Mail as part of the universal service (that is, First and/or Second Class services which do not include tracking) also said that these services had most of the features they were looking for. More specifically, people who live in rural areas, and chose to only use Royal Mail for sending parcels gave the highest scores of any subgroup for existing services (showing that users that were most reliant on the

⁷¹⁴ In addition, Royal Mail only senders gave a score of 8.1 on average, and deep rural senders gave a score of 7.9. Adding tracking reduced both scores by 0.3 and 0.2 points respectively.

⁷¹⁵ Ofcom, 2021: [C2X Consumer Parcels Research 2021](#), Data table QB4a/b. Of senders using Royal Mail, 96% said they used either First or Second Class, or ‘Signed For’ most often, with Special Delivery with 1pm guarantee used most often 3% of the time.

universal service considered that the universal service is already meeting their needs). We also note that hypothetically adding “core tracking” to the product design of the standard First or Second Class service did not enhance or significantly change the score. Overall, our consumer research shows that the current untracked First Class and Second Class services provided by Royal Mail, as part of the universal service, meet the needs of most users.

The ability to track parcels is increasingly expected but it is not commonly regarded as essential

- 7.53 Data from the attitudinal questions in the C2X research indicated that tracking is becoming increasingly expected. Over seven in ten of all respondents agreed that they “increasingly expect to be able to track . . . items they send”. Similarly, seven in ten marketplace sellers agree with the statement that, “increasingly people expect to track . . . items bought from smaller online sellers.”
- 7.54 In terms of the importance and usefulness of tracking facilities, seven in ten of all respondents agreed that they “try to use tracking information to plan when to be home”. Similarly, research from the CCP ACOD found that the option for tracking is useful for providing information that a parcel is nearby, and in providing estimated delivery time slots.⁷¹⁶ In addition, 84% agreed that tracking is important when returning an item.⁷¹⁷
- 7.55 While seven in ten of all respondents said that they increasingly expect the ability to track progress delivery when sending an item, the C2X research suggested that tracking facilities are commonly regarded as a “nice to have”, rather than as a core component of a parcel service. Approximately half of all respondents indicated agreement with statements that tracking is:
- a) “Only useful if sending or receiving high value/urgent items”;
 - b) “Nice to have but not essential when sending parcels”;⁷¹⁸ ⁷¹⁹ and
 - c) “When they are sending parcels to friends and family, they don’t need to be able to track them”.
- 7.56 Some stakeholders presented findings showing that the degree of importance attached to tracking often varies depending on the context:

⁷¹⁶ CCP ACOD, April 2021: [Delivering satisfaction? Meeting service users’ needs for parcel services in the pandemic](#), p.4, paragraph 1.2. [accessed 06/07/2022]

⁷¹⁷ Our Residential/SME Tracker Research also consistently finds that the majority of receivers (and to a lesser extent, senders) of parcels regard the ability to track delivery as an important factor when choosing parcels (alongside many other factors rated as important).

⁷¹⁸ 52% agreed with the statement ‘Tracking is nice to have but not essential when sending parcels’, 21% neither agreed nor disagreed and 26% disagreed with the statement.

⁷¹⁹ Citizens Advice presented similar research in its response to the December 2021 consultation, in the context of sending and receiving a parcel (which would include B2C deliveries as well as C2X). It found that two in five (42%) of consumers say that tracking is essential, with 4% saying that tracking isn't important.

- a) CCP ACOD said that tracking is particularly useful for specific subgroups of users, depending on the context.⁷²⁰ Out of nine research subgroups tracking was identified as a need for only two (rural receivers and microbusiness senders).⁷²¹
- b) Citizens Advice’s research showed half (49%) of consumers listed the ability to track their parcels as very important and listed tracking among the three most important attributes of a delivery service. However, we note the respondents included users receiving B2C parcels (as well as C2X), which may not have the same views on the importance of tracking to C2X deliveries.⁷²²
- c) Royal Mail set out its own research which indicated that 63% of residential senders, 78% of social marketplace sellers, and 67% of SME marketplace sellers would find it “very or fairly appealing” to have the option of tracking large letters or parcels sent First or Second Class in the UK with Royal Mail.⁷²³

7.57 In conclusion, while the ability to track a parcel is increasingly expected by users, the C2X research suggested that tracking facilities are commonly regarded as a “nice to have”, rather than as a core component of a parcel service. In addition, the C2X research and the research findings presented by some stakeholders as part of our consultation exercise, show that the importance placed on tracking is often variable depending on the specific context of the sending.

The three individual tracking attributes received a lower share of importance amongst C2X senders than “delivered with care”, “lowest price” and “proof of delivery”, when deciding how to send a parcel

7.58 As part of our C2X research, we performed a “Maximum Difference”⁷²⁴ (or “MaxDiff”) analysis to ascertain the relative perceived importance of different factors when choosing a parcel operator, as set out in Figure 7.3.

7.59 Our qualitative research indicated that there was variation in consumers’ understanding of what was meant by tracking, and its specific features.⁷²⁵ Therefore, we designed the

⁷²⁰ CCP ACOD response to December 2021 consultation, p.2.

⁷²¹ CCP ACOD, April 2021: [Delivering satisfaction? Meeting service users’ needs for parcel services in the pandemic](#), p. 6. [accessed 06 /07/2022]

⁷²² Similarly, CCNI’s recent study shows that 78% of Northern Ireland consumers say that it is important they can track items until delivery when using Royal Mail, and Citizens Advice Scotland presented evidence that said 68% of SMEs in Scotland said tracking parcels was important – but it is unclear to what extent this is relevant to C2X deliveries. CCNI response to December 2021 consultation, p.22, and Citizens Advice Scotland response to December 2021 consultation, p.24

⁷²³ Royal Mail response to December 2021 Consultation, p.22, paragraph 1.28.

⁷²⁴ Maximum Difference analysis or ‘MaxDiff’ is a trade-off methodology in which respondents are presented with small groups of the attributes and asked to indicate which is most and least important. The analysis is used to generate utility scores which represent the relative importance of each attribute.

⁷²⁵ Ofcom, 2021: [C2X Consumer Parcels Research 2021](#), p.55. There was some confusion on what tracking does and does not do. In particular, some respondents purchased tracking services because they needed facilities such as ‘knowing when the item has been delivered’, ‘getting the item to the destination faster’ and ‘getting the item to the destination guaranteed the next day’ – all services that do not necessarily require tracking. Similarly, research from the CCP ACOD found that the option for tracking was needed “in particular for offering confirmation of delivery...” – which suggests a degree of confusion regarding what tracking actually offers: CCP ACOD, April 2021: [Delivering satisfaction? Meeting service users’ needs for parcel services in the pandemic](#), p.17, paragraph 4.1. [accessed 06/07/2022]

questions to assess the relative importance of certain specific features relating to tracking.⁷²⁶ These features were (as defined by us)⁷²⁷:

- a) **“Real-time tracking on progress”**: This provides users with the ability to use live location data to follow a parcel’s delivery journey on a map in real time.
- b) **“Notification of expected delivery window”**: For example, a two-hour slot where the parcel is expected to arrive.
- c) **“Information on stage and day of delivery”**: This provides users with visibility over where the parcel is in a network, and whether it is out for delivery. It does not provide users with an expected delivery window, nor does it provide the ability to track in real time.
- d) **“Proof of delivery”**: This was sometimes thought of as a feature of tracking for consumers,⁷²⁸ which meant that it was important to separate it out from the other features.

7.60 These attributes overlap in terms of what they offer users. For example, the ‘notification of expected delivery window’ and ‘real time tracking on progress’ provide users with information on the stage and day of delivery. In practice, ‘real time tracking on progress’ typically provides users with an estimated delivery window as part of the offering. Therefore, the results provide a useful insight into what it is about tracking, specifically, that users value in comparison to other features, but we are **not** testing the relative importance of an all-encompassing tracking service (for the reasons set out in the previous paragraph).

“Parcel delivered with care”, “proof of delivery” and “lowest price” were at least twice as important when deciding how to send a parcel than any of the individual tracking attributes

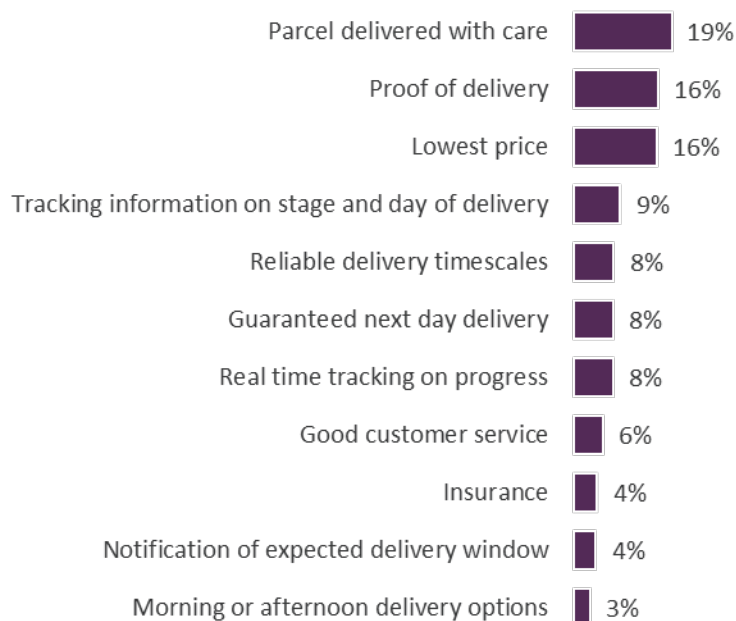
7.61 Our research shows that the most important features of C2X parcels for consumers are “parcel delivered with care”, “proof of delivery” and “lowest price”. These features were around twice as important for consumers when choosing a parcel operator than “Tracking information on stage and day of delivery”. Other features relating to tracking, such as “Real time tracking on progress” and “Notification of expected delivery window” were rated as even less important. This finding was consistent across subgroups, including participants across nations.

⁷²⁶ Furthermore, as set out in paragraph 7.39 above, Ofcom is required to set out a description of the services that we consider should be part of the USO. In order to reach a view as to whether the current scope of the universal service should be extended, and, if so, the extent to which the DUSP Condition might need to be modified, we have gathered evidence on users’ need for tracking, and also on the value that users may place on different specific attributes linked to that facility (e.g. ‘real-time tracking on progress’, ‘information on stage and day of delivery’, ‘notification of expected delivery window’).

⁷²⁷ While these attributes are largely self-explanatory, some participants may have had a different interpretation of what each attribute offers given that we did not provide these explanations for respondents in the research.

⁷²⁸ Ofcom, 2021: [C2X Consumer Parcels Research 2021](#), p.55. ‘Knowing when an item was delivered’ was identified as a need met by tracking services. Similarly, research from the CCP ACOD found that the option for tracking was needed “in particular for offering confirmation of delivery...”: CCP ACOD, April 2021: [Delivering satisfaction? Meeting service users’ needs for parcel services in the pandemic](#), 1.2 [accessed 06/07/2022]

Figure 7.3: Important factors when deciding how to send a parcel (Maximum Difference analysis)



Source: C2X research. Note: These percentages sum to 100 across all attributes and show the **relative** importance of each attribute. An attribute with a utility score of 10%, for example, is half as important as one with a utility score of 20% and twice as important as another with a utility score of 5%.

7.62 This analysis shows that “proof of delivery” is almost twice as important to senders than any of the individual tracking attributes. This was reinforced by qualitative insights from the C2X research, which found that sellers sending cheaper items said that tracking was less sought after, and that it was more important that the item “just gets there”. In addition, the research suggested that while Royal Mail’s ‘Signed For’ service, which is provided as part of the USO, was rarely used by social sender participants, it was important for marketplace seller participants sending high value items.⁷²⁹

The overlap between tracking attributes means it is not possible to add the MaxDiff scores together

7.63 Royal Mail has argued that we erred in our interpretation of the Max Diff analysis. It said that the total importance of tracking services can be calculated by adding together the importance of (what it says are) the three constituent parts: tracking information on stage and day of delivery, real time tracking on progress, and notification of expected delivery window. It said that, if the individual importance of each of these items is added together, the importance of tracking ‘in total’ equals 21% - which would make it the most important service factor tested. Post Office makes the same argument in its response.

7.64 Adding up the scores of each individual tracking component (or attribute) in the way suggested would not be meaningful in providing an estimate of the overall importance of tracking (as a facility). MaxDiff analyses are generally not designed to allow for individual elements to be retrospectively added up. This is due to the overlap between elements,

⁷²⁹ Ofcom, 2021: [C2X Consumer Parcels Research 2021](#), p. 50.

resulting in ‘double-counting’ the scores if added together – thus incorrectly inflating the importance for the hypothetical single combined offering.⁷³⁰ In fact, individual scores can be additive **if and only if** the attributes are perfectly independent of one another (i.e. the perceived benefit from a combined product as a whole is equal to the sum of the perceived benefit from each individual attribute within the combined product). As set out in paragraphs 7.59-7.60 above, there is overlap between the different tracking attributes, meaning the tracking elements are not additive.⁷³¹

- 7.65 While it is possible that the aggregate importance of the tracking attributes tested is somewhat higher than the figures for individual attributes, our survey does not allow a precise estimate of this.⁷³² Nevertheless, our best estimate of the importance of a combined tracking option from the data available would indicate that combined tracking was the third most important factor when sending a parcel, after “parcel delivered with care” and “proof of delivery”, although this result should be interpreted with caution given its limitations.⁷³³
- 7.66 Moreover, there may be overlap in the questions on other features of parcels, which in principle might change the importance of those features if aggregated. For example, we might expect there to be some overlap between guaranteed next day delivery and reliable delivery timescales. By not combining other attributes that overlap, it may overestimate the relative importance of a combined tracking service.
- 7.67 We also note that our results are consistent with other parts of our evidence base which shows that, while tracking is increasingly expected for some users in some contexts, there is a limited user need.
- 7.68 In conclusion, our C2X research shows that users did not rank the individual tracking attributes as among the three most important attributes we tested when deciding how to send a parcel. “Parcel delivered with care”, “proof of delivery” and “lowest price” were around twice as important for consumers when choosing a parcel operator than the highest ranked tracking attribute, “Tracking information on stage and day of delivery”.

⁷³⁰ To illustrate the methodological point, imagine that a survey asked consumers first “how important is tracking to you” and second “how important is it for you to know what stage of the delivery process your parcel has reached”. Since the second question is simply describing tracking in a different way, many respondents will give the same answer to both questions, and adding those scores together will double-count the importance of tracking.

⁷³¹ BVA BDRC agree with this view. It performed additional analysis on the MaxDiff survey data and concluded that there appears to be a degree of overlap between the tracking attributes. For a more detailed explanation of the methodology, limitations and results, see [BVA BDRC, 2022, Additional Analysis for Parcels Review C2X Research 2021](#)

⁷³² We attempted to rerun the results of the MaxDiff to approximate the results for a hypothetical combined tracking service which encompasses all three features (real time tracking, tracking information on stage and day of delivery, and notification of expected delivery window). The results, however, were inconclusive given the assumptions needed to make an inference on how respondents would have responded to the combined tracking service. Nonetheless, our best estimate showed that the most probable actual value of a combined tracking offer was 14.5%, which moved it up to third, behind Parcel delivered with care (18.2%) and Proof of delivery (16.9%), and in front of Reliable delivery timescales (13.5%) and Lowest price (10.4%). Therefore, even if it we accept the combined tracking offer is scored at 14.5%, this does not materially change our view, and we note it remains consistent with other evidence that while tracking is a need for some, other features of parcels are more important for most consumers. For more detail, refer to [BVA BDRC, 2022, Additional Analysis for Parcels Review C2X Research 2021](#)

⁷³³ [BVA BDRC, 2022, Additional Analysis for Parcels Review C2X Research 2021](#)

While a significant minority of senders value tracking, the majority would not pay even a small amount extra for it

7.69 To better understand the value that users as a whole and across subgroups placed on tracking, we also tested user willingness to pay⁷³⁴ more for a First or Second Class parcel service if it included tracking facilities. We asked participants how much they would pay for tracking to be added if they were sending a similar parcel to the last parcel they sent using First or Second Class. To understand how the value of tracking differs across types of parcels, we also asked questions on how much the contents of the parcel were worth, the type of package (small, medium, or large) and the postage costs. The overall results of the analysis are presented in Table 7.4 below.

