

## Quality of Service issues

Royal Mail's Service Quality has been the subject of intense regulatory action over several years and - to be fair to the company - the subject of significant management attention. As a result, there were steady improvements in many areas, but some products continued to under-perform, and the variations in performance across the country continued to cause us serious concern. The most visible evidence of Postcomm's concern in this area was the £7.5m financial penalty imposed last year for failures in relation to two of Royal Mail's business products.

The company's performance is assessed mainly through "end to end" measures (such as % first class delivered next day). 1<sup>st</sup> class figures were poor in 2000-01 but the general improvement mentioned above meant that they improved to 92.7% (which exceeded the target of 92.5%) in the first half of 2003-04.

Then something went wrong. A likely cause of the drop in quality in the period September-December 2003 could be attributed to, unofficial industrial action in the London area and a fire at the Northampton Mail Centre. Then there were - and there remain - customer service problems as a result of with the implementation of the three main elements of Royal Mail's "renewal plan" (the "mail centre review", "the logistics review" and the move to single daily delivery).

Postcomm will be reviewing whether the company's management of its renewal programme was sufficiently robust to cope with implementation problems which might impact on customer service, and if not whether this amounted to a failure to "make all reasonable endeavours" as required by the company's licence.

If we find that the company did not make all reasonable endeavours to meet its service quality standards, it will have breached its licence.

Royal Mail's senior management now stress that they are giving quality top priority. This is in part because failure to respond to regulatory incentives is likely to be very expensive. Payments under the two compensation schemes may have cost the company as much as a total of c£80m for the past year. In

addition, if we find that they did not make all reasonable endeavours to meet their targets, financial penalties may be payable, and these too could be substantial. In general, the aim of any financial penalty is to ensure that the cost to the company will be greater than what it would have cost them to make proper efforts in the first place. Postcomm also has to approve Royal Mail's quality of service action plans for the current year. If we find they are not satisfactory, we can require the company to take additional steps, including by enforcement order.

Postcomm has had numerous meetings with Royal Mail's management at all levels. Recently, Postcomm's Chairman, two Commissioners, the Chief Executive and Postcomm senior staff met with the whole Royal Mail Group Board on 5 May. Further meetings are planned.