

**POSTAL SERVICES COMMISSION
POSTCOMM'S REVIEW OF COLLECTION AND
DELIVERY TIMES
DECISION STATEMENT**

Summary

This statement concludes Postcomm's review of Royal Mail's collection and delivery times. On 5 June 2007, Postcomm issued a proposals document, which recommended that action be taken by Royal Mail to restore early rural collection times to levels which are more acceptable to customers. Royal Mail agreed to review all collection points with a pre-midday collection time on Monday to Friday, with a view to putting back the final collection time as close to midday as possible, where reasonably practicable and economic. Representations on the proposals were requested by 28 August 2007. Postcomm, having considered the responses and available evidence, considers that this remains the most appropriate and proportionate course of action.

Background

In October 2006, Postcomm published a consultation document which opened the debate about the impact of changing collection and delivery times and sought views from as many customers as possible, especially residential and small and medium sized business customers.

In parallel with the consultation process, more detailed market research to identify customers' needs and willingness to pay for different levels of service

was carried out on behalf of Postcomm, Postwatch and Royal Mail by an independent market research company.

In June 2007, Postcomm published its proposals document which summarised the consultation responses and findings from the research. The evidence indicated that the majority of customers were satisfied with the postal service they received e.g. price, collection and delivery times in most areas and ability to post their items, including parcels. However, the evidence also indicated that an appropriate and proportionate outcome of the review would be to ensure that action is taken to restore early rural collection times to levels that are more acceptable to customers, and to seek to prevent any significant deterioration in service levels going forward.

Royal Mail reflected on the evidence gathered and offered a commitment to review all collection points with a pre-midday collection time between Mondays and Fridays, with a view to putting back the final collection time as close to midday as possible, where reasonably practicable and economic. Out of a total of approximately 116,000 post boxes, around 7,000 (6%) had a weekday pre-midday final collection time.

Consultees' representations

Postcomm received nine responses to its proposals document which have been published alongside this decision statement, however three key issues arising from the responses are outlined below:

- (1) Royal Mail's review of early morning collection times¹:
 - a) Royal Mail regularly informed Postcomm of the progress it was making with its review during the consultation period. Royal Mail undertook a pilot of the review in the Chester, Wirral and North Wales area which

¹ More detailed information on Royal Mail's review can be found in Royal Mail's supplementary response to the proposals document, which is published on Postcomm's website alongside this decision statement.

made up approximately 20% (1505) of the weekday pre-midday collection times in the country. The pilot was originally due to conclude in August but was delayed due to national industrial action.

- b) The Royal Mail offices in the pilot area were required to complete a series of questions relating to each pre-midday post box, to determine what boxes were reasonably practicable and economic to change. The results, to date, show that 92% (1381) of North Wales postboxes have received an initial review, of which approximately two thirds will be put back to later times – 32.6% (451) have been approved for midday or later final collection times and 32.7% (452) have been identified for a later collection time, which will remain before midday. Royal Mail intends to complete the national review by February 2008.
 - c) Royal Mail has also implemented a process to stop any post-midday final collection times being moved to a pre-midday time (other than in exceptional circumstances). Royal Mail has assured Postcomm that the process is working, with a number of pre-midday changes proposed by local Royal Mail offices being stopped before implementation.
- (2) Royal Mail's response to the EU legislation which will restrict the speed of vehicles between 3.5t and 7.5t to 56mph², and Delivery Best Practice:
- a) These Royal Mail initiatives, which were outlined in Postcomm's consultation documents, received media attention during August 2007 due to the impact they would be likely to have on delivery times. This spurred a number of people to contact Postcomm to request that it prohibit the implementation of these initiatives.

² The Road Vehicles (Construction & Use) Regulations 1986 as amended to incorporate changes to vehicles covered by the legislation through Statutory Instrument (2102/2004)

56mph EU legislation:

- b) It is for Royal Mail (not Postcomm) to decide whether or how it is necessary to change its operations in order to comply with this EU legislation. Royal Mail had previously told Postcomm that there would be a major impact on its operations but had failed to provide supporting evidence, leaving Postcomm unconvinced. However, in June 2007 Royal Mail provided Postcomm and Postwatch with information on how it intended to minimise the impact on customers of complying with this legislation.
- c) This information confirmed that the implementation of the legislation would require a change to Royal Mail's operations, for example, 37% of all road journeys were made by 7.5t vehicles. It also said that Royal Mail had considered a number of alternatives with the aim of minimising any adverse impact on customer service, for example:
- earlier collection times – this was rejected due to the negative impact it would have on customers;
 - slowing down the network available at that time – this was rejected because it would result in delivery times being approximately two hours later, which would result in some deliveries being later than Royal Mail's own delivery time specification permits (2pm in urban areas and 3pm in rural areas); and
 - maintaining the current timetable (i.e. making the necessary investment in vehicles to ensure that delivery times are not affected) – this was rejected because it would result in additional costs of around £120m and require a huge development programme to accommodate the additional network.

Postcomm believes that Royal Mail decided on a reasonable outcome which allowed deliveries to continue to be made within Royal Mail's existing latest delivery time specification of 2pm in urban areas and

3pm in rural areas. The approach taken by Royal Mail was to decrease the number of 7.5t and similar vehicles but increase its fleet of jet aircraft, with an overall impact of approximately one hour on delivery times.