Table 7.4: Proportion estimated to be willing to pay for tracking to be added to the last First or Second Class parcel they sent, at each price point

Price point tested	% Uptake for core tracking
25p	47%
75p	33%
£1.25	24%
£1.75	19%
£2.25	14%

Source: C2X research. Note: All C2X senders who had used Royal Mail in the last 12 months.

7.70 We found that the majority of senders (53%) would not be prepared to pay even a small amount extra for tracking facilities to be included in the service.⁷³⁵ This was consistent across marketplace sellers and non-marketplace sellers (52% and 55% respectively). It was higher for people that only used Royal Mail, where 56% said they would not pay 25p extra for tracking facilities. CCNI have also provided research findings that suggests many consumers are unwilling to pay anything more for the addition of tracking facilities to the universal service. It found that over 60% of Northern Ireland consumers would consider paying for tracking, but when asked for how much each consumer would pay, the median additional value for parcels was 20p.⁷³⁶

7.71 The variance in the value placed on tracking by different subsets of senders is apparent across the price points we tested. While we estimated that 24% across the sample would be willing to pay at least £1.25 for tracking, it was higher for marketplace sellers (27%) and

⁷³⁴ To determine users' willingness to pay, we use the Gabor-Granger pricing method. Users' willingness to pay for tracking is used as a proxy for the value of adding tracking to users. An explanation of the analysis, including details on the weights applied to the responses, is presented in Ofcom, 2021: [C2X Consumer Parcels Research 2021, p.76](#).

⁷³⁵ These are respondents who we estimate would not be prepared to pay 25p; 25p was the lowest price point tested in the willingness to pay analysis.

⁷³⁶ The Consumer Council Northern Ireland, August 2020: [The Universal Postal Service and Northern Ireland Consumers](#), p.10, paragraph 5.10.

lower for non-marketplace sellers (20%). It was also lower among parcel senders that only use Royal Mail (18%). In terms of UK nations, the estimated proportion willing to pay at least £1.25 for a core tracking service was moderately higher among senders in Northern Ireland and Scotland (28% and 29% respectively).

- 7.72 Our research also shows that the value placed on tracking by users is highly context dependent, with willingness to pay increasing with the value of the items in the parcel. When the item being sent is of low value, the value placed on tracking is significantly lower – particularly for non-sellers, as illustrated in Table 7.5 below.

Table 7.5: Proportion estimated to be willing to pay at least £1.25 for tracking to be added to the last First or Second Class parcel they sent, by type of sender and item value

		Item Value	
		Under £5	Over £40
Type of sender	Sellers	18%	40%
	Non-sellers	14%	28%

Source: C2X research. Note: All C2X senders who had used Royal Mail in the last 12 months. For the purpose of this analysis and the paragraph below, £1.25 is used due to it being the middle price point tested.

- 7.73 Similarly, our C2X qualitative research found that the one scenario where tracking was valued and seen as necessary by some seller participants, was when sending an item that is unique and valuable.⁷³⁷ Research from Citizens Advice Scotland found 34% of SMEs were against any sort of price increase if tracking were to be included, with a further 46% stating they would only pay more on high value parcels, while only 16% were willing to pay more on all parcels for tracking.⁷³⁸
- 7.74 Royal Mail dismiss the relevance of our willingness to pay data, stating that we wrongly conflate it with importance.⁷³⁹ Our assessment uses willingness to pay data to contribute to our assessment of whether a tracking service is a user need. We recognise that stated willingness to pay data is subject to some uncertainty, but nevertheless we consider it to be a useful input to our evidence base to better understand the value that users as a whole and across subgroups placed on tracking. The willingness to pay survey results are consistent with our other research findings, suggesting that the extent to which particular users value tracking services varies between different groups of users.
- 7.75 In conclusion, our C2X research found that senders overall did not place high value on adding tracking to First- and Second Class services. The majority of senders (53%) would

⁷³⁷ The qualitative research found that tracking in of itself (i.e., knowing where the parcel is in the journey to its destination, as opposed to knowing that the parcel had arrived) was rarely identified as a core need.

⁷³⁸ Citizens Advice Scotland response to December 2021 consultation, Q7.1, p.24.

⁷³⁹ Royal Mail response to December 2021 consultation, p.22, paragraph .1.26.

not be prepared to pay even a small amount extra for tracking facilities to be added to these services. Furthermore, consistent with our other research findings, we found that the extra amount particular users would be prepared to pay, indicative of the value they place on tracking, is context dependent, and varies between different groups of users (e.g. increased willingness to pay for marketplace sellers) as well as with the value of the items.

While there could be some benefits of including tracking in the USO to complaints handling and delivery options for disabled users, these must be considered together with the broader user needs analysis

- 7.76 Royal Mail, Citizens Advice and eBay said that tracking improves the consumer experience and can protect from certain harms in the parcels market, specifically that tracking can improve complaints handling processes for consumers. Royal Mail also argued that it could improve the experience of disabled consumers.
- 7.77 However, as described above, the framework for assessing the scope of the universal service is based on user needs and we have assessed the case for tracking on that basis. The potential benefits of including tracking in the USO to complaints handling and for disabled users are relevant to our decision in so far as it feeds into the value users place on tracking, which we would expect to be reflected in the responses from consumers in our research.
- 7.78 Notwithstanding this, we have considered the analysis from stakeholders relating to tracking and how it could impact complaints handling and the experience of disabled users and are not persuaded this is likely to be material.

Relationship between complaints handling and tracking

- 7.79 In Chapter 6, we set out the issues we have identified with complaints handling processes across parcel operators, most of whom already offer tracking. This suggests that tracking in and of itself is not sufficient to ensure that complaints handling processes are satisfactory.
- 7.80 While we appreciate that tracking may help to reduce *contacts* with operators, as customers who are enquiring about the whereabouts of their parcel may not need to contact the operator at all, it is not obvious that it could reduce *complaints*. For example, knowing where a parcel is in the network does not stop it from being delayed, lost, or stolen, and in these situations, customers still need to be able to make a complaint to the operator.⁷⁴⁰
- 7.81 In addition, where Royal Mail has access to operational information that helps to locate parcels in the network (for example, from an online delivery confirmation number⁷⁴¹), this can be used by complaints handlers, even if that information is not shared with customers (in the case of untracked parcels).

⁷⁴⁰ Indeed, features such as proof of delivery will often be more important for resolving issues relating to delivery disputes.

⁷⁴¹ First and Second class parcels have a reference number (which is either provided online or, if sent via Post Office, printed on the receipt at the point of purchase). While these services are not tracked from a user perspective, Royal Mail should be able to locate First or Second Class parcels in its network using the reference number provided.

7.82 Therefore, it is not clear that tracking could have a material impact on the issues we have identified with complaints handling.

Relationship between disabled users' experience and tracking

7.83 In Chapter 6, we explain the issues we have identified in relation to disabled consumers and their experiences when receiving a parcel delivery. Royal Mail said that tracking can help to improve the experience of disabled consumers, by for example, providing inflight options (e.g. deliver to a neighbour, safe place, or deliver on another day) and delivery times.⁷⁴²

7.84 While we recognise that tracking (particularly tracking data) may underpin some features which could provide benefits for disabled consumers when receiving USO parcels (e.g. offering inflight options and delivery times/windows), most parcels disabled consumers are likely to receive will be online shopping (B2C). These use commercial (non-USO) services which generally already include tracking. However, the problems we have found in relation to delivery for disabled consumers, despite tracking, suggest that the inclusion of tracking in the USO in of itself would not be sufficient to prevent disabled consumers disproportionately experiencing delivery issues. Further, if disabled consumers value tracking, they are able to purchase a commercially available (non-USO) product at a competitive price (as set out in detail in the next section).

7.85 We also note in terms of the benefits of tracking specifically for disabled consumers, our C2X research found that senders who identified themselves as disabled were not significantly different from other respondents with respect to:

- a) High satisfaction for the existing First and Second Class services (hypothetically adding tracking did not increase the score),
- b) Increasing expectation to track the delivery progress, and
- c) Over half said that tracking was a 'nice to have' but not essential.

7.86 In conclusion, we do not believe that the arguments to extend regulation to include tracking on First and Second Class USO parcel services specifically to improve the experience of disabled consumers are particularly strong. Moreover, they do not materially change our assessment of user needs for tracking explained above⁷⁴³. Details of the new Consumer Protection Condition to specifically address the concerns we have identified in relation to disabled consumers are set out in Chapter 6.

Summary of research findings on users' needs

7.87 Our research suggests that the ability to track parcels is increasingly expected by users but is not commonly regarded as essential (rather as a 'nice to have' than as a core component

⁷⁴² Royal Mail response to December 2021 consultation, p.42-45.

⁷⁴³ As set out above, in order to decide on whether the scope of the USO should be extended, and tracking added to First and Second Class services, the statutory framework requires that we have regard to evidence on user needs, the extent to which the market is meeting these needs, as well as our wider statutory duties. This is regardless of whether tracking facilities could, to some extent, be regarded as bringing some specific benefits to consumers (e.g. in terms of complaints handling).

of a parcel service). Further research findings also show that the importance placed on tracking often varies depending on the specific context of the sending.

- 7.88 We also found that users did not rank the specific tracking attributes as among the three most important attributes tested when deciding how to send a parcel. In terms of willingness to pay, though a significant minority of senders would pay extra for tracking to be added to First and Second Class parcel services, our research also shows that the majority would not pay even a small amount. The extra amount particular users would be prepared to pay is also context dependent (varying between different groups of users as well as value of items).
- 7.89 While there was some variability in terms of the value placed on tracking, our findings suggest that the overall assessment on users' need does not materially differ across nations and rurality.
- 7.90 Overall, the user needs evidence we have reviewed shows that, at this point in time, the current untracked First Class and Second Class service provided by Royal Mail meet the needs of most users. Though some specific users may place value on adding tracking to these services, the evidence suggests that any need they might have is context-dependent (specific subgroups of users or high value items).

Market provision of tracked parcel services

- 7.91 There are a number of options for users if and when they have a need for tracking facilities, including Royal Mail's USO and non-USO services and market alternatives (as summarised in Table 7.6 below).

The market provision of tracked services is extensive and growing

- 7.92 As set out in detail in Chapter 6, several non-Royal Mail operators now offer single piece tracked parcel services at prices that are competitive with Royal Mail's First and Second Class services. These services have also become easier to access for consumers, with the expansion in alternative PUDO networks, and an increase in the number of ways people can access C2X services (for example, with home collections or via parcel lockers). Indeed, since publishing the December consultation, Yodel has expanded its C2X offering by delivering to Northern Ireland and has not applied an additional location charge (but requires one extra working day to deliver).⁷⁴⁴
- 7.93 C2X senders are also making more use of competing operators. Indeed, our C2X research found that almost two in three C2X senders had used a supplier other than Royal Mail in the last 12 months. Subgroups with a relatively higher need for tracking, marketplace sellers and returners (as set out in the previous subsection), were more likely to make use of competing operators.⁷⁴⁵

⁷⁴⁴ <https://www.collectplus.yodel.co.uk/help-advice/how-long-will-it-take-to-deliver-my-parcel> [accessed 07/07/2022]

⁷⁴⁵ Ofcom, 2021: [C2X Consumer Parcels Research 2021](#), Data table QB1. 77% of marketplace sellers and returners used a parcel operator other than Royal Mail.

Royal Mail offers both USO and non-USO options with tracking facilities

- 7.94 Consumers can access tracked facilities, or other options with similar features that may meet their needs, from Royal Mail within the USO:
- a) **Special Delivery Guaranteed by 1pm:** The only USO service which includes tracking facilities and is offered at Post Offices.⁷⁴⁶ This is priced significantly above tracking alternatives because it includes other premium service features.
 - b) **Confirmation of delivery, Certificate of Posting, and Signed For options.** Royal Mail offers **additional** service features alongside First and Second Class USO products – Confirmation of delivery online, Certificate of Posting (both free options) and the Signed For (a paid for add-on option) – which, although not tracking, may provide some of the benefits of tracked services to the sender. For example, offering reassurance that a parcel had been dispatched and has arrived, or the proof required to support a complaint with a retailer or customer.⁷⁴⁷

- 7.95 Royal Mail also offers a Tracked service outside of the USO:

Tracked 24/48: A single-piece service outside of the USO which includes tracking facilities. It is also universally priced, though this is not a regulatory requirement. Royal Mail makes these services available to purchase online, and senders can drop off the parcel at a Customer Service Point (usually located in a Delivery Office) or Parcel Postboxes. In addition, Royal Mail's Parcel Collect service, which was launched in 2020, allows online customers across the UK to access Tracked 24/48 services via home collections for no additional fee.⁷⁴⁸ Royal Mail has so far chosen not to make these services available via Post Offices, though there is no regulatory barrier to Royal Mail taking this step. Even so, there has been a significant increase in the take up of single piece Tracked 24/48 services over the past year, albeit from initially low volumes.⁷⁴⁹

⁷⁴⁶ Royal Mail also offers a Special Delivery Guaranteed by 9am service outside of the USO, priced above the 1pm USO service. It has the same features as the 1pm USO service and is available at Post Offices.

⁷⁴⁷ See, for example, Vinted: "Keep your proof of shipping until the order is completed, e.g. photos of the receipt or postage label where the buyer's address and the tracking number are visible. (In case any shipping issues arise, this might help us solve them)" <https://www.vinted.co.uk/help/528-royal-mail-standard-2nd-class-shipping>, [Accessed 07/07/2022].

⁷⁴⁸ As at 23/05/2022, Royal Mail are promoting free home collections for Tracked 24/48 parcels. For other parcel services offered by Royal Mail online there is an additional 60p fee for home collections <https://www.royalmail.com/> [last accessed 08/07/2022]

⁷⁴⁹ From 2019/20 to 2020/21, consumer Tracked 24/48 single piece parcel volumes increased from [3<] to [3<], representing a [3<]% year-on-year increase.

Table 7.6: Cheapest delivery prices for select C2X services (updated 23/06/2022)

Weight Step	RM Special Delivery Guaranteed 1pm*	RM Second Class*	RM Tracked 48	Evri	Yodel	DPD local	DHL
0-1kg	£8.45	£2.85	£4.35	£2.99	£2.79	£6.47	£7.89
1-2kg	£10.65	£2.85	£4.35	£4.34	£3.79	£6.47	£7.89
(+home collection)	+60p	+60p	+0p**	+99p	-	+£3.12	+£3.00

*Online price. **Promotional price. Source: Ofcom research. Note: Apart from Royal Mail's Special Delivery Guaranteed, all prices are for later than next day delivery (where available), for a 'non-letterboxable' small parcel sent from an access point to the receiver's address. Prices are inclusive of VAT. Also note surcharges may apply to deliveries and/or collections for some postcodes.

