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# Annual Monitoring Update for Postal Services

Financial Year 2020-21

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[Annual Monitoring Update for Postal Services](#) – Welsh Overview

**ANNUAL REPORT**

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# Contents

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## Section

1. Overview	1
2. Introduction	4
3. Consumers of postal services	7
4. Market developments	23
5. Royal Mail universal service performance	34
6. Royal Mail financial performance	41
7. Royal Mail efficiency performance	53

# 1. Overview

**This report sets out trends in the postal sector and monitors Royal Mail's performance for the 2020-21 financial year. It also considers the impacts of the coronavirus (Covid-19) pandemic on UK postal services, Royal Mail's performance in view of this, and changing market dynamics.**

Ofcom's regulatory framework is designed to fulfil our duty of securing a universal postal service which meets the needs of users and is affordable, while also considering its financial sustainability and efficiency.

Such a framework needs an effective, ongoing monitoring regime. This promotes transparency and helps to make sure the regulatory framework is effective in delivering postal user needs and fairness for customers.

In the 2020 Annual Monitoring Update on Postal Services<sup>1</sup> we noted there was significant uncertainty ahead, including the continuing direct and broader economic impacts of the Covid-19 pandemic. We also noted that the reduction in letter volumes would increase the financial pressures on Royal Mail while recognising that there was an opportunity for the lost value in letters to be offset by significant growth in parcel deliveries if there were a sustained increased demand for delivery of goods bought online.

We also said that if Royal Mail was not able to become more efficient and adapt to a changing market, there was a risk it would not be able to secure a commercial rate of return for the universal service business. We said we would continue to monitor the sustainability of the universal service and work with Royal Mail on its progress in delivering its transformation plans.

The impact of the pandemic continued to be felt throughout 2020-21, with significant periods of restrictions ranging from national to local lockdowns, and with requirements that individuals and households self-isolate and maintain social distancing. As a result, 2020-21 was a volatile year for Royal Mail (and for other postal operators): a year in which it experienced significant change to letter and parcels volumes together with operational challenges driven by Covid-19 restrictions and high absence levels due to illness and self-isolation. The pandemic also saw postal workers and delivery drivers being defined as key workers by the Government, given their critical role in ensuring people have access to letters and parcels services.

Consequently, Covid-19 had a significant adverse impact on quality of service during this year, while at the same time, there was an improvement in Royal Mail's financial performance. This improvement was mainly due to a significant increase in parcels volumes and revenues. Even though there was an increase in costs, this was outstripped by the revenue growth.

Since the end of the 2020-21 financial year, we now have more clarity around the more recent impact of the Covid-19 pandemic, which we set out at the end of this section. While there is likely to be volatility in 2021-22, we expect this to be considerably less than during 2020-21.

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<sup>1</sup> Ofcom, 2020. [Annual Monitoring Update on Postal Services, Financial Year 2019-20](#). [accessed 2 December 2021]

## What we have found in 2020-21

The **broader market and consumer trends** were as follows:

- **The parcels market grew significantly.** UK parcel volumes increased by almost 50% in 2020-21 compared to the previous year, reaching a total of 4.2 billion items, mainly driven by an increase in online shopping as a result of the Covid-19 pandemic. UK parcel revenues increased by 34% in real terms, reaching £14 billion. Similarly, Royal Mail's parcel volumes grew by just over 30% to 1.7 billion items, while revenues grew by c.40% to £5.1 billion.<sup>2</sup>
- **Letter volumes fell.** The volume of letters to UK addresses declined by 22% to just below 7.8 billion items, driven by factors including a reduction in business activity as some businesses moved to contain costs, as well as a further move to online services during the pandemic. Total addressed letter revenues fell by 10% to £3.6bn, which was less than the 22% volume decrease due to price increases.
- **Most people continue to be satisfied with postal services.** Similar to previous years, over eight in ten residential customers are satisfied with Royal Mail (83%) and postal services overall (84%). Similarly, around eight in ten SMEs who use Royal Mail (79%) and other providers (79%) say they are satisfied. This is despite challenges delivering postal services as a result of the pandemic.

Our main findings on **Royal Mail's quality of service, profitability, and efficiency** during 2020-21 are:

- **Royal Mail's quality of service was significantly affected by the Covid-19 pandemic**, with First Class delivery for 2020-21 falling to just under 75% against a target of 93%. Although it has partially recovered since this low point as Covid-19 related restrictions eased, it has recently fallen back slightly to 82.4% as at Q2 2021-22. The decline in First Class letters and other quality of service measures during 2020-21 was driven by factors including the introduction of social distancing, high levels of staff absence and a significant unforeseen increase in parcel volumes.
- **Reported business<sup>3</sup> revenue and profits grew.** The large increase in parcels revenues more than offset the decline in letter revenues, with total reported business revenues growing by 10.8% to £8bn. EBIT margin<sup>4</sup>, an indicator of the financial sustainability of the universal service, rose to 2.7% from 0.4% in 2019-20, as higher revenues offset higher costs. This contrasted with losses forecast before the start of the year and has resulted in an improvement in Royal Mail's short-term financial sustainability.
- **Efficiency performance is difficult to assess in view of the impact of the pandemic.** The pandemic had a significant impact on the way Royal Mail could deliver its services, due both to restrictions on working practices and changes in volumes. Not only did the pandemic result in Royal Mail needing to incur additional costs, but it also constrained its ability to deliver the efficiency savings planned for 2020-21. These and other factors made it difficult to reliably measure the effects of the pandemic on Royal Mail's costs to establish the underlying changes in efficiency levels. Therefore, care should be taken when interpreting the data and comparing the results with those from previous years.

Looking forward, the short-term sustainability of the USO appears to be more secure than it was, although the longer-term outlook remains uncertain. For the universal service to be financially sustainable in the longer term, we remain of the view that Royal Mail needs to adapt to the changing market, modernise its parcel delivery operations, and become more efficient. We discuss this and how the regulatory framework might need to evolve to support the postal market (including the provision of a universal postal service) in the 2022 Review of Postal Regulation consultation.<sup>5</sup>

## Recent market developments

Although this report focuses on 2020-21 (1 April 2020 to 31 March 2021), there have been a number of developments since then. Understanding these developments is particularly important given the significant movements in Royal Mail's performance over the last two years, largely due to the impact of the pandemic. It also allows this report to be placed in the context of the more recent developments (focusing on the six months from April 2021 to September 2021) and in advance of the 2021-22 full year view, which will be presented in next year's report.

- **Parcels.**<sup>6</sup> Having benefited from a significant increase during 2020-21 compared to pre-pandemic levels, Royal Mail's domestic parcel volumes have fallen back slightly, by 4% compared to the same period in the previous year. This decline has been, in Royal Mail's words, 'reflecting the removal of lockdown restrictions during the summer'. In contrast to the volume decline, revenues increased by 4.4% due to a positive change as customers sent proportionately more parcels of a higher value. We expect some uncertainty in future trends as the impact of the pandemic continues to have an effect.
- **Letters.**<sup>6</sup> Unlike parcels, the volume of addressed letters for the six months to September 2021 increased by 11% compared to the same period in the previous year (excluding election mail), despite being noticeably lower overall when compared to the same six months in 2019. In addition, revenues grew by 16%, at a slightly faster rate than volumes, mainly driven pricing increases and a change in product mix towards more expensive letter products such as 'Tracked 24' and 'Tracked 48'. As with parcels, the trends in the short term remain uncertain. We will continue to monitor this.
- **Quality of service.**<sup>7</sup> Quality of service has improved since the end of 2020-21 as the impact of the Covid-19 pandemic, although continuing, reduced. This included most pandemic-related restrictions being removed on 16 August as isolation requests peaked under Government test and trace schemes, with the regulatory emergency period ending on 31 August 2021.<sup>8</sup> Although First Class delivery improved to 87% in the first three months of 2021-22, it has since fallen back to 82.4% in the second quarter and is currently below the target of 93%.<sup>7</sup> As Royal Mail continues to face challenges to return its quality of service to pre-pandemic levels, we continue to closely monitor its performance on this.

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<sup>2</sup> Royal Mail, 2021. [Results for the full year results ended 28 March 2021](#), page 29. [accessed 30 November 2021]

<sup>3</sup> When monitoring Royal Mail's performance, we focus on its 'Reported Business', which is the part of Royal Mail responsible for the universal service. The universal service obligations require Royal Mail to collect and deliver letters six days a week and parcels five days a week at an affordable and uniform price to all UK addresses.

<sup>4</sup> EBIT. Earnings as a measure of profitability, revenues less costs, that a business makes before interest and tax is deducted

<sup>5</sup> See our consultation on the [2022 Review of Postal Regulation](#) published alongside this report - we expect to conclude our review in 2022.

<sup>6</sup> Royal Mail, 18 November 2021. [Results for the half year ended 26 September 2021](#). [accessed 30 November 2021]

<sup>7</sup> Royal Mail, August 2021. [Quality of Service](#) 2021-22 Q2 and 2020-21 full year reports. [accessed 30 November 2021]

<sup>8</sup> As per the Postal Services Act 2011, Royal Mail is not required to sustain the universal service without interruption, suspension or restriction in the event of an emergency. See Section 5 for more information on the emergency period.

## 2. Introduction

- 2.1 Ofcom has a duty under the Postal Services Act (PSA 2011)<sup>9</sup> to carry out its postal functions in a way that it considers will secure the provision of a universal postal service<sup>10</sup>, having regard to its financial sustainability and efficiency.<sup>11</sup> The minimum universal service requirements are set by Parliament and require the universal service provider, Royal Mail, to provide certain postal services at affordable, uniform prices throughout the UK.<sup>12</sup>
- 2.2 In our March 2017 Review of Royal Mail Regulation statement<sup>13</sup> (March 2017 Statement), we confirmed we would broadly maintain the current regulatory framework until 2022. We also said that ***our ongoing monitoring of the postal market remains a key safeguard of our regulatory framework***, alongside the Second Class safeguard caps on certain universal service products and mandated access regulation.
- 2.3 As part of the monitoring regime, we committed to publishing an annual monitoring update which sets out key data and trends in the postal sector, focusing on the provision by Royal Mail of the universal service.
- 2.4 To ensure that the regulatory framework continues to work effectively, we monitor a range of factors. This includes competition and developments in the parcels and letters markets, consumers' and businesses' experiences in the postal sector, Royal Mail's prices and quality of service, and Royal Mail's performance on efficiency and the financial performance of the universal service network.

### Covid-19 pandemic and associated societal restrictions

- 2.5 The financial year 2020-21 has been an extraordinary year, with significant restrictions placed on UK citizens and businesses as a result of the Covid-19 pandemic. Section 3 provides a high-level overview of how Covid-19 has changed consumer demand for postal services with Section 4 providing details of how Covid-19 has impacted the volumes and revenues for letters and parcels of Royal Mail and the wider postal sector. Section 6 and Section 7 respectively explain how the Covid-19 pandemic has impacted the financial performance of Royal Mail, including the financial sustainability of the universal service, and Royal Mail's efficiency performance.
- 2.6 In Section 5, we consider the impact Covid-19 has had on Royal Mail's provision of a universal postal service, and on its ability to satisfy quality of service standards set by Ofcom. The statutory framework for Royal Mail recognises the potential need for the business to modify its operations without formal authorisation, if it considers this necessary to respond to emergency challenges in sustaining the universal postal service. We provide details of the steps taken by Royal Mail in response to the pandemic and our role during this period.

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<sup>9</sup> [Postal Services Act 2011 \(legislation.gov.uk\)](#) is legislation that established the current universal postal service and the legal framework, including Ofcom's regulation of postal services.

<sup>10</sup> Section 29(1) of the Postal Services Act 2011.

<sup>11</sup> Section 29(3) of the Postal Services Act 2011.

<sup>12</sup> Section 31 of the Postal Services Act 2011.

<sup>13</sup> Ofcom, 2017. [Review of the Regulation of Royal Mail 2017](#). [accessed 30 November 2021]

- 2.7 There remains uncertainty about how significantly such changes in market trends may develop and how they might affect the universal service or the wider postal market, as observed in Royal Mail's trading update for April to September 2021, in the current financial year.<sup>14</sup>

## Monitoring activities in support of the 2022 Review of Postal Regulation

- 2.8 The wider post monitoring programme equips us with the relevant information needed to inform our activities, meet our regulatory objectives as set out in our Plan of Work 2021-22<sup>15</sup>, and to carry out our legal duties.
- 2.9 One of these activities is our current review of postal regulation<sup>16</sup>, which is considering whether regulation of the sector needs to change in light of market changes and evolving user needs. The information provided in this and previous monitoring reports helps identify market and consumer trends and other factors which need to be considered for any future regulatory framework as set out in our 2022 Review of Postal Regulation consultation.
- 2.10 To build the information in this report, 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 competition data and trends recently gathered from responses to our Call for Inputs published in March 2021.<sup>17</sup>
- 2.11 In November 2020 we also concluded our Review of User Needs (RUN) which included our assessment of whether the minimum requirements of the universal postal service reflect the reasonable needs of users of postal services. These include requirements on Royal Mail to deliver letters six days a week and parcels five days a week, at an affordable and geographically uniform price to every address in the UK. These requirements can only be altered by Government and Parliament.

## Presentation of data in this annual monitoring update

- 2.12 The focus of our monitoring is Royal Mail, although we undertake our monitoring within the context of the broader postal services market. This is because Royal Mail is the designated universal postal service provider. We focus on the business operations that are known as the 'Reported Business', which covers UK domestic and international postal services. The Reported

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<sup>14</sup> Royal Mail, 2021. [Half Year Results 2021-22](#). [accessed 30 November 2021]

<sup>15</sup> Ofcom, 2021. [Ofcom's Plan of Work 2021-2022](#). [accessed 30 November 2021]

<sup>16</sup> See our consultation on the 2022 Review of Postal Regulation published alongside this report - we expect to conclude our review in 2022.

<sup>17</sup> Ofcom, 2021. [Call for inputs: Review of postal regulation](#). [accessed 30 November 2021]

Business includes all universal services, as well as other services which are delivered over the universal service network, namely access products and retail bulk mail.<sup>18, 19</sup>

- 2.13 Financial data presented in this report is in nominal terms, unless otherwise stated, except for the market revenue data presented in Section 4, which is in real terms. This is consistent with how data is presented in Royal Mail's Regulatory Financial Statements and Ofcom's Communications Market Reports.<sup>20</sup>
- 2.14 Where we report real terms changes, we have elected to use the yearly average Consumer Price Index (CPI) from April to March as the basis for our calculations, as has been our custom since the 2014-15 Annual Monitoring Update.<sup>21</sup>
- 2.15 The metrics in this update are, unless otherwise stated, consistent with those in our previous four annual monitoring updates on the postal market, published between 2017 and 2020 (enabling year-on-year comparisons). The 2021 Annual Monitoring Update comprises both this report and accompanying Post Monitoring Interactive Data available on the Ofcom website, including csv files.<sup>22</sup>
- 2.16 As part of the Post Monitoring Interactive Data, we provide pricing information across multiple years, including some additional information in relation to business and access mail prices.<sup>22</sup>
- 2.17 Where appropriate, we also include commentary on recent market developments such as market trends in Royal Mail's quality of service performance and letters and parcels volumes (see Section 1, Overview). This allows this report to be placed in the context of the more recent developments and in advance of the 2021-22 full year view, which will be presented in next year's AMR.

## The structure of this report

- 2.18 This report focuses on the 2020-21 financial year. The structure is as follows:
- Section 1 – Overview
  - Section 2 – Introduction (this section)
  - Section 3 – Consumers of postal services
  - Section 4 – Market developments
  - Section 5 – Royal Mail universal service performance
  - Section 6 – Royal Mail financial performance
  - Section 7 – Royal Mail efficiency performance

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<sup>18</sup> For product descriptions including access products – where third party postal operators insert mail into Royal Mail's network for last mile deliveries, see Royal Mail's information on [Universal Service Obligation](#). [accessed 30 November 2021]

<sup>19</sup> Bulk mail involves Royal Mail collecting large volumes of mail directly from larger businesses (or other organisations) and then using its network to sort, distribute and deliver these. Non-bulk mail is mainly made up of single piece letter services that Royal Mail is required to offer under the USO.

<sup>20</sup> Ofcom, published annually. [Communications Market Reports](#).

<sup>21</sup> Annual Monitoring Updates are also referred to as 'Annual monitoring updates on the postal market'

<sup>22</sup> Annual Monitoring Updates and interactive data available here: <https://www.ofcom.org.uk/postal-services/information-for-the-postal-industry/monitoring-reports>. [accessed 30 November 2021]



## 3. Consumers of postal services

- 3.1 In this section we consider how consumers used and engaged with postal services in the financial year 2020-21, recognising the impact of the Covid-19 pandemic, and the associated government restrictions on UK citizens in response. We set out a discussion of wider impacts basing our analysis on research exploring UK economic developments and impacts on consumers of online services that led to increased reliance on postal services, in particular parcel deliveries.
- 3.2 This section also summarises our findings from our ongoing postal market research programme. For this we run two separate surveys to track use of, and attitudes to, post – one focused on residential participants, and the other focused on small and medium enterprise (SME) business customers. The data reported here is for the period from July 2020 to June 2021 reflecting the most up-to-date annual data we have at the time of publication of this report.<sup>23</sup>

### Covid-19 and changes in consumer demands

- 3.3 The pandemic has not been a single event but an extended period of disruption to community interactions and citizen mobility<sup>24</sup>, punctuated with key events. Some of these key events included travel restrictions (both international and domestic) and more stringent lockdowns, which were imposed from March 2020 onwards (impacting financial year 2020-21 in particular) when early cases of Covid-19 were identified in the United Kingdom.
- 3.4 During this time there were periods of significant restrictions on non-essential journeys and household mixing driven by a wide range of varying guidelines and legal restrictions imposed by governments across the UK over three lockdowns (in England, with variations in Wales, Scotland and Northern Ireland).<sup>25</sup> This led to significant increases in time spent at home (up 5%-20%) and a consistently high level (over 20%-40%) of reduced mobility linked to both ‘retail and recreation’ and ‘workplaces’.
- 3.5 This trend led to a boom in online shopping across all age demographics but with very significant increases in those aged over 65 years (at 65% in 2020 compared to 54% in 2019).<sup>26</sup>  
<sup>27</sup>

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<sup>23</sup> Calendar year should be assumed (e.g. Q1 2020), with financial year when the format, such as Q1 2020-21, is used.

<sup>24</sup> Office for National Statistics (ONS), various reports on Covid-19 impacts, including: [Coronavirus and the social impacts on Great Britain](#) [accessed 1 December 2021]; [Business insights and impact on the UK economy](#) [accessed 1 December 2021]; [Coronavirus and the social impacts on disabled people in Great Britain](#). [accessed 1 December 2021]

<sup>25</sup> Enders, 29 March 2021, [Ecommerce forecasts 2021 - pandemic shifts remain for now](#). [accessed 1 December 2021] See Figure 2, page 3, showing Enders Analysis (*Google Mobility Data*).

<sup>26</sup> Enders, 29 March 2021, [Ecommerce forecasts 2021 - pandemic shifts remain for now](#). [accessed 1 December 2021]

<sup>27</sup> As reliance upon online services grew, the Office for National Statistics (ONS) reported that disabled people were more likely to indicate concerns with access to groceries, medication and essentials as a result of the pandemic compared to non-disabled people (31% compared with 12%, as at September 2020).<sup>27</sup> ONS, September 2020: [Coronavirus and the social impacts on disabled people in Great Britain - Office for National Statistics](#). [accessed 1 December 2021]

3.6 The OECD reached a similar conclusion to Enders, suggesting the pandemic is likely to have long-lasting effects on e-commerce.<sup>28</sup> The OECD points to the rate of growth in online retail which, as a share of e-commerce sales, rose from 17.3% to 20.3% between Q1 2018 to Q1 2020 before jumping to 31.3% between Q1 2020 and Q2 2020. This increase highlights a marked shift in the previously observed growth of parcel delivery volumes and, in particular, business to consumer (or B2C) online deliveries.

### **Postal operators recognised as key workers**

3.7 In addition to increased demand for online shopping deliveries, the pandemic has also highlighted the importance of the postal sector in providing key services to citizens. This included the delivery of important government, NHS, administrative and bank communications to households during the crisis.

3.8 Postal operators also played a critical role in supporting the delivery and collection of Covid testing kits. Postal workers and delivery drivers were defined as key workers by the Government, given their critical role in ensuring people have access to letters and parcels services.

3.9 Postal operators have acknowledged the work undertaken by staff to meet customer needs in their annual reports outlining their performance, with Royal Mail<sup>29</sup> stating its staff were “designated as key workers” who had played “a key frontline role”. It also noted its “customers have been very supportive and at times very tolerant”. UPS<sup>30</sup> described its staff as “frontline essential workers” addressing one of “the most difficult public health crises in decades”.<sup>31</sup>

3.10 As set out in more detail below, our residential tracker results include satisfaction ratings that reflect people being at home more, therefore seeing and appreciating the ‘human side’ of the service provided. At the height of the pandemic, key workers from various sectors were appreciated more by the general public even when faced by delays and service disruptions (as discussed further in Section 5), in recognition of the difficult conditions many such workers were operating under.<sup>32</sup>

### **Research linked to our 2022 Review of postal regulation**

3.11 Prior to the pandemic, as part of the 2020 RUN, research into UK postal user needs showed residential consumers of postal services acknowledged the shifting dynamics in the postal market, anticipating their ongoing use of online delivery services as well as increased reliance on parcel returns services. Consumers reported receiving more B2C parcels<sup>33</sup>, driven by online retail purchases. Residential users reported they rarely had a choice of providers when making

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<sup>28</sup> OECD, 7 October 2020, [E-commerce in the time of COVID-19](#). [accessed 1 December 2021]

<sup>29</sup> Royal Mail, June 2021. [Results for the full year ended 28 March 2021](#). [accessed 1 December 2021]

<sup>30</sup> UPS, May 2021: [UPS Annual Report 2020 on Form 10-K – A New Chapter](#). [accessed 1 December 2021]

<sup>31</sup> See Section 4 on market developments for consideration of postal operator activities in response to the pandemic.

<sup>32</sup> See Section 5 for discussion of Royal Mail’s performance when providing the universal service, including quality of service results and complaints.

<sup>33</sup> See Section 4 for more information on the parcels market segments, including Business to Consumer, Business to Business and Consumer to Anywhere segments.

online purchases.<sup>34</sup> In relation to returns where there was a choice of service, research participants indicated convenience was an important factor when deciding which services to use.<sup>35</sup>

- 3.12 When considering our residential tracker research, while convenience of parcel drop off is not one of the most important factors acknowledged when sending a parcel, it was seen as “important” or “very important” by 79% of participants in July 2020-June 2021.<sup>36</sup> This shows no significant change compared to the years prior to the pandemic.
- 3.13 As part of our 2022 Review of Postal Regulations, we have undertaken consumer research into parcel deliveries<sup>37</sup>, which highlights what post users see as important within the context of the Covid-19 pandemic.

