

26<sup>th</sup> November 2020

## Ofcom Review of postal users' needs 2020

### Introduction

The following document sets out a short overview of Ofcom's Review of Postal Users' needs, published on 26<sup>th</sup> November 2020.<sup>1</sup> Ofcom's review is an assessment of whether the minimum requirements of the universal postal service reflect the reasonable needs of postal users.

### Summary

- Current USO levels, including the six days a week (Monday to Saturday) letter delivery requirement meets the needs of 98% of residential users and 97% of SMEs.
- Changing the **USO to five days (for letters) a week would still meet the needs of 97% of residential and SME users.**
- Reducing the letter delivery to three days a week would have a significant impact on users – meeting 62-78% of SMEs and 79-85% of residential user needs.
- A **reduction to five days is estimated to make net savings of £125-225m per year in 2022/23 terms.**
- For parcels, 98% of residential user needs were met by the current six days a week service (6 days a week is not currently stipulated by the current USO). This proportion stayed the same for five days a week service.
- Replacing first class and second class with a single tier two-day delivery option would not have a large impact on users' acceptability of the service but neither would it have a big cost saving.
- Ofcom is **"not making any proposals to modify the Order or regulatory conditions in this document"** and have left decisions regarding any changes to Government.
- Ofcom is separately running a **review of the future regulatory framework for post** which will cover consumer issues in parcels and letters, and will **call for inputs on this in Q4 2020/21.**

### Background

- Royal Mail's **addressed letter volumes (excluding elections) fell by 7.6% in 2019-20**, even before the Covid-19 pandemic had a significant impact in the UK.
- Royal Mail's addressed **letters revenue has also declined by approximately 2%** in real terms to £3.8bn in 2019-20.
- As of 2018/19, Royal Mail's share of single piece parcel deliveries was greater than 70% in terms of volumes. The next closest competitor was Hermes which accounted for approximately 10-20% of volumes. This was followed by Yodel with less than 5% of total volumes. There was no mention of Amazon's market share.

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<sup>1</sup> All of Ofcom's documents relating to the latest review of postal users' needs can be found here - <https://www.ofcom.org.uk/research-and-data/post-research/review-of-user-needs>

- Post offices offer an extensive network of access points for Royal Mail's parcel services (11,600 post offices) across all parts of the UK. **Ofcom calculate that 90% of premises have access to a post office within two miles.** In comparison, Hermes had 4,500 access points (parcel shops) and Yodel had 7,100 access points (Collect+ stores) as of 2019, which Ofcom estimate 76% and 79% of premises have access to within two miles, respectively.

## User Needs Findings

### *Methodology*

- August and September 2019 – eight workshops, two focus groups in Northern Ireland and 16 face-to-face interviews with vulnerable users.
- Over 4,500 half-an-hour interviews with UK adult residential users (about half online and half face-to-face). For SMEs, 971 telephone interviews with users responsible for their organisation's post.
- Follow-up online interviews in Summer 2020 (2,366 individuals for 15 minutes each) to assess changes in needs induced by the Covid-19 pandemic.

### *Findings: Letter and Parcel Usage*

- A **clear decline in reliance on letters** across all age groups. Quantitative research showed that over half of residential users (53%) sent one or fewer letters per month.
- Ofcom's postal tracker has shown a **decline in the percentage of people who said they mostly use First Class** and an increase in those that said they mostly use Second Class stamps.
- There was a **strong need for a guaranteed next day delivery for certain urgent documents.**
- Between 2012-19 the percentage of SMEs that sent letters at least once a month declined from 92% to 60%.
- When SMEs were asked what was important when considering Royal Mail against its competitors, speed of delivery was not usually a factor. Price was the key stated factor when choosing between alternative providers.
- There was a **strong preference among consumers to use Royal Mail for parcels.** In part this may reflect familiarity with the Royal Mail service, with 72% of participants having used Royal Mail in the last 12 months. Although our research suggests **there was clearly growing awareness of the alternatives and some willingness to use them.** Hermes was the main alternative.
- SMEs were more likely to use alternative parcel providers than consumers.