Although there is some geographic variability, there are a range of options provided by parcel operators and Royal Mail for those users that require tracking facilities when sending parcels

- 7.96 For those consumers who value tracking, there's a wide range of products available to meet those needs, and many consumers are making use of them.
- 7.97 Stakeholders have noted there is some geographic variability in the availability and service levels of these products, particularly in Northern Ireland and parts of Scotland.
- 7.98 Citizens Advice Scotland said that Royal Mail remains the preferred and sometimes only available option for rural and remote consumers – stating that 17% of Scotland's population is based in rural areas and 37% of SMEs were based in rural areas.⁷⁵⁰ Our C2X research found that people in deep rural areas were somewhat more likely to use a Post Office counter for sending parcels (65%) than the average (58%).⁷⁵¹
- 7.99 Research from the CCNI found that 15% of Northern Ireland senders paid an additional postal charge. Indeed, we note that some C2X parcel deliveries are subject to higher prices because parcel operators apply geographical surcharges to parts of the UK (in contrast to the universal pricing requirements that apply to Royal Mail's USO services). For example, Evri applies an additional location charge of £2.65 (an increase from £2.40 since publishing the December consultation) for the delivery of parcels to some locations which it says are more expensive to deliver to than other locations (except those sending within the same postcode area).⁷⁵²
- 7.100 As set out in Chapter 6, in any competitive market, prices and service levels may vary across geographical locations, and may not necessarily be uniform across the UK. Though

⁷⁵⁰ Citizens Advice Scotland response to December 2021 consultation, p.24.

⁷⁵¹ Our C2X research also found that 10% of people that only use Royal Mail/Parcelforce to send parcels were 'not aware of other delivery companies in my area'. This figure was higher for senders in Wales (15%), Scotland (14%) and Northern Ireland (13%) than for England (9%).

⁷⁵² <https://www.myhermes.co.uk/location-charge-postcodes>, [accessed 07/07/2022]. The affected postcodes include Northern Ireland and the Scottish Highlands & Islands, though senders from all parts of the UK could be subject to surcharges when sending parcels to these areas.

there are some geographical variations in the way that the market currently provides tracking services across the UK (e.g. in terms of price and product offerings), this does not automatically mean that reasonable user needs are not being met by the market, and should not, in itself, be regarded as an indicator that the market for the provision of tracking services is not working well.

7.101 Indeed, we note that while there are geographical variations in this context, evidence suggests that people in harder to reach areas still make use of market alternatives and are generally satisfied with the services available to them:

- a) Our C2X research found that 59% of senders in Northern Ireland used non-Royal Mail parcel operators. This figure was 63% for senders that reside in deep rural locations.
- b) Our Residential Tracker research indicates that there is not a significant disparity in terms of the overall high levels of satisfaction with using postal services to send and receive mail in harder to reach areas,⁷⁵³ nor is there significant disparity with regards to the need for tracking facilities to be included on First and Second Class parcels (see paragraph 7.89 above).
- c) Our C2X research found that lack of availability or accessibility of other parcel operators was only selected by 11% of C2X senders who only ever use Royal Mail's services when sending parcels - the main reason given was because they were happy with the service (61%). This was particularly true for elderly senders (70% 65+).⁷⁵⁴ These results were not significantly different by nation or whether participants lived in deep rural locations.⁷⁵⁵
- d) Research from the CCP ACOD found that, for the two subgroups who considered tracking to be a need (rural receivers and microbusiness senders), tracking facilities were not indicated as 'being met less consistently by the market'.⁷⁵⁶

7.102 We also make the following observations:

- a) **Geographic accessibility is improving.** Parcel operators have significantly expanded the number of access points in their networks (as set out in Table 6.3) and are expecting their networks to grow generally and in currently under-served areas. Royal Mail's non-USO single-piece Tracked 24/48 service is also accessible via home collection through Parcel Collect.

⁷⁵³ Ofcom, February 2022: [Residential Tracker 2022](#), p.1621. QG6: Thinking about your experience of using postal services to send and receive mail, how would you rate your overall satisfaction with postal services? 83% of the total were very or fairly satisfied, compared with 82% for remote rural participants; 85% for Northern Ireland; and 87% in the Highlands and Islands of Scotland.

⁷⁵⁴ We also note our C2X qualitative research found participants who are digitally excluded tend to be more reliant on Royal Mail and the Post Office for sending parcels. Ofcom, 2021: [C2X Consumer Parcels Research 2021, p.11](#).

⁷⁵⁵ Ofcom, 2021: [C2X Consumer Parcels Research 2021, Data table QC2b](#).

⁷⁵⁶ CCP ACOD, April 2021: [Delivering satisfaction? Meeting service users' needs for parcel services in the pandemic](#), p. 6. [accessed 07/07/2022]

- b) **Some market options offer comparable service levels.** For example, Royal Mail's single-piece Tracked 24/48 service is uniformly priced across the UK. In addition, some other operators do not apply surcharges in some hard-to-reach areas.⁷⁵⁷
- c) **The USO offers tracked services.** In areas where access points from other parcel operators are currently comparatively less accessible, consumers still have the option of tracking under the USO with Special Delivery, which is uniformly priced.

7.103 In summary, the evidence suggests that existing USO and non-USO services offered by Royal Mail and other operators appears to be meeting users' needs for tracking facilities. While there is some geographic variability in prices and product offerings for tracking services across the UK, our research suggests most users in harder to reach areas can make use of the range of options provided by parcel operators (see paragraph 7.101) as well as USO services provided by Royal Mail, when sending parcels. There is also evidence that the market provision is expanding to serve more customers across the UK (see Table 6.3).

Our assessment of our wider statutory duties

- 7.104 In deciding whether regulatory intervention would be warranted, and whether the scope of the universal should be extended, we are also required to have regard to our wider statutory duties (including our duty to further the interests of citizens and consumers, where relevant by promoting competition). In reaching our view, we have therefore considered the potential impact that extending the scope of the universal service will have on **competition**, and any substantive implications for the **financial sustainability** of the universal postal service.
- 7.105 We address the potential impact on competition and the financial sustainability of the universal postal service below.

Potential impact on competition in the C2X market segment

7.106 We consider that consumers' interests in the parcel sector are generally best served by effective competition, as it promotes increased choice, product innovation and value for money. As set out above, when performing our general duties we have to have regard to the desirability of promoting competition, encouraging investment and innovation in relevant markets as well as the different interests of persons in different parts of the UK. We must also have regard to the interest of consumers in respect of choice, price, quality of service and value for money. Therefore, as part of our overall assessment, we have considered the extent to which competition could be negatively impacted by extending regulation to include tracking on First and Second Class USO parcel services and therefore in effect by enhancing Royal Mail's competitive advantages in the C2X segment of the market. Our view is informed by the assessment of C2X competition in Chapter 6,

⁷⁵⁷ For example, Yodel do not apply an additional location charge to Northern Ireland but require one extra working day to deliver. See <https://www.collectplus.yodel.co.uk/help-advice/how-long-will-it-take-to-deliver-my-parcel> [accessed 07/07/2022]

stakeholder responses to the December consultation, and the Oxera report prepared for Royal Mail.

- 7.107 We first set out how competition is developing in C2X and has the potential to develop further, before discussing how the inclusion of tracking in First and Second Class USO services could adversely impact the development of competition. We then discuss Oxera's assessment of the impact of including tracking in the USO on competition and Royal Mail's comment on the function and purpose of the VAT exemption.

Competition in C2X has the potential to develop further

- 7.108 We set out in Chapter 6 how competition in the parcels market is growing across segments, with multiple parcel operators competing for both retailer and residential customers. The degree and model of competition varies by segment.
- 7.109 While Royal Mail continues to deliver the majority of C2X parcels, competition from rival operators has developed in recent years. Sender usage of competing parcel operators has been growing year on year. Our tracker data shows that the proportion of parcel senders using Evri is up from 15% in 2016/17 to 22% in 2020/21.⁷⁵⁸ DHL, DPD, FedEx and UPS have also seen higher usage for sending parcels over the past five years. In addition, our C2X research found that 63% of C2X senders had used a supplier other than Royal Mail in the last 12 months, suggesting they will choose the service that best matches with their needs when sending different parcels. This is supported by findings set out in the report prepared by Oxera for Royal Mail that shows that [§<].⁷⁵⁹
- 7.110 To help counter Royal Mail's competitive advantages in the C2X segment (described in Chapter 6), alternative providers have mainly been able to compete in two ways – by offering products at competitive prices relative to Royal Mail, and/or by differentiating their C2X products by providing enhanced product characteristics, such as by offering tracking as standard.
- 7.111 Our C2X research found that price⁷⁶⁰ and tracking are the most important reasons for preferring competitors' products, significantly more so than any other features.⁷⁶¹ This suggests that the differentiation between Royal Mail's USO First and Second Class products and competing tracked products may have contributed to the growth of other operators and the strengthening of competition in this segment.
- 7.112 The characteristics of the C2X segment suggest that there is scope for competition to grow further. Barriers to switching to other operators – and back to Royal Mail – for C2X senders are low. Senders of single piece parcels can choose which parcel operator to use on a parcel-by-parcel basis (as opposed to being tied into a contract with an operator). In addition, the expansion in the number of alternative access points means the ability to use competing services in C2X has increased.

⁷⁵⁸ Ofcom, 2020/21: [accessed 07/07/2022]

⁷⁵⁹ Oxera confidential report submitted by Royal Mail in response to December 2021 consultation

⁷⁶⁰ Table 7.6 above shows how the market provides comparable, competitively priced offerings to Royal Mail.

⁷⁶¹ C2X research QC2C. Reasons for choosing non-Royal Mail supplier. Price 34%, Tracking 32%, Familiarity 27%.

- 7.113 Furthermore, people are now more familiar with alternative providers. The increase in B2C deliveries during the pandemic has meant senders were more frequently exposed to other operators through regular interactions as receivers of parcels. Our Residential Tracker research found that while 94% of people had heard of Royal Mail, awareness of some other operators is now also high (e.g. 84% for Evri, 83% for DHL and 82% for FedEx). Higher familiarity and brand recognition mean people are more likely to consider and use alternatives.
- 7.114 In future, competition has the potential to develop further as operators continue to expand their networks and people become more familiar with and increase their usage of market alternatives. As noted in the Oxera Report, “From a forward-looking perspective...there is potential for a further increase in the uptake of the C2X products offered by Royal Mail’s competitors”.⁷⁶²

The inclusion of tracking in First and Second Class USO services could adversely impact the further development of competition in the C2X segment

- 7.115 Royal Mail is already able to offer tracked USO services (i.e. Special Delivery by 1pm) and services outside the USO (e.g. Tracked 24/48) to those users who value tracking facilities. If tracking becomes more important for some consumers, Royal Mail can respond to the market signals and improve and promote its commercial non-USO tracked products.
- 7.116 However, the inclusion of tracking in First and Second Class USO services could adversely impact the development of competition in the C2X segment. Royal Mail’s products provided under the universal service – including First and Second Class parcels – are exempt from VAT.⁷⁶³ This exemption does not extend to other non-USO services provided by Royal Mail, including the single-piece Tracked 24/48 services. Nor does it apply to the tracked services that are provided by other parcel operators (which are not subject to universal service obligations).
- 7.117 Therefore, one of the consequences of extending the scope of the universal service by requiring tracking facilities within the existing First and Second Class USO services would be to broaden the application of the VAT exemption to include First Class and Second Class tracked services (in addition to Special Delivery, which is already within the USO). This would mean that for most customers who are unable to reclaim VAT, such as residential consumers and very small businesses,⁷⁶⁴ Royal Mail would have a price advantage in the provision of tracked single-piece parcel services (all other things being equal).

⁷⁶²Oxera confidential report submitted by Royal Mail in response to December 2021 consultation.

⁷⁶³ <https://www.gov.uk/guidance/vat-on-postage-delivery-and-direct-marketing-notice-70024>, [accessed 2 December 2021]. The current UK VAT rate stands at 20%.

⁷⁶⁴ Some business users that are registered for VAT can claim back VAT on delivery services. The current registration threshold for taxable supplies is an annual turnover of £85,000, meaning few C2X senders would qualify. See: [VAT Notice 700/1 \[accessed 07/07/2022\]](#).

- 7.118 The majority of parcel operators⁷⁶⁵ and some consumer groups⁷⁶⁶ commented on the impact on competition in response to the December consultation. Evri said the inclusion of tracking for parcels in the USO would give Royal Mail an unfair competitive advantage over other parcel companies. It said this could make it potentially impossible for other operators to compete on price – particularly in the lightweight parcels segment.
- 7.119 Moreover, tracking as standard has been a point of differentiation for competitors. Our C2X research found that a significant number of people used rival operators for tracking services. In particular, people cited tracking being included as part of the service and price as the top reasons for why people switched to Evri (34% and 43%, respectively). This change in competitive dynamics by extending regulation to include tracking on First and Second Class USO parcel services, thereby extending the scope of the VAT exemption, at a time when competition is developing (and any consequential reduction in C2X non-USO volumes) could reduce other operators’ ability and incentive to compete in C2X by creating an unlevel playing field.
- 7.120 If the development of C2X competition was impaired, it could undermine the benefits consumers have gained (and could continue to gain) in terms of choice, innovation, and value for money from an increasingly competitive market. These benefits from competition are echoed in the Oxera report, which highlights that competition is already benefiting C2X users in terms of more choice, lower prices,⁷⁶⁷ innovation,⁷⁶⁸ and an expanding PUJO network.⁷⁶⁹
- 7.121 In its report prepared for Royal Mail, Oxera said: “we do not consider that Royal Mail including tracking features on its USO parcels products would, in principle, harm the strong competition we observe in the C2X parcels segment.”⁷⁷⁰ Its main argument is that once an established network is in place, operators can offer C2X services at low marginal costs.⁷⁷¹ Hence, competitors would have no incentive to leave the C2X segment as the network investments have already been made.⁷⁷²
- 7.122 However, the existence of economies of scope, and the fact that operators may have reduced incentives in leaving the C2X segment due to these, does not mean that the potential impact of extending the VAT exemption, and any competitive distortions that may arise as a result, can be overlooked. It is clear that the VAT exemption would provide Royal Mail with a pricing advantage, notwithstanding the presence of economies of scope.

⁷⁶⁵ Evri response to December 2021 consultation, p.5. DX response to December 2021 consultation, p.16. UPS response to December 2021 consultation p.5. Mail Competition Forum response to December 2021 consultation p.16. AICES response to December 2021 consultation p.3.

⁷⁶⁶ Citizens Advice Scotland response to December 2021 consultation, p.23. Consumer Council Northern Ireland response to December 2021 consultation, p.22. Welsh Government response to December 2021 consultation, p.4.