## Residential and SME users’ experience of postal services

- 3.14 For the second year in a row, our published residential consumer postal tracker data has been gathered using an online methodology only. The face-to-face element of the research used to reach those who have limited or no internet access, and those who may lack the confidence to complete the survey online, continues to be suspended due to the ongoing pandemic. Therefore, the following analysis of residential participants is based only on data collected using the main online survey methodology.
- 3.15 Our SME business tracker is unaffected as data is gathered using a mixture of telephone research (CATI) and online methodologies, so we can report on the full annual sample.
- 3.16 The residential and SME postal tracker data is available from our Statistical Release Calendar<sup>38</sup> and the data files show further information on the results of the survey broken down by customer segment such as, for example, by age group or nation.

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<sup>34</sup> This can vary depending on options provided by individual online retailers or online marketplaces.

<sup>35</sup> Jigsaw, 2020, [UK Postal User Research: Quantitative Research Report](#), pages 14-15. [accessed 1 December 2021]

<sup>36</sup> Ofcom Residential Postal Tracker – QD10a: *List of factors people consider when sending parcels...convenient options for me to drop of the parcel (NET: “very important/“important”)* Base: Those who have sent a parcel or tracked item/item requiring signature in the past month, Q3 2020-Q2 2021(3,165)

<sup>37</sup> See discussion of research in Section 6 of our 2022 Review of Postal Regulation.

<sup>38</sup> Ofcom. [2021 Statistical calendar](#). The data from these surveys is published on our website going back to 2012 when the research programme began. [accessed 1 December 2021]

### Summary findings – Residential tracker

- Satisfaction with postal services – **Overall satisfaction levels remain high in relation to all postal services** (84%) and when looking specifically at Royal Mail (82%).
- Satisfaction among participants in terms of value for money of sending mail is also high at 75% (no significant change from 2019-20 when it was 73%).
- Problems experienced when using postal services – While ‘mislivered mail’ remains the concern reported the most by users of Royal Mail services (35%), **the biggest rise in reported concerns year-on-year was for ‘delayed mail’** (up from 23% in period July 2019 to June 2020, to 31% for July 2020 to June 2021).<sup>39</sup>
- Perhaps as a result of the pandemic, as more residential participants were more likely to be at home, **importance ratings associated with receiving letters and parcels have marginally decreased for most factors** (notably for ‘availability of nearby collection point in case of failed delivery’ and the ‘ability to select a specific date/time for delivery’).

### Summary findings - SME business tracker

- Overall satisfaction levels remain high amongst SMEs and **have increased year-on-year for most elements of the service**. Around eight in ten (79%) of SMEs were satisfied with Royal Mail’s services. This is down from 85% in 2019-20. A similar proportion (79%) were satisfied with the service from other operators. Again, this is down from 82% in 2019-20.
- Satisfaction with Royal Mail’s ‘delivery consistency / reliability’ fell to 79% from 83% in 2019-20. ‘Amount /level of lost post sent’ also fell to 70% from 75% in 2019-20 and satisfaction with ‘latest collection time’ fell to 68% from 72% in 2019-20.
- When sending parcels, the importance of some factors increased year-on-year; **‘guaranteed delivery to recipient’s door’ rose to 90% from 70% in 2019-20**. Importance of having ‘proof of postage/dispatch’, also rose to 89% from 68% in 2019-20 and services being regarded as ‘low cost’ also rose in importance from 77% in 2019-20 to 84% in 2020-21.
- Perhaps linked to the impact of the pandemic and more people staying at home more, the importance of **‘ability to select specific date/time for delivery’ fell from 54% in 2019-20 to 44%**.
- Similarly for letters, most factors rose in importance: the letter being ‘convenient to post (within ½ a mile)’ rose by 15% points compared to 2019-20 from 69% to 84%, ‘delivery within 3 days’ also rose in importance from 62% to 81% and the importance of ‘low cost’ rose from 70% to 79%.

## Satisfaction ratings for postal services amongst residential participants

3.17 As shown in Figure 3.1 below, high proportions of residential participants are satisfied with Royal Mail (82%) and postal services overall (84%), with dissatisfaction levels at 5% and 4% respectively. Three quarters (75%) are satisfied with the postal services in delivering value for

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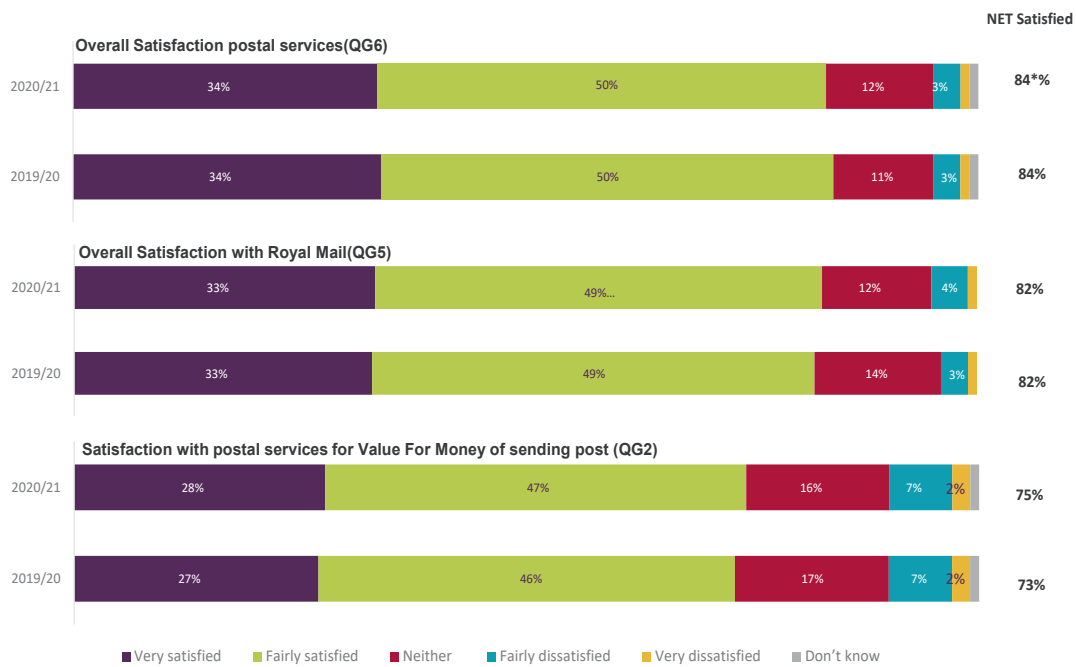
<sup>39</sup> See also Section 5 that includes information about Royal Mail quality of service results and consumer complaints.

money of sending mail, with 9% dissatisfied. These results are broadly in line with 2019-2020 results.

3.18 Overall satisfaction with Royal Mail remains stable in each of the UK nations<sup>40</sup>, with Wales reporting the highest level of satisfaction (86%). Eighty-three percent are satisfied in Scotland and Northern Ireland and 82% in England.

3.19 Similar to previous years, satisfaction with postal services overall in terms of delivering value for money when sending mail stands at 75% in England, 70% in Scotland, rose to 79% (from 72%) in Wales, and fell to 75% (from 78%) in Northern Ireland. Satisfaction with value for money in rural locations is 73%, compared to 75% in urban areas. Similar for participants living in remote rural locations at 74%.<sup>41</sup>

**Figure 3.1: Residential participants' satisfaction with postal services**



Source: Ofcom Residential Postal Tracker – QG2: How satisfied are you overall with the postal services in terms of delivering value for money for sending mail? QG5: How would you rate your overall satisfaction with Royal Mail? QG6: How would you rate your overall satisfaction with postal services? (ALL providers)

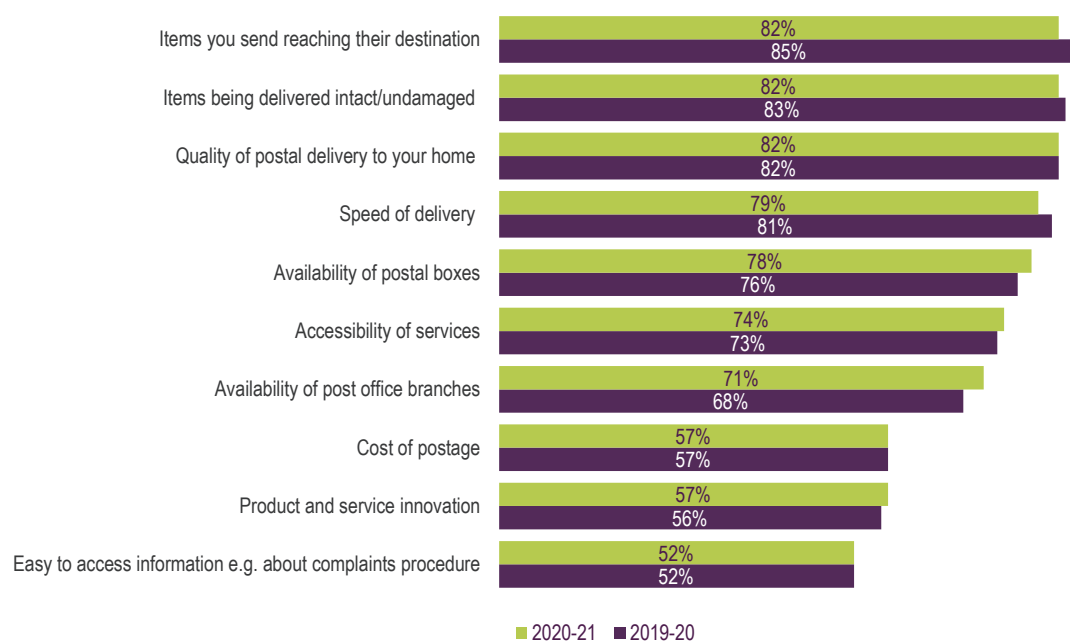
Base: All participants, Q3 2020-Q2 2021 (5,147), Q3 2019-Q2 2020 (5,012)

3.20 As shown in Figure 3.2 below, residential participants continue to be satisfied with similar aspects of Royal Mail's postal services to previous years i.e. 'items sent reaching their destination', 'items being delivered intact/undamaged' and the 'quality of postal delivery to the home' (all at 82%). Meanwhile, in line with previous years, the lowest levels of satisfaction were with the 'cost of postage', 'product and service innovation' (both at 57%) and 'easy access to information, for example about complaints procedures' (52%).

<sup>40</sup> Nations analysis can be found in the data tables: [Residential postal tracker July 2020-June 2021](#). [accessed 6 December 2021]

<sup>41</sup> Rural is defined as settlements with under 2000 inhabitants. Remote rural is any settlement of under 2,000 and more than 10 miles from a larger settlement (over 15,000 inhabitants).

**Figure 3.2: Satisfaction with service from Royal Mail**



Source: Residential Postal Tracker – QG3. How would you rate the performance of Royal Mail, as a recipient and sender, in the following areas on a 5-point scale where 1 is very dissatisfied and 5 is very satisfied?

Base: All who use Royal Mail, Q3 2020-Q2 2021) (5,147), Q3 2019-Q2 2020 (5,012)

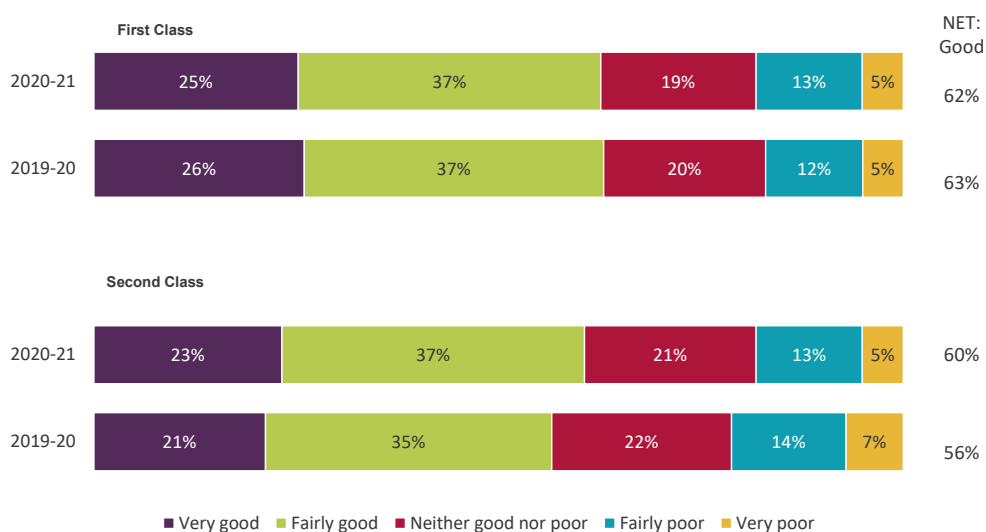
- 3.21 Participants in Northern Ireland were more likely to be satisfied with the ‘ease of accessing information e.g. about complaints procedures’ than participants in the UK overall (net satisfaction 57% vs 52% overall).
- 3.22 Participants in Northern Ireland are also more satisfied with the ‘product and services innovation’ (61% vs 57% overall) while participants in Wales are more satisfied with ‘quality of postal delivery to the home’ (88% vs 82% overall), ‘items you send reaching their destination and items being delivered intact/undamaged (both at 86% vs 82% overall).

### Satisfaction with cost of postage

- 3.23 Our research shows just over six in ten (62%) of residential participants think that First Class stamps represent good value for money, with a lower percentage (60%) thinking that Second Class stamps are good value. Just under one in five (18%) said that both First Class and Second Class stamps are poor value. Perceptions of value for First Class remained in line with 2019-20 (63% in 2019-20) but rose for Second Class stamps from 56% to 60%.<sup>42</sup>

<sup>42</sup> First Class stamps rose by 9p from 76p to 85p and Second Class stamps rose 1p from 65p to 66p. The price rises took effect on 1 January 2021.

**Figure 3.3: Value for money of postage stamps**



Source: Ofcom Residential Postal Tracker – QF4: A 1st class stamp currently costs 76/85p. How would you rate Royal Mail’s 1st class service in terms of value for money? QF5: A 2nd class stamp currently costs 65/66p. How would you rate Royal Mail’s 2nd class service in terms of value for money? Pricing information updated in line with change on 1 January 2021.

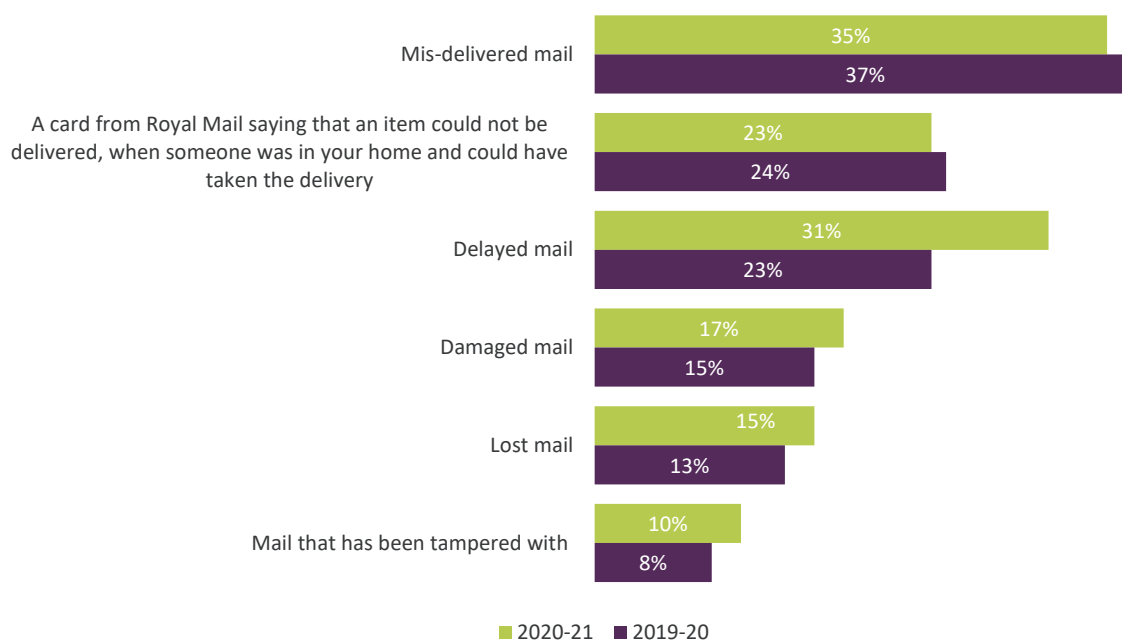
Base: All respondents, Q3 2020 to Q2 2021 (5,147), Q3 2019 to Q2 2020 (5,012)

## Problems experienced with Royal Mail services

3.24 Participants were asked whether they had experienced one or more of a range of problems with Royal Mail’s service over the past year, with 58% overall reporting that they had experienced a problem. As shown in Figure 3.4 below, most types of problems encountered were comparable to previous years with the exception of **delayed mail which rose from 23% of participants reporting this problem to 31% in financial year 2020-21**.<sup>43</sup> Just over a third (35%) said that they experienced mail being mis-delivered, and just under a quarter (23%) received a card from Royal Mail saying that an item could not be delivered when there was someone at home that could have taken delivery.

<sup>43</sup> See Section 5 for more information about complaints made to Royal Mail during financial year 2020-21.

**Figure 3.4: Residential participants’ problems with Royal Mail**



Source: Ofcom Residential Postal Tracker – QH1: In the last 12 months, have you experienced problems with Royal Mail’s service in terms of...e.g. Mis-delivered mail

Base: All Participants Q3 2020-Q2 2021 (5,147), Q3 2019-Q2 2020 (5,012)

## Use of postal services

3.25 Our research is one way of understanding consumer perceptions of their use of postal services over time. Separately, we collect information from postal operators in relation to post volumes and revenues and set out our analysis of that information in Section 4 of this report.

### Sending mail

3.26 Participants were asked if they were sending more, less or the same amount of different types of mail as two years ago. Similar to previous years, for each of the eight types of post asked about, the proportion of residential participants saying that they are sending less than two years ago was higher than the proportion reporting that they are sending more, except for tracked post where for the first time, the same proportion (19% both ways) say they send more or less mail than the last two years.



**Table 3.5: Participants claiming to send different types of post compared to two years ago**

Type of mail	Sent more (%)	No change (%)	Sent less (%)	Net more/ Less (%)
Invitations/ greeting cards / postcards	9	54	35	<b>-26</b>
Personal letters (e.g. to a friend/ relative)	9	53	37	<b>-28</b>
Formal letters to organisations/ individuals	9	54	35	<b>-26</b>
Payment for bills	7	54	37	<b>-30</b>
Smaller parcels	18	58	21	<b>-3</b>
Larger parcels	18	57	23	<b>-5</b>
Items requiring a signature	12	63	20	<b>-8</b>
Tracked post	19	60	19	<b>=</b>
Other items not mentioned**	2	9	5	<b>-3</b>

Source: Ofcom Residential Postal Tracker – QD12: Frequency of sending ... compared to two years ago. (Note this question was asked in alternate months)

Base: All Participants, Q3 2020-Q2 2021 (2,545)

## Receiving mail

- 3.27 Residential participants were also asked about the amount of different types of post that they are receiving, compared to two years ago.
- 3.28 Most types of mail reported net decreases except smaller parcels (+12%) and larger parcels (+14%). A quarter (26%) reported that they are receiving more smaller parcels that will fit through a letter box, compared to 14% who say they received fewer, and 29% said they received more larger parcels, compared to 15% who said they received fewer.

**Table 3.6: Participants claiming to receive different types of post compared to two years ago**

Type of mail	Received more (%)	No change(%)	Received less (%)	Net change (%)
Invitations/ greeting cards / postcards	7	61	31	<b>-24</b>
Personal letters	7	57	34	<b>-27</b>
Formal letters from known organisations	11	59	28	<b>-17</b>
Bills, invoices and statements	10	51	38	<b>-28</b>
Magazines you subscribe to	6	66	21	<b>-15</b>
Catalogues and brochures	15	47	36	<b>-21</b>
Newsletters, leaflets and promotions from known organisations	14	55	30	<b>-16</b>
Items requiring a signature				<b>-3</b>
Addressed direct mail from unknown organisations	18	52	27	<b>-9</b>
Smaller parcels	26	58	14	<b>12</b>
Larger parcels	29	54	15	<b>14</b>

Source: Ofcom Residential Postal Tracker – QE11. Thinking about these different types of mail, would you say that you now receive them more or less often than two years ago? Or has there been no change? Please think only about items that are addressed to you personally. Note this question was asked in alternate months rather than monthly.

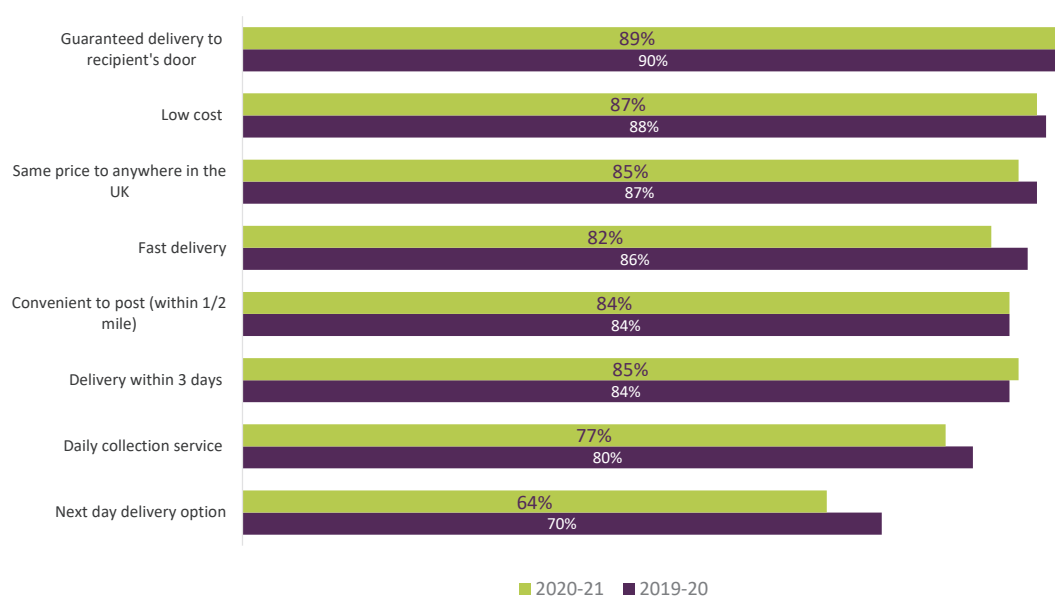
Base: All participants, Q3 2020-Q2 2021 (2,545)

## Importance of factors when sending or receiving post

### Sending letters

3.29 Residential participants were asked to rate the importance of several factors when sending letters. In line with 2019-20, the most important factor was ‘guaranteed delivery to recipient’s door’ with around nine in ten (89%) saying it was ‘very important/important’. The option receiving the lowest level of importance attached was ‘a next day delivery option’ (64%). This was also lower than 70% who said the same in 2019-20.

