



Ofcom's legal assessment of postal user needs

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14 March 2025

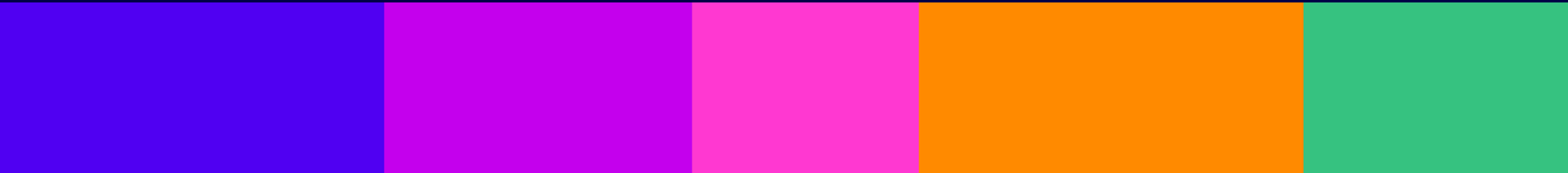


Contents

1. Background
2. User Needs assessment
3. Post User Needs Research 2024: summary of residential findings
4. Annex 1: summary for urban, rural and deep rural areas
5. Annex 2: summary for each UK nation
6. Annex 3: SME summary
7. Annex 4: our proposals for reform



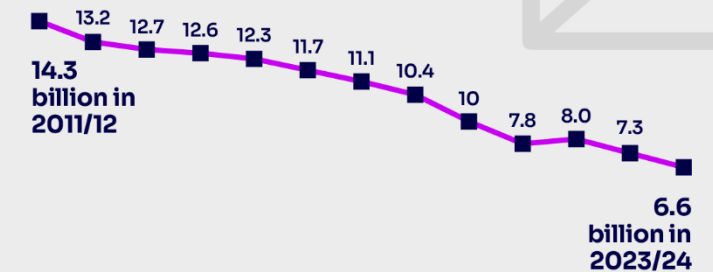
Background



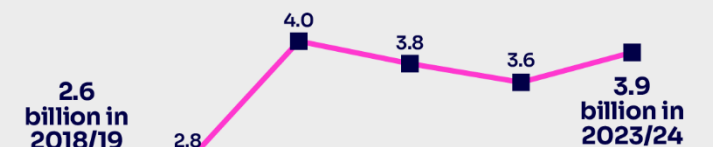
The need for USO reform

- The universal postal service in the UK has remained largely the same since 2011.
- Postal services remain vital for people and businesses across the UK, but the way people use them has changed.
 - The number of letters being sent has halved over the past decade and continues to decline, while parcel volumes have increased considerably.
 - People's needs have shifted towards valuing reliability over speed of delivery.
- From our analysis of the evidence, we believe reform to the universal service is needed because:
 - i. it can be better aligned with the needs of UK postal users and in turn support the continuing affordability of services. A universal service that exceeds user needs could result in people paying higher prices than necessary.
 - ii. there is an increasing risk of the current obligations becoming financially unsustainable as declining letter volumes have driven up the average cost of delivering a letter.

Letter volumes have decreased



Parcel volumes have increased



Our proposals: at a glance

Delivery of Second Class USO letters

- Allow Royal Mail to deliver Second Class letters on alternate weekdays, e.g. Mon/Weds/Fri in Week 1, Tues/Thurs in Week 2.
- Royal Mail not required to process or deliver Second Class letters on Saturdays.

Quality of service for First and Second Class USO mail

- New “tail of mail” targets for items that have not arrived on time: First Class 99.5% in 3 days; Second Class 99.5% in 5 days.
- Reset headline targets: First Class from 93% to 90%; Second Class from 98.5% to 95%.
- Reset Postcode Area target for First Class from 91.5% to 87%.

Access obligations

- Continue to regulate current D+2 access service while market responds to reform.
- Regulate Royal Mail’s new D+3 access service which will be delivered on alternate weekdays (aligned with Second Class).
- Remove Saturday delivery from D+5 access services.

What is not changing

- We will maintain the requirements for **delivery of First Class letters**, which will continue to be delivered next day, six days per week.
- We will maintain the **current parcels USO specification**. This requires collections and deliveries on 5 days a week (Mon-Fri). Royal Mail intends to continue its current practice of exceeding this by delivering on Saturdays too.
- Royal Mail will continue to **collect from all access points on six days a week** (including Second Class letters on Saturdays).
- Uniform pricing, i.e. **one price goes anywhere**, will remain.
- We will continue to **cap the price of a Second Class stamp**.

Timings / Next steps

Ofcom consultation
published

30 Jan 2025



Ofcom
consultation closes

10 April 2025



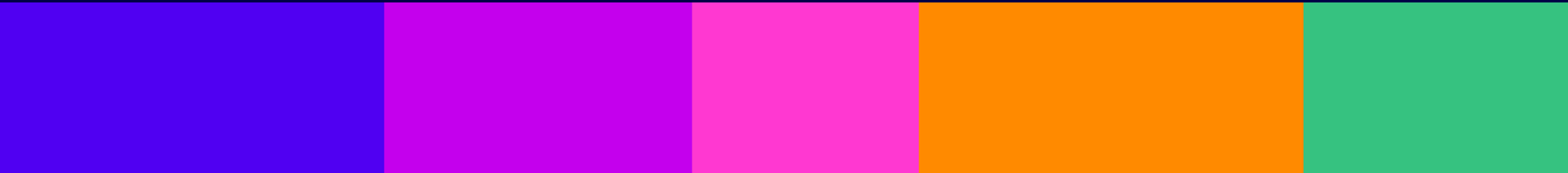
Ofcom
decision

Summer 2025





User Needs Assessment



Ofcom's legal assessment of Postal Users needs

- Ofcom is required, by the Postal Services Act 2011 to set out by order, a description of the services to be provided as part of the USO. The Postal Services (Universal Postal Service) Order 2012 sets out the detailed scope of the Universal Service.
- Before amending the Order, Section 30 of the Postal Services Act requires Ofcom to make an assessment of the extent to which the UK postal services market is meeting the reasonable needs of the users of those services.
- Our assessment is based on market information and the extensive research we have conducted in recent years, including a further [study](#) in late 2024.

Our research

2020

- Quantitative research with residential and SME users to understand their needs.
- Qualitative research (workshops and depth interviews) with residential and SME postal users to understand their needs
- Online quantitative survey among a representative sample of UK adults in the context of COVID-19 related restrictions.

2023

- Qualitative research, with a focus on vulnerable users, to help us understand what residential users need from a postal service.
- Online quantitative survey among a representative sample of UK adults.

2024

- Quantitative research with representative samples of UK adults and SMEs. The research asked users about multiple different categories of letters that they send and receive.
- Annual quantitative post tracker survey that provide data on experiences and attitudes of both residential consumers and SMEs to