⁷⁶⁷ Oxera report submitted by Royal Mail in response to December 2021 consultation p.4

⁷⁶⁸ Oxera report submitted by Royal Mail in response to December 2021 consultation p.3

⁷⁶⁹ Oxera report submitted by Royal Mail in response to December 2021 consultation p.3

⁷⁷⁰ Oxera report submitted by Royal Mail in response to December 2021 consultation p.5

⁷⁷¹ Oxera report submitted by Royal Mail in response to December 2021 consultation p.5

⁷⁷² Oxera confidential report submitted by Royal Mail in response to December 2021 consultation

- 7.123 The report by Oxera said: “competition in this sector can be considered to be sustainable, even in the event that Royal Mail enhances its USO product offering through including tracking.”⁷⁷³ However, even if the VAT exemption did not result in market exit, as set out above in 7.121, a distortion of competition could nevertheless arise. A lessening of competitive intensity can manifest itself in many ways, even if competition is sustained to some degree. One possibility is that it could lead to fringe PUDO points becoming less viable in response to a loss of volumes or deter future entry from B2X players, for example. Alternatively, it could dampen the incentives to actively compete in C2X in relation to marketing, service quality and/or innovation, weakening the benefits to consumers (relative to a more dynamic market).
- 7.124 Finally, we reiterate that the DUSP Condition, as currently drafted, does not prevent Royal Mail from offering similar products on a commercial basis and Royal Mail is already providing a tracked product on a commercial basis (which it is promoting more widely, as set out in paragraph 7.95 above). Hence, competition is benefiting from it offering a service that competes on a level playing field with other operators’ offerings. Conversely, as set out above, making that product which is more comparable to competitor offerings VAT exempt risks harming competition.

The VAT exemption creates a competitive distortion

- 7.125 We note Royal Mail said that given the significant cost of providing the Universal Service, “it is appropriate therefore that our USO services should be free of VAT to help increase consumer demand, and hence sales.”⁷⁷⁴ The Post Office said that it should not be for Ofcom to address the possible distortion to competition – the proper course of action is for HMRC to review its policy.⁷⁷⁵
- 7.126 We note that VAT legislation is a matter for HM Revenue and Customs (HMRC) and Government, thus does not fall under Ofcom’s remit. However, as set out above, in considering whether the scope of the universal service should be extended to tracked First Class and Second Class services, we are required to have regard to the extent to which the market is meeting the reasonable needs of users, as well as our wider statutory duties including our duty to further the interests of citizens and consumers, where relevant, by promoting competition.⁷⁷⁶
- 7.127 To that effect, we have assessed, in line with the relevant statutory framework, the potential impact of the VAT exemption on competition (i.e. the impact of the 20% price advantage in the provision of tracked single-piece parcel services). We discuss below how we have had regard to the financial sustainability of the USO (as currently scoped) when reaching our decision.

The financial sustainability and relevance of the universal service

⁷⁷³ Oxera report submitted by Royal Mail in response to December 2021 consultation p.5

⁷⁷⁴ Royal Mail response to December 2021 consultation, p.28, paragraph 1.54.

⁷⁷⁵ Post Office response to December 2021 consultation, p.9, paragraph aa.

⁷⁷⁶ Section 3(1) and section 3(4) of the CA 2003

- 7.128 Royal Mail's March CFI and December consultation responses stated that not allowing tracking in the USO could undermine the financial sustainability of the Reported Business.
- 7.129 As explained in Chapter 3, Ofcom has a duty to secure the provision of a universal service having regard to the need for the universal postal service to be financially sustainable.⁷⁷⁷ For the reasons set out below, we do not however agree that it would be appropriate to extend regulation to include tracking on First and Second Class USO parcel services solely on the basis that the financial sustainability of the universal service could otherwise be undermined.
- 7.130 While we would expect the financial sustainability of the USO to be improved to some degree if regulation were to be extended to include tracking on First and Second Class USO parcel services⁷⁷⁸, our decision to not extend regulation to require tracking does not give rise to a material risk to the financial sustainability of the universal service.
- 7.131 Royal Mail has suggested that, if tracking is not required as part of the USO, this would adversely impact its ability to serve marketplace sellers requiring tracked services, and that it would therefore risk a loss of those volumes.⁷⁷⁹ We do not consider this to be supported by the evidence we have seen. While some marketplace users value tracking services, Royal Mail's First and Second Class services remain the most popular options, with 62% offering the Second Class service and 50% offering First Class to buyers. This suggests significant numbers of marketplace sellers will continue to use these services even if they remain 'untracked'.
- 7.132 Further, in the event that some marketplaces – or indeed sellers and buyers – were to require a tracked service to be provided, Royal Mail does already offer single-piece Tracked 24/48 services outside of the USO. We expect that it would have an incentive to make this option more easily accessible – such as making these services available at Post Offices – if there is increased demand for such a service and its current availability is limiting uptake. Indeed, Royal Mail's response to the March CFI accepts that offering tracking outside of the universal service on a commercial basis would "mitigate a portion of this impact in Reported Business revenues". Moreover, there is evidence that Royal Mail is already more actively promoting its C2X Tracked 24/48 and Parcel Collect services by offering free collection specifically for those Tracked services.⁷⁸⁰
- 7.133 In any event, we do not consider it objectively justified or proportionate to require tracking solely on the basis that it may improve the financial sustainability of the universal service.

⁷⁷⁷ Section 29(1) and 29(3) of the PSA 2011.

⁷⁷⁸ In the December Consultation, we modelled the potential profit risk of maintaining our existing approach to the USO on tracking (in response to modelling submitted by Royal Mail on the financial impact of our proposed position). Accounting for the revenue and cost impacts, this led to a low profit risk of £[<] p.a., equivalent to a [<]% EBIT impact. We also noted that this was an upper-bound estimate. Consequently, we did not consider there to be a material risk to the financial sustainability of the USO arising from our proposed position on tracking. See Ofcom, December 2021: [Consultation](#), p.161, paragraph 7.57-7.58.

⁷⁷⁹ Royal Mail response to March 2021 CFI, p.82, para.6.54. Royal Mail response to December 2021 consultation, p.26, para.1.45-1.48.

⁷⁸⁰ <https://www.royalmail.com/sending/uk/tracked-24> [Accessed 07/07/2022]

- 7.134 As explained earlier in this chapter, Section 30 of the PSA 2011 makes clear that any modification to the USO must follow an assessment of the extent to which the market is meeting the reasonable needs of postal users. Further, before modifying any regulatory condition imposed on Royal Mail (such as the DUSP Condition), Ofcom must be satisfied that the modification would be, amongst other things, objectively justifiable and proportionate. Following extensive research of the needs of users and the extent of market provision, our evidence suggests that there is only limited need for a tracked service and that the reasonable needs of users are being met by the market (including through Royal Mail's SDG by 1pm service, which is already required as part of the USO).
- 7.135 We are also satisfied that there is no immediate or short-term threat to the financial sustainability of the universal postal service which may justify extending regulation to include tracking on First and Second Class USO parcel services. As set out in Chapter 3, Royal Mail's plans, if successfully executed, show an improving sustainability picture (with revenues growing and cost efficiencies being made). Indeed, given that we would expect the financial sustainability of the USO to be improved to some degree if regulation were extended to add tracking to First and Second Class services, it may reduce Royal Mail's incentives to focus on efficiency improvements and to become efficient.
- 7.136 Further, even if it were the case that the inclusion of tracking within the USO may improve the financial sustainability of the universal postal service in the longer term, we do not consider it appropriate or proportionate to extend regulation to include tracking on First and Second Class USO parcel services solely on this basis. As explained above, our evidence suggests that users' reasonable needs are being met. If any threat to the financial sustainability of the universal service (as currently scoped) were to occur in the longer term, there is no starting assumption that the scope of the USO should be extended (particularly where this may adversely impact competition and reduce Royal Mail's incentives to become efficient). The PSA 2011 includes a clear framework for providing financial support for the universal service in the event that it imposes an unfair financial burden on the universal service provider. It may alternatively be appropriate to reduce the scope of the USO.

Simplification of Royal Mail's product portfolio

- 7.137 Royal Mail says that, under our proposals, it "will be required to have a more complex product portfolio."⁷⁸¹
- 7.138 In reaching our view as to whether the scope of the USO should be extended to add tracking to First Class and Second Class services, the statutory framework requires that we have regard to the reasonable needs of users and assess the extent to which the market for the provision of postal services is meeting those needs. Before modifying any regulatory condition imposed on Royal Mail (such as the DUSP Condition), we must also be satisfied that any modification would be, amongst other things, objectively justifiable and proportionate.

⁷⁸¹ Royal Mail response to December 2021 consultation, p.25, paragraph 1.39.

7.139 We note that Royal Mail is free to position and market USO and non-USO services however it sees best. While we recognise that users' needs may change over time⁷⁸², there is no starting assumption that the scope of the USO should be revised in order to keep pace with technological innovation and developments in the wider postal sector, or to support a simplification of Royal Mail's product portfolio. Any decision to extend the scope of the USO must be made having regard to the statutory framework outlined above (rather than by reference to any potential simplification of Royal Mail's product portfolio).

Our decision

7.140 As set out above, the universal postal service is aimed at meeting the reasonable needs of users which are not otherwise being sufficiently met by the wider market. To that end, the statutory framework requires that before deciding on any modification to the scope of the USO, we must have regard to the reasonable needs of users and assess the extent to which the market for the provision of postal services is meeting those needs.

7.141 To reach our decision on whether we should be intervening to extend the scope of the USO, and include tracked First Class and Second Class services within the scope of the universal postal service, we have therefore had regard to the following, in accordance with the relevant statutory framework:

- a) evidence of user need for tracking to be included within First and Second Class services,
- b) the extent to which the market is meeting the reasonable needs of postal users for tracking, and
- c) our wider statutory duties, including our duty under the PSA 2011 to secure the provision of a universal postal service having regard to the need for that service to be financially sustainable and efficient, and our more general duty under the CA 2003 to further the interests of citizens and consumers, where relevant by promoting competition.⁷⁸³

7.142 Overall, the user needs evidence we have reviewed shows that, at this point in time, the current 'untracked' First Class and Second Class service provided by Royal Mail meet the needs of most users. Though some users may place value on adding tracking to these services, the evidence we have seen suggests that any need they might have is context-dependent (specific subgroups of users or high value items). In addition, the overall assessment on users' need does not materially differ across nations and rurality. Although our consumer research found that a significant minority of users may value tracking facilities when sending some C2X parcels, in the round, the evidence we have reviewed

⁷⁸² Ofcom, November 2020: [Review of postal users' needs](#), p.5, paragraph 2.3.

⁷⁸³ Section 3(1) and section 3(4) of the CA 2003. As USO services are currently VAT exempt, extending the scope of the USO would extend the scope of those services that benefit from VAT exemption. In line with our statutory duties, we have therefore had regard to the potential impact that extending the scope of the USO, and the VAT exemption, would have on competition.

does not suggest that, at this point in time, tracking is considered by users as a “hygiene factor”⁷⁸⁴ that should be provided for all First and Second Class USO services.

- 7.143 We also found that the market for postal services – including Royal Mail’s non-USO services and services provided by other parcel operators – offers a range of tracked parcel services which compete on a level-playing field. Though there is some variability in the accessibility and/or pricing when sending parcels to, and/or from, Northern Ireland and the Scottish Highlands & Islands, the market generally meets the needs of users for tracking.⁷⁸⁵
- 7.144 We further note that the strategic aims of this review include the promotion of effective competition in postal services for the benefit of consumers and ensuring postal users have access to simple, affordable, and reliable postal services that meet their needs. Ofcom also operates with a bias against intervention, meaning that in reaching a view as to whether regulatory intervention is warranted, we should consider whether markets can achieve our objectives, and that regulatory intervention must always be supported by strong evidence as to what markets cannot deliver.⁷⁸⁶ We welcome the developing competition in the C2X parcels market segment and consider there is further potential for that to develop to the benefit of consumers. We are therefore mindful that expanding the scope of the USO to incorporate tracking facilities for First Class and Second Class parcel services would put Royal Mail at a pricing advantage, and could hamper the further development of competition.
- 7.145 Having had regard to our findings on user needs evidence and existing market provisions for postal services, as well as our wider statutory duties, we have decided that, on balance, regulatory intervention is not warranted at this point in time and that the current scope of the universal service should not be extended.⁷⁸⁷ We have reached the view that Royal Mail should not be required to provide tracking facilities alongside its First and Second Class services, and that the current description of First Class and Second Class universal services, in Universal Service Order or the DUSP condition, should, at this stage, be maintained.
- 7.146 We will continue to monitor market developments and user needs for tracking facilities when sending or receiving parcels.

⁷⁸⁴ Royal Mail response to December 2021 consultation, p.22, paragraph 1.27.

⁷⁸⁵ See paragraph 7.100 above where we explain the geographic variations in service levels do not automatically mean that the market is not meeting users’ needs.

⁷⁸⁶ See our [regulatory principles](#). [accessed 07/07/2022]

⁷⁸⁷ This includes our statutory duty to secure the provision of a universal postal service having regard to the need for that service to be financially sustainable and efficient, and our more general duty, under the CA 2003, to further the interests of citizens and consumers, where relevant by promoting competition, and to have regard.

USO for parcels – delivery days

We are not making any changes to the current regulations on delivery days for USO parcels. Specifically, we are not extending the USO to require delivery of parcels on Saturdays.

Introduction and background

- 7.147 The minimum requirements set out in section 31 of the PSA 2011 require Royal Mail to deliver specified parcel services five days a week (Monday to Friday) to every address across the UK. When making the Universal Service Order in March 2012, Ofcom did not add to these minimum parcel delivery requirements.⁷⁸⁸
- 7.148 Royal Mail has stated that the “best way to ensure that the USO meet customers’ needs is to rebalance our business model more towards parcels”.⁷⁸⁹ In practice, Royal Mail delivers USO parcels on Saturdays, so it is already providing this service six days a week.⁷⁹⁰ This may partly be a consequence of the synergies arising from Royal Mail meeting the requirement to deliver letters on Saturdays. It may also reflect the need to respond to competition in the parcels market due to the growth in online shopping, with other parcel operators offering a six (or, in some cases, seven) day delivery service. We note, however, that the focus of other parcel operators is usually on providing parcel services to online retail businesses (rather than on the C2X services met by the USO), and there are some differences in the services offered when delivering to some geographical locations.

Our proposal

- 7.149 In our December consultation, we did not propose to make any changes to the current delivery days requirements for USO parcels (which is set at 5-days a week: Monday-Friday).
- 7.150 Our 2020 RUN research suggested very high levels of user satisfaction (98% for residential users, 97% for SME users) with the current six-day parcel delivery service provided by Royal Mail. It also suggested that satisfaction would remain high (98% for residential users, 96% for SME users) in the event that Royal Mail were to withdraw its Saturday delivery service (which would still meet the current minimum requirements set out in legislation and the Universal Service Order).⁷⁹¹
- 7.151 In addition, Royal Mail’s current six-day parcel delivery service (which goes beyond the minimum requirements), together with the parcel delivery services offered by other parcel operators, appear to be meeting user needs.

⁷⁸⁸ Section 30(3) of the PSA 2011 specifies that before modifying the universal postal service order, Ofcom must carry out an assessment of the extent to which the market for the provision of postal services in the UK is meeting the reasonable needs of the users of those services.

⁷⁸⁹ Royal Mail, 18 November 2021. Royal Mail plc results for the half year ended 26 September 2021.

⁷⁹⁰ We note that following a trial, Royal Mail is also expanding its Sunday deliveries service. See Royal Mail, 19 May 2022, [Full year results announcement](#), p. 11.

⁷⁹¹ Ofcom, 2020. Review of postal users’ needs, pp. 61-63 and Jigsaw Research, 2020. [UK Postal User Needs: Qualitative Research Report](#), p. 33.