**Figure 3.7: Factors rated as important for people when sending letters (2019-20 vs 2020-21)**



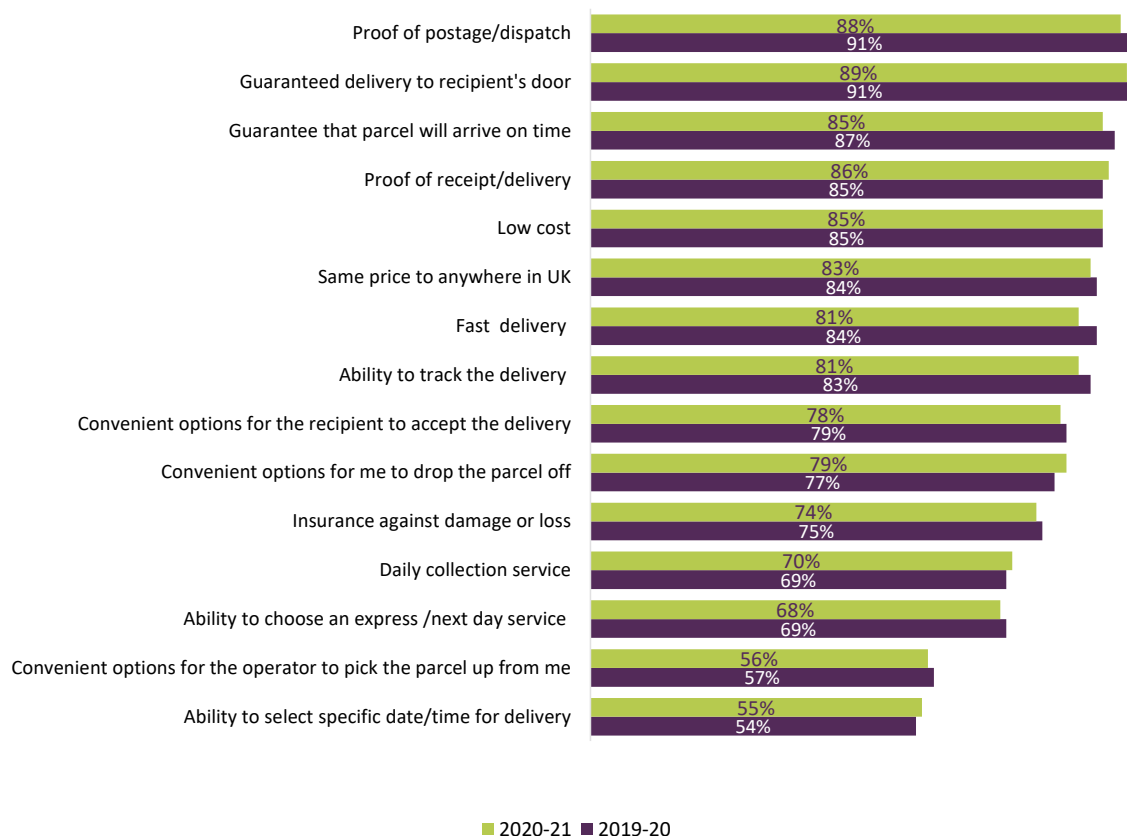
Source: Ofcom residential postal tracker – QD10b. Below, are a list of factors people tell us they consider when sending letters. For each factor, please tell us how important it is to you in choosing a postal provider or service. (NET: “very important” / “important”) Note: this question was asked in alternate months.

Base: All who use Royal Mail for letters or large letters and selected a service, 2019-20 (1,271), 2020-21 (2,545)

## Sending parcels

- 3.30 The importance of different factors remains broadly unchanged, with no statistically significant differences year-on-year. The most important factors for parcel deliveries remain those around knowing the parcel has been sent and arrived safely and within the desired time frame, i.e. ‘guaranteed delivery to recipient’s door’ (89%), ‘proof of postage/dispatch’ (88%), ‘guarantee that the parcel will arrive on time’ (85%), ‘proof of receipt/delivery’ (86%). Same price to everywhere within the UK and low cost were also rated as important by at least eight in ten participants.
- 3.31 The factors that were rated as the least important were the ‘ability to select a specific date/time for delivery’ (55%) and ‘convenient options for operator to pick parcel up’ (56%), both similar to 2019-20.

**Figure 3.8: Factors rated as important for people when sending parcels (2020-21 vs 2019-20)**



Source: Ofcom Residential Postal Tracker – QD10a: List of factors people consider when sending parcels... (NET: “very important” / “important”)

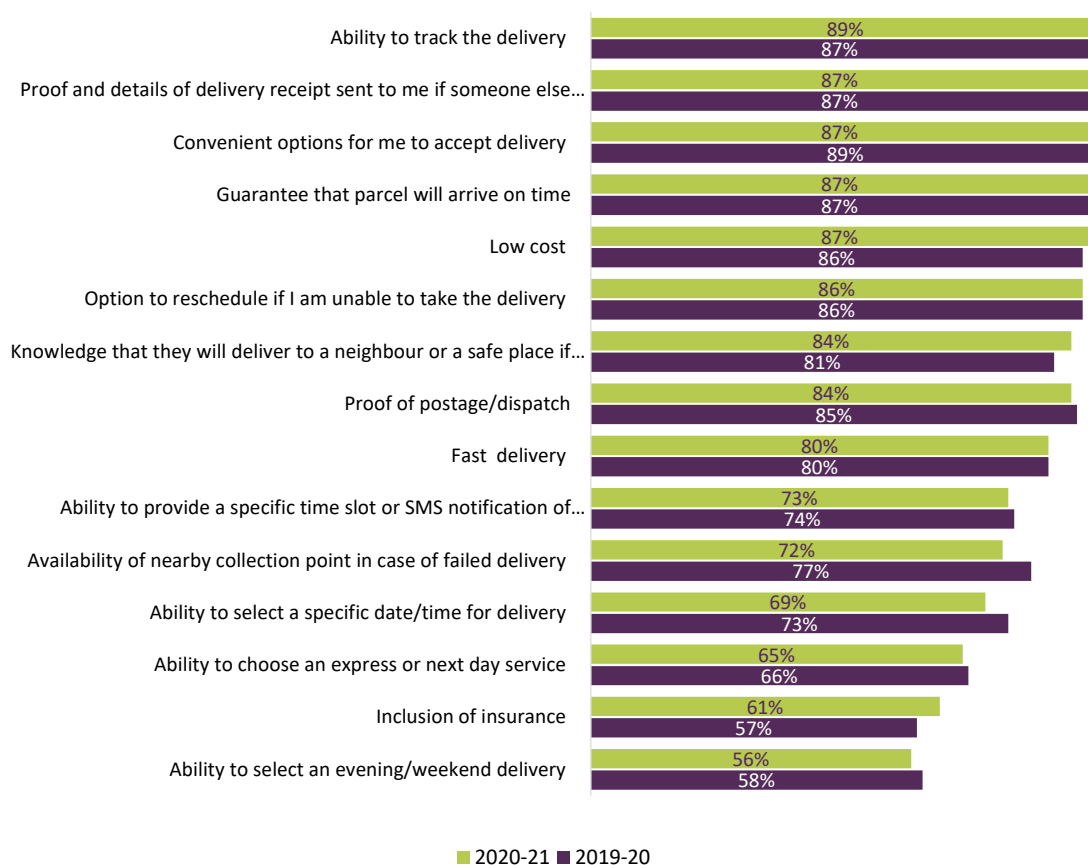
Base: Those who have sent a parcel or tracked item/item requiring signature in the past month, Q3 2020-Q2 2021 (3,165), Q3 2019-Q2 2020 (1,533)

## Receiving letters and parcels

3.32 Participants were also asked about the importance of various factors when choosing a delivery option for a letter or parcel they will receive. The results show that, similar to previous years, participants are concerned with the safe delivery of parcels. When asked, 89% said that ‘ability to track the delivery’ was very important or important, followed by ‘proof and details of delivery receipt sent to me if someone else receives it’, ‘convenient options for me to accept delivery’, ‘guaranteed delivery on time’ and ‘low cost’ – all factors identified as very important or important by 87%.

3.33 Most factors have remained at similar levels compared to 2019-20. ‘Ability to track the delivery’ rose marginally from 87% in 2019-20 to 89%. ‘Knowledge that they will deliver to a neighbour or a safe place if I am not available to take the delivery’ also rose to 84% (from 81% in 2019-20). Inclusion of insurance also rose to 61% from 57% in 2019-20.

**Figure 3.9: Factors rated as important for people when choosing delivery for letters/ parcels that they will receive (2019-20 vs 2020-21)**



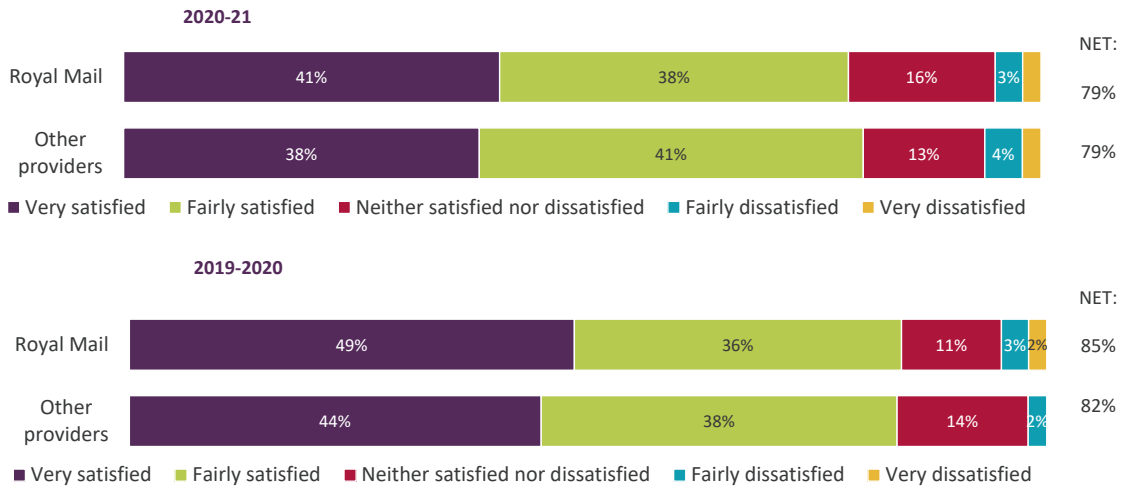
Source: Ofcom Residential Postal Tracker – QE10b: List of factors people consider when choosing delivery for letters/parcels that they will receive... (NET: “very important” / “important”)

Base: Those who were required to select a postal/delivery option for letters or goods that were delivered to themselves in the previous month. Q3 2020-Q2 2021(1,843), Q3 2019-Q2 2020 (1,012)

### Small and medium enterprise (SME) participants – satisfaction ratings

- 3.34 Similar to residential participants, SME satisfaction levels with the service from postal providers are high. Around eight in ten SMEs who use Royal Mail (79%) said they were satisfied with the quality of the service received from Royal Mail as a recipient or sender of post, the same proportion of those who use other providers (79%). Meanwhile, dissatisfaction levels were lower for Royal Mail at 4%, compared to 7% for other providers.
- 3.35 Satisfaction fell overall amongst SMEs both for those who use Royal Mail and those who use other providers.

**Figure 3.10: SME satisfaction with postal services**



Source: Ofcom Business Postal Tracker – QRM2: Thinking generally about the service your organisation receives, how satisfied are you with the overall quality of the services you receive from Royal Mail as a recipient and sender?

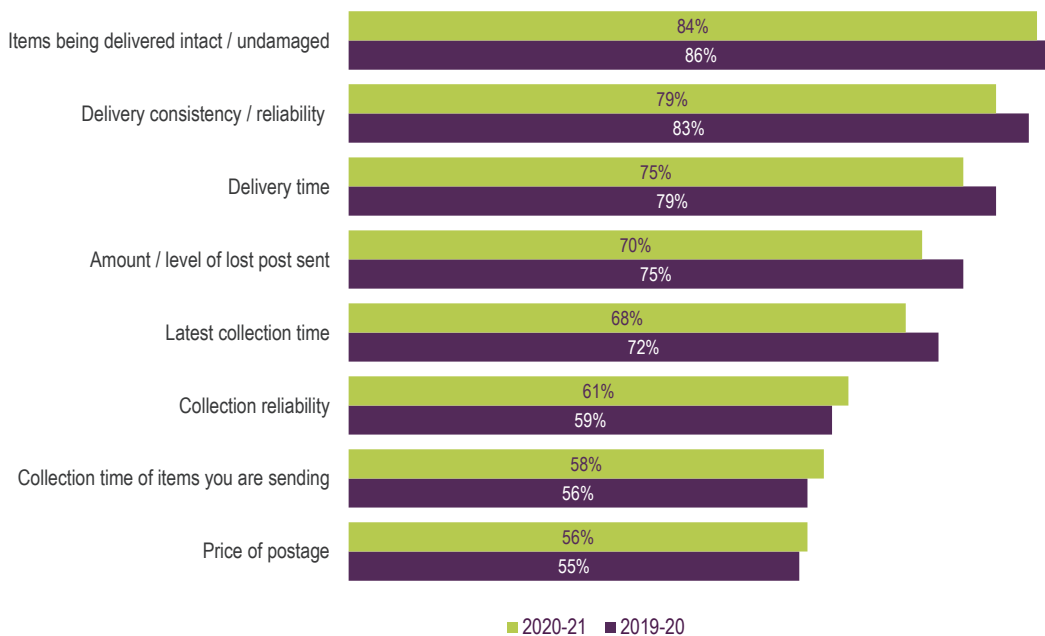
Base: All participants who use Royal Mail Q3 2020-Q2 2021 (2,054), Q3 2019-Q2 2020 (1,948)

QOP1a: Thinking generally about the service you receive as a whole... how would you rate the quality of the services you receive from [QV4 provider]?

Base: All those who use other providers than Royal Mail, Q3 2020-Q2 2021 (595), Q3 2019-Q2 2020 (479)

### Satisfaction with elements of Royal Mail services

**Figure 3.11: SME satisfaction with specific elements of Royal Mail’s service (2020-21 vs 2019-20)**



Source: Ofcom Business Postal Tracker – QRM3: How would you rate the performance of Royal Mail, as a recipient and sender, in the following areas on a five-point scale where 1 is very dissatisfied and 5 is very satisfied? (NET: “fairly” / “very satisfied”)

Base: All participants who use Royal Mail, Q3 2020-Q2 2021 (2,054), Q3 2019-Q2 2020 (1,948)

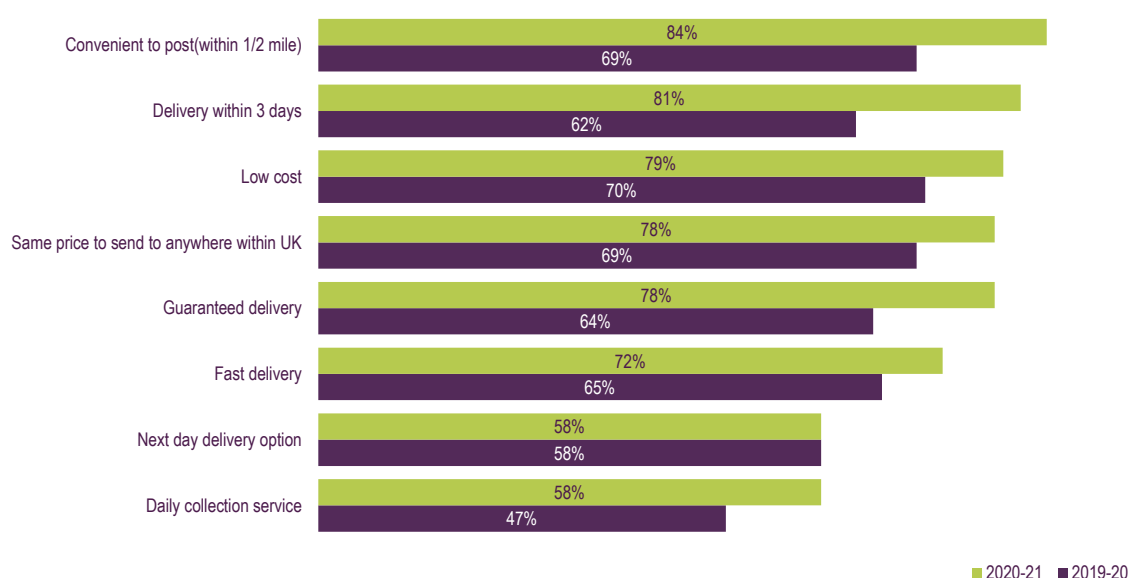
3.36 Looking at specific elements of Royal Mail’s service, SMEs are most satisfied with ‘items being delivered intact/undamaged’ (84%), ‘delivery consistency/reliability’ (79%) and ‘delivery time’ (75%). Satisfaction is lowest with ‘collection time of items being sent’ (58%) and ‘price of postage’ (56%).

## Importance of factors when sending post

### Sending letters

3.37 SMEs were asked to rate the importance of several factors when sending letters. Our research shows that in line with previous years, the same factors are still important though many of the factors are rated significantly more important than they were in 2019-20. The most important factor was ‘convenient to post within ½ a mile’ with over eight in ten (84%) saying it was ‘very important/important’. Other important factors when sending letters are ‘delivery within 3 days’ (81%) and ‘low cost’ (79%). The options receiving the lowest levels of importance attached were ‘a next day delivery option’ and ‘daily collection service’ both (58%).

**Figure 3.12: Factors rated as important for SMEs when sending letters (2019-20 vs 2020-21)**



Source: Ofcom SME tracker – QD10b. Below, are a list of factors people tell us they consider when sending letters. For each factor, please tell us how important it is to you in choosing a postal provider or service. (NET: “very important” / “important”)

Base: All SMEs who use Royal Mail for letters or large letters and selected a service, 2019-20 (1,380), 2020-21 (1,613)

### Sending parcels

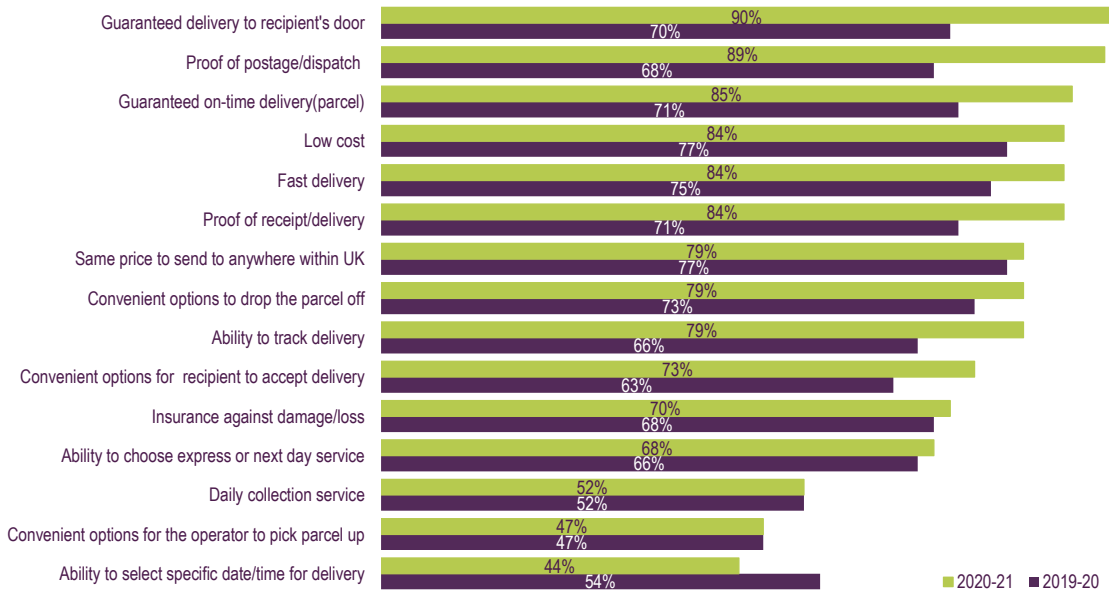
3.38 Similar to when sending letters, the importance placed on many factors when sending parcels has increased significantly compared to 2019-20.

3.39 The most important factors for parcel deliveries remain those around knowing the parcel has been sent and arrived safely and within the desired time frame, i.e. ‘guaranteed delivery to

recipient's door' (90%), 'proof of postage/dispatch' (89%), 'guaranteed on time delivery' (85%). These are similar to the factors rated as most important by residential consumers.

3.40 The factors that were rated as the least important were 'convenient options for operator to pick parcel up' (47%), and 'ability to select a specific date/time for delivery' (44%).

**Figure 3.13: Factors rated as important for SMEs when sending parcels (2020-21 vs 2019-20)**



Source: Ofcom SMEs Postal Tracker – QD10a: List of factors people consider when sending parcels... (NET: "very important"/"important")

Base: All sending parcels and packets /items requiring signature in the past month, Q3 2020-Q2 2021 (806), Q3 2019-Q2 2020 (657)



## 4. Market developments

- 4.1 This section covers developments in the postal services market and presents 2020-21 market-wide volumes and revenues data. We first outline trends in the parcels market and then consider the letters market.
- 4.2 Further information about these markets, such as volumes and revenues data across multiple financial years, can be found in the Post Monitoring Interactive Data at pages 4 and 5. Additional relevant information can also be found at Section 2 of the 2022 Review of Postal Regulation.<sup>44</sup>

### Covid-19 impacts on delivery operations and postal workers

- 4.3 The significant implications of the Covid-19 pandemic for the postal sector and consumers became apparent in Q1 of 2020-21, with the impact on international parcels volumes becoming apparent in the last quarter of 2019-20.
- 4.4 The pandemic also highlighted the importance of the postal sector in providing key services to consumers, such as governments, NHS and bank communications, as well as the delivery and collection of Covid-19 testing kits.
- 4.5 As discussed in Section 3, 2020-21 saw a significant increase in demand for parcel delivery services as Covid-19 drove temporary closures of retail outlets and increased homeworking which led to a sharp rise in online shopping. This was sustained throughout the financial year as government restrictions continued, although there was variation in measures taken across UK nations and regions. Some parcel operators have expanded their delivery networks and created new jobs in response.<sup>45</sup>
- 4.6 Social distancing measures have also had implications for normal postal delivery practices for consumers and frontline workers, prompting postal providers to amend their procedures. For example, for items requiring proof of delivery, in many cases signatures have been replaced with photographic evidence or surname confirmation, avoiding the need for close physical contact. These measures, and other safety requirements associated with the pandemic, are likely to have increased operational costs for postal operators.
- 4.7 In contrast to parcels, the letters market saw a significant reduction, in both volumes and revenues, during Q1 of 2020-21. The lockdown restrictions imposed on businesses, coupled with the economic downturn, caused an initial significant reduction in demand for bulk letter services (particularly advertising mail). Royal Mail reported that its addressed advertising mail volumes were down 49% in the first half of 2020-21, whilst it said business mail volumes declined at a rate “just under half that seen for advertising mail”.<sup>46</sup>

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<sup>44</sup> See our consultation on the 2022 Review of Postal Regulation published alongside this report - we expect to conclude our review in 2022.

<sup>45</sup> For further commentary see Sections 6 and Section 7.