Delivery Best Practice:

- d) 'Delivery Best Practice' is a separate measure that Royal Mail is introducing to improve the efficiency of its operations. As part of the 2006-10 price control discussions Postcomm asked Royal Mail for details of how the costs associated with Delivery Best Practice were calculated and assessed. The information was gathered as part of an ongoing process of communication between Postcomm and Royal Mail concerning Royal Mail's Strategic Plan. This Plan was submitted to Postcomm and reviewed by its consultants. An excised version of the consultant's final conclusions can be found on Postcomm's website³. Royal Mail's response to the current consultation states that its delivery and collection processes must be as efficient as possible, to reduce costs and hence prices⁴, and therefore to benefit all customers.
- e) Royal Mail says that Delivery Best Practice is a fundamental part of its plan to transform its business over the next few years, in order to ensure that it remains profitable and is able to continue to provide the universal service. Royal Mail states that the implementation of other efficiency initiatives is reliant on Delivery Best Practice being implemented. Postcomm considers that, in the long term, Royal Mail's transformation plan is a positive step for the company to take.
- f) However, Postcomm agrees with Postwatch's comments that Royal Mail should be more transparent with its transformation plan; in

³ Future Efficient Costs of Royal Mail's Regulated Mail Activities, Bottom-up Review of Royal Mail's Strategic Plan: Final Conclusions, February 2006, LECG.

⁴ Royal Mail says that this will not necessarily result in a price reduction but prices will be lower in future than they otherwise might have been.

particular, Postcomm would like Royal Mail to provide more detail on how the efficiency and cost savings will eventually benefit customers, albeit that the initial impact of the transformation plan will lead to changes in service levels which are likely to be perceived as a deterioration by some customers.

- g) As a result of the concerns about delivery times Postcomm intends to continue to include this issue in its ongoing research of postal users' needs, and consider the cost and efficiency arguments in the course of the review of the universal service and the discussions leading to the next price control in 2010. Whilst Postcomm is concerned with the impact later delivery times can have on some postal users there is not enough evidence to justify a regulatory intervention at the present time.

(3) There is a need for further debate on customers' needs from collections and deliveries as part of the emerging themes from Postcomm's Strategy Review

- a) As explained in the review of collection and delivery times proposals document, evidence collected as part of this review indicates that customers are generally not willing to pay for service improvements (e.g. earlier delivery times and later collection times). This is reinforced by the fact that when Royal Mail increased its prices in 2006 by 5% its revenue reduced by 0.5%, in part because customers chose to switch to different products, for example to use 2nd class services over 1st class, and also because some customers chose to send less mail.
- b) However, a reduction in service quality such as later delivery times (even if it led to lower prices) may lead to customers migrating to alternative media such as email, therefore resulting in the same problem of market decline.

- c) There is clearly a need to debate further how to reconcile the following issues in a way that meets customers' needs but does not over-specify the service:
1. maintaining the current service levels which will impose upward pressure on prices due to the increasing costs associated with Royal Mail's operations, and particularly the inherent inefficiencies in current delivery practices (hence the need for transformation). This risks a decline in market volume and revenue because the evidence suggest that users would not be willing to pay for this; and
 2. a reduced level in service provision which would be associated with lower prices in future than they otherwise might have been, but which may be perceived as a deterioration by some customers and so also risks a decline in market volume and revenue, because the evidence suggests that users might migrate to alternative media.
- d) Postcomm has a statutory duty to exercise its functions in the manner it considers is best calculated to promote efficiency and economy by postal operators and have regard to the need to ensure that licensed postal operators can finance their activities. Postcomm therefore has to strike a balance between its duty to ensure that Royal Mail is able to implement efficiency initiatives whilst ensuring an appropriate level of service provision (therefore reducing the risk of customers migrating to alternative media). A reduction in market volume (i.e. not just Royal Mail's market share) is likely to put pressure on all postal operators' ability to finance their activities as they will lose the benefits of economies of scale, especially in the short term.
- e) As Postcomm explained in its most recent Strategy Review document⁵, these issues (and others) require a thorough public debate about the future scope and nature of the universal service before Postcomm can

⁵ Postcomm's Strategy Review: The Postal market 2010 and Beyond Emerging Themes – August 2007

formulate its longer term policy recommendations. Postcomm has begun the debate through its Strategy Review, the purpose of which is to consider whether Postcomm's current regulatory policies are capable of achieving its objectives in the longer term, taking into account the expected changes in the mail, wider communications and distribution markets. Postcomm will continue to facilitate the debate through further public consultation.

(4) Other issues raised by respondents:

- a) Postwatch argued that Postcomm should implement a code of practice to safeguard the provision of access points (ie postboxes and places to post parcels) until final decisions have been made in relation to the Post Office network, and to mitigate the risk of Royal Mail reducing its network of post boxes in response to Postcomm's review. As noted in the proposals document, Post Offices were not included in the scope of our review. Postcomm's view is that the implementation of a Code of Practice would be an unnecessary imposition at the current time. Royal Mail has not made mass changes to its provision of access points as a result of this review. Postcomm's Access to Postal Services research was published on 8 October 2007 with the next steps to be taken forward as appropriate.

- b) The Federation of Small Businesses stated that Postcomm should attach priority to the concerns of rural small and medium sized enterprises (SMEs). Postcomm has done this, and will continue to do so, through its ongoing research programme which specifically assesses the needs of rural SMEs (as well as urban SMEs) and how well these are being met. Royal Mail's commitment to review weekday early collection times in rural areas should already be benefiting some rural SMEs and it is important to remember that there are also a number of alternative collection and delivery options available,

including free collection of mail at a local Delivery Office from 8.30am. Postcomm will consider, as part of the next price control discussions, whether further protection is required to meet the needs of these postal users.

Postcomm's decision

Postcomm has decided that ensuring the collection time service in rural areas is restored to levels which are more acceptable to customers continues to be the most effective and proportionate outcome of this review. Postcomm is satisfied that this decision is a proper exercise of its functions under the Act, in accordance with its statutory duties and other legal duties.

Contact details at Postcomm:

If you have comments or questions regarding any aspect of this Decision Statement, please contact –

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