Consultation responses

- 7.152 There were two responses on this issue. Royal Mail agreed with our proposal not to extend delivery days for USO parcels. It said that it already delivers parcels six days a week and is trialling Sunday deliveries for major retailers. As a result, it did not believe that there was an immediate need to add parcel deliveries on Saturdays (or Sundays) to the universal postal service requirements.⁷⁹²
- 7.153 The CWU disagreed with our proposal. It called for delivery days for parcels to be extended from five to six days a week. It argued that this change would help meet increased demand for parcels, strengthen the universal service and make letters deliveries six days a week more efficient.⁷⁹³

Our assessment

- 7.154 To extend the delivery days requirements on Royal Mail for USO parcels to include Saturday deliveries, we are required to understand whether a six-day service is a reasonable need of users and, if so, to assess the extent to which the wider market is meeting this need.
- 7.155 We agree with Royal Mail that we do not need to extend delivery days for USO parcels to include Saturdays. This is because, as well as finding high levels of satisfaction with the current six-day parcel delivery service provided by Royal Mail in our 2020 RUN research, we also found evidence that satisfaction would remain high even if Royal Mail were to withdraw its Saturday delivery service for parcels (98% for residential users, 96% for SME users).
- 7.156 In addition, we know that the market is already providing six-day deliveries. Specifically, Royal Mail offers a six-day parcel delivery service commercially (which, as explained above, goes beyond the minimum requirements in the legislation and Universal Service Order). Royal Mail has also announced plans to expand Sunday delivery of parcels for major retailers.⁷⁹⁴ There are also parcel delivery services provided by a number of other parcel operators on Saturdays (and Sundays). Given these facts, we are not extending the USO to require delivery of parcels on Saturdays.

⁷⁹² Royal Mail response to December 2021 consultation, p. 49.

⁷⁹³ CWU response to December 2021 consultation, p. 14.

⁷⁹⁴ Royal Mail, 19 May 2022, [Full year results announcement](#), p. 11.

USO for parcels – weight limit

We are not making any changes to the current USO requirements relating to parcel weight limits.

Introduction and background

- 7.157 The USO requirements on Royal Mail only exclude parcels that weigh in excess of 20kg. There is some evidence suggesting that the market is offering C2X services for heavier parcels that may meet the needs of individuals and/or SME users. In particular, there are a number of operators who offer C2X parcel services for heavier parcels at prices that are lower than Royal Mail prices.⁷⁹⁵
- 7.158 In our March CFI, we suggested that there may be a case for exploring a reduction in the weight limits for parcels covered by the USO, if there were compelling evidence that the market is meeting user needs below the current weight limit. Stakeholder responses to our March CFI supported retaining the current weight limit.

Our proposal

- 7.159 Taking account of stakeholder responses to our March CFI, we did not propose any changes to the current USO requirements relating to parcel weight limits in our December consultation.

Consultation responses

- 7.160 There were two responses in relation to this issue. The CWU agreed with our proposal to maintain requirements on Royal Mail to provide USO services for items which weigh up to 20kg. It said that reducing the limit could be detrimental to consumers.⁷⁹⁶
- 7.161 Royal Mail also agreed that the existing 20kg weight limit should be retained. It added that despite a competitive market, there is not a reliable, affordable collection and delivery service offered to all parts of the UK, especially at weights above 15kg. It said that reducing the weight limit could disadvantage customers in remote areas because its competitors do not offer UK-wide next day services at comparable prices to the USO, and there is surcharging in some areas.⁷⁹⁷

Our assessment

- 7.162 In response to the CWU and Royal Mail, we agree that current USO requirements relating to parcel weight limits should not be lowered below 20kg. We have taken note of the detriment changing the weight limit may cause to consumers, especially for those living in remote areas or for those wanting to send parcels that are 15-20kg.

⁷⁹⁵ Ofcom, 2020. [Review of postal users' needs](#), Figure 6.

⁷⁹⁶ CWU response to December 2021 consultation, p. 14.

⁷⁹⁷ Royal Mail response to December 2021 consultation, p. 49.

8. Access regulation

Bulk mail refers to mail sent in large volumes, typically by big organisations such as banks or utilities and is therefore distinct from single-piece mail services such as those included in the universal postal service. Royal Mail has the only significant letter delivery network in the UK but access regulation allows a party other than Royal Mail to collect and sort the bulk letters, before handing them over to Royal Mail for delivery. Bulk mail collected by competing access operators continue to make up the majority of letters sent in 2020-21, at 5 billion items.

This existing access framework has worked well in promoting effective retail competition in bulk letter services (70% of bulk letters are handled by Royal Mail's access operator competitors), bringing benefits to its users. Although stakeholders raised some issues in relation to certain aspects of our access framework, we have not seen evidence to suggest that the framework itself needs to change and/or that it would be appropriate to do more to promote competition in retail bulk letters.

Therefore, we have decided to retain all the current access regulatory safeguards, which provide backstop protections for access users while still providing them and Royal Mail with commercial and operational flexibility to respond to market changes. We have decided not to extend these safeguards to bulk parcels, nor to exclude General Large Letters (GLLs) from the scope of access regulation (as was suggested by Royal Mail). We believe our decision will continue to promote effective retail competition in bulk letters and parcels, to the benefit of postal users, and support a financially sustainable and efficient universal postal service.

Current access regulation

Existing access framework

8.1 The current access regime imposes a universal service provider access ("USPA") condition on Royal Mail to provide certain wholesale bulk mail services. Specifically, the USPA condition⁷⁹⁸ requires Royal Mail to offer access, on reasonable request, to its postal network for:

- a) D+2 and later than D+2 Letter and Large Letter services⁷⁹⁹ ('D+2')⁸⁰⁰; and
- b) D+5 Letter services ('D+5')⁸⁰¹. We extended the USPA condition to cover this new D+5 service in March 2021.⁸⁰²

⁷⁹⁸ [USP Access Condition](#)

⁷⁹⁹ Retail services that aim to deliver two working days (or later) after collection from the sender, also known as a day C service, or later.

⁸⁰⁰ 'D+X' (e.g. D+1, D+2, D+5) means the total time between the sender sending the postal packet, and it being delivered to the recipient. For example, D+2 refers to the customer (sending the letter) to be injected into Royal Mail's network for it to then be delivered 2 days later i.e. on D+2.

⁸⁰¹ The D+5 Letters access service allows access customers to inject bulk letters into the Royal Mail network for delivery up to four working days from the injection date. This access service is available for Letter formats only (i.e. not Large Letters or parcels).

⁸⁰² Ofcom, 2021, [Statement: Modifications of the USP Access Condition for regulating access to Royal Mail's postal network](#)

- 8.2 Royal Mail is required to provide access to its network for these services at its Inward Mail Centres (IMCs). The IMC is the point at which access operators inject their mail (after having collected and sorted it themselves) for Royal Mail to deliver.
- 8.3 To date, we have allowed Royal Mail to have commercial and operational flexibility to set the terms, conditions and charges of its access services, but subject to some important safeguards. These safeguards include a requirement on Royal Mail to:
- a) provide access on fair and reasonable terms, conditions and charges;
 - b) not unduly discriminate, and to restrict its use of information obtained in connection with giving access;
 - c) publish a copy of its standard terms and conditions and provide notification of changes to these terms and conditions (in accordance with rules on minimum notice periods);
 - d) comply with a control to prevent a price squeeze on mandated access services;
 - e) have a statement of the process that will apply to requests for new access services, or to variations to existing mandated access contracts (commonly referred to as the Statement of Process); and
 - f) publish such information as is reasonably necessary for the purposes of securing transparency as to the quality of service of its downstream access services.
- 8.4 In the remainder of this chapter, we provide an overview of the market developments in bulk mail since our 2017 review. We then summarise the proposals in our December 2021 consultation and stakeholder responses to that consultation, before explaining our final decisions on the access framework that will apply for the next five years.
- 8.5 We have grouped our decisions under the following three themes:
- a) scope of access regulation;
 - b) approach to access price regulation; and
 - c) approach to regulating non-price terms of access.

Market context

Bulk letter volumes

- 8.6 The number of bulk letters delivered in the UK continues to decline, reducing from [X] items in 2015/16 to [X] items in 2020/21.⁸⁰³ This represents an average yearly decline of [X] over this period.⁸⁰⁴ A similar trend has been followed by bulk letters collected by access operators, which make up the majority of total bulk letters. Access bulk letters

⁸⁰³ Royal Mail's regulatory financial reporting to Ofcom. Volumes include bulk letters only.

⁸⁰⁴ This reflects the compounded average growth rate between 2015/16 and 2020/21.

reduced from 7.12 billion items in 2015/16 to 5.01 billion items in 2020/21, representing an average yearly decline of 6.9% over this period.⁸⁰⁵

- 8.7 An important driver of letter volume decline to date is the migration of bulk letter customers to online methods of communication (i.e. e-substitution). Other factors affecting letter volumes include GDP growth and letter prices (which have been increasing over the last five years).
- 8.8 Bulk letter volumes were particularly affected by Covid-19. In 2020/21, bulk letters declined by [3<],⁸⁰⁶ reflecting the major impact Covid-19 had on mailings as many companies shut down operations during the initial lockdown.⁸⁰⁷
- 8.9 Bulk letter volumes have been recovering since then and recent data suggests that this trend has continued in the first quarter of 2021/22, supported by the recovery of the wider UK economy.⁸⁰⁸
- 8.10 However, we expect the long-term declining trend in bulk letters to continue over the next few years, as bulk mail users continue to migrate to online communication. Regulatory requirements for paper correspondence and difficulty in moving some customers online however mean that bulk letters will continue to be important. Therefore, our expectation is that bulk letters will remain a core postal service and core contributor to a financially sustainable universal service for the period of this review.

Market competition

- 8.11 Royal Mail is currently the only postal operator with a nationwide end-to-end letter delivery network in the UK. Although Whistl began to roll out a competing letter delivery network in 2012, it ceased its end-to-end mail delivery operations in 2015.⁸⁰⁹
- 8.12 Retail competition is strong, supported by access regulation. There are currently over 10 access operators⁸¹⁰ which use Royal Mail's postal delivery network to compete for retail bulk letter users. Access operators competing with Royal Mail account for over 70% of retail bulk letter volumes. This share is now higher than in 2015/16, when the share was [3<]%.
- 8.13 Consolidation in the industry continues, both between access operators and across the postal sector more generally. Since 2016, there have been a number of

⁸⁰⁵ Ofcom Annual Monitoring data.

⁸⁰⁶ This is in line with the drop observed for addressed letter volumes which declined by 22% in 2020/21.

⁸⁰⁷ Some sectors such as theatre, entertainment, travel and holiday companies were not mailing at all.

⁸⁰⁸ Royal Mail's regulatory financial statement for Q1 2021/22.

⁸⁰⁹ In 2018, Ofcom concluded an investigation into a complaint brought by Whistl against changes being made by Royal Mail to its wholesale access letters contracts. This complaint was submitted in 2014, prior to Whistl's exit from the end-to-end letters market. As a result of our investigation, we found that Royal Mail had abused its dominant position in the market for bulk letters delivery services in the UK by seeking to introduce discriminatory prices, and that this breached competition law. This resulted in a £50 million fine for Royal Mail. This decision was later upheld by the Competition Appeal Tribunal in November 2019 (*1299/1/3/18 Royal Mail plc v Office of Communications*), and by the Court of Appeal (*Royal Mail Plc v Office of Communications and Whistl* [2021] EWCA Civ 669). The Supreme Court has refused Royal Mail permission to appeal further.

⁸¹⁰ Based on the 2019/20 data for the Annual Monitoring Report.

mergers/acquisitions, including the following: DHL acquired UK Mail, The Delivery Group (owners of end-to-end letter operator CMS and access operator Secured Mail) acquired OnePost, Paragon Group acquired Northern Mail, and Critiqom was acquired by Opus Trust.⁸¹¹ Currently [3<] access operators account for over 90% of total access bulk mail volumes.

- 8.14 As we noted in our 2017 Statement,⁸¹² given declining letter volumes, we consider it is unlikely that nationwide end-to-end competition will emerge in bulk letters in the future.

Retail and access prices

- 8.15 Retail bulk letter prices and access charges have risen in recent years. However, price increases have not been uniform across all bulk letter services. For advertising mail services, access charges have remained relatively flat (in real terms) during the period from January 2016 to January 2022; while for business mail services, access charges have risen on average by 7.4% (in real terms) during the same period.⁸¹³
- 8.16 Business mail access charges have increased particularly since 2019, as evidenced in Figure 8.1.
- 8.17 While average access charges have increased in real terms, the net revenue per unit earned by access operators (i.e., the differential between the retail price offered by access operators and Royal Mail's access charge) increased by less than 1% per annum (in real terms)⁸¹⁴, suggesting that the upstream margin has remained relatively flat over the period from 2016 to 2022.
- 8.18 We expect bulk letter unit costs to continue to face upward pressure over the next five years as letter volume decline trends will continue to put pressure on Royal Mail's (largely fixed) costs. However, as discussed in Chapter 4, Royal Mail acknowledges that it needs to improve its efficiency, and plans to achieve cost efficiencies. If successfully executed, we expect this plan will help offset the impact of declining letter volumes on Royal Mail's costs to some degree.

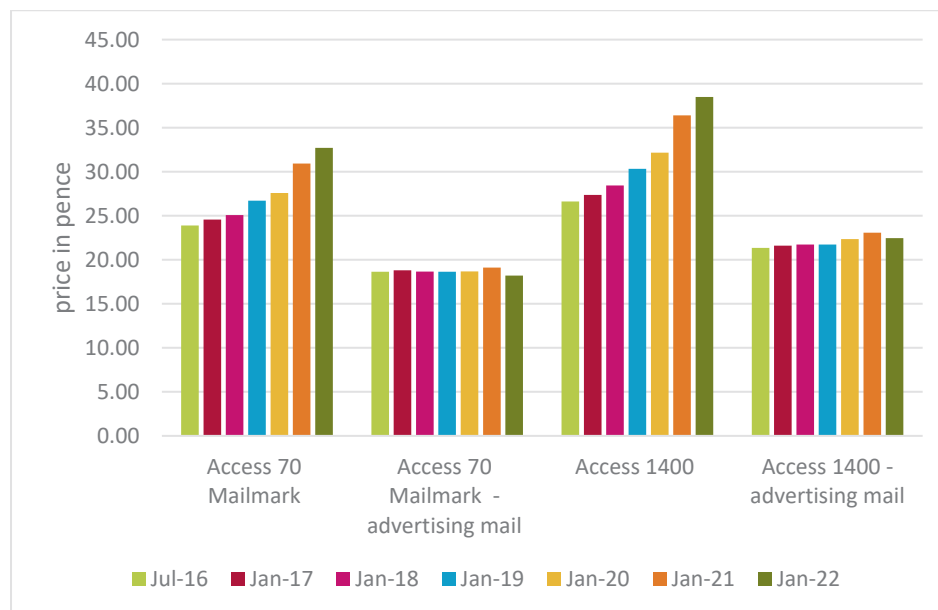
⁸¹¹ Ofcom, 2019. [Annual Monitoring Update on the postal market 2018-19](#), paragraphs 4.27 to 4.28; Ofcom, 2020. [Annual monitoring Update on postal services 2019-20](#), paragraph 3.66.

⁸¹² Ofcom, 2017. [Review of the Regulation of Royal Mail: Statement](#), paragraph 3.105.

⁸¹³ Ofcom calculations based on Royal Mail [wholesale price list](#). The figure is the average real compound growth rate (between 2016-22) in price of the three main business mail products (Mailmark 70, Access 1400 and Access 70 OCR). Not all business mail products had the same rate of real growth rate. Mailmark 70 had a price growth rate of 6.48%, compared to 7.66% for access 1400 and 8.05% for Access 70 OCR.

⁸¹⁴ Ofcom Annual Monitoring data for revenue information and Royal Mail's financial reporting (financial year 2020/21) for volume information. We use CPI to convert to real figures.