<sup>46</sup> Royal Mail plc, 19 November 2020, [Results for the half year ended 27 September 2020](#), page 5. [accessed 1 December 2021]

- 4.8 The significant decline in business mail volumes across the market, especially the drop in advertising mail triggered by business closures and the economic downturn, created a challenging environment for access operators. While some access operators invested in fulfilment services linked to growth in e-commerce, other access operators streamlined their networks and brought services in-house to secure revenues where possible.
- 4.9 However, the letters market did recover through Q4 2020-21 resulting in an overall annual decline in market volumes for addressed letters of 22% year-on-year.<sup>47</sup> Royal Mail reported an Addressed letter volume (excluding election mail volumes) decline of 23% YTD at the end of Q3 2020-21<sup>48</sup>, but full year results were marginally better at a decline of 20%.<sup>49</sup> The recovery was largely driven by improved advertising mail volumes in the last three months of the year as businesses prepared for government restrictions to be lifted gradually.

## Parcels market

- 4.10 The parcels market can be split into three segments<sup>50</sup>:
- Consumer to business/consumer (C2X)** – these are largely single-piece items from consumer to consumer, or consumer to business. For example, a person sending a birthday present to a relative or an online marketplace seller sending the item to the buyer.
  - Business to consumer (B2C)** – these are deliveries from business to consumer, for example an online retailer sending items bought by online customers. These are generally deliveries that are part of bulk contracts between a business and a parcel operator.
  - Business to business (B2B)** – these are generally bulk deliveries from a business to other businesses, for example a car dealer with multiple sites receiving parts from a manufacturer.
- 4.11 The parcels market is fast-growing, with the main focus of competition found in the growing B2C segment. In recent years, the market has shifted away from B2B towards B2C, as online shopping has grown. A World Trade Organisation report into E-commerce, Trade and the Covid-19 Pandemic<sup>51</sup> discussed this surge in demand for e-commerce provision, which considered both B2C and B2B activities. It highlighted the challenges facing supply chains in early 2020: a curtailment in international logistics; and a decrease in production and labour shortages causing bottlenecks, again associated with measures instituted by governments across the globe. Businesses who had already moved fulfilment activities closer to their customer base and developed B2C delivery operations to support e-commerce were well

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<sup>47</sup> Royal Mail plc, 11 February 2021, [Trading update for the nine months ended December 2020](#) [accessed 1 December 2021]

<sup>48</sup> Royal Mail plc, 11 February 2021, [Trading update for the nine months ended December 2020](#) [accessed 1 December 2021]

<sup>49</sup> Royal Mail plc, 20 May 2021. [Results for the full year ended 28 March 2021](#). [accessed 1 December 2021]

<sup>50</sup> 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 (as defined in footnote 59); (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.

<sup>51</sup> World Trade Organisation, 4 May 2020, [E-Commerce, Trade and the Covid-19 Pandemic](#). [accessed 1 December 2021]

positioned to respond to the surge in demand, contributing to growth in domestic parcel delivery volumes.

4.12 We continue to observe the use of parcel management services<sup>52</sup> (such as online resellers and price comparison services), which offer consumers access to multiple parcel operators and a range of service options. These services can involve print-at-home labelling (in order to access in-store parcel networks), parcel locker networks and home collections. Home collection services have continued to innovate in line with technology developments, becoming an alternative to in-store parcel networks or other access points.

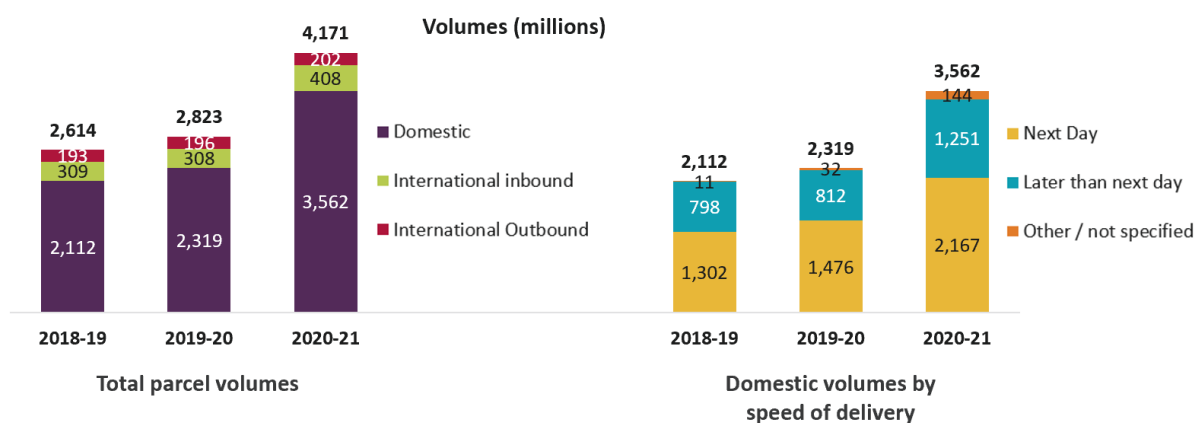
### Parcels volumes and revenues<sup>53</sup>

4.13 Total parcel volumes<sup>54</sup> increased by 47.8% year-on-year to 4.2 billion items in 2020-21, a far higher rate of growth than the 8.0% increase recorded in 2019-20.

4.14 Measured domestic parcel volumes grew by 53.6% to 3.56 billion items and accounted for 85.4% of total volumes in 2020-21 (up from 82.2% in 2019-20). Next day (D+1) delivery items accounted for 60.8% of measured domestic parcel volumes during 2020-21, a fall of nearly 3 percentage points compared to the previous year.

4.15 International inbound parcel volumes reached 0.41 billion items in 2020-21, an increase of 32.5% following the 0.2% decline in 2019-20, and represented 9.8% of total measured parcel volumes. International outbound with 0.20 billion items, increased by 3.1% year-on-year (compared with a 1.1% rise in 2019-20) and accounted for 4.8% of total measured parcel volumes.

**Figure 4.1: Total measured parcel volumes and domestic volumes by speed of delivery**



<sup>52</sup> These include online reseller services provided by eBay, Whistl's ParcelsHub, Parcel2Go and Parcel Monkey. Such providers promote multiple delivery operators and their services, including flexible drop off locations or home collections.

<sup>53</sup> As in previous years, operators from which our market data has been collected are: The Alternative Parcels Company, Amazon (Marketplace, Retail, Shipping), DHL International and DHL Parcel UK, DPD Group, DX, FedEx Express and Fedex UK, Hermes, Royal Mail Group (including Parcelforce), Tuffnells, UPS and Yodel. Data is not collected from smaller operators.

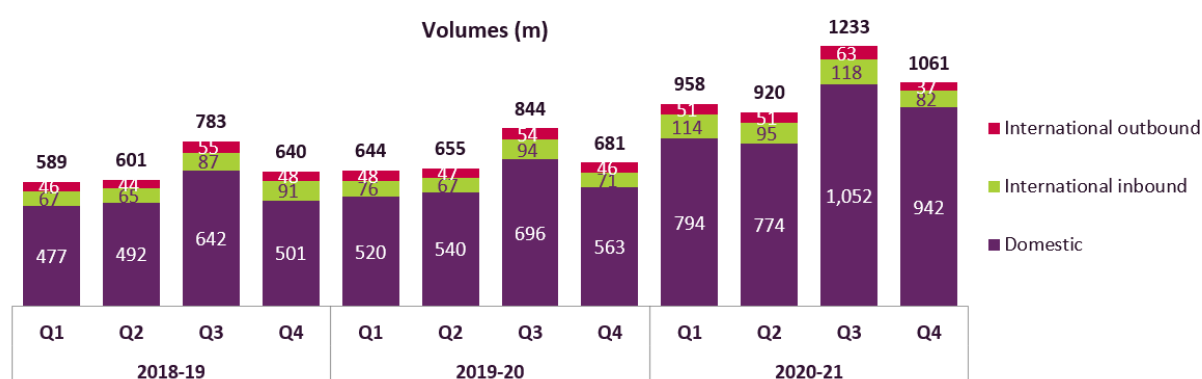
<sup>54</sup> Our estimate of market-wide parcel volumes is based on a definition that differs from Royal Mail's definition of parcels (which includes RM 24/48 large letters, some fulfilment letters and large letters), and is therefore not directly comparable to Royal Mail's parcel volumes reported in Section 6 on financial performance.

Source: Ofcom / operator data

Note: Access mail volumes are included in domestic.<sup>55</sup>

4.16 Measured total parcel volumes on a quarterly basis from 2018-19 to 2020-21 rose sharply coinciding with the first national lockdown in March 2020. The ONS reported in June 2020 that the online share of retail spending jumped to 33.4% in May 2020, and while it took 7 years to get from 9% to 19% (2012 to 2019) it took only 4 months to get from 19% to 33% (January 2020 to May 2020).<sup>56</sup> Parcel volumes and revenues in both Q1 and Q2 2020-21 (April to June, and July to September 2020) outperformed Q3 2019-20 (October to December 2019), which corresponds to the peak pre-Christmas demand in a normal year. The third quarter (Q3) of financial year 2020-21 continued to be the busiest time of the year for parcel delivery operations, with Q3 volumes up 46.1% year-on-year to 1.23 billion parcels.

Figure 4.2: Quarterly measured volumes for parcels, 2018-19 to 2020-21



Source: Ofcom / operator data

4.17 Total parcel revenues increased by 33.5% in real terms reaching £14.0bn (compared with 1.7% growth in 2019-20). Taking all measured parcel deliveries into account, the average unit revenue per parcel decreased by 9.6% year-on-year, from £3.71 in 2019-20 to £3.36 in 2020-21.

4.18 Measured domestic parcel revenues stood at £9.37bn, an increase of 41.6% in real terms. While domestic parcel volumes made up 85.4% of total volumes in 2020-21, they accounted for 66.9% of total revenues, up by nearly 4 percentage points compared to 2019-20. The average unit revenue for domestic parcel deliveries was £2.63, 7.8% lower than the 2019-20 average of £2.85.

4.19 Next day (D+1) delivery items made up the majority of measured domestic parcel revenues during 2020-21 at 57.7%. The proportion of revenue accounted for by next day items dropped by over 8 percentage points between 2019-20 and 2020-21. The average unit revenue for

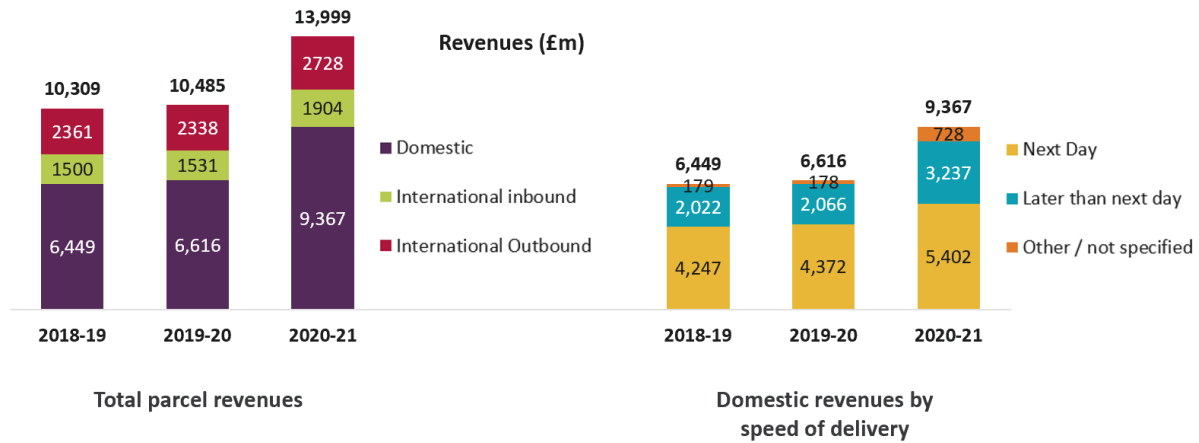
<sup>55</sup> In 2019-20 several operators reported systems changes potentially changing the basis of 2019-20 data; in these cases 2018-19 data has not been restated. Data from Royal Mail Group included in the total market figure was provided on a 53-week basis for 2018-19 and 52-week basis for 2019-20 and 2020-21. 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 36 million 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>. [accessed 1 December 2021]

<sup>56</sup> ONS, June 2020. [Shopping may never be the same again](https://www.ons.gov.uk/news-releases/2020/06/20200601-shopping-may-never-be-the-same-again). [accessed 1 December 2021]

parcels delivered later than next day rose slightly in real terms, from £2.54 in 2019-20 to £2.59 in 2020-21.

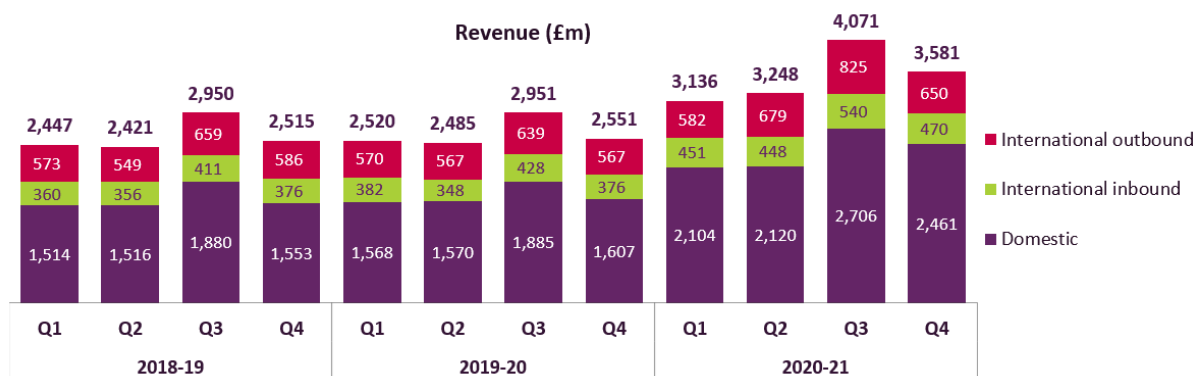
- 4.20 Inbound parcel revenue growth was lower than that of volumes. Revenues grew by 24.4% year-on-year in real terms, with average unit revenue for inbound parcel deliveries down 6.1% year-on-year from £4.97 to £4.66.
- 4.21 Outbound parcel revenue growth was higher than the growth in volumes, with revenues increasing by 16.7% in 2020-21 in real terms (reaching £2.73bn). Outbound parcels made up 19.5% of total parcel revenues in 2020-21, compared with 4.8% of total parcel volumes. Average unit revenues for outbound parcels in 2020-21 increased from £11.95 to £13.54, a 13.2% year-on-year rise in real terms.
- 4.22 Measured total parcel revenues on a quarterly basis reflect the rise in quarterly volumes throughout 2020-21 (Figure 4.4).

**Figure 4.3: Total measured parcel revenues and domestic revenues by speed of delivery**



Source: Ofcom / operator data

**Figure 4.4: Quarterly measured revenues for parcels, 2018-19 to 2020-21**



Source: Operator returns / Ofcom estimates. Revenue figures adjusted for CPI at Q4 2020-21 prices on a quarterly basis so may differ from annual total.

## UK exiting the European Union

- 4.23 As the UK exited the European Union (EU), parcel operators prepared for the new trading arrangements with the EU including potential requirements for customs declarations and checks on parcels being sent from Great Britain to Northern Ireland.
- 4.24 HMRC announced on 31 December 2020 that the customs declarations requirements would not apply for most parcel deliveries for the first three months of 2021, and HMRC's temporary arrangements mean these requirements have still not been applied.<sup>57</sup> There has been continuing uncertainty about declaration requirements and implementation timelines, including for Royal Mail's universal service operations. Meanwhile, some parcel operators temporarily suspended parcel services between mainland Great Britain and Northern Ireland, reporting that business senders were taking time to adjust to data requirements for border checks.<sup>58</sup>
- 4.25 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.

## Letters market

- 4.26 The letters (and large letters)<sup>59</sup> mail sector today consists of two main segments:
- Royal Mail end-to-end mail** – letters collected and delivered by Royal Mail, which can be further divided into bulk and 'non-bulk' mail. Bulk mail involves Royal Mail collecting large volumes of mail directly from larger businesses (or other organisations) and then using its network to sort, distribute and deliver these. Non-bulk mail is mainly made up of single piece letter services that Royal Mail is required to offer under the USO; and
  - Access mail** – bulk mail collected by competing access operators from larger businesses and organisations, which is then inserted into Royal Mail's network for delivery. Access competition enables other operators to offer postal services to their customers without setting up a delivery network.<sup>60</sup>
- 4.27 There remains a lack of competition in end-to-end delivery of letters, with ongoing strong reliance on Royal Mail's universal service network. The bulk letters market is characterised by access competition where a postal operator other than Royal Mail collects mail from the customer, sorts it and then transports it to Royal Mail's Inward Mail Centres, where it is handed over to Royal Mail for delivery.

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<sup>57</sup> HM Revenue and Customs. [Sending parcels between Great Britain and Northern Ireland](#). Goods sent to resident consumers in Northern Ireland do not currently require a customs declaration. Customs declarations are only required where the goods are either (i) classified as prohibited or restricted goods, or (ii) being sent from one business to another (B2B) where the value of the good is greater than £135. [accessed 1 December 2021]

<sup>58</sup> BBC news, 20 December 2020. [Brexit: DPD Ireland and Parcel Motel temporarily suspend some services](#). [accessed 1 December 2021]

<sup>59</sup> 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.

<sup>60</sup> Royal Mail also offers a similar access service for parcels on a commercial basis.

- 4.28 Royal Mail is subject to a regulatory condition requiring it to offer access at its Inward Mail Centres to other postal operators and customers for certain letters and large letters, which facilitates a routing time (at the retail level) of two working days or later. These services are referred to as “D+2 access” and “D+5 access”.
- 4.29 From 4 January 2021, Royal Mail introduced a new suite of “D+5 access” services to meet consumer requirements for a cost-effective service where there is less time dependency for delivery. In March 2021, Ofcom decided to extend the access mandate to include this D+5 letters service.<sup>61</sup> The new services defer the mail until there is another item already being delivered to the recipient’s address, subject to a maximum of four working days after it enters the network. We expect that these services will become important for access operators and could account for a material proportion of access volumes in the future.

## Letters volumes and revenues

- 4.30 Addressed letter volumes<sup>62</sup> (letters and large letters) declined by 22.0% to 7.79 billion items in 2020-21. This compares with a 3.9% decrease from 2018-19 to 2019-20, and reflects the major impact Covid-19 had on mailings as many companies shut down operations in Q1 during the initial lockdown only to see a gradual recovery throughout the rest of the year, with some sectors such as theatre, entertainment, travel and holiday companies scaling back direct mail operations significantly.
- 4.31 Overall spend on direct mail advertising fell in 2020-21. The AA/WARC reported that expenditure (which includes production and elements of postage) fell by 34.7% in real terms from £1.39bn to £0.91bn.<sup>63</sup>
- 4.32 Access or bulk mail collected by competing access operators from larger businesses and organisations continued to make up the majority of letters sent in 2020-21, at 5.01 billion items.
- 4.33 The proportion of letters carried downstream by Royal Mail on behalf of access providers<sup>64</sup> in the year to March 2021 rose slightly year-on-year to 64.4% of total addressed letter volumes (from 63.7%) in the year to March 2021. Overall access mail volumes declined by 21.2% year-on-year.
- 4.34 The volume of Royal Mail end-to-end addressed letter volumes fell by 23.5% to 2.77 billion items. Meanwhile, the number of letters delivered by end-to-end operators other than Royal Mail fell by 24.3% year-on-year to 4 million representing 0.05% of total letters volumes.

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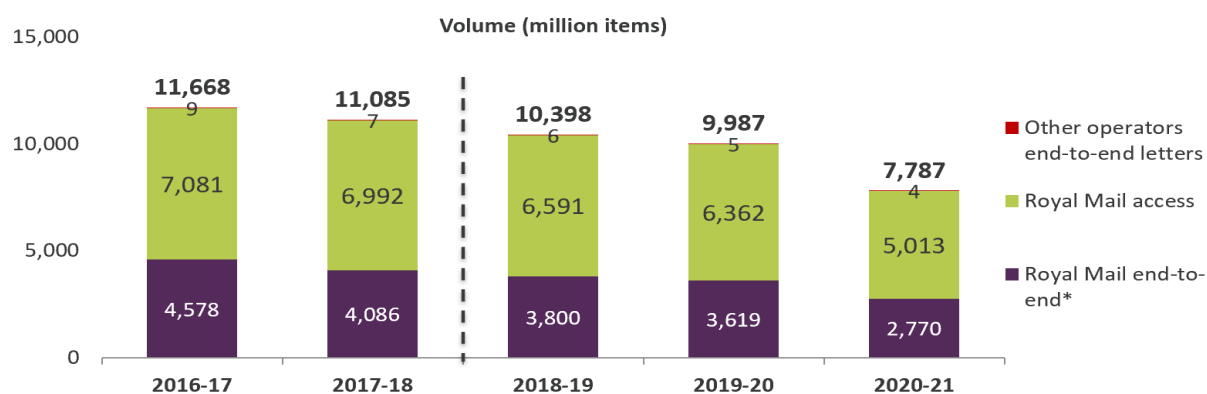
<sup>61</sup> See Ofcom’s review of these new services in our [Statement: Modifications of the USP Access Condition for regulating access to Royal Mail’s postal network](#). [accessed 1 December 2021]

<sup>62</sup> Addressed letter volumes and revenues in this section includes all end-to-end and access volumes (including election mail if applicable). This differs from the definition of addressed letters used in the analysis of the performance of Royal Mail’s Reported Business in Section 6, which includes international mail but excludes election mail.

<sup>63</sup> Source: AA/WARC Expenditure Report. Year-on-year growth rate adjusted for CPI at 2020-21 prices by Ofcom.

<sup>64</sup> Where a postal operator other than Royal Mail collects mail from a customer and hands it over to Royal Mail to complete the delivery.

**Figure 4.5: Addressed letter volumes, millions<sup>65</sup>**

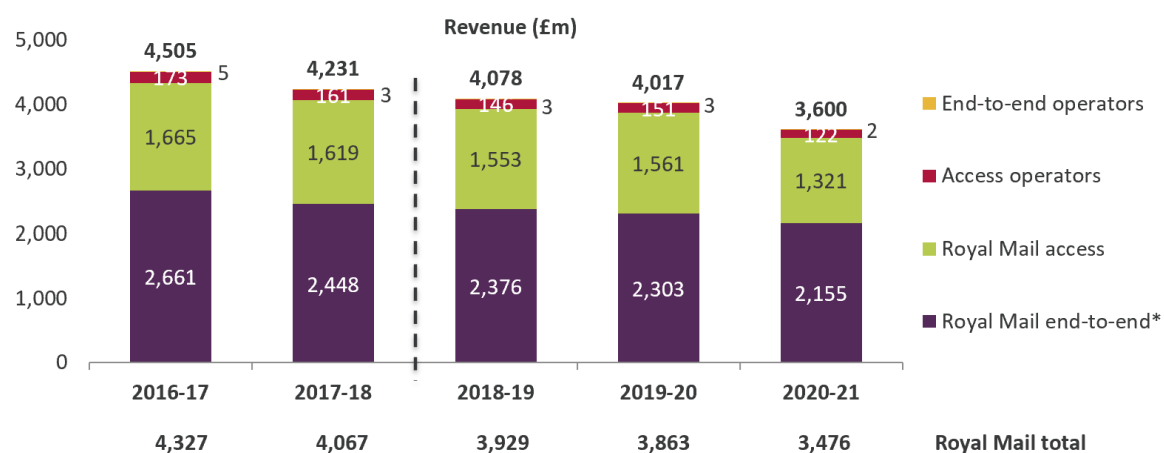


Source: Ofcom / operator data. \*Royal Mail end-to-end is an Ofcom calculation and refers to Royal Mail total letters, excepting access. Figures exclude international. Access volumes include small volume of access parcels.

