

## **Response by the British Chambers of Commerce**

*The British Chambers of Commerce (BCC) welcomes the opportunity to respond to this consultation document. The BCC represents 135,000 businesses and over four million jobs across the UK economy. Our response is based upon extensive feedback from the Chamber network, including hundreds of individual case studies. We trust that our opinions will be given due weight.*

### **1. Introduction**

- 1.1. The BCC recognises that the main focus of this consultation is the market structure of the postal market, and what reforms would best ensure a competitive market for postal services. The BCC is not in a position to assess the merits of any particular method of liberalisation over another. But we would like to take the opportunity, in accordance with Postcomm's request for relevant comments beyond the reach of the consultation's questions, to offer a perspective on the postal service from a business perspective, and especially that of small and medium sized users of postal services. Businesses require a reliable postal service able to deliver mail on time. We leave it in the hands of Postcomm to determine what form of market opening or alternative course of action would be necessary to achieve this. Given that Royal Mail is likely to handle the majority of business mail for the foreseeable future, sufficient attention must also be paid to ensuring Royal Mail's service obligations reflect businesses' priorities.
- 1.2. Royal Mail's failure to meet any of its 15 service targets over the period, April 2003 – March 2004, is a cause for serious concern. Isolated events – industrial action and the Northampton fire – undoubtedly were partly responsible for the shortfall in service. But feedback from our members indicates (and indeed Royal Mail acknowledges) that the simultaneous introduction of several reforms to its delivery operations has also been responsible for the deterioration. Furthermore, the roll-out of Single Daily Delivery (SDD) has been accompanied by much later delivery times, which create a broad range of problems for businesses. Firms in many different parts of the country are now faced with a postal system far less effective at meeting their business needs.
- 1.3. To tackle these problems, our first priority would be that current delivery targets are met, and the problems of lost, delayed or misdelivered mail are tackled to overcome the chaos that appears to be affecting parts of the postal service. Our second priority is that Royal Mail accepts in principle the need for early morning delivery (it currently pledges to deliver "by lunchtime") and works to restore this as part of its standard service. The work-arounds or premium services currently on offer to businesses are very poor substitutes for the old early morning

delivery. We do not accept that Royal Mail's restructuring should be accompanied by a permanent reduction in value for money for its business customers. There is a variety of opinion on the subject, as businesses' needs vary (more consultation would be required for a more detailed answer) but as a general rule, 10:30-11:00am should be the very latest time that a firm should expect to receive its post – lunchtime is simply too late. We also ask Postcomm to keep this in mind when it next reviews the universal service obligation. To allow businesses to work efficiently, first class mail should be delivered the following day, at a broadly consistent time. Erratic delivery times, whereby the time the post arrives varies by several hours on a daily basis, leave some businesses unable to plan their working days.

## **2. The impact of recent changes in service**

### *2.1. Single Daily Delivery*

2.1.1. The replacement of two daily deliveries with a Single Daily Delivery (SDD) does not of itself create a problem for businesses. Our members report that the first post was by far the more important one to their business operations. If, as Royal Mail maintains, the second post absorbed 20% of delivery costs but handled only 4% of mail volume, then there was indeed a strong argument for abandoning the second post to improve efficiency. But the single daily delivery has caused much disruption to businesses in many different parts of the country, because delivery times have become much later and more erratic. We understand this is due to a restructuring of logistics by Royal Mail, with the phasing out of its night train service, meaning that post is sorted later than before, and reducing the number of postal workers, meaning delivery routes have become longer. But the fact that deliveries start later and take longer has had far-reaching effects on businesses. The mail they receive often sets the pattern of work for the day, especially for firms responding to sales enquiries or receiving payment in the post.

2.1.2. The main implications of post arriving late in the morning or into the afternoon are as follows:

- Cheques arrive too late in the day to be processed on the same day, creating cash flow losses that lead to interest losses or, more severely, overdraft charges.
- Orders arrive too late in the day to be processed on the same day, leading to a deterioration in customer service and potentially, companies failing their service targets.
- Additionally, later delivery times combined with longer delivery routes mean that some firms are losing out to rivals situated further up a delivery route. These firms may receive their mail up to two hours later and in effect are a day behind their rivals in responding to sales requests.

- In some companies, the morning's mail dictates the work for the day. In others, most staff leave the office or site in the morning and do not return until the end of the day (for example, construction contractors). If mail does not arrive early in the morning, they essentially lose a day before they can read and respond to it.

## 2.2. *Delayed and lost mail*

2.2.1. The SDD has coincided with a decline in overall service. This has not been reported to Chambers all over Britain (although this is possibly because SDD has not been rolled out everywhere yet). But many Chambers have received a number of alarming stories from their members about post being delayed several days or even weeks, or going missing, or delivered to the wrong address (in some cases to a rival business) or about not receiving any post at all on some days. The volume of complaints we have received from several different Chambers suggests that this is certainly not an isolated phenomenon. Some consequences of lost or severely delayed mail are as follows:

- Important cheques have gone missing in the post, creating even worse disruption than arriving late for both buyer and seller.
- Some firms have been hit with penalty fines for late filing of tax and National Insurance returns, or their accountants have had to work overtime to avert such fines, after tax returns got delayed in the post.
- Workers paid hourly have been paid late because their timesheets are getting lost or delayed in the post.
- Important items such as corporate legal documents have gone missing in the post, creating much inconvenience for businesses and leaving them non-compliant with legislation

2.2.2. Deterioration of service on this scale will inevitably have repercussions. Some companies have told us that they now advise all of their clients and suppliers to use email for all communication where possible, and electronic payments (Bacs) for settling bills, as their experience with the postal service has been so bad. Other businesses are resorting to using a courier where they used to use first class, recorded or special delivery. The danger is that if this trend continues, businesses that can do will desert Royal Mail and use couriers for important mail, at much greater expense to themselves, or use substitute forms of communication such as email and fax, even though in some circumstances these can be more awkward (for example, legal files or doctors' case notes need to be printed out each time they are emailed; a single hard copy is much better). If businesses desert Royal Mail, it will be harder for them to retain enough customers to be profitable and put more pressure on the quality of service.