Figure 8.1: Access charges for a selection of access products (real prices as of 2022), July 2016 to date



Source: Royal Mail data. Access charges have been adjusted to reflect real prices as at March 2022.

New products and services

- 8.19 Since our last review, the adoption of Mailmark services has grown significantly and new services have emerged.
- 8.20 Mailmark is an access product variant which allows more efficient processing through the higher quality identification of addresses/information and involves adding a barcode to each item for its unique identification and tracking through the network.⁸¹⁵ Over the last five years, the proportion of access volumes accounted for by Mailmark has grown to around 90% for Letters and nearly 60% for Large Letters.⁸¹⁶ Our expectation is that this proportion will continue to grow during the review period.
- 8.21 New services launched by Royal Mail over the last five years include 48-way sort for machine-readable letters, partially addressed services for advertising/direct mail customers and magazine subscription services.
- 8.22 More recently, Royal Mail introduced a D+5 Letters access service. This new service offers a cheaper but slower service to access customers, with the aim of allowing Royal Mail to achieve cost savings in the delivery of mail by enabling it to consolidate mail at the IMC and reduce the frequency at which a post person needs to visit each address. Given the lower price of the service and the willingness of some bulk letter users to trade-off lower price for a slower service (with less certainty over the day of delivery)⁸¹⁷, we expect a

⁸¹⁵ Further information can be found in Royal Mail's [Mailmark Customer Presentation](#).

⁸¹⁶ Ofcom/Royal Mail meeting, November 2020, [3].

⁸¹⁷ As set out in our decision on mandating D+5 access letter services, the price differential (excluding VAT; as of January 2021) between comparable D+2 access and D+5 access services is roughly 3%.

material proportion of existing bulk letter users to migrate to the new D+5 service across the review period. Nonetheless, we expect current and future bulk letter users to continue to require D+2 services.

- 8.23 There have also been a number of new service requests (NSRs) that access operators have raised with Royal Mail, but which have not yet resulted in new services:
- a) In 2016/17, a number of access operators submitted a NSR for a Confirmation of Delivery (COD) Large Letter product. This did not result in the product being launched.
 - b) In 2019, a number of access operators submitted a NSR for a Scan on Delivery Letter, Large Letter and parcel product. At the start of the Covid-19 pandemic, Royal Mail and access operators agreed to not progress the NSR further.
 - c) In 2021, an access operator submitted a NSR for a tracked Large Letter product. We understand that discussions between the access operator concerned and Royal Mail have now ended without agreement on approach and terms.

Conclusion

- 8.24 Overall, we believe that the evidence suggests that the current access framework is working well in supporting retail competition in bulk letters, with Royal Mail having a minority share of retail bulk letters and facing a few large, and five to ten smaller, retail competitors.
- 8.25 Although bulk letter volumes will likely continue to decline, mainly driven by e-substitution, we expect bulk letters to remain a core postal service and a core contributor to a financially sustainable universal service for the period of this review.
- 8.26 The declining volume trend in the market means that bulk letter unit costs are likely to continue to face upward pressure over the next five years, though we expect this pressure to be somewhat mitigated by Royal Mail's efficiency initiatives.
- 8.27 We have considered our decisions on access regulation taking account of this broader market context. In particular, given that nationwide end-to-end competition is unlikely to emerge in the future and bulk letters will remain an important service for postal users, we see a continued role for access regulation to support retail competition for bulk letters in the UK for the period of this review.

Scope of access regulation

Introduction

- 8.28 Royal Mail is currently required to provide access at its IMC to third party operators for the supply of D+2 Letters and Large Letters and D+5 Letters. In addition, Royal Mail provides access to third parties on a commercial basis for the supply of D+1 letters and small bulk parcel services.

Our proposals

Our approach to access regulation

8.29 We proposed to maintain an obligation on Royal Mail to offer access to its postal network for the purposes of other operators providing D+2 Letters and Large Letters and D+5 Letters services, and proposed that this access would continue to be through Royal Mail's IMCs.

Our approach to other access points

8.30 Given the declining nature of the letters market, we noted we would not extend access regulation to other bulk letter services or points in the Royal Mail network unless it appears necessary to achieve our regulatory objectives. Given the current access framework has enabled access operators to compete successfully with Royal Mail for retail bulk letters, we proposed not to change the scope of access regulation. In response to specific points raised by stakeholders, we proposed:

- a) not to extend access regulation to Royal Mail's Outward Mail Centres (OMCs) for the provision of business reply mail services, because it is a very small and declining part of the access letters market, and so would be disproportionate.
- b) not to extend access regulation to Royal Mail's new parcel hubs, given they are to be used to process parcels only and we did not propose to extend access regulation to parcels services.

Our approach to extending access regulation to include small bulk parcels

8.31 We proposed it was not appropriate to extend access regulation to small bulk parcels, based on evidence indicating that competition in small bulk parcels is emerging, and that extending access regulation to parcel services could risk weakening competition for these services (and other parcels services).

Our approach to removing GLLs from access regulation

8.32 We also proposed not to remove GLLs (General Large Letters) from the access mandate, as we considered there is a risk that the ability of access operators to compete could be impaired. While we recognised the possibility that large-scale unintended use of GLLs to deliver goods could influence competition in the parcels market, the evidence available to us suggested that this was unlikely in a material way. We also noted there could be practicality issues and additional costs if GLLs were removed.

Consultation responses

- 8.33 Broadly, stakeholders agreed with our analysis and proposal to retain a requirement on Royal Mail to offer access to its postal network.⁸¹⁸
- 8.34 In regard to extending access regulation to other access points in Royal Mail's network, CWU agreed with our proposal not to extend access regulation to include business reply mail services.⁸¹⁹ Royal Mail agreed that it would not be appropriate to extend access points to Royal Mail's network to include Outward Mail Centres, stating there is no evidence to support this and that access competition remains strong, so there would be no benefit to widening the access mandate to include this.⁸²⁰ No other stakeholder responded on this proposal.
- 8.35 Where stakeholders commented on the scope of the access requirement, their responses focused on our proposal to:
- a) not include small parcels within the scope of the mandate; and
 - b) not remove GLLs from the scope of the mandate.
- 8.36 On mandating small parcels, CWU stated this would risk investment in the postal network and undermine the sustainability of the USO, while Royal Mail noted it risked damaging end to end parcels competition. Royal Mail agreed with Ofcom's assessment of competition in the parcels sector, with the Advisory Committee for Scotland noting there is significant competition already in parcels.⁸²¹ No other stakeholders commented on this area.
- 8.37 On GLLs, Royal Mail explained that it disagreed with our proposal that they should remain within the scope of the access mandate. Firstly, it noted that Royal Mail has well established content controls to differentiate between paper-based large letters and e-commerce large letters, that it can identify what the mailing contents are from where the mail is sent from, and that the majority of GLLs carry goods, not paper-based mail.⁸²² Secondly, it suggested that Ofcom needed to be more forward-looking on GLLs, and not removing such unnecessary regulation risked impacting end-to-end (parcel) competition.⁸²³ Finally, Royal Mail argued that removing GLLs from the access mandate would not harm access competition as it would still remain in Royal Mail's commercial interests to continue offering access to this service even if no longer required by Ofcom, and/or GLL users could use alternative parcel carriers.⁸²⁴

⁸¹⁸ NALC response to our December 2021 consultation, page 6; Quadiant response to our December 2021 consultation, page 5.

⁸¹⁹ CWU response to our December 2021 consultation, paragraph 53.

⁸²⁰ Royal Mail response to our December 2021 consultation, paragraphs 3.5-3.7.

⁸²¹ Royal Mail response to our December 2021 consultation, paragraphs 3.1-3.4; CWU response to our December 2021 consultation, paragraph 52; ACS response to our December 2021 consultation, page 9.

⁸²² Royal Mail response to our December 2021 consultation, paragraphs 3.12-3.22.

⁸²³ Royal Mail response to our December 2021 consultation, paragraph 3.28.

⁸²⁴ Royal Mail response to our December 2021 consultation, paragraph 3.27.

- 8.38 CWU also disagreed with our provisional view regarding GLLs, stating that they are treated more like a parcel than a letter in Royal Mail's network.⁸²⁵
- 8.39 Subsequent to our consultation closing, we received a further response from MCF (Mail Competition Forum) on the issue of GLLs, whereby it argued that not all GLLs are fulfilment or e-commerce items as Royal Mail claim, and that removing GLLs from the access mandate could have wider detrimental consequences to other services access operators provide. MCF also noted that, were GLLs to be removed from the access mandate, then the terms and conditions offered would be severely in Royal Mail's favour, and would be more expensive given VAT would apply (as such items would no longer be VAT exempt if removed from the access mandate).⁸²⁶
- 8.40 In the subsection below we set out our decisions on these matters. Our decision is that access regulation should continue to require D+2 Letters and Large Letters and D+5 Letters for the period of this review.⁸²⁷ In addition, for the reasons set out further below, we have decided not to expand access regulation to small bulk parcels, nor to remove GLLs from the scope of access regulation.

Our assessment

Scope of access

- 8.41 We continue to believe that it is important that Royal Mail is required to provide access to third party operators for the supply of D+2 Letters and Large Letters and D+5 Letters, given Royal Mail's postal network is key to supporting access competition in the letters market, and we believe that access remains important to promote competition. We therefore have decided to maintain the requirement for Royal Mail to provide access to its network for these services.
- 8.42 In addition, we have not seen sufficient evidence to justify mandating additional handover points for access services. We remain of the view that, given the declining nature of the letters market, we are not inclined to extend access regulation unless it appears necessary to support access-based competition, promote efficiency and/or confer significant benefits to postal users.

Small bulk parcels

- 8.43 The PSA 2011 allows Ofcom to impose a universal service provider access condition if it appears to Ofcom that it is appropriate to do so for the purpose of promoting efficiency,

⁸²⁵ CWU response to our December 2021 consultation, paragraph 53.

⁸²⁶ MCF response (*'Changing the Access Mandate to remove General Large Letters'*), pages 1-3.

⁸²⁷ In our 2012 Statement we found that significant barriers to entry exist in developing a delivery network that predominantly relate to Royal Mail's economies of scope and scale advantages that were likely to limit the extent of end-to-end competition. As we have already established above, we consider it unlikely that there will be an end-to-end letter competitor to Royal Mail in the immediate future, and therefore, access operators will remain reliant on access to Royal Mail's postal network to supply retail bulk letter services to their customers.

promoting effective competition and conferring significant benefits on the users of postal services.⁸²⁸

- 8.44 To reach a view on whether this legal test might be satisfied by the extension of access regulation to small bulk parcels, we consider below the extent of competition in the provision of retail bulk small parcels. We then consider the impact that extending access regulation to small bulk parcels could have, including on effective competition and on postal users.

There is competition in the provision of retail bulk small parcels and this is improving over time

- 8.45 In our 2017 Statement, we recognised that Royal Mail was likely to have a competitive advantage in the supply of small bulk parcels given its position as universal service provider and its ability to deliver small parcels through the universal service network.⁸²⁹ This has resulted, to date, in Royal Mail being the largest provider of small bulk parcels in the UK.
- 8.46 However, as we discuss in Chapter 6, there is evidence of competition in small bulk (B2C) parcels growing over time. This is evidenced by alternative parcel operators increasing their presence in the small B2C parcel segment over the last five years and Royal Mail losing share of small B2C parcels over this same period of time.

Extending access regulation to small bulk parcels carries the risk of harming parcels competition

- 8.47 For the reasons set out below, we are concerned that rather than promoting effective competition, extending access regulation to small bulk parcels could actually be detrimental to the growing competition we observe (and contrary to our regulatory objectives set out in Chapter 2).
- a) Small parcels account for a significant portion of the parcels market. Royal Mail estimates that [X]% of total parcel deliveries in the UK are small or lightweight⁸³⁰, and we consider that their importance is likely to grow over time with the growth of e-commerce.
 - b) As set out above, end-to-end competition for smaller bulk parcels has been growing. Although access competition could in theory result in increased competitive pressure on Royal Mail in the retail part of the supply-chain, this only accounts for a fraction [X]⁸³¹ of the price/value of the end-to-end parcel service. Therefore to the extent access-based competition displaced end-to-end competition, the benefits are likely to be smaller.
 - c) Extending access regulation to small bulk parcels could give access operators a competitive advantage (relative to alternative parcel operators) for parcel customers

⁸²⁸ As noted in Annex 2, Ofcom's power to impose a USPA condition is also subject to our duty to secure the provision of a universal postal service, having regard to the need for that service to be financially sustainable and efficient.

⁸²⁹ 2017 Statement, see paragraph 3.157.

⁸³⁰ Royal Mail response to our March 2021 CFI. Proportion of total parcel deliveries includes those parcels which have a weight of 2k or less, or a size which means that items can be foot deliverable (i.e. letterboxable or non-letterboxable but foot deliverable).

⁸³¹ While access parcel charges are around [X]p per item, the upstream parcel value is around [X]p. Access operators (various) and Royal Mail responses to Ofcom information requests, June-July 2021.

who are exempt for VAT purposes.⁸³² This is because small bulk parcels mandation would mean that VAT is not chargeable by Royal Mail to access operators on the downstream charge for small parcels delivered by Royal Mail, hence the total charged to these companies would be lower (all else equal).⁸³³ Although alternative parcel operators could overcome this disadvantage by becoming access operators themselves, this would have the downside of weakening end-to-end competition.

- d) The effects of intervention may not be limited to small bulk parcels. Given that bulk customers often send a mix of small and larger parcels⁸³⁴, the intervention could have a knock-on effect on the way that carriers compete for these types of customers.

8.48 In light of the above, our decision is that extending access regulation to small bulk parcels would not satisfy the legal test for imposing a universal service provider access condition.

General Large Letters (GLLs)

8.49 GLLs are a Large Letter service offered by Royal Mail. Royal Mail currently solely provides an untracked version of this mandated service.

8.50 Royal Mail introduced access GLLs in 2014 (alongside Business Large Letters and Advertising Mail Large Letters) with the main purpose of enabling it to separate, more efficiently, Large Letters which can be sorted using mechanical means from those which require manual sortation, and thus achieve cost efficiencies in the processing of mail. Unlike with Advertising Mail and Business Mail Large Letter services, access GLLs are generally sorted by Royal Mail using manual processes.

8.51 Unlike with Advertising Mail and Business Mail Large Letter services, there is no contractual prohibition on the carrying of goods in GLLs, and there is greater flexibility on the type of packaging allowed.⁸³⁵ While Business Large Letters and Advertising Mail Large Letters both have strict specifications, GLLs are for anything which cannot be sent via these specifications but still falls under the scope of the access mandate. As a result, GLLs includes paper-based mail and 'goods' (i.e. items with an intrinsic value, such as e-commerce items).

Our assessment

8.52 The existing mandated access services are specifically for Letters and Large Letters⁸³⁶, which are defined based on dimensions, rather than contents. This means that all

⁸³² For example, banks and charities. This would not benefit those end customers who are able to claim back VAT on their inputs.

⁸³³ VAT legislation is a matter for HM Revenue and Customs (HMRC) and Government, thus does not fall under Ofcom's remit.

⁸³⁴ In response to our statutory information request, Evri stated that [redacted]. Likewise, DPD indicated that [redacted]. DHL explained that [redacted].

⁸³⁵ Unlike Business Large Letters, GLLs can be sent with padded envelopes, cardboard and any other stiff or inflexible packaging that cannot easily be manually folded.