4.35 Overall addressed letter revenues for 2020-21 stood at £3.60bn, down 10.4% year-on-year compared with a 1.5% fall the previous year. This was driven by a 10.0% decrease in total Royal Mail letter revenues. Payments made by access operators to Royal Mail declined by 15.4% to £1.32bn.

4.36 We monitor the revenues retained by access operators for the delivery of mail once payments to other operators (predominantly Royal Mail) have been made. Letters and large letters revenues retained by access operators reporting to us were £122m, a 19.1% year-on-year fall.

**Figure 4.6: Addressed letter revenues, millions (£)<sup>66</sup>**



Source: Royal Mail Regulatory Financial Statements / operator returns to Ofcom / Ofcom estimates. Adjusted for CPI at 2020-21 prices. Royal Mail figures relate to the 'reported business'.

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

<sup>65</sup> It is not possible to make direct comparisons between pre- and post-2018-19 on the data in the chart due to a change in methodology (made in 2020) regarding Royal Mail data. The effect of the change in methodology was to increase reported Royal Mail end-to-end letters volumes. For further details please see: <https://www.royalmailgroup.com/media/10704/royal-mail-changes-in-external-reporting.pdf>

<sup>66</sup> Due to changes in methodology for Royal Mail end-to-end data it is not possible to make direct comparisons between pre- and post-2018-19 on the data in the chart.



## Environmental sustainability

- 4.37 Environmental sustainability is an important and growing issue for consumers, industry, and government. This is reflected in the UK Government's Net Zero target by 2050 and illustrated by legislation such as the ban on the sale of all new conventional petrol and diesel cars and vans from 2030.<sup>67</sup> At a local government level, there is an increasing trend towards Ultra-Low Emission Zones (ULEZ) in cities. These, and other changes, are already having an impact on postal operators and how they operate their businesses going forward through, for example, the electrification of delivery vans and carbon neutral delivery hubs. We cover this in more detail below.
- 4.38 The Net Zero Strategy considers plans looking beyond the Covid-19 pandemic. Changes that will impact the logistics industry include the phasing out of the sale of all new non-zero emission HGVs - by 2035 for vehicles 26 tonnes and under, and 2040, for vehicles over 26 tonnes.<sup>68</sup> This is likely to encourage the adoption of less polluting goods movement and drive the parcel market towards innovative environmentally friendly alternatives of processing and delivery.
- 4.39 Consumers would like to see postal services become more environmentally sustainable, with 31% of customers strongly agreeing that they would prefer carbon-neutral delivery in a 2021 report.<sup>69</sup> However, fewer consumers strongly agreed (only 27%) that they would be willing to receive a parcel a few days later to reduce its environmental impact and only 10% of customers changed their online shopping behaviour in 2020 due to sustainability concerns.
- 4.40 Many companies have been expanding their Environmental, Social and Governance (ESG) commitments and developing low emission alternatives in a response to global efforts to become environmentally sustainable. This is reflected in changes to delivery vans, delivery services and last mile solutions.
- 4.41 We are continuing to engage with our industries on environmental sustainability, including the postal sector, and how they might contribute to the momentum towards the UK's net-zero carbon target. We will also continue to monitor future developments in this area as part of our ongoing annual monitoring updates.

## Recent developments

### Emissions reduction policies

- 4.42 Cities across the UK are adopting various approaches to reduce emissions in highly congested areas. London has two zones designed to restrict the entrance of high emittance vehicles. The first of these was the Low Emissions Zone (LEZ), initially introduced in February 2008 in central London; it has since expanded to now cover most of Greater London operating to charge the most polluting heavy diesel vehicles.<sup>70</sup> In March 2021, Transport for London (TfL) introduced a £300 a day charge on Heavy Goods Vehicles (HGVs) travelling within the LEZ that did not meet

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<sup>67</sup> HM Government, October 2021: [Net Zero Strategy "Build Back Greener"](#), page 24 [accessed 1 December 2021]

<sup>68</sup> HM Government, October 2021: [Net Zero Strategy "Build Back Greener"](#), page 162. [accessed 1 December 2021]

<sup>69</sup> International Post Corporation, February 2021. [Cross-Border E-Commerce Shopper Survey](#), page 21. [accessed 1 December 2021]

<sup>70</sup> Transport for London, 2021. [Low Emission Zone](#). [accessed 1 December 2021]

new, stricter emission standards. The second of these was the Ultra-Low Emission Zone (ULEZ), introduced in April 2019 in central London, and subsequently expanded in October 2021 to cover the Inner London area (the same as used for the London Congestion charge). Whereas the LEZ simply covered goods vehicles and vans, the ULEZ was expanded to include cars (petrol and diesel) and motorcycles, with a few exceptions.<sup>71</sup>

- 4.43 On 1 June 2021, Birmingham launched a Clean Air Zone, under which drivers of the highest polluting vehicles would be required to pay a daily charge if they wish to travel within the city centre area.<sup>72</sup> Additionally, Bristol City Council has announced that they will launch the zone in summer 2022 and have shelved the early suggestion of an outright ban on diesel vehicles, with more information about exemptions and financial support due in late 2021.<sup>73</sup> A provisional date of July 2022 has been set by Newcastle and Gateshead Councils to introduce a LEZ<sup>74</sup> and Sheffield City Council's Clean Air Zone will introduce high emission charging by late 2022.<sup>75</sup>
- 4.44 In Scotland, Glasgow was the first area to introduce a LEZ in December 2018. Two phases form part of the plans, with the first having covered local buses. The second will see all vehicles needing to meet certain emissions standards to be able to enter the zone and will be introduced in 2023. The Scottish government have plans to introduce similar zones to target pollution hotspots where emissions are higher, such as Aberdeen, Dundee and Edinburgh between February 2022 and May 2022.<sup>76</sup>
- 4.45 The Department for Transport (DfT) published their plan to decarbonise transport in July 2021, which contains a number of proposals and initiatives.<sup>77</sup> For example, it includes a proposal to reform last mile delivery by piloting delivery consolidation centres, which will seek to ensure that the majority of urban deliveries are transferred to zero emission vehicles for the last mile. We will monitor the progress of these plans and consider any impacts they may have on the postal sector and our regulation as details become clear.

### Reducing emissions within postal networks

- 4.46 Operators continue to invest in reducing the emissions produced by their fleets by replacing petrol or diesel vehicles with electric vehicles.
- 4.47 Royal Mail announced plans to introduce 3,000 new electrical vans (EVs) to its fleet from October 2021, which would bring the total amount of EVs in Royal Mail's fleet to 3,300<sup>78</sup> out of a total of 41,000 delivery and collection vans. Additionally, Royal Mail announced the introduction of 29 low emission gas trucks, fuelled by bio-compressed natural gas (Bio-CNG), in May 2021.<sup>79</sup> Royal Mail also launched a zero-emission delivery office fleet at its Bristol delivery

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<sup>71</sup> Transport for London, 2020. [Ultra-Low Emission Zone](#). [accessed 1 December 2021]

<sup>72</sup> Birmingham City Council, 2021. [A clean air zone for Birmingham](#). [accessed 1 December 2021]

<sup>73</sup> Bristol City Council, 2021 [Bristol's Clean Air Zone](#). [accessed 1 December 2021]

<sup>74</sup> Newcastle and Gateshead Councils, July 2021 [Announcement of Newcastle's Clean Air Zone for 2022](#). [accessed 1 December 2021]

<sup>75</sup> Sheffield City Council, 2021 [Sheffield's Clean Air Zone](#). [accessed 1 December 2021]

<sup>76</sup> Transport Scotland, 2021 [Announcement of Low Emissions Zones](#). [accessed 1 December 2021]

<sup>77</sup> Department for Transport, 14 July 2021. [Transport decarbonisation plan](#). [accessed 1 December 2021]

<sup>78</sup> Commercial Fleet, 11 June 2021. [Royal Mail commits to 3,000 more electric vans](#). [accessed 1 December 2021]

<sup>79</sup> Commercial Fleet, 17 May 2021. [Royal Mail takes on 29 gas-powered trucks to cut transport](#). [accessed 1 December 2021]

office by switching to a completely electrical fleet in May 2021<sup>80</sup>, and announced (on 20 September 2021) a six-month trial of twelve fully Micro Electric Vehicles (MEVs) across the UK as part of an assessment of whether MEVs can be employed as a lower carbon alternative to larger vans.<sup>81</sup>

- 4.48 DPD announced in June 2021 that it plans to order 750 additional electric vehicles thereby doubling its electric vehicle fleet out of its 8000-vehicle fleet.<sup>82</sup> In July 2021, Oxford became DPD UK's first all-electric city whereby all future parcel deliveries will be made with only electric vehicles and sent from a state-of-the-art, net-zero, eco-depot. This is part of DPD's Vision25 strategy, with 24 other towns and cities included in this initiative with nine further UK green cities to be confirmed this year.<sup>83</sup>
- 4.49 DHL Express will have introduced more than 100 additional electrical vans to its fleet by the end of 2021 as part of its goal of deploying an entirely electric fleet across the UK by 2030<sup>84</sup>, and Hermes has announced its investment in 168 zero-emission electric vans that are expected to be operational by the end of 2021.<sup>85</sup> Hermes has also added to its fleet of bio-compressed natural gas (CNG) powered HGVs, which now totals 160. Further, 30% of the fleet serving its Parcel Shops and lockers are EVs; it uses 100% certified renewable energy and is to be the first UK carrier to trial an electric HGV.<sup>86</sup>
- 4.50 Yodel announced it had reduced its carbon emissions by 25% over the last five years as a result of investments in its fleet (such as a requirement for all its vehicles to be three years old or younger to meet the requirements of clean air zones).<sup>87</sup>
- 4.51 Home collection services provide an opportunity to reduce the number of journeys necessary by operators and their customers when facilitating delivery networks. As highlighted in 2020, Royal Mail joined other operators such as DPD, Hermes and Yodel, offering home collection services, as an alternative to using in-store parcel networks or other access points. The 'Parcel Collect' service offers parcel collection directly from people's homes and utilises vans that are already operating locally for last mile deliveries.<sup>88</sup>

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<sup>80</sup> Royal Mail, 27 May 2021. [Royal Mail launches first delivery office to operate an all-electric delivery fleet](#). [accessed 1 December 2021]

<sup>81</sup> Royal Mail, 20 September 2021. [Royal Mail trials two types of micro electric vehicles as part of drive to further reduce emissions](#). [accessed 1 December 2021]

<sup>82</sup> Parcel and Postal Technology International, 22 September 2021. [DPD pledges to "tackle the climate crisis" in environmental awareness campaign](#). [accessed 1 December 2021]

<sup>83</sup> DPD Group, 27 July 2021. [Oxford becomes DPD UK's first all-electric city](#). [accessed 1 December 2021]

<sup>84</sup> Post and Parcel, 9 September 2021. [DHL Express: this is the next step in our electrification journey](#). [accessed 1 December 2021]

<sup>85</sup> Commercial Fleet, 22 September 2021. [Hermes strikes electric van fleet deal with Mercedes-Benz Vans](#). [accessed 1 December 2021]

<sup>86</sup> Apex Insight, 1 November 2021. [Hermes UK unveils sustainability and ethics programme](#). [accessed 1 December 2021]

<sup>87</sup> Parcel and Postal Technology International, 22 February 2021. [Yodel cuts emissions by 25% despite record growth](#). [accessed 1 December 2021]

<sup>88</sup> Ofcom, November 2020. [Annual Monitoring Update for Postal Services 2020](#). [accessed 1 December 2021]

## 5. Royal Mail universal service performance

5.1 As the designated universal service provider, Royal Mail is required to collect (from all access points)<sup>89</sup> and deliver letters six days a week, and parcels five days a week, to all UK addresses as part of the universal service and is required to provide certain universal postal services. Royal Mail is also subject to a number of performance targets, also known as quality of service targets, in order to incentivise high levels of quality for consumers.

### Overview

5.2 In this section we consider Royal Mail's performance against the requirements and targets set for the provision of the universal service during 2020-21. This was a period during which Royal Mail's service performance came under severe strain due to the impact of the pandemic on its people and operations. In particular:

- **Increased absence levels**, as a result of sickness, shielding and self-isolation, had a significant impact on Royal Mail operations, particularly in delivery.
- **Significantly increased parcel volumes** affecting capacity in Royal Mail's overall network. This volume increase, which was unexpected, was due to the increased reliance on online retail during the period of closure of non-essential retail shops and the increased levels of consumer to consumer parcel deliveries sent where personal contact was limited (for example, during Christmas 2020).<sup>90</sup>
- **Social distancing requirements**, as a result of government guidelines and health and safety obligations, created operational challenges for Royal Mail. In particular, this limited the ability for postal workers to share vehicles, significantly affecting Royal Mail's ability to service some of its delivery routes each day.

5.3 As a result of the above, Royal Mail's performance was substantially below the regulatory targets.<sup>91</sup> Given the potential impact on consumers of this fall in performance, we closely monitored the steps taken by Royal Mail to respond to, and minimise, the impact of the pandemic on its provision of the universal postal service. This included monitoring (i) the extent of any national/local acute service disruptions, (ii) Royal Mail's overall quality of service performance, and (iii) the information provided by Royal Mail to consumers regarding quality of service performance.

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<sup>89</sup> As defined in section 29(11) of the Postal Services Act 2011, "'access point' means any box, receptacle or other facility provided for the purpose of receiving postal packets, or any class of postal packets, for onwards transmission by post".

<sup>90</sup> Whilst most commercial parcel deliveries do not form part of the universal postal service, we recognise that such an unprecedented and sudden shift in the type of mail entering Royal Mail's pipeline will have created a significant strain on its operational capacity and performance. See Section 4 above for consideration of market developments.

<sup>91</sup> See sub-section "The regulatory emergency period" later in this section for details of the regulatory arrangements for emergency periods and the steps taken by Royal Mail triggered by the onset of the pandemic.

## Quality of service

- 5.4 In July 2020, Ofcom announced the completion of its enforcement action against Royal Mail for failing to meet certain quality of service targets during the year 2018-19.<sup>92</sup> In particular, Ofcom imposed a financial penalty of £1.5 million because it considered, among other factors, that the target was missed by a significant amount and that Royal Mail had not provided any satisfactory explanation. During the course of the investigation, we had made clear to Royal Mail that improvements were necessary.
- 5.5 During the subsequent year (2019-20), we noted substantial improvements in Royal Mail's quality of service and our expectation was that Royal Mail would meet its targets. Prior to the impact of Covid-19 in March 2020, the evidence we gathered showed that Royal Mail was performing well and in line with regulatory targets.
- 5.6 The pandemic had a significant and immediate impact on quality of service during the first quarter of 2020-21 (i.e. April 2020 to June 2020) with performance levels falling rapidly. The onset of the pandemic triggered a regulatory emergency period which afforded Royal Mail additional flexibility to do what was necessary to respond to the challenges it was facing. The compliance sub-section later in this section sets out further details on the regulatory arrangements for emergency periods and the steps taken by Royal Mail.
- 5.7 During the summer of 2020, there were improvements as certain restrictions were eased and case numbers fell. However, performance declined steeply again in November and December 2020. A key factor in this period was the increase in parcel volumes which exceeded forecasts during the peak period, causing Royal Mail's operations to struggle to cope with the unplanned scale of demand. The tightening of retail restrictions in the run-up to Christmas further increased parcel volumes, and rising infection/absence rates in late December and January added to the service quality challenges.<sup>93</sup>
- 5.8 The recovery since January 2021 had been sustained through to the end of the financial year and continued to mirror the reducing case numbers, and restrictions, associated with the pandemic. In June 2021, in line with its commitment to transparency, Royal Mail published its Annual Adjusted Quality of Service Report<sup>94</sup>, stating "*Royal Mail's service levels continue to improve this year as we continue to take even more action to improve Quality of Service, with 1st Class performance in May of 89.0% delivered by the next working day and 2nd Class performance of 98.0% delivered within three working days*".
- 5.9 We expected the recovery to continue into the current financial year, April 2021 to March 2022; however, Royal Mail recently published the second quarterly (Q2) report for the period showing performance has recently dropped back. We continue to engage with Royal Mail to

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<sup>92</sup> Ofcom, August 2020. [Investigation into Royal Mail's quality of service performance in 2018/19](#). [accessed 6 December 2021]

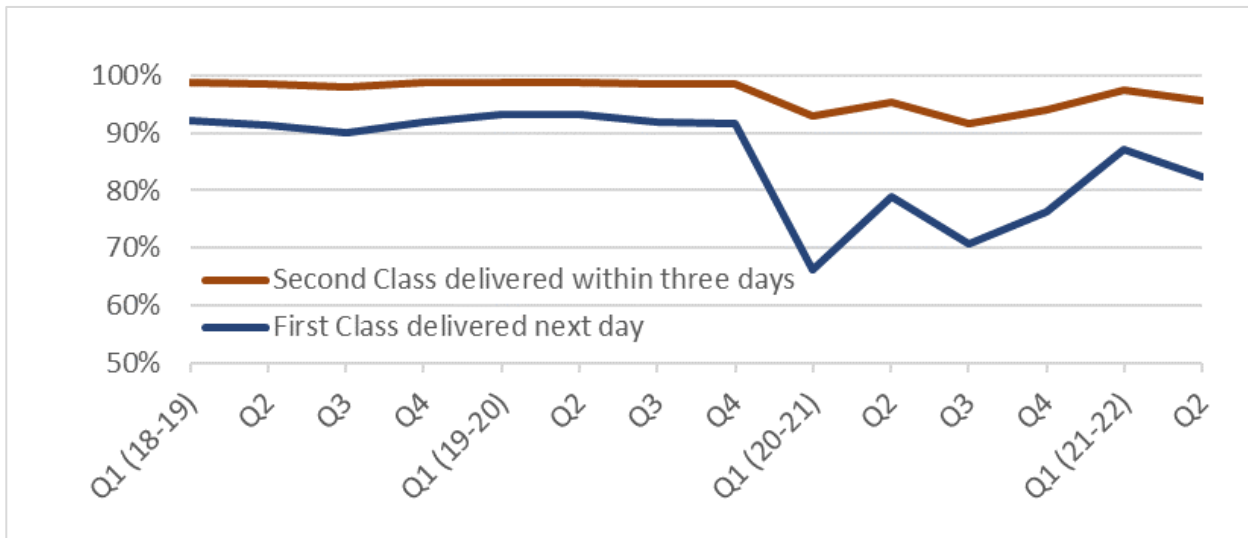
<sup>93</sup> Based on Ofcom analysis of monthly quality of service data supplied confidentially by Royal Mail at meetings on 15 February, 26 March and 3 June 2021.

<sup>94</sup> Royal Mail, June 2021, [Royal Mail Full Year Adjusted Quality of Service 2020-21](#). Some data was released on 7 May 2021 covering all four quarters of the financial year. Royal Mail decided not to publish quarterly results in accordance with the usual reporting requirements, notifying Ofcom of its intention to provide transparency in line with full year results. [accessed 1 December 2021]

understand its performance and ensure consumers remain informed of service disruptions, for example, through its online service updates.<sup>95</sup>

5.10 Table 5.2, on the next page, summarises Royal Mail’s quality of service performance in 2020-21 and 2019-20, against the performance targets we have set.<sup>96</sup> This is also shown graphically in the quality of service section of the online Interactive Data. To illustrate trends over time, Figure 5.1 shows First Class delivery and Second Class delivery trends for quarterly quality of service performance since Q1 2018-19 up to and including Q2 2021-22 (with the annual targets for these services set out in Table 5.2). Although First Class delivery improved to 87% in the first 3 months of 2021-22<sup>97</sup>, it has since fallen back to 82.4% in the second quarter and is currently below the target of 93%.<sup>98</sup>

**Figure 5.1: Quarterly quality of service performance for First and Second Class delivery**



Source: Royal Mail Quality of Service Quarterly Reports.<sup>99</sup>

<sup>95</sup> Royal Mail, 2021. [Service Update](#), including a list of delivery offices which may be temporarily impacted by “local issues such as COVID-related self-isolation, high levels of sick absence, resourcing, or other local factors.” [accessed 1 December 2021]










<sup>96</sup> Ofcom, published annually. [Post Monitoring Interactive Data](#). [accessed 1 December 2021]

<sup>97</sup> Royal Mail, August 2021. [Quality of Service and Complaints Report – Quarter 1 2021-22](#). [accessed 1 December 2021]

<sup>98</sup> Royal Mail, November 2021. [Quality of Service and Complaints Report – Quarter 2 2021-22](#). [accessed 1 December 2021]

<sup>99</sup> Royal Mail, 2021. [Quality of Service](#). [accessed 1 December 2021]

**Table 5.1: Quality of service 2020-21 summary**

KPI	Target and description		2020-21 Result	2019-20 Result	Change from prior year
First Class delivery	93.0%	Items delivered day after collection	74.7% <span style="color: red;">✗</span>	92.6% <span style="color: red;">✗</span>	
Second Class delivery	98.5%	Items delivered within 3 days of collection	93.7% <span style="color: red;">✗</span>	98.7% <span style="color: green;">✓</span>	
Post Code Area (PCA) <sup>100</sup> Target: First Class single piece mail	118/118 PCAs	91.5% items delivered day after collection	0/118 <span style="color: red;">✗</span>	105/118 <span style="color: red;">✗</span>	
PCA Target (with confidence interval)	118/118 PCAs	91.5% items delivered day after collection	0/118 <span style="color: red;">✗</span>	117/118 <span style="color: red;">✗</span>	
Special Delivery	99.0%	Items delivered by 1pm day after collection	87.7% <span style="color: red;">✗</span>	98.5% <span style="color: red;">✗</span>	
European International Delivery	85%	Items delivered in 3 days	71% <span style="color: red;">✗</span>	86% <span style="color: green;">✓</span>	
Collection points: 6 days per week	99.90%	Collection points served	99.73% <span style="color: red;">✗</span>	99.90% <span style="color: green;">✓</span>	
Delivery routes: 6 days per week	99.90%	Delivery routes completed	91.57% <span style="color: red;">✗</span>	99.52% <span style="color: red;">✗</span>	
Correct delivery: 6 days per week	99.50%	Items correctly delivered	99.70% <span style="color: green;">✓</span>	99.70% <span style="color: green;">✓</span>	

Source: Royal Mail Quality of Service Reports<sup>101</sup>, Year End Adjusted 2019-20 and 2020-21.