### **3. Alternatives to early morning delivery**

3.1. The absence of any promise to ensure early morning delivery is very worrying for small and medium sized businesses throughout the country, given how important early morning delivery is to many of them. In recognition of this, Royal Mail has offered three main alternatives to our knowledge. But the alternatives offered are poorly conceived and are no substitute for the old system of next morning delivery.

3.2. The three alternatives are as follows:

3.2.1. Firms can pay £2,661 p.a. for a guaranteed early delivery. Many small firms simply cannot afford this, especially on top of the postage costs they pay. Early morning delivery is key to the smooth running of many businesses, and should not be subject to a heavy surcharge.

3.2.2. Firms can pick up mail at their local sorting office after 8:30am. This means lost work hours and extra travel costs. If adopted by large numbers of firms, this would be a highly inefficient way to distribute mail, not just in terms of lost hours, but also because of extra traffic on the roads with accompanying congestion and pollution. If parking near the sorting office is restricted this adds to the inconvenience. And if more businesses pick up the post themselves, it means longer queues (some firms are already complaining about long waiting times) and more demands on post office staff. Finally, some employees who have to collect the mail on foot may not be built to carry heavy bags of post. On principle, mail should be delivered door-to-door, in a timely manner, and paid for in the price of postage.

3.2.3. Large businesses can opt at no extra charge to receive their mail before 9am each day. But this option is not extended to small and medium sized businesses, with the reason given that resources are too limited. This initiative might help to preserve goodwill with Royal Mail's largest customers. But it does nothing for the countless small businesses whose operations also rely on early morning delivery, and amounts to discrimination in service provision between different sectors of the market.

3.3. In summary, although there is no objection to imposing surcharges for certain types of preferential treatment, businesses should not have to pay large surcharges for a basic level of service. Our members are of the view that early morning delivery should be standard. Given the overwhelming response from our members in favour, we can only conclude there was insufficient consultation by Royal Mail with the private sector before introducing these sweeping changes to the postal service. While our members can easily live without a second delivery, a single daily delivery needs to be early in the working day.

### **4. Removing barriers to earlier delivery**

4.1. Although maintaining the need for earlier and more consistent delivery times, we are not in a position to comment on the competitive or logistical structures that would be required to ensure this. However, one rule in particular appears to be

limiting Royal Mail's ability to deliver mail earlier in the day. We understand that under the terms of its licence, Royal Mail must give the sender priority over the recipient, with the effect that it cannot differentiate between mail posted at different times of day and prioritise some for earlier delivery. This holds up the rest of the mail posted earlier in the day. This rule appears to be somewhat arbitrary if, as Royal Mail claim, it is preventing earlier deliveries. We ask Postcomm to look into this matter as a means of speeding up delivery and allowing it earlier in the day.

## **5. Improving feedback mechanisms**

5.1. We note that the local Post Office Advisory Committees have been replaced with Postwatch's regional offices, and that businesses with complaints about their postal service are now directed to these regional offices. For the most part, there appears to be no problem with this. However, after feedback from our members, we would like to make two suggestions:

5.1.1. The Northern office covers an unusually large area. Each of the other UK government regions has its own Postwatch office, but the North West, North East and Yorkshire & Humber are grouped into a single region comprising 14 million people, covering 38,000 sq km. Some businesses in this region have complained that a regional office based in Bradford is quite remote from say, Liverpool or Newcastle. A Postwatch office in each of the Northern regions may make the watchdog more responsive to local and regional concerns as and when they arise.

5.1.2. We would like to offer the North East Chamber of Commerce as a useful model for conveying business concerns to Royal Mail. In the North East, a senior manager from the Royal Mail sits on each of the Chamber's sub-regional committees. The Chamber acts informally as a liaison for any business having problems with the postal service, and gets a sense for which complaints are most common, which it then communicates to Royal Mail via these committees. If Royal Mail managers sat on Chamber business committees around the UK they would be in closer contact with businesses and information about common complaints as they arose would be more effectively communicated.

## **6. Conclusion**

6.1. As can be seen from the difficulties businesses continue to suffer, the need is paramount for existing glitches in the postal service to be tackled and for early morning deliveries to be resumed. We acknowledge that Royal Mail has undertaken a difficult but necessary restructuring process to control its costs and return to profitability. But other observers have made the point that Royal Mail's efficiency is in danger of making everybody else inefficient. Business was certainly not consulted in sufficient detail about the full implications of such far-reaching changes to the postal service, and would not have considered the current *status quo* to be an acceptable long-term arrangement. We urge Postcomm to work with Royal Mail to ensure deliveries are earlier in the day and at a consistent time.