⁸³⁶ With the exception of D+5 Access, where the scope of mandation includes standard letters only. This was because Ofcom did not consider it appropriate to require the provision of a D+5 Large Letter service if, as we understand, it would be a higher cost to deliver than the existing D+2 service: see paragraph 5.54 of [Ofcom's D+5 statement](#)

- mandated access services can be used to deliver both paper-based mail and ‘goods’, provided the items fit within the defined dimensions of the mandated access service.
- 8.53 The use of GLLs by access operators is currently small relative to other access services. GLLs account for [X] of total access volumes (including Letters and Large Letters), and [X] of total access Large Letters volumes.⁸³⁷ This number is also very small relative to total domestic parcels in the UK ([X]), and has been declining in recent years, falling from [X]% of total domestic parcels in the UK in 2017/18 to [X]% in 2019/20.⁸³⁸
- 8.54 Royal Mail appears to be arguing that because we have identified developing competition in small parcels as part of our rationale not to extend the scope of access regulation, it follows that Large Letters – which are in its view being used to send goods – should also be excluded. We disagree with this premise.
- 8.55 The purpose of our access regime is to promote competition, efficiency, and bring benefits for end users, and GLLs are furthering this aim in relation to bulk letter services.
- 8.56 While we accept that some GLLs are used to carry e-commerce goods, we understand this is not exclusively the case. In particular, contrary to Royal Mail’s view that a customer “should only use the GLL product where it has to i.e. is sending ‘goods’”,⁸³⁹ we understand that there are several reasons why some customers use GLLs to send paper-based mail (even if alternative Large Letter formats have a lower unit price). This includes paper-based mail which does not meet standard packaging requirements⁸⁴⁰ or dimensions for Advertising or Business Large Letters, to avoid surcharging risks and/or as the ‘default’ Access service for Large Letter size items.⁸⁴¹ We also note that some bulk letter customers will use GLLs to send physical items to their customers, but these are not necessarily ‘e-commerce’ goods, but items such as bank card readers.⁸⁴² We see this type of use as complementary to bulk letter mailings.
- 8.57 Since the December Consultation, we have obtained additional information using our statutory information gathering powers regarding the use by bulk mail customers of GLLs.⁸⁴³ This includes the types of customers that have sent GLLs over the past year, and the proportion of their bulk mail volumes which has been sent as GLLs. This evidence is not consistent with GLLs being used only for e-fulfilment and therefore supports our understanding above. We believe, given the types of some of the customers using GLLs and their usage of GLLs in comparison to their overall use of mandated access services, that a

⁸³⁷ Figures are based on information provided by Royal Mail in response to our CFI and Royal Mail’s regulatory accounts.

⁸³⁸ This is based on information provided by Royal Mail in response to our March CFI. This figure will be lower given that we know that some GLLs are indeed used to serve bulk letter customers

⁸³⁹ Royal Mail response, paragraph 3.17.

⁸⁴⁰ For example, Royal Mail sets out guidance on what can and cannot be sent as a Business Large Letter, e.g. any form of mail sent in stiff or inflexible packaging, plastic or card is not eligible <https://www.royalmailwholesale.com/mint-project/uploads/367408210.pdf>

⁸⁴¹ MCF response (additional response on GLLs), page 2.

⁸⁴² Royal Mail and MCF both stated bank card readers as an example of GLLs. MCF response (additional response on GLLs), page 3; Royal Mail response, paragraphs 3.16-3.17, 3.21, 3.24.

⁸⁴³ Ofcom information requests on GLLs to Whistl, UK Mail and The Delivery Group.

number of GLL customers are likely to be sending GLLs for the reasons stated above. For example, [X].⁸⁴⁴

- 8.58 Moreover, the use of GLLs for these purposes now represents longstanding practice which has shaped the business decisions of Royal Mail's bulk mail competitors, as noted by MCF in its response where it cites both the direct and indirect significant investments already made, and that might be lost, if GLLs were to be removed from the access mandate.⁸⁴⁵ [X].⁸⁴⁶
- 8.59 Given GLL is contributing to competition in bulk letters, we expect it to also be delivering benefits to end users and promoting competition as a result.
- 8.60 Without access to mandated GLL, we would be concerned that the ability of access operators to compete for bulk letter users could be impaired. We understand from access operators that many bulk mail contracts require access operators to offer a one-stop shop for all their mailings. One example is the Postal Goods, Services and Solutions Agreement which specifies that all letter and larger letter services, specified by dimensions, are a mandatory requirement for any postal operator bidding for government postal services.⁸⁴⁷ We also observe from the information we received on GLL use by bulk mail customers that GLLs are bought alongside other Large Letters from the same access operator.
- 8.61 Therefore, if an access operator were to be unable to provide GLL (or on comparable terms), it could affect its ability to win bulk mail contracts. This is because potentially having to contract with multiple carriers in order to carry a small number of GLL items is unlikely to be attractive to senders from a practical perspective (e.g. multiple collections), and could be more costly. This could dampen access competition and adversely impact sending customers, as they would need to either split their mailing volumes across operators or move all their mailing volumes back to Royal Mail Retail to maintain a single contract. This is of particular concern given that evidence suggests the current scope is working well at promoting effective retail competition in bulk postal services.
- 8.62 Nonetheless, we also take the potential risk of distorting competition in parcel services seriously, and would reach a different view if this risk were to be outweighing the benefits of maintaining GLL in the access mandate. However, the risk of the mandated GLLs service distorting competition for parcel services is currently low.
- 8.63 GLLs are most likely to have an impact on competition in the smaller size/weight segment of the parcels market. However, as described in Chapter 6, we observe developing competition in the end-to-end small/lightweight segment, e.g.:

⁸⁴⁴ This is supported by further evidence from [X], who said it would estimate around [X] of GLLs are fulfilment items within its client base. This still leaves [X] of GLL items that are not fulfilment, noting that [X] have [X] Government clients, [X] hospital clients, [X] council clients and [X] Education clients sending GLLs much of which would not be expected to be fulfilment items; [X] email to Ofcom, [X].

⁸⁴⁵ MCF response (additional response on GLLs), page 3.

⁸⁴⁶ [X] email to Ofcom, [X].

⁸⁴⁷ Section 2, page 2, 'Mandatory Requirement Services', Postal Goods, Services and Solutions Agreement, https://assets.crowncommercial.gov.uk/wp-content/uploads/RM6017_Framework_Lot_Specifications.zip

- a) We understand that other parcel operators have been growing their presence in the small segment of the parcels market.
- b) There are indications that Royal Mail has been losing share of retail small bulk parcels (including letterboxable items) over the last five years.
- c) We note that parcel operators have not raised concerns in response to our consultation about GLLs being regulated and any harm that this has on competition.
- d) Finally, as noted above, the volume of GLLs compared to the total volume of parcels is small and has been declining in recent years.

8.64 This suggests that the presence of mandated GLLs is not currently impeding other parcel carriers from competing for small bulk parcels to any material degree. As such, we do not consider this risk to be sufficient to justify removing GLLs from the access mandate, given the benefits it has for promoting competition, efficiency and user benefits described above.

8.65 We recognise Royal Mail's point that basing mandation on dimensions only is potentially a "blunt" instrument, not least because the dividing line between bulk services which have effective end-to-end competition and those which do not is likely to be blurry and could change in the future. However, that does not mean that the right alternative to this is to regulate based on content controls, as this could be equally blunt (e.g. as described above, not all GLLs contain e-commerce goods, and competition in small parcels is developing on the basis of operational capacity and capabilities rather than specifically the contents of the parcel itself). Therefore we do not consider this reason justifies us changing the basis for the access mandate in and of itself.

Our decision

8.66 We have decided not to change the requirement on Royal Mail to provide access at IMCs to third party operators for the supply of D+2 Letters and Large Letters and D+5 Letters.

8.67 We have decided not to extend the access mandate to include small bulk parcels. There is evidence indicating that competition in small bulk parcels has been growing over the last five years, and extending access regulation to this type of parcels carries the risk of weakening competition for these services (and other parcel services). This could reverse or slow the positive trend in competition observed in the last few years, and hence would be contrary to our regulatory objective of supporting effective competition for the benefit of consumers.

8.68 We have decided it would not be appropriate to remove GLLs from the scope of access regulation. We consider that the ability of access operators to compete for bulk letter users could be impaired, without access to a mandated GLL service. Moreover, we do not have evidence to suggest that a mandated GLL service is (or is likely to) harm parcels market competition in a material way, which might justify a different conclusion.

8.69 Nonetheless, we remain open to reassessing the scope of regulation at our next review if we receive evidence that doing so furthers the purposes we have set out above.

Access price regulation

Introduction

- 8.70 Our current approach to access price regulation is to provide Royal Mail with commercial flexibility to manage the structural decline of letters and support the financial sustainability of the universal service, subject to some important safeguards.
- 8.71 In our March 2012 Statement, we removed most price controls on Royal Mail, and moved the focus of regulation from price controls to measures to prevent Royal Mail from imposing a price squeeze to stifle retail competition in bulk letters. Royal Mail is also required to ensure that its access charges are fair and reasonable.
- 8.72 As set out above, we believe that the current access framework is working well in supporting retail competition in bulk letters. This is evidenced by the fact that access operators have been growing their share of retail bulk letters, as set out above.
- 8.73 However, in this section we consider the following specific issues:
- a) whether it would be appropriate for us to impose a price cap on Royal Mail's access charges;
 - b) whether our current margin squeeze control remains fit for purpose.

We have decided to not impose a price cap on Royal Mail's access charges

Introduction

- 8.74 The PSA 2011 establishes that Ofcom may not impose a price cap on Royal Mail's access services unless it appears to us that Royal Mail might otherwise fix and maintain some or all of its prices at an excessively high level with adverse consequences for users of postal services.
- 8.75 Further, Ofcom's ability to impose access and other regulatory conditions is subject to its duty to secure the provision of a universal postal service and having regard to the need for that service to be financially sustainable and efficient.
- 8.76 Our current approach to access price regulation is to allow Royal Mail to have commercial flexibility to support the financial sustainability of the universal service, subject to a margin squeeze control and an obligation to offer access prices which are fair and reasonable.

Our proposals

- 8.77 We proposed to maintain our current approach of allowing Royal Mail to have commercial flexibility, as we believed that this flexibility will help Royal Mail ensure the longer term financial sustainability of the USO more effectively.
- 8.78 Our proposal was based on our understanding of the motivations for Royal Mail's recent access pricing decisions. Our analysis provisionally concluded that Royal Mail has considered the impact that its price increases may have on long-term revenue.

Furthermore, we did not find evidence suggesting that Royal Mail is under-estimating the impact of its pricing decisions on future volumes.

Consultation responses

- 8.79 Several stakeholders supported our proposals, with Royal Mail agreeing that a form of price cap carried significant risk, and the Welsh Government agreeing that Royal Mail needs to retain commercial freedom to determine access prices and avoid having a detrimental effect on the universal service.⁸⁴⁸
- 8.80 MCF and DX noted the current margin squeeze regulation had provided some protection for access operators and prevented unfair competition from Royal Mail Retail,⁸⁴⁹ but they argued that given this applies only to Royal Mail's Retail prices (not the prices access operators face) and given the lack of competition to Royal Mail in last mile delivery, Ofcom should consider a price control linked to CPI inflation and efficiency improvements.⁸⁵⁰
- 8.81 Similarly, UK Mail expressed support for a price control on Royal Mail's access prices to control costs and efficiency, citing that Ofcom's proposal of allowing commercial freedom provides no checks or balances on Royal Mail and that Royal Mail's prices increases could lead businesses to exit the mail market and put pressure on the wider USO sustainability.⁸⁵¹
- 8.82 Whistl expressed disappointment with our proposal, but supported the continued monitoring of Royal Mail's access prices.⁸⁵²

Our assessment

Our regulatory strategy is to allow commercial flexibility to support the financial sustainability of the universal service

- 8.83 When we set up the current access regime in 2012, we considered the challenges posed by the structural decline of letters and the threat this posed to the financial sustainability of the universal service. We took the view that allowing Royal Mail commercial flexibility in relation to the pricing of bulk letters, subject to a margin squeeze control and requirement for access charges to be fair and reasonable, would allow Royal Mail the scope to address these challenges, while promoting effective competition in retail bulk letters.
- 8.84 In Chapter 3, we set out our current assessment of the outlook for the financial sustainability of the universal service. Royal Mail's plans, if successfully executed, continue to show an improving sustainability picture, with revenues growing and cost efficiencies being made. However, Royal Mail's efficiency performance during the last review period

⁸⁴⁸ Royal Mail response to our December 2021 consultation, paragraphs 3.30-3.33; CWU response to our December 2021 consultation, paragraph 53; NALC response to our December 2021 consultation, page 6; Quadiant response to our December 2021 consultation, page 5; ACS response to our December 2021 consultation, page 9; Welsh Government response to our December 2021 consultation, page 5.

⁸⁴⁹ MCF response to our December 2021 consultation, page 17; DX response to our December 2021 consultation, page 17.

⁸⁵⁰ MCF response to our December 2021 consultation, page 18; DX response to our December 2021 consultation, page 18.

⁸⁵¹ UK Mail response to our December 2021 consultation, pages 2-3.

⁸⁵² Whistl response to our December 2021 consultation, page 8.

has been concerning and it will need to improve on its historical efficiency performance to meet the expectations set out in its plans.

- 8.85 While making progress with the efficiency challenges is a key factor, we consider that the commercial flexibility afforded by the current access regime will help Royal Mail address these sustainability challenges by allowing it to respond to changes in market conditions more effectively.
- 8.86 We note that although we have given Royal Mail commercial flexibility to set access charges, Royal Mail's regulatory accounts suggest that it has not been setting access charges at levels which are significantly above costs. As volumes decline Royal Mail's unit costs increase, so price increases need not imply higher or excessive profits. Royal Mail's regulatory accounts indicate that Royal Mail has been setting access charges below its fully allocated costs in the last three years. Moreover, and as highlighted in Chapter 3, Royal Mail's performance in 2021/22, was below its own projections.
- 8.87 We note that some stakeholders argued that price controls on the absolute level of Royal Mail's prices (beyond the existing safeguard cap on Second Class USO services) would create further incentives on Royal Mail to become more efficient.⁸⁵³ Having considered these arguments, we have decided imposing price controls would provide limited benefits which are outweighed by material additional costs and risks at this point in time.
- 8.88 We recognise that imposing price controls would constrain Royal Mail's ability to increase prices (in lieu of efficiency gains).⁸⁵⁴ However, in practice, we think that imposing price controls is likely to have limited additional benefits and potentially higher costs and risks in this case. We discuss this in detail in Chapter 4. Related to the above, we note the point made by MCF and DX, in calling for a tighter form of price control, that the margin squeeze condition only applies to Royal Mail's Retail prices, and not the prices access operators face. However, the margin squeeze does provide some indirect constraint on access prices, in that it requires a minimum margin between Royal Mail's Wholesale and Retail prices, and so Royal Mail cannot increase the former without also increasing the latter.

We would be concerned if Royal Mail sets access charges at levels which are detrimental to the sustainability of the universal service, but our analysis suggests this is not currently the case

- 8.89 Notwithstanding the above, we would be concerned if the level at which Royal Mail sets its access charges is detrimental to the financial sustainability of the universal service. This could be the case, for example, if Royal Mail were to apply access price increases which might boost revenues in the short term, but which have the effect of accelerating e-substitution in a way that reduces Royal Mail's revenue in the long-term.