## Compliance

5.11 We take compliance with quality of service requirements seriously because of the consumer harm that can result when service levels fall below the standards that are expected of Royal Mail. However, in considering whether Royal Mail has complied with its regulatory obligations we will take into account factors that are beyond its control and where it has taken sufficient action to mitigate as far as possible the impact of such factors on its performance. This is consistent with the enforcement approach we have taken over recent years.

<sup>100</sup> The postcode area is the largest geographical postcode unit and forms the initial characters of the alphanumeric UK postcode. There are 121 PCAs in the UK, however this target excludes three PCAs in Scotland (HS Hebrides, KW Kirkwall, ZE Lerwick). It is not practical to achieve a next day service for 91.5% of First Class mail sent from across the UK to these remote destinations. In addition, these offshore areas are more frequently subject to weather-related disruption of ferry and air services.

<sup>101</sup> Royal Mail, 2021. [Quality of Service](#). [accessed 1 December 2021]

- 5.12 As noted earlier, Royal Mail provided evidence to Ofcom of the impact of the pandemic on its performance and the mitigating steps it was taking. Taking account of the uniquely difficult circumstances of the pandemic, we considered that these are factors that were beyond Royal Mail's control and that they caused a substantial impact on quality of service. In that context, we decided it was not appropriate to open an investigation into Royal Mail's service levels during 2020-21.<sup>102</sup>
- 5.13 We continue to monitor Royal Mail's quality of service performance and hold it to account on returning to, and sustaining, its quality of service targets. As is our general approach to compliance, we will continue to be pragmatic and proportionate, taking account of any relevant matters beyond Royal Mail's control that impact on its performance, including any continuing impacts of the pandemic.

## The regulatory emergency period

- 5.14 Under the Postal Services Act 2011, the regulatory conditions relating to the universal postal service provide that Royal Mail is not required to sustain these services without interruption, suspension or restriction in the event of an emergency.<sup>103</sup> The statutory framework therefore allows Royal Mail to modify its operations without formal authorisation from Ofcom, if it considers this necessary to respond to the emergency challenges it is facing.
- 5.15 In April 2020, we acknowledged that the onset of the Covid-19 pandemic constituted an emergency period. Accordingly, from that date (and until the end of the regulatory emergency period on 31 August 2021), Royal Mail was able to take steps to temporarily reduce service levels or amend product specifications where necessary. As noted above, we closely monitored the steps taken by Royal Mail throughout the pandemic in order to ensure that impacts on consumers were minimised wherever possible.
- 5.16 In addition to general disruption to its operation, Royal Mail took the following steps to respond to the emergency challenges it faced in sustaining the universal postal service:
- Between 2 May and 13 June 2020, Royal Mail suspended the Saturday delivery of letters. Royal Mail cited Covid-19 related absences and social distancing requirements as reasons for the suspension, as well as reducing the burden on staff who were able to work.
  - In March 2020, Royal Mail suspended the guaranteed delivery time associated with USO special delivery (normally 1pm). From 31 March 2020, Royal Mail reinstated a 9pm guarantee and, from 28 September 2020, Royal Mail brought this forward to a 4pm guarantee.
- 5.17 Following engagement between Ofcom and Royal Mail in June 2021, Royal Mail acknowledged that the emergency period was coming to an end and preparations were made for a return to normal regulatory arrangements from 1 September.<sup>104</sup>

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<sup>102</sup> Ofcom, August 2021. [Royal Mail Quality of Service Performance Update](#). [accessed 1 December 2021]

<sup>103</sup> See, in particular, section 33(3) of the Postal Services Act 2011 (*Exceptions to minimum requirements*). The Designated Universal Service Provider (DUSP) Condition 1 recognises this exception within DUSP Condition 1.3.4(a).

<sup>104</sup> Ofcom, August 2021. [Royal Mail Quality of Service Performance Update](#). [accessed 1 December 2021]



5.18 In July 2021, Royal Mail confirmed its commitment to returning to pre-pandemic quality by the end of August 2021 albeit stating that there were likely to be some ongoing impacts due, for example, to surges in transmission following the gradual reduction in UK restrictions and the likely ongoing need for self isolation for staff coming into contact with people infected by the virus.

## Exceptional circumstances affecting specific locations

5.19 Separate from any emergency period, in certain exceptional circumstances, Ofcom recognises that Royal Mail can depart from the universal service requirements.<sup>105</sup> Given the impact on consumers when such requirements are disapplied, we have clearly specified those circumstances which we consider to be exceptional.<sup>106</sup> None of the exceptional circumstances considered in this section relate to the Covid-19 pandemic, and may have been ongoing throughout the financial year.

5.20 **Delivery.** To provide transparency, we require Royal Mail to submit to Ofcom an annual report listing the addresses of delivery points in which exceptional circumstances have persisted for 12 months or more and the relevant circumstances which Royal Mail considers justify that exception. Royal Mail has recently published a non-confidential, summary version of this information on its website.<sup>107</sup>

5.21 A total of 4,295 delivery points was reported by Royal Mail to be subject to exceptional circumstances in its 2020-21 report, meaning that they are not able to receive deliveries to the frequency required under the universal service obligation.<sup>108</sup>

5.22 **Access points.** We have also put in place rules setting out the circumstances in which Royal Mail may except certain access points (typically postboxes or Post Offices) from collections, with those circumstances including, in particular, difficulty of access. In its 2020-21 report, Royal Mail detailed 506 collection points where such exceptions were present for 12 months or more.<sup>109</sup>

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<sup>105</sup> This is recognised in DUSP 1.3.2(b). We note that this “exceptional circumstances” rule is distinct from DUSP 1.3.4 which is discussed in more detail in the earlier sub-section ‘The regulatory emergency period’. In particular, DUSP 1.3.4 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. Ofcom has not specified the circumstances which may give rise to an “emergency”.

<sup>106</sup> Exceptional circumstances include where there is an immediate risk to the health and safety of postal staff, the delivery point is not sufficiently secure, and/or it is difficult to access the delivery point. Where Royal Mail determines that such exceptional circumstances exist in relation to a given delivery point for a sustained period of time, it must carry out a review every 12 months. There are also procedural requirements that enable consumers to challenge any such ‘exceptional circumstance’ determination by Royal Mail. See also Royal Mail’s [USO Delivery Exceptions 2020-21 Report](#). Ofcom, December 2013. [Direction relating to exceptions to the postal deliveries Universal Service Obligation and approval of alternative delivery points](#); Ofcom, December 2013. [Direction relating to exceptions to the postal collections Universal Service Obligation and minor amendment to Designated Universal Service Provider Condition 1](#). [accessed 1 December 2021]

<sup>107</sup> See Royal Mail’s [USO Delivery Exceptions 2020-21 Report](#). [accessed 1 December 2021]

<sup>108</sup> Reported delivery exceptions may include delivery points that receive deliveries but on fewer days a week than required under the universal service obligations. This might be the case where, for example, an excepted delivery point is on an island where there is a ferry service only on certain days of the week. Reported delivery exceptions would also include delivery points where daily deliveries are made but to an alternative delivery point (i.e. to a secure box on the perimeter of an address rather than to a building where there may be access difficulties).

<sup>109</sup> See Royal Mail’s [USO Collections Exemptions 2020-21 Report](#). [accessed 1 December 2021]

- 5.23 **Monitoring.** We will continue to monitor levels of exceptions and of delivery and collections as part of our wider monitoring programme, making specific enquiries relating to difficulties with access for the purposes of delivery and/or collection where appropriate.

## Complaints and compensation

- 5.24 We require Royal Mail, as the universal service provider, to publish an annual report setting out the number of complaints received in each financial year in relation to universal postal services and the amount of compensation paid in relation to those complaints. It is also required to report the top ten categories of complaint.<sup>110</sup>
- 5.25 Overall complaint volumes increased to 1,599,593 in 2020-21, representing an increase of 48% from 2019-20. There was a mix of increased and decreased complaints across the top ten complaint categories, with 'loss' showing the largest increase of 97%<sup>111</sup>, 'damage' complaints increasing 71%, and 'delay' complaints increasing 59%. Other increases are still significant but at a lower magnitude – 'redirection' (up 16%) and 'denial of receipt' (up 15%). We note significant drops in 'P739 ("Sorry we missed you") failure'<sup>112</sup> (down 43%), 'mis-delivery' (down 24%), and 'delivery procedure errors' (down 14%).
- 5.26 We recognise the significant rise in complaints year-on-year was unsurprising due to the impacts of Covid-19 and the decline in quality of service performance over the year, and also the increased value placed on parcel deliveries. We observe that the increase in complaints across different categories aligns with both the increased demand for home deliveries and the general increase in parcel volumes sent via and delivered by Royal Mail in the last financial year. The categories where complaint numbers decreased also appear to align with recipients of postal items (including parcels) being at home more often to receive them as a result of Covid-19 restrictions imposed across the UK.
- 5.27 Royal Mail is required to provide compensation on a fair and reasonable basis where a customer experiences loss, delay or damage in relation to certain universal postal services.
- 5.28 Royal Mail's Complaints and Compensation report<sup>113</sup> shows total compensation paid by Royal Mail increased by 70% from last year, up from £9.8 million to £16.7 million. The total number of complaints where compensation was paid increased by 296,670 to 726,353. When compensation was given, the average compensation paid per complaint increased by 11p to £22.97.
- 5.29 We will continue to examine complaints and compensation data on an ongoing basis as part of our monitoring programme.

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<sup>110</sup> Ofcom's [Post Monitoring Interactive Data](#) contains the top ten categories of complaint to Royal Mail in 2020-21 and in previous years. More information is available in Royal Mail's [Annual Consumer Complaints and Compensation Report 2020-21](#). [accessed 1 December 2021]

<sup>111</sup> 'Part loss' complaints also increased 42%.

<sup>112</sup> P739 cards are "sorry we missed you" notices left to inform mail recipients of parcel delivery attempts – complaints related to P739 failure include non-provision of notices and/or inaccurate or inappropriate use of notices.

<sup>113</sup> Royal Mail. [Annual Consumer Complaints and Compensation Report 2020-21](#). [accessed 1 December 2021]

## 6. Royal Mail financial performance

- 6.1 We monitor the financial performance of Royal Mail's Reported Business<sup>114</sup> and certain financial metrics relating to the wider Royal Mail Group, as we have a duty to have regard to the need for the provision of a universal service to be financially sustainable.
- 6.2 This section summarises the results of our financial monitoring for 2020-21, including a comparison with 2019-20, which informs our view of the financial sustainability of the universal postal service.<sup>115</sup> In particular, we discuss:
- changes in volumes and revenues for the Reported Business, highlighting particular product groups and mailing formats<sup>116</sup> to explain what is driving overall revenue and volume changes;
  - changes in the costs of the Reported Business (this information is also an important input when considering the efficiency of the universal postal service, which is discussed further in Section 7);
  - the profit margin (or 'EBIT margin') of the Reported Business; and
  - Royal Mail Group-level financial health metrics including cash flow<sup>117</sup> and Royal Mail's Viability Statement.
- 6.3 We consider Royal Mail's Group-level financial metrics and Viability Statement as being the most appropriate way of assessing short term sustainability. We believe that these measures indicate that Royal Mail, and by extension the universal postal service, is likely to be sustainable in the short term.
- 6.4 Trends in the Reported Business's EBIT margin provides us with an indicator of the long term sustainability of the universal postal service. There has been a rise in the EBIT margin in this financial year to 2.7%. This has primarily been driven by revenue growth from rising parcel volumes due, in large part, to the Covid-19 pandemic: Royal Mail believes the pandemic has resulted in a structural shift, with a permanent step up in the level of parcel volumes.<sup>118</sup> It is unclear at this point as to the extent to which revenue changes are also structural.

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<sup>114</sup> The Reported Business is a part of Royal Mail's UK Parcels, International and Letters (UKPIL) business but excludes the activities and products of Parcelforce International and Royal Mail Estates Ltd. The services within the Reported Business include all universal service products (based on the universal service obligation, USO) and other 'non-USO' products which use the universal service network (for example, retail bulk mail and access). From 2020-21, Royal Mail will be referring to UKPIL as Royal Mail UK.

<sup>115</sup> Data within this section is supplemented by an interactive data file which includes five year views on revenues, costs and volumes across different product splits, such as USO/Non-USO and Single Piece vs Bulk items and can be access using the following link: [https://www.ofcom.org.uk/postal-services/information-for-the-postal-industry/monitoring\\_reports](https://www.ofcom.org.uk/postal-services/information-for-the-postal-industry/monitoring_reports) [accessed 2 December 2021]

<sup>116</sup> Mail format e.g. letters, large letters, parcels.

<sup>117</sup> Ofcom, 2017. Review of the Regulation of Royal Mail 2017 statement [accessed 2 December 2021]. In this review, we committed to monitoring the following short to medium term financial health metrics: Funds from operations/net debt, net debt/EBITDA and EBITDA/interest. While we cannot publish forward looking metrics as these rely on Royal Mail's confidential Business Plan, we can provide historic metrics as an indicator of financial health over the period considered.

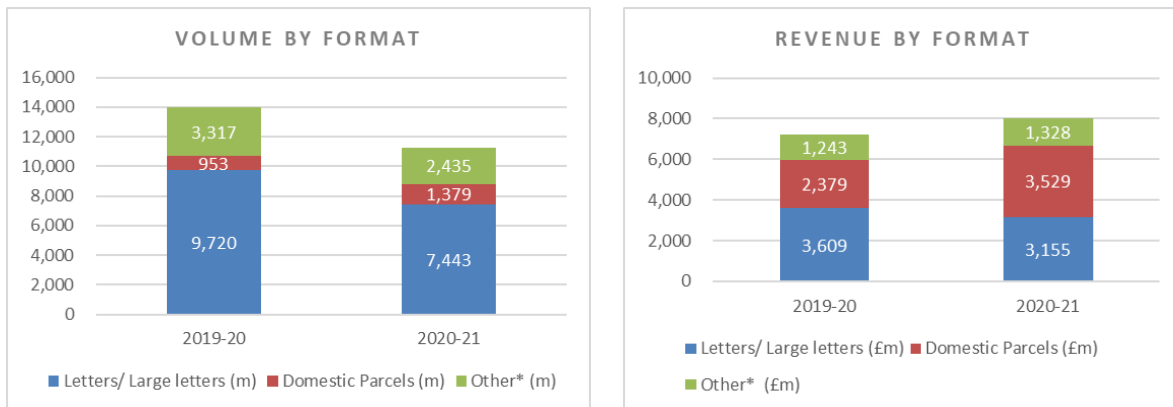
<sup>118</sup> Royal Mail PLC, 2021. Results for the half year ended 26 September 2021, 18 November 2021, page 8, "Domestic parcel volumes (ex. international) increased by 33% compared to pre-COVID levels (H1 2019-20), reinforcing our view that we have seen a structural shift in the market".

- 6.5 We discuss the appropriate metrics for future assessments of the long term sustainability of the universal postal service as part of the 2022 Review of Postal Regulation, published alongside this report.
- 6.6 In considering sustainability, we also have regard to the efficiency levels achieved. Efficiency is discussed in more detail in Section 7, while the implications for future monitoring reports are also set out in more detail as part of the 2022 Review of Postal Regulation.

## Reported Business volumes and revenues

- 6.7 Total Reported Business parcel volume performance in 2020-21 was better than expected. The impact of Covid-19 accelerated parcel volume growth while letter volumes declined from the start of 2020-21, compared to the prior year and to Royal Mail’s budget.
- 6.8 Addressed letter volume decline (Figure 6.1), at 20.5%, was greater than Royal Mail’s budget expectations. The initial decline was steep, but this recovered throughout the year as business activity resumed. Letters revenue declined by 10.1%, as volume decline was partially offset by letter price increases.
- 6.9 Total parcel volume growth of 33.6% (Figure 6.1) was well above Royal Mail’s expectations. Royal Mail set out in its 2021 Annual Report that the parcel growth was due to people staying at home and ordering online during the pandemic.<sup>119</sup> Domestic parcel volumes grew by 44.7% (Figure 6.1). International parcel volumes grew in the first half of the year, driven by imports but declined in the second half due to reduction in air capacity, increase in conveyancing costs and the UK exiting the European Union.

**Figure 6.1: Reported Business volumes (m) and revenues (£m) split by format**



Source: Royal Mail Regulatory Financial Statements, unaudited submissions from Royal Mail and Ofcom analysis.

\* Other products mainly consist of international letters and parcels and unaddressed mail

- 6.10 Overall, Reported Business revenue grew, in nominal terms, by 10.8%, mainly due to the growth in domestic parcel revenue of 48.3% underpinned by the significant growth in domestic parcel volumes, as well as flow through from price increases during the year (effective 1 January 2021) and a switch to more expensive products such as Tracked. In addition, Royal Mail

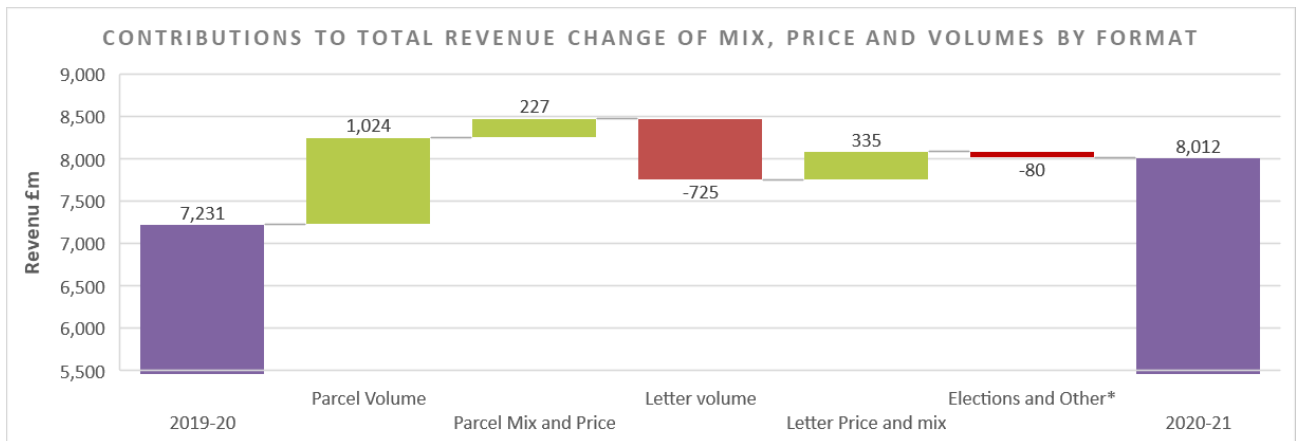
<sup>119</sup> Royal Mail PLC, 2021. [Annual Report and Financial Statements for the full year ended 28 March 2021](#), page 7. [accessed 2 December 2021]

was awarded a contract in November 2020 by the Department of Health and Social Care to deliver additional Covid-19 home test kits, seven days a week which also contributed to revenues.<sup>120</sup> In 2020-21, total parcel revenue grew 41.0%, compared to revenue growth in 2019-20 of 5.4%

## Impact of change in mix of format on Reported Business revenues

6.11 We have undertaken some high-level analysis to ascertain how much of the overall change in total Reported Business revenue in 2020-21 was due to a change in mix of format, price and volumes. This is set out in Figure 6.2 below. The increase in parcel volumes had the largest impact on the increase in total revenues.

**Figure 6.2: Contributions to total revenue change of mix, price and volumes**



Source: Royal Mail Regulatory Financial Statements, unaudited submissions from Royal Mail, and Ofcom analysis.

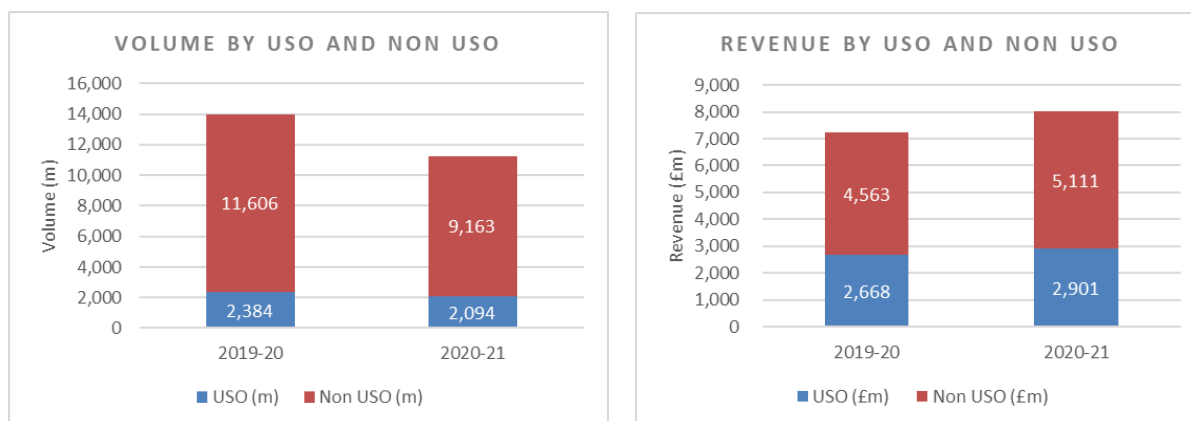
\* Elections and Other includes unaddressed advertising mail, philatelic and other non-volume related items revenues

## Changes in volume and revenue by universal and non-universal services

6.12 The services within the Reported Business include all universal service products, both letters and parcels, as well as non-universal service products (for example, retail bulk mail and access mail) which use the same delivery network.

<sup>120</sup> Royal Mail PLC, 24 November 2020. [Royal Mail announce delivery and collection of Covid test kits seven days a week.](#) [accessed 2 December 2021]

**Figure 6.3: Reported Business volumes and revenues split by universal and non-universal service products**



Source: Royal Mail Regulatory Financial Statements, unaudited submissions from Royal Mail and Ofcom analysis.