### *Findings: Social Value and Universality*

- Many participants felt that **Royal Mail was a national institution** that brought people together.
- **Over a third of users felt that they would feel cut off from society** if they did not have the ability to send or receive letters (40% agree) or parcels (36% agree) almost every day of the week.
- Older users were most likely to feel cut off from society and value the personal touch of letters deliveries. Younger users were more likely to value parcels deliveries.

- Universality of service was considered a key principle of the service. **67% of residential participants agreed that Royal Mail should provide its services at the same price to all**, regardless of where a letter or parcel was sent within the UK, and a slightly higher proportion of SMEs (69%) also agreed.
- The most important aspects of the postal service for residential users and SME users was keeping post affordable and confidence that 90% of post will arrive on time.
- Most participants were unwilling to compromise on having their post (particularly letters) delivered to their door. They **saw delivery to the door as a fundamental part of the service** and therefore tended to be strongly opposed to delivery to a central point.

#### *Findings: Delivery Frequency*

- Ofcom found that **a reduction in letter delivery frequency to five days a week would meet the stated needs of virtually all residential users.**
- Despite this, the Covid-19 follow-up research found that “68% of participants considered letter deliveries six days a week to be important” (this figure increased from 61% in the 2019 research).<sup>2</sup>
- **Residential users were more in favour of Saturday delivery** than SME users. This was particularly the case for parcel deliveries.
- Ofcom states that “We do not consider that a change to a five day a week letter delivery service would have a significant impact on the broader societal benefits of the USO.”
- Ofcom estimate potential annual cost savings of £175m-225m, in both 2018/19 terms and in 2022/23, when accounting for anticipated changes in volumes and wages.
- Ofcom assume that “Royal Mail will continue to have commercial incentives to deliver parcels six days a week.”

#### *Findings: Costs of the USO (and potential changes)<sup>3</sup>*

- Ofcom note that the key changes associated with a reduction from a 6 day to 5 day USO on letters would be hours worked. “We consider the costs of reducing hours to be by far the most significant element of transition costs. These reductions in hours could be achieved through a variety of means including voluntary redundancy, reducing overtime, reducing recruitment, and natural attrition.”<sup>4</sup>
- Ofcom’s 5 day letter USO assumes that Royal Mail stops delivering letters on Saturdays and that the “bulk of cost savings in this scenario come from the delivery model.”<sup>5</sup>
- Under these assumptions, the 5 day letter USO saves £175-255m of which over 90% comes from delivery.<sup>6</sup>

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<sup>2</sup> See Slide 17 of Summer 2020 Postal Needs Follow up. PDF available at: <https://www.ofcom.org.uk/research-and-data/post-research/review-of-user-needs>

<sup>3</sup> Annex A5 outlines Ofcom’s model for calculating the costs across the Royal Mail pipeline.

<sup>4</sup> See Paragraph A5.17 of the Review of postal user needs’ 2020 report.

<sup>5</sup> See Paragraph A5.56 of the Review of postal user needs’ 2020 report

<sup>6</sup> See Table A5.2 of the Review of postal user needs’ 2020 report.

## Covid-19 Research

- Ofcom have concluded **that “attitudes towards the postal service remain broadly similar to research conducted prior to Covid-19.”**
- Compared to their 2019 research, their 2020 summer survey showed a slight increase in the proportion of people who: deemed it important that letters are delivered to your home Monday to Friday (81%, +7); deemed it important that letters are delivered to your home 6 days a week (68%, up 7) and deemed it important that letters are delivered to your home on Saturdays (63%, up 6).<sup>7</sup>
- Awareness of Royal Mail competitors has increased since Covid-19 began, this is particularly pronounced among those under 45 years old.
- “Over 65s are more likely to agree to feeling cut-off if there was not a frequent letter delivery, whereas 16-34s would agree to feeling cut-off if there was not a frequent parcel delivery.”
- There is consumer appetite for continuing to order more goods to home in the future.

CWU Research

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<sup>7</sup> See Slide 17 of Summer 2020 Postal Needs Follow up. PDF available at: <https://www.ofcom.org.uk/research-and-data/post-research/review-of-user-needs>