⁸⁵³ Whistl response to our March 2021 CFI, page 8; DX, response to our December 2021 consultation, page 7; Mail Users Association response to our December 2021 consultation, page 6; [S<].

⁸⁵⁴ ACS response to our December 2021 consultation, page 4; Citizens Advice response to our December 2021 consultation, page 19; DX response to our December 2021 consultation, page 6; Mail Competition Forum response to our December 2021 consultation, page 8; Mail Users' Association response to our December 2021 consultation, page 6; Professional Publishers Association response to our December 2021 consultation, page 4; Quadient response to our December 2021 consultation, page 2.

- 8.90 In its response to our March CFI, Royal Mail suggested that its access pricing decisions have been driven by both market dynamics and the fixed cost nature of its letters business.⁸⁵⁵ It explained that, when making its pricing decisions, it “actively considers market dynamics including significant competition from e-substitution and the risk of tipping points” and its “cost base⁸⁵⁶ and the need to have a market funded Universal Service”.⁸⁵⁷
- 8.91 We have since sought to understand the motivations for Royal Mail’s recent access pricing decisions and the extent to which Royal Mail does consider the impact of the scale of its price increases on long-term volumes. To this end, we looked at Royal Mail’s internal pricing documents informing its access pricing decisions in 2018, 2019, 2020 and 2021. These are the years when Royal Mail applied large price increases. In addition, we assessed the presence or otherwise of systematic underestimation of volume impacts in Royal Mail’s own forecasts by comparing outturn volumes against Royal Mail forecasts at the time when Royal Mail made its pricing decisions.
- 8.92 Our analysis suggests that Royal Mail has considered the impact that price increases may have on long-term revenue when making access pricing decisions. In particular, Royal Mail’s internal documents indicate that Royal Mail factors this impact into its pricing decisions by way of considering the risk and reward balance offered by different pricing options over a number of years [(<)]. Moreover, we did not find that Royal Mail has systematically underestimated the volume impact of its access price increases. Therefore we believe that Royal Mail’s recent pricing decisions have been consistent with supporting the financial sustainability of the universal service.
- 8.93 Annex 6 sets out our analysis and findings in more detail.

Our decision

- 8.94 We have decided not to impose a tighter form of price control on Royal Mail, but to maintain our current approach of allowing Royal Mail to have commercial flexibility in regard to pricing.
- 8.95 However, as we set out further below, we have decided to retain the regulatory safeguards on Royal Mail of a margin squeeze control and an obligation to offer access prices which are fair and reasonable, and we have decided to continue our monitoring programme of changes to Royal Mail’s access prices.

We have decided to maintain the margin squeeze control on Royal Mail’s D+2 and D+5 retail services

Introduction

- 8.96 As set out above, to support access competition for bulk mail, the current access regime imposes a margin squeeze control on a specified set of D+2 Letter and Large Letter services

⁸⁵⁵ Royal Mail response to our March 2021 CFI, paragraph 7.36.

⁸⁵⁶ [(<)]

⁸⁵⁷ Royal Mail response to our March 2021 CFI, paragraph 7.36.

and D+5 Letter services (and for any similar, successor retail services). This set includes pre-sorted business and advertising mail services but excludes services such as publishing mail and unsorted business mail.⁸⁵⁸

- 8.97 This control is implemented via a basket control ('basket test') and price point control ('contract test'):
- a) the **basket test** requires Royal Mail to have a reasonable expectation⁸⁵⁹ that, at the time of setting new prices, the total upstream revenues of all services in the basket will be equal to or greater than the total upstream costs of those services (such costs being based on Royal Mail's upstream FAC);^{860 861} and
 - b) the **contract test** requires Royal Mail to have a reasonable expectation that, at the time of setting new prices (including the time of offering prices for each new individual contract), the total upstream revenues of the relevant services in the contract are equal to or greater than 50% of the total upstream costs of those services.⁸⁶²
- 8.98 As per our 2018 Statement on changes to the margin squeeze control⁸⁶³, the calculation of relevant upstream revenue in both tests needs to reflect the surcharges⁸⁶⁴ that an access operator would face in similar circumstances.⁸⁶⁵

Our proposals

- 8.99 We proposed to continue to impose a margin squeeze control on Royal Mail's D+2 Letters and Large Letters and D+5 Letters services, to continue to support access mail competition.

⁸⁵⁸ See, in particular, USPA Condition 6 for the full list of products which are covered by the control. Unsorted business mail is not sorted prior to delivery to the Royal Mail network and Royal Mail does the sortation. Unsorted business mail was not included in Postcomm's headroom control as it was seen as low risk and predates the introduction of USPA 6 in 2012. Publishing Mail access services were introduced in 2018. At the time we said we would monitor the market and would consider including it in the margin squeeze basket if there was any evidence that Royal Mail was price squeezing access operators. To date we have seen no evidence of this.

⁸⁵⁹ In our 2018 Statement on changes to our margin squeeze control, we stated that it is for Royal Mail to determine whether the forecast available at the time of offering prices allows it to have a reasonable expectation it will comply with the condition. When Royal Mail submits contract test submissions, we do check the data used is consistent with the *ex-ante* forecast submitted. In its submissions to Ofcom, Royal Mail also includes actual revenue and cost information, so we are able to review Royal Mail's reasonable expectations on a backward-looking basis.

⁸⁶⁰ Where total upstream costs relate to the collection, sorting and conveying of mail to the point where downstream services begin, less general overheads and including a rate of return.

⁸⁶¹ Fully Allocated Costs (FAC) refers to the directly incurred costs in providing the service(s) in question, plus some allocation of costs which are shared across multiple services. This cost allocation is done in such a way as to ensure that all costs of the business are allocated to the services the firm produces.

⁸⁶² It should be noted that if products are offered at rate card prices, they are not included in the contract test, however the volumes are included in the basket test.

⁸⁶³ Ofcom, 2018. [*Statement - Amendments to the Universal Service Provider Access Condition in relation to the margin squeeze control*](#)

⁸⁶⁴ Examples of surcharges include those applied in instances where access operators do not meet the national volume profile or the volume forecasts submitted as part of their access contract.

⁸⁶⁵ In our 2018 Margin Squeeze Statement, we recognised that retail and access customers might have different mail profiles and that, to the extent that surcharges are levied on access customers and it can be adequately evidenced by Royal Mail that its own retail customers would not incur these surcharges as a result of legitimate operational differences or differences in customer behaviours, these should be excluded from the margin squeeze tests.

Moreover, we proposed not to change the products included in the margin squeeze control, and to retain both the contract and basket margin squeeze tests.

Consultation responses

- 8.100 Royal Mail agreed that the margin squeeze test remains effective in facilitating competition.⁸⁶⁶ However, it reiterated its view that the contract test should be changed from the current proxy of 50% of FAC to LRIC⁸⁶⁷ to better reflect upstream incremental costs, noting this would further increase competition and more choice to access operators.⁸⁶⁸
- 8.101 Several stakeholders questioned Ofcom’s compliance monitoring of the margin squeeze control. MCF and DX said it was not clear that Ofcom validates Royal Mail’s “reasonable expectation” in meeting the tests set out in both the contract and basket tests. They noted given the information asymmetry for industry versus Royal Mail, that Ofcom should do checks and report on compliance with the margin squeeze control in relation to a sample of contracts to increase market confidence in compliance with USPA 6.⁸⁶⁹ Whistl concurred regarding the contract test, stating improvements could be made to monitoring the contract test by retrospectively checking if the test has not been breached during the contract, rather than just relying on a “reasonable expectation” that Royal Mail will not breach the contract test at the start.⁸⁷⁰

Our assessment

- 8.102 In this subsection we address the question of whether we should remove the contract test or adjust its level.
- 8.103 Our view is that it is appropriate to retain the margin squeeze control, as currently defined. We believe that the current margin squeeze control has been successful in supporting access-based competition. As we note above, access competition remains strong with access operators holding over 70% share of retail bulk mail volumes. We consider that the contract test, together with the basket test, continue to provide regulatory certainty to access operators that they will be able to compete against Royal Mail on a level playing field, both at a market and contract-level, and this certainty is important for promoting and protecting competition in retail bulk letter services. Furthermore, we have not been presented with new evidence suggesting that the current level of the contract test is no longer appropriate.

⁸⁶⁶ Royal Mail response to our December 2021 consultation, paragraphs 3.30-3.33.

⁸⁶⁷ Long Run Incremental Costs (LRIC) refers to the costs that are ‘incremental’ to, or directly incurred because of, the service(s) in question. That is, all else being equal, what costs would the firm not incur if it provided all the services it currently provides other than the service(s) in question. Under a LRIC cost standard, costs which are shared across multiple services, such as general overheads, are not considered.

⁸⁶⁸ Royal Mail response to our December 2021 consultation, paragraphs 3.34-3.37.

⁸⁶⁹ DX response to our December 2021 consultation, page 17; MCF response to our December 2021 consultation, page 17.

⁸⁷⁰ Whistl response to our December 2021 consultation, page 8.

We consider that it is appropriate to retain the contract test given the regulatory certainty it provides to access operators

- 8.104 The main purpose of the margin squeeze control is to ensure that access operators are able to compete with Royal Mail in the bulk letters market given Royal Mail's position as a vertically integrated operator, with control over its own retail prices, as well as wholesale access charges (including surcharges). The current control achieves this through the basket test and contract test, which we have described above.
- 8.105 While the basket test aims to ensure that access operators are able to earn a sufficient margin for a specified set of products, the contract test seeks to prevent Royal Mail from pricing individual contracts at such a low level that may be indicative of predatory pricing.
- 8.106 Information from our monitoring of the margin squeeze control suggests that Royal Mail has considerable headroom in the basket test. [£<] in upstream profit.⁸⁷¹ This means that, in the absence of the contract test, Royal Mail would be able to use this headroom to win individual contracts at prices below its long run incremental costs (i.e. 50% FAC) and still meet the basket test. As such we are concerned that removing the test could restrict/prevent effective competition in the upstream market by access operators⁸⁷²
- 8.107 In addition, the contract test ensures that Royal Mail reflects the surcharges that an access operator would face in similar circumstances when bidding for a new contract. This is because Royal Mail does not apply surcharges to itself, so the contract test provides a safeguard for access operators against the risk of Royal Mail imposing a price squeeze on individual contracts through the application of surcharges.
- 8.108 In our D+5 Statement, we pointed out that the contract test can also provide early warnings of possible cross-subsidisation practices by Royal Mail between its D+2 and D+5 letter services.⁸⁷³ This is because D+2 and D+5 services are part of the same regulated basket, so even if Royal Mail passes the basket test, Royal Mail could still cross-subsidise between the two services. Therefore, the contract test also ensures that access operators are able to compete in both D+2 and D+5 letter services.
- 8.109 Therefore, for the reasons set out above, we believe that the contract test, together with the basket test, provide regulatory certainty to access operators that they will be able to compete with Royal Mail on a level playing field, and this is important for protecting and promoting competition in retail bulk letter services. Thus, our decision is that it is appropriate to retain the contract test for the period of this review.

⁸⁷¹ Royal Mail's Q4 2020-21 Margin Squeeze Model submitted to Ofcom on 24 June 2021. Total upstream revenues for bulk retail products included in the margin squeeze control amounted to £[£<]m in 2020/21.

⁸⁷² We have conducted analysis to examine the extent to which Royal Mail could win individual contracts before breaching the basket test for different levels of the contract test. To inform this analysis, we used both the current headroom level in the test as well as the forecast headroom at the end of 2021/22. This suggests that Royal Mail could win contracts worth [£<] in upstream revenue, which implies a potential overall contract value (upstream and downstream) of [£<] given that upstream revenue accounts for a fraction of the overall value of bulk mail services.

⁸⁷³ See paragraph 5.75 of our D+5 Statement.

We do not consider that further publication of information, or retrospective analysis, of margin squeeze compliance is necessary

- 8.110 We have considered stakeholders' suggestions that they would welcome information by Ofcom on whether Royal Mail is complying with the margin squeeze control, and that Ofcom should conduct more retrospective checks on the margin squeeze compliance.
- 8.111 When Royal Mail submits its quarterly margin squeeze submissions (including ex-ante forecasts, ex-post actual results and contracts), we review the information provided, assess the headroom on the control, review new contract changes and where appropriate ask Royal Mail further questions.
- 8.112 If we considered that there were sufficient grounds to open an investigation into Royal Mail's compliance with the margin squeeze control (based on its quarterly submissions or because of a dispute or complaint brought by a third party), this would be made public through Ofcom's Competition and Consumer Enforcement Bulletin.

We have decided to maintain the level of the contract test at 50% FAC

- 8.113 In our 2012 Statement, we said that we would ideally base the level of the contract test on LRIC as this provides the correct signals for entry and investment in the market. We noted however that no reliable LRIC data was available, so we looked at what might be an appropriate proxy for LRIC. We looked at a range of evidence and 50% of FAC fell within the middle of the range, so we set the level of the contract test at 50% FAC.
- 8.114 In our 2017 review, Royal Mail submitted evidence from its own LRIC modelling suggesting that [~~X~~] % FAC was a more appropriate level for the contract test. We reviewed Royal Mail's LRIC model and expressed concerns around its robustness and reliability, and decided to keep the level of the contract test at 50% FAC.
- 8.115 Since our 2017 review, and as Royal Mail suggested in its response to our March CFI, we have developed our own bottom-up cost model of Royal Mail's postal network. We note however that this model does not have the capability of estimating the upstream LRIC for bulk letters. Therefore, we do not consider that this model can be used to inform the level of the contract test.
- 8.116 We have previously engaged extensively with Royal Mail on its LRIC modelling and concluded that there were a number of limitations with Royal Mail's model structure, methodology and transparency of the underlying data which meant that its LRIC estimates were not suitable for our regulatory purposes (i.e. margin squeeze compliance).
- 8.117 We welcome further engagement again with Royal Mail, providing this feedback has been taken on board and improvements made, and subject to Ofcom's resource priorities. However, given that Royal Mail has not presented new evidence on this point, and the evidence currently available to us does not suggest that the current level of the contract test is inappropriate, we have decided to maintain the level of the contract test at 50% FAC.

Regulation of non-price terms of access

- 8.118 Our current approach to the non-price terms of access has been to afford Royal Mail and industry commercial flexibility in deciding the detailed and specific terms, with regulatory backstops put in place to ensure access operators have appropriate protections.
- 8.119 We have recognised in the past that, while this less prescriptive approach to regulation of non-price terms provides flexibility to Royal Mail and industry to set the terms of access, it also reduces the risk of regulation inadvertently hindering the market from responding to changing market conditions in an efficient and timely manner. This is particularly important in the context of declining letter volumes.

Our Decision

- 8.120 We have decided to maintain our current approach and framework for non-price terms of access. We have not seen evidence to suggest that our regulatory framework itself is not fit for purpose or not effective, and we note that the retail bulk letters market continues to be competitive. Given this, and the declining letter volume trends in the market, our view is that more prescriptive, or interventionist regulation would be disproportionate.
- 8.121 While we have decided to continue to give Royal Mail and industry the commercial flexibility to set the terms and conditions of access, there remain important safeguards, such as the requirement that Royal Mail's terms, conditions and charges be fair and reasonable and that it not unduly discriminate, which are intended to address any imbalance in negotiating power between Royal Mail and access operators. Should Royal Mail seek to abuse its power, by introducing changes to terms and conditions that are unfair or unreasonable, our view is that the existing requirements on Royal Mail under the existing USPA condition can address any concerns around such conduct.
- 8.122 We set out our reasoning underpinning our view, stakeholder responses, and our decision, in further detail in Annex 6.