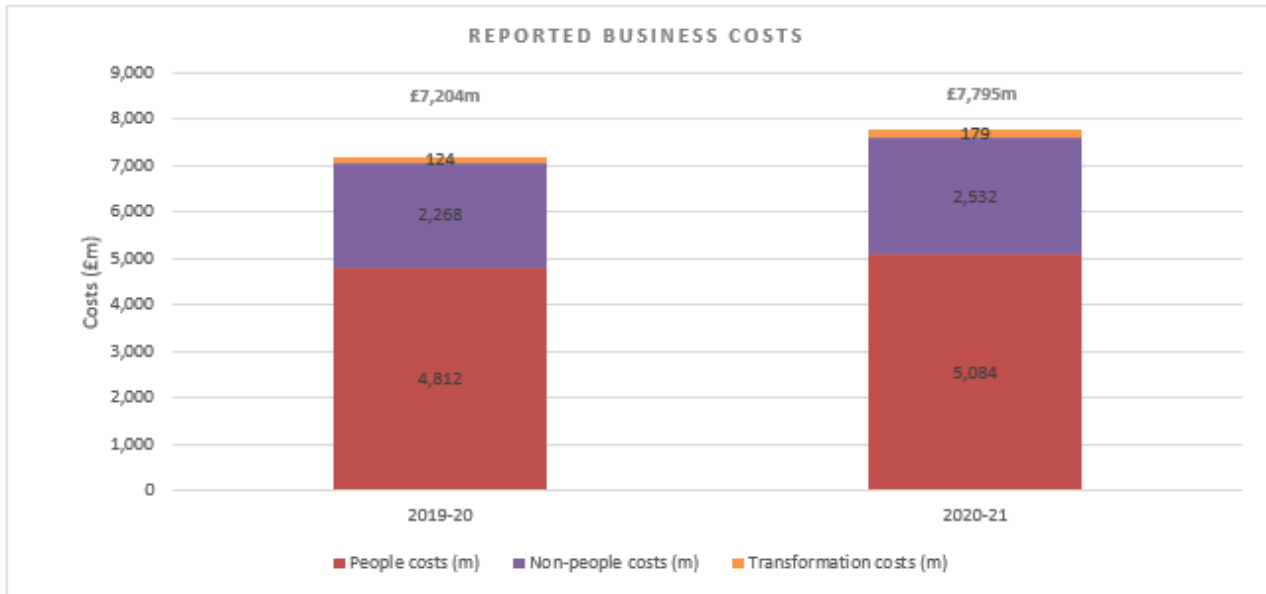
- 6.13 In 2020-21, universal service products accounted for 36% of the Reported Business revenues but only 19% of volumes. USO volumes declined by 12% although revenues increased by 9%, due to price increases for single piece items offsetting some of the volume decrease (see Figure 6.3).
- 6.14 In contrast, revenues from non-universal service products increased by 12%. This was due to an increase in the use of tracked products<sup>121</sup>, as well as price rises across business and advertising mail from January 2021. These mix and pricing changes more than offset the volume decline of 21%.

## Reported Business costs

- 6.15 Total Reported Business costs, including transformation costs, rose by 8.2% in 2020-21 to £7.8bn (see Figure 6.4). This was a significant increase on the previous year’s movements when costs increased by 3.1%. This was driven mainly by an increase in people costs. We summarise the cost movements in this section. A discussion of Royal Mail’s efficiency is included in Section 7.

<sup>121</sup> Royal Mail PLC, 2021, [Annual Report and Financial Statements for the full year ended 28 March 2021](#), page 70. [accessed 2 December 2021]

**Figure 6.4: Reported Business costs (nominal)**



Source: Royal Mail Regulatory Financial Statements, unaudited submissions from Royal Mail and Ofcom analysis.

\* Adjusted to 52 weeks

## People costs<sup>122</sup>

6.16 People costs increased by 5.7% to £5.1bn. According to Royal Mail, this was mainly driven by:

- the cost of social distancing as a result of the Covid-19 pandemic;
- growth in parcel volumes, which led to greater use of temporary staff especially over the Christmas period;
- higher sickness and other absence rates due to the Covid-19 pandemic; and
- frontline pay awards.

## Non-people costs

6.17 Non-people costs increased by 11.7% to £2.5bn. This was largely driven by:

- costs related to the Covid-19 pandemic such as PPE;
- the impact of higher volumes, which led to the need for additional space and equipment to ensure the business could service its customers' requirements; and
- other inflationary cost pressures.

## Transformation costs<sup>123</sup>

6.18 Transformation costs increased by 44.6%, to £179m, in 2020-21. This is mainly due to a £77m increase in voluntary redundancy costs, driven by voluntary redundancy payments of £93m

<sup>122</sup> Adjusted to reflect the cash cost of the defined benefit pension scheme rather than the accounting charge.

<sup>123</sup> Ofcom, 2012. [Securing the Universal Postal Service](#), paragraph 5.41 and footnote 69. [accessed 2 December 2021]

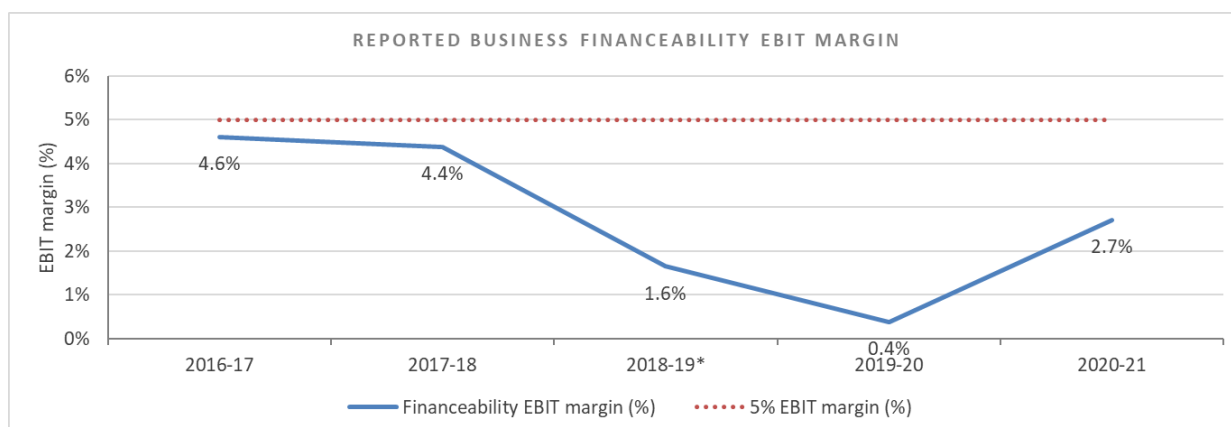
Transformation costs are restructuring or redundancy costs which are likely to recur year-on-year and are not considered to be exceptional costs. Exceptional costs are considered to be large and uncommon (non-recurring) costs.

which relate to the management restructure announced in June 2020. This increase was partly offset by a decrease in project costs of approximately 22%. We discuss progress against the transformation plan in more detail in Section 7 on Efficiency.

## Reported Business profit margin

- 6.19 The Reported Business’s profit margin, and its trend over time, is one of the indicators we monitor in considering the long-term financial sustainability of the universal postal service. Specifically, we consider earnings before interest and tax (EBIT), calculated to include transformation costs and with pension costs restated on a cash basis.<sup>124, 125</sup> In our March 2017 Statement<sup>126</sup>, we concluded that an indicative EBIT margin range between 5% and 10% was consistent with a commercial rate of return. We refer to this metric as the “financeability EBIT margin”.
- 6.20 In 2020-21, the EBIT margin rose to 2.7%. Whilst still below the 5-10% range, this was a significant improvement from the prior year, see Figure 6.5 below and the first improvement in margin since 2014-15. The prior year margin was 0.4%, so this year’s margin goes against the downward trajectory which became more pronounced after 2017-18.

**Figure 6.5: Reported Business EBIT margin**



Source: Royal Mail Regulatory Financial Statements, unaudited submissions from Royal Mail and Ofcom analysis.

\*Adjusted to 52 weeks

<sup>124</sup>Ofcom, 2014, [Review of end-to-end competition in the postal sector](#), page 15. [accessed 2 December 2021] In the 2014 Review of End-to-End Competition Statement, we said it was appropriate to adjust Royal Mail’s Reported Business EBIT margin to restate pension costs on a cash basis (i.e. the rate the contributions are actually paid at), rather than the rate calculated using the accounting standards. We considered that this methodology takes account of the true cost of pensions and we refer to this EBIT margin measure as the ‘financeability EBIT margin’.

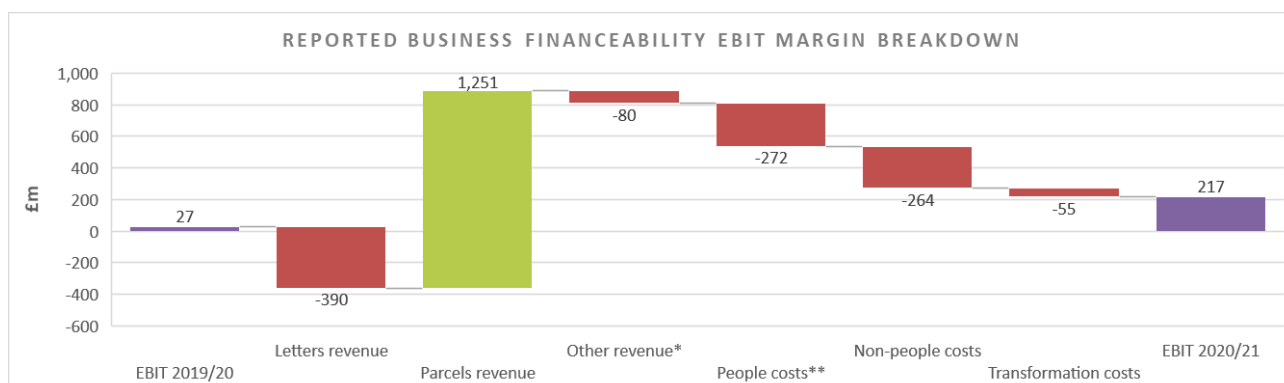
<sup>125</sup> In 2019-20, the accounting pension rate was 20.8% (compared to 18.9% in 2018-19) whereas the cash pension rate was 15.6% (same as in 2018-19). The changes to accounting and cash pension rate were as a result of the closure of the Royal Mail Pension Plan.

<sup>126</sup> Ofcom, 2017. Review of the Regulation of Royal Mail, paragraph 3.60. [accessed 2 December 2021]



6.21 Figure 6.6 below breaks down the change in EBIT margin from 2019-20 to 2020-21. As set out above, the growth was predominantly the result of increased parcel revenues, which significantly exceeded the net rise in operation cost and decline in letters revenue.

**Figure 6.6: Reported Business EBIT margin breakdown**



Source: Royal Mail Regulatory Financial Statements, unaudited submissions from Royal Mail and Ofcom analysis.

\*Other revenue includes election mail, specialist services and inter-company charges

\*\* People costs include the costs associated with the delivery of election mail

## Royal Mail Group financial health metrics

6.22 In addition to reviewing the Reported Business' EBIT margin to assess the financial sustainability of the USO, we also consider other financial health indicators. The relevant measures below are in relation to the wider Royal Mail Group<sup>127</sup>, rather than the Reported Business, as this is the entity which manages the cash for all the Group companies, is listed on the stock market, and importantly, that investors invest in or lend funds to.

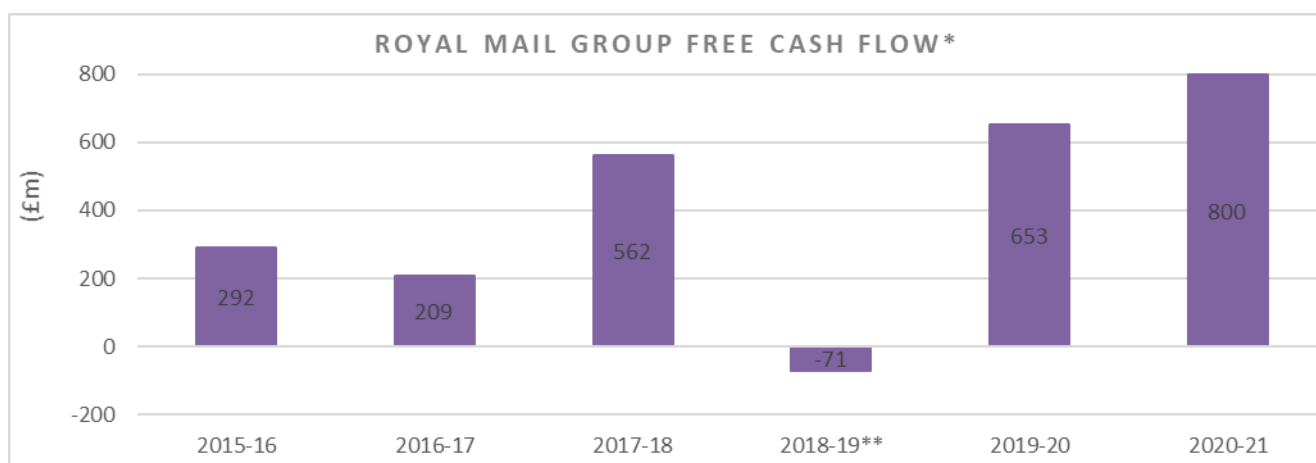
6.23 In the March 2017 Statement<sup>128</sup>, we confirmed our decision to include a wider range of financial health metrics to give us a better understanding of the short-term financial sustainability of the universal service. This included indicators such as Standard & Poor's (S&P) credit rating, Funds from Operations (FFO)/Adjusted Net Debt, and metrics underpinning covenants on borrowing assessed at Royal Mail Group level. We discuss each metric below.

<sup>127</sup> Royal Mail Group is made up of the Reported Business, as well as a number of other entities including ParcelForce Worldwide (PFW) and GLS. The Reported Business and PFW are reported in Royal Mail Group annual report as part of UKPIL.

<sup>128</sup> Ofcom, 2017. Review of the Regulation of Royal Mail, paragraph 3.63. [accessed 2 December 2021]

## Cash flow and cash headroom

Figure 6.7: Royal Mail Group free cash flow\*



Source: Royal Mail Regulatory Financial Statements, unaudited submissions from Royal Mail and Ofcom analysis.

\* Free cash flow: net cash flow before financing activities (except finance costs paid), less the net cash purchase/sale of financial asset investments, including profit on disposal of properties

\*\* 53-week year (unadjusted)

- 6.24 Cash flow is an important component in ensuring the financial sustainability of the universal service. In 2020-21, free cash flow of the Royal Mail Group increased to an inflow of £800m, see Figure 6.7 above. The main drivers for this were higher EBITDA offset by higher corporate tax paid and a smaller trading capital inflow.<sup>129</sup>
- 6.25 Royal Mail Group had a significant cash headroom<sup>130</sup> in excess of £2bn as at 28 March 2021.<sup>131</sup>  
<sup>132</sup> This cash can be drawn upon depending on business needs or distributed to shareholders as appropriate.
- 6.26 In 2020-21 the board concluded that it was appropriate to propose a one-off final dividend of 10p per share in respect of 2020-21.<sup>133</sup> This reversed a decision from 2019-20 that Royal Mail expected no dividend to be paid in respect of 2020-21.<sup>134</sup>

## Funds from Operations (FFO)/Adjusted Net Debt

- 6.27 FFO/Adjusted Net Debt looks at the ability of an entity to pay off its debt relying on its operating income alone, and is one of the key metrics that S&P uses to assess the credit

<sup>129</sup> Royal Mail PLC, 2021, [Annual Report and Financial Statements for the full year ended 28 March 2021](#), page 56. [accessed 2 December 2021]

<sup>130</sup> The cash headroom is the difference between the available cash resources and required cash resource i.e. total undrawn committed borrowing facility less the amount utilised plus the available cash less the loan-to-value (LTV) constraint.

<sup>131</sup> Royal Mail PLC, 2021, Annual Report and Financial Statements for the full year ended 28 March 2021, page 154.

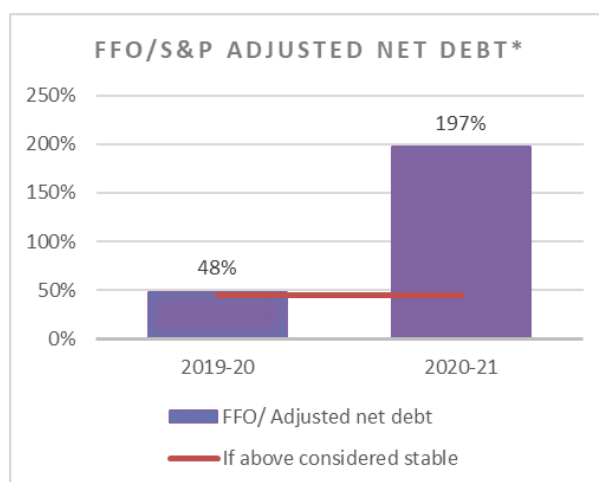
<sup>132</sup> The syndicated bank loan facility was amended in September 2019 and its maturity date extended to September 2024, with options to extend for a further two years.

<sup>133</sup> Royal Mail PLC, 2021, Annual Report and Financial Statements for the full year ended 28 March 2021, page 66.

<sup>134</sup> Royal Mail PLC 2020. [Financial Report for the full year ended 29 March 2020](#), press release, 25 June 2020. [accessed 5 December 2021]

worthiness of Royal Mail Group. As part of its assessment, S&P reviews Royal Mail Group's historical and forecast performance against this and other metrics. Royal Mail has also informed us that this is a key metric that it monitors. Royal Mail Group's FFO/S&P adjusted net debt<sup>135</sup> of 197%<sup>136</sup> in 2020-21 exceeds the 45% threshold (which is considered to be stable by S&P) by a factor of more than four. This is a considerable improvement on the 48% achieved in 2019-20 (see Figure 6.8 below).

**Figure 6.8: FFO/Net Debt**



\*S&P make certain adjustments to Royal Mail's reported net debt. S&P ratings methodology can be found on its website.

6.28 S&P's latest credit research affirmed Royal Mail Group's credit rating at BBB but revised the outlook to positive, from negative, as it considered Royal Mail's balance sheet and credit metrics had improved. It also stated it may upgrade Royal Mail in the next 24 months if it believes the Group will maintain a weighted-average adjusted FFO to adjusted net debt of above 60% on a sustainable basis. S&P view positively the long-term growth prospects for parcel delivery services, which accelerated during the pandemic. Combined with productivity improvements to counter cost inflation, S&P forecast the Group will generate strong earnings and operating cash flows.

6.29 Additionally, S&P categorised Royal Mail Group's risk as minimal from a financial risk viewpoint as its FFO/Adjusted Net Debt percentage was above the range of 45-60%.<sup>137, 138</sup>

## Loan covenants

6.30 The Net Debt/EBITDA (leverage ratio) and EBITDA/Interest (interest cover) metrics are used to access compliance with covenants relating to Royal Mail Group's revolving credit facility. The leverage ratio metric helps assess the Group's ability to repay its debts using its operating profits (measured before non-cash elements of depreciation and amortisation). It broadly

<sup>135</sup> S&P have a specific method which is used to calculate net debt for the purpose of this ratio, these calculations are available for subscribers to the S&P Ratings Direct service.

<sup>136</sup> S&P Rating Direct, 2021. [Royal Mail plc \(LSE:RMG\), CreditStats Direct® Select stats and Ratios, FFO/Debt \(%\) for 12 month ended 28 March 2021](#). [accessed 2 December 2021]

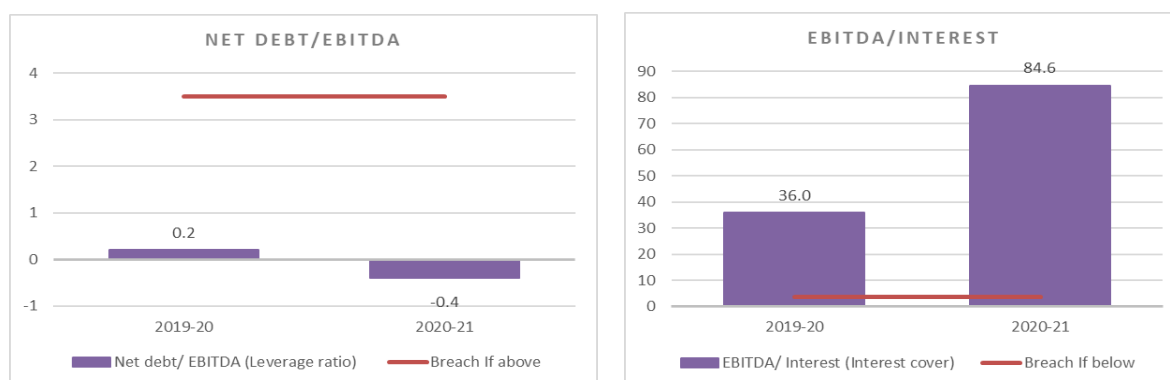
<sup>137</sup> Alacra Store, 2021. [S&P Global Ratings' Credit Research: Royal Mail Plc](#). [accessed 2 December 2021]

<sup>138</sup> S&P Ratings Direct, 2013. [Corporate methodology](#), page 35. [accessed 2 December 2021]

represents the number of years of annual profit required to repay all of the company's net debt. The interest cover metric is used to assess how easily Royal Mail Group can pay interest on its outstanding debt. Royal Mail Group's loan covenants require its leverage ratio to remain below 3.5 and its interest cover to remain above 3.5.

6.31 Royal Mail Group passed its loan covenants in 2020-21 (as shown in Figure 6.9 below).<sup>139</sup>

**Figure 6.9: Loan covenants**



Source: FFO/Net Debt - S&P Ratings Direct and EBITA ratios - Royal Mail Annual Report and Accounts (page 199)

6.32 The increase in the EBITDA/Interest metric is mainly due to an increase in the profitability and EBITDA of Royal Mail Group in 2020-21.

6.33 On 22 June 2020, Royal Mail Group renegotiated the covenants on its revolving credit facility. A covenant amendment was agreed that waived the loan covenants EBITDA/interest (excluding arrangement fees) and adjusted net debt/EBITDA until March 2022, replacing them with a quarterly minimum liquidity covenant of £250m. The Group's liquidity at 28 March 2021 was £2.5bn.<sup>140</sup>

## Viability Statement

6.34 In addition to the above financial health metrics, we also have regard to Royal Mail Group's Viability Statement, as published in its Annual Report and Financial Statements. Under the 2014 Corporate Governance Code, directors are required to make a statement that they have a reasonable expectation that the company will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, drawing attention to any qualifications or assumptions as necessary. In order to do this, they must take into account the company's current position and principal risks. Here we set out the broad themes Royal Mail's directors considered and the conclusion to their assessment.

6.35 In its Annual Report and Financial Statements for the year ended 28 March 2021, which was published on 20 May 2021, Royal Mail Group explained that it stress-tested the key

<sup>139</sup> Royal Mail PLC, 2021. [Annual Report and Financial Statements for the full year ended 28 March 2021](#), page 199. [accessed 2 December 2021]

<sup>140</sup> Royal Mail PLC, 2021. Annual Report and Financial Statements for the full year ended 28 March 2021, page 199.

assumptions by projecting performance to March 2024 and quantifying any risks to create severe but plausible downside scenarios.<sup>141</sup>

6.36 The key factors affecting the Directors' viability assessment included:

- Marketplace trends and dynamics;
- The Royal Mail and GLS strategies to deliver long-term sustainable growth; and
- The Group's principal risks and the robust measures in place to mitigate those risks.

6.37 Based on the results of their analysis, the Directors explained that they have a reasonable expectation that the Group will be able to continue in operation, meet its liabilities as they fall due, retain sufficient available cash and not breach any covenants under any drawn or undrawn facility over the three financial years to March 2024.

## Summary

6.38 In summary, the key trends for the 2020-21 financial year were:

- Total parcel volumes and revenues grew by 33.6% and 41.0% respectively year-on-year, largely driven by a growth in domestic account parcels.
- Reported Business addressed letter volumes and revenues declined by 20.5% and 10.1% respectively. This was partially due to the ongoing structural decline but also the impact of Covid-19. Letter volume decline was offset in part by price rises.
- Overall, Reported Business revenues increased by 10.8%.
- Reported Business costs increased by 8.2% year-on-year due to an increase in people costs of 5.7%, an increase in non-people costs of 11.7%, and an increase in transformation costs of 44.6%.
- As a result of the trends noted above, the financeability EBIT margin increased to 2.7% in 2020-21, from 0.4% in 2019-20.
- Free cash flow turned positive to £800m. As at 28 March 2021, Royal Mail Group had access to £2.5bn of funds, including its banking facilities.
- Royal Mail Group's FFO/S&P adjusted net debt ratio of 197%<sup>142</sup> in 2020-21 was well over the 45% threshold which is considered to be stable by S&P. It also passed its loan covenants in 2020-21.
- In Royal Mail Group's Viability Statement, the Directors have said they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period to March 2024.

6.39 We consider that the short-term indicators of financial sustainability for 2020-21 show that the universal service is likely to be sustainable in the short term. This is based on the Group's financial health metrics which do not indicate any short-term financial health issues. It also had significant cash headroom as at the end of 2020-21, and the Group's overall profitability has been supported by the strong performance of GLS, its international parcels business.

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<sup>141</sup> Royal Mail PLC, 2021. [Annual Report and Financial Statements for the full year ended 28 March 2021](#), page 54. [accessed 2 December 2021]

<sup>142</sup> S&P Rating Direct, 2021. Royal Mail plc (LSE:RMG), CreditStats Direct ® Select stats and Ratios, FFO/Debt (%) for 12 month ended 31 March 2021.

6.40 Trends in Royal Mail's Reported Business's EBIT margin provides us with an indicator of the long term sustainability of the universal postal service. For 2020-21, Royal Mail has reversed the downward trend in EBIT margin for the first year since 2014-15. We discuss the longer term financial sustainability and how the regulatory framework may need to evolve to support the postal market (including the provision of a universal postal service) within the 2022 Review of Postal Regulation consultation.

## 7. Royal Mail efficiency performance

- 7.1 This section summarises the efficiency performance of Royal Mail's Reported Business in the financial year 2020-21, including comparisons to earlier years.
- 7.2 We outline the information which informs our view of the efficiency of Royal Mail's provision of the universal postal service. In particular, we discuss:
- Why efficiency is an important aspect of our monitoring regime;
  - Royal Mail's efficiency performance in 2020-21 as calculated by our efficiency metrics;
  - Royal Mail's views on its own efficiency; and
  - Royal Mail's progress against its strategic transformation plan.
- 7.3 2020-21 was not a normal year. The pandemic had a significant impact on the way Royal Mail could deliver its services, due both to restrictions on working practices and changes in volumes.
- 7.4 Not only did Royal Mail need to incur additional costs in response to the pandemic, the need to respond also constrained its ability to deliver its planned efficiency savings across the period.
- 7.5 It is also difficult to identify and separate the impact of the various factors that have had an impact on Royal Mail's cost base this year. This had implications for the calculation of our efficiency metrics, for example the effect of the measures taken by Royal Mail to address emergency challenges facing performance of the universal service (see Section 5).
- 7.6 The efficiency metrics were devised to provide insight assuming normal business operations but did not anticipate the scale and nature of the changes seen as a result of the pandemic. In some cases, it has been necessary to make assumptions about the cause of cost movements and whether they were the one-off impact of the pandemic or changes in the underlying efficiency. Changes in these assumptions could have resulted in different estimates of the efficiency metrics.
- 7.7 As a result, we consider that the insight provided by these metrics in 2020-21 is more limited than in previous years and care should be taken when comparing the results.
- 7.8 We continue to be of the opinion that to secure the long-term financial sustainability of the universal service, Royal Mail needs to improve efficiency.

### Efficiency is an important aspect of our monitoring regime

- 7.9 In discharging our duties in relation to post, we monitor the efficiency of the Reported Business. The Postal Services Act 2011 requires us to have regard to the need for the provision of a universal postal service to be financially sustainable, and for it to become efficient within a reasonable period and then remain efficient at all subsequent times.
- 7.10 In the March 2017 Statement, we decided against the imposition of additional price controls or efficiency targets on parts of Royal Mail's business. In reaching this view in 2017, we considered Royal Mail's efficiency performance and the incentives on Royal Mail to make further efficiency improvements in the future.

7.11 Similarly, as part of the 2022 Review of Postal Regulation, we are examining our approach to efficiency and potential future improvements in more detail, together with any implications for future monitoring reports.

## Indicators of Royal Mail’s efficiency performance

7.12 In the March 2017 Statement, we updated the metrics and framework we proposed to adopt to monitor Royal Mail’s efficiency performance first set out in our 2012 Statement.<sup>143</sup>

7.13 Here we report on the following high-level indicators of efficiency:

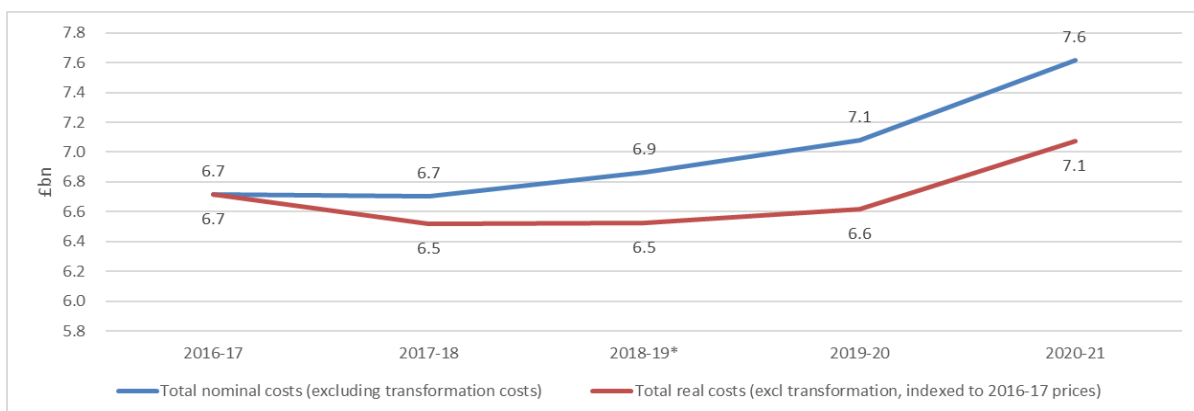
- the overall change in real costs, which is intended to provide a high-level simplified view of efficiency;
- Price, Volume, Efficiency and Other (PVEO) analysis, which is intended to provide a measure of efficiency by disaggregating movements in costs in terms of price changes (i.e. cost inflation), volume effects, efficiencies achieved, and other one-off costs;
- frontline gross hours in delivery and processing, which is intended to capture year-on-year changes in paid hours affected by changes in volumes and changes in efficiency; and
- productivity, a measure of efficiency by looking at the ratio of output using workload (weighted parcels and letter volumes) to input using frontline gross hours.

7.14 As noted above, the pandemic has had a significant impact on Royal Mail’s operations and its costs in the year. It is difficult to reliably measure the effects of the pandemic on Royal Mail’s costs to establish the underlying changes in efficiency levels. The metrics set out below have been calculated on the basis of Royal Mail’s normal working practices as they were prior to the pandemic. As a result, care should be taken when interpreting the data and comparing the results with those from previous years.

### Overall change in real costs

7.15 Real costs (excluding transformation costs) increased by 6.9% in 2020-21 (Figure 7.1 below). Royal Mail stated in its annual report that this relates to the increase in parcel volumes, we attempt to disaggregate cost movements further in the PVEO analysis below.

**Figure 7.1: Total real and nominal costs (excluding transformation costs) from 2016-17 to 2020-21**



<sup>143</sup> Ofcom, 2012, [Securing the Universal Postal Service](#). [accessed 3 December 2021]



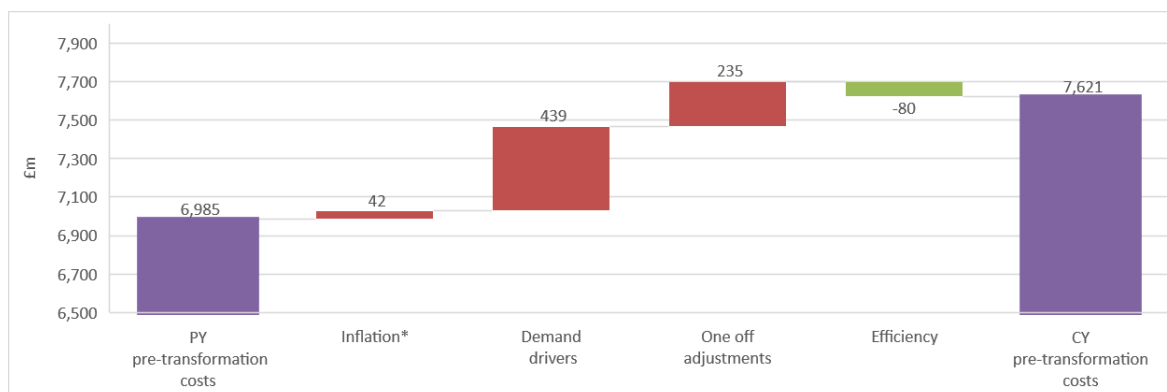
Source: Royal Mail Regulatory Financial Statements and Ofcom analysis

\* Adjusted to 52 weeks

## Price, Volume, Efficiency and Other (PVEO) Analysis

7.16 The PVEO analysis indicates that Royal Mail achieved an efficiency of 1.1% (£80m) in 2020-21 (Figure 7.2 below). According to the analysis, the increase in volumes had the largest impact on the change in costs, contributing approximately two-thirds to the change.

Figure 7.2: PVEO bridge 2019-20 to 2020-21



Source: Royal Mail Regulatory Financial Statements, unaudited submissions from Royal Mail and Ofcom analysis.

\*ONS 12-month trailing average CPI figures (April 2020 to March 2021)

7.17 Of the £80m efficiency, the analysis indicates an efficiency of approximately 4% (£193m) on people costs, partly offset by an inefficiency of approximately 5% (£113m) on Non-people costs.

## Frontline gross hours (delivery and processing)

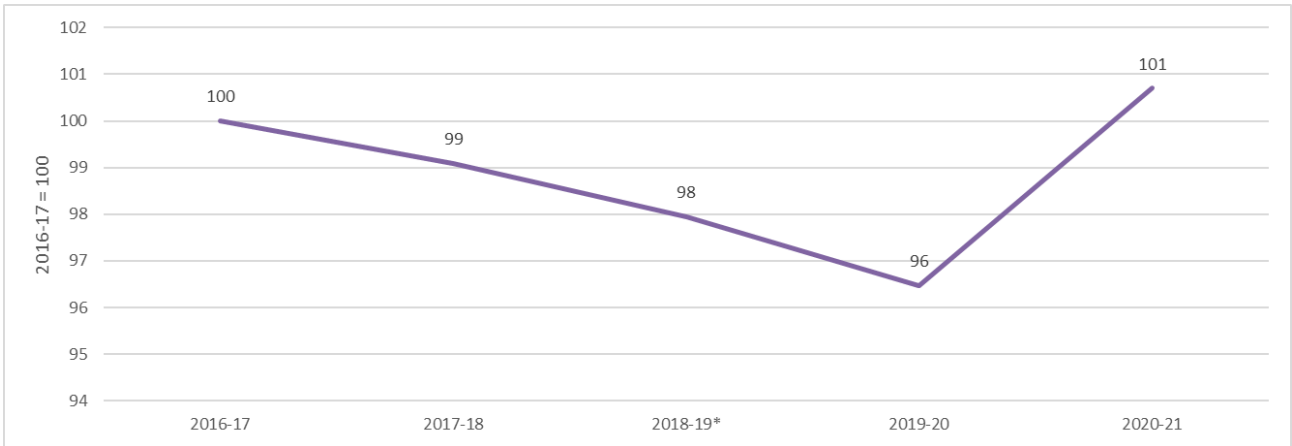
7.18 In 2020-21, gross hours increased in delivery and processing by 4.4%<sup>144</sup>, compared to a decrease of 1.5% in 2019-20 (Figure 7.3). Hours were impacted by high absence levels; the need to cover those with overtime and temporary staff and the significant increase in parcel volumes (the majority of which required manual sortation, and which resulted in a need for further additional temporary staff over the Christmas period).<sup>145</sup> Offsetting these factors were the hours saved due to the reduction in the number of letter delivery days.<sup>146</sup>

<sup>144</sup> This figure excludes gross hours from RDCs and Other, such as Central administration staff.

<sup>145</sup> Royal Mail PLC, 2021. [Annual Report and Financial Statements for the full year ended 28 March 2021](#) [accessed 2 December 2021] "During 2020-21, Royal Mail had an even greater requirement for temporary staff with 33,000 additional workers to over the uplift in volume due to both the impact of COVID-19 and our traditional seasonal peak".

<sup>146</sup> "In areas particularly heavily impacted we alternated the routes our postmen and women served each day in an attempt to ensure customers received deliveries at least every other day": [Annual Adjusted Quality of Service Report 2020-21](#), page 2. [accessed 3 December 2021]

**Figure 7.3: Changes in Gross hours, indexed from 2016-17 to 2020-21**



Source: Royal Mail Regulatory Financial Statements, unaudited submissions from Royal Mail and Ofcom analysis.

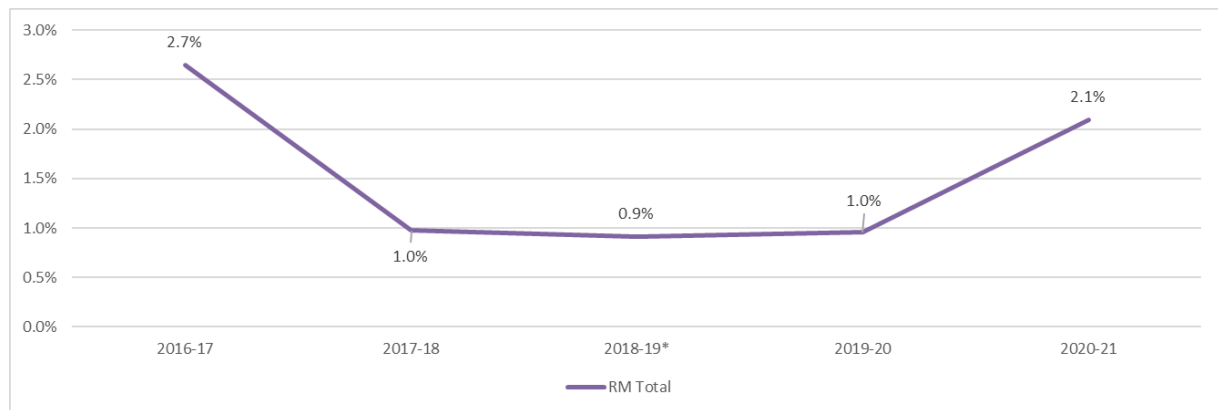
\* Adjusted to 52 weeks

### Royal Mail’s productivity metric

7.19 Productivity is a measure of efficiency which captures the rate of work throughput. Royal Mail uses a productivity metric to record and manage its operational performance. The metric adopted is calculated as the ratio of workload (weighted volumes) to gross hours (gross hours include worked hours and non-working paid absences for sickness, annual leave etc).

7.20 Royal Mail’s estimated productivity improvement was 2.1% for 2020-21<sup>147</sup>, see Figure 7.4 below.

**Figure 7.4: Productivity gains 2016-17 to 2020-21**



Source: Royal Mail Regulatory Financial Statements, unaudited submissions from Royal Mail and Ofcom analysis.

\* Adjusted to 52 weeks

<sup>147</sup> Royal Mail PLC, 2021. [Annual Report and Financial Statements for the full year ended 28 March 2021](#), page 72. [accessed 2 December 2021]

## Royal Mail's own statements on efficiency

- 7.21 Royal Mail usually makes public statements about its efficiency performance with reference to cost avoidance<sup>148</sup>, as well as hours reductions and productivity (both of which were discussed earlier in this section).
- 7.22 While Royal Mail did not make the usual statement on cost avoidance for the year 2020-21, it stated that it was unable to make material progress with operational efficiency changes due to the pandemic, but the flexibility shown by its teams in responding positively to the very difficult circumstances was a major plus.<sup>149</sup>
- 7.23 We outline the transformation plan and Royal Mail's progress in achieving it below.

## Royal Mail's transformation programme

- 7.24 In May 2019, Royal Mail announced a strategy to transform its business, "Journey 2024". The plan was to drive forward UK revenue growth from parcels, while containing costs. The strategy outlined a focus on efficiency in its UK operation enabled by both a network and digital transformation.
- 7.25 The expectation was that the initial period would set the foundations for future change. Royal Mail's ambition was that by the end of 2020 it would have completed the roll out of small parcel sorting machines, have the first parcel hub in place, have undertaken delivery trials and also improved its productivity and quality of service performance.<sup>150</sup>
- 7.26 Below we set out a brief overview of the progress made and what ambitions Royal Mail has for these initiatives.

## Parcel automation

- 7.27 Royal Mail had 20 automatic parcel sortation machines as at March 2021, and reported that 33% of parcels were automatically sorted at least once during 2020-21.<sup>151</sup> Whilst the absolute number of parcels automatically sorted has increased, the percentage proportion has not because of the significant increase in volumes due to the pandemic.
- 7.28 Royal Mail has said that it has "plans to increase parcel automation levels to at least 50% by the end of 2021-22". It has an ambition to "achieve the benchmark of 90% in 2023-24." We will continue to track performance against this target.

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<sup>148</sup> Cost avoidance is a measure of savings made relative to expected cost increases.

<sup>149</sup> Royal Mail PLC, 2021. [Annual Report and Financial Statements for the full year ended 28 March 2021](#), page 56. [accessed 2 December 2021]

<sup>150</sup> Royal Mail PLC, 2019. [Full year 2018-19 results and strategy presentation "Journey 2024", 22 May 2019](#), page 98. [accessed 2 December 2021]. End of 2020 refers to calendar year.

<sup>151</sup> Royal Mail PLC, 2021. [Annual Report and Financial Statements for the full year ended 28 March 2021](#), page 9. [accessed 2 December 2021]

## Pathway to change

- 7.29 Royal Mail and the Communications Workers Union (CWU) came to a new agreement in December 2020<sup>152</sup>, following negotiations between May 2019 and December 2020, known as the 'Pathway to change'. This has outlined how certain initiatives will be moved forward and contribute to the overall efficiency progress of the organisation.
- 7.30 Royal Mail stated that "The agreement with the CWU gives us a platform for future growth, and the means to achieve productivity benefits of 3% plus (in 2021-22). In 2021-22, more than £100 million in benefits are linked to effective execution and delivery of benefits associated with the agreement".<sup>153</sup> It further explained that the commitment relating to productivity is to improve the balance of resourcing and how it's matched to the workload in the delivery offices, driven through the use of technology such as 'Resource Scheduler' and 'Scan in, Scan out'.<sup>154</sup>
- 7.31 We understand that Royal Mail is working with the CWU to undertake more detailed modelling and planning for certain initiatives<sup>155</sup>, some of which we outline in Table 7.5.

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<sup>152</sup> Royal Mail PLC, 22 December 2020. [Framework agreement reached with CWU and Trading Update](#). [accessed 3 December 2021]

<sup>153</sup> Royal Mail PLC, 2021. [Annual Report and Financial Statements for the full year ended 28 March 2021](#), page 9. [accessed 2 December 2021]

<sup>154</sup> Royal Mail PLC, 2021. [Full Year 2020-21 Results Transcript, 20 May 2021](#), page 31 & page 34. [accessed 3 December 2021]

<sup>155</sup> Royal Mail PLC, 2021. [Annual Report and Financial Statements for the full year ended 28 March 2021](#), page 9. [accessed 2 December 2021]

**Table 7.5: Elements of the pathway to change agreement indicating progress**

Initiative	Description	Ambition
<b>Parcel Hubs</b>	<p><b>North West Hub:</b> the first of three automated hubs to be completed as part of the Parcels Automation strategy.</p> <p><b>Midlands Hub:</b> the second of three automated hubs to be completed, it will replace the current National Distribution Centre (NDC).</p>	<p><b>North West Hub:</b> It is currently in the commission phase and is on track to launch in Spring 2022.</p> <p><b>Midlands Hub:</b> It is expected to open in Summer 2023, with the capability to sort over one million parcels a day.<sup>156</sup></p>
<b>Scan in, scan out</b>	An automated solution for employees to log in and out when an individual starts/finishes work and capture collective hours of attendance.	It will replace handwritten sign-in / sign-out systems at Royal Mail’s 43 processing sites, including all Mail Centres and Regional Distribution Centres.
<b>Resource Scheduler</b>	A software solution that draws together data from across Royal Mail’s operation to optimise alignment of duty sets and rosters to demand.	The trials of this technology identified a number of areas that Royal Mail wants to improve.
<b>Delivery Revisions</b>	<p>Delivery revisions are changes to the delivery routes carried out by postmen and women. There are two types of revisions:</p> <ul style="list-style-type: none"> <li>• A Table-top revision is a change delivered and led by the Delivery Offices. The DOM (delivery office manager) and local CWU reps work out what changes are needed to achieve the relevant goals (e.g. productivity target).</li> <li>• A Full structural revision is a 32-step process, which rewrites the routes from scratch providing a new process to drive efficiency into the each DO.</li> </ul>	As at the end of October, most delivery offices – c.1,200 - had been through a revision.

Source: Royal Mail correspondence to Ofcom dated 1 December 2021, which includes confirmation of updates given in Royal Mail Half Year 2021-22 Results published on 18 November 2021.

### Other transformation initiatives

7.32 In addition to the initiatives mentioned above, Royal Mail expects to deploy up to 60,000 new personal digital assistants (PDAs) to ensure they provide the information and have the capabilities they need as well as introducing more reliable and environmentally friendly vans to accommodate growing parcel volumes.<sup>157</sup>

## Summary

- 7.33 The efficiency metrics give limited insight into efficiency in 2020-21 due to the difficulties controlling for the additional costs due to the pandemic, and for the savings from reductions in both service specification and quality of service. We however set them out here for completeness:
- Total real costs for the Reported Business increased by 6.9%, against an increase of 1.4% in the prior year.
  - The PVEO analysis indicates an underlying efficiency (excluding transformation costs) of 1.1%, against no underlying efficiency in the prior year.
  - Royal Mail increased frontline gross hours in delivery and processing by 4.4%, significantly worse than the reduction of 1.5% in the prior year.
  - Royal Mail's estimate of productivity improvement was 2.1%, in line with its target of above 2%.
- 7.34 To secure the long-term sustainability of the universal service Royal Mail's needs to effectively match resource to workload to ensure that, as volumes and operations begin to stabilise post-pandemic, avoidable costs are removed and the cost base is appropriate for the volumes it is handling.
- 7.35 Efficiency remains a critical component to the longer-term financial sustainability of the universal service and Royal Mail has ambitions to make progress in this area. We cover this in more detail in the 2022 Review of Postal Regulation, which also considers our approach to monitoring efficiency and the efficiency measures that we use. Our consultation outlining our proposals on efficiency is published alongside this report.

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<sup>156</sup> Royal Mail PLC, 2021. [Annual Report and Financial Statements for the full year ended 28 March 2021](#), page 27. [accessed 2 December 2021]

<sup>157</sup> Royal Mail PLC, 2021. [Annual Report and Financial Statements for the full year ended 28 March 2021](#), page 20. [accessed 2 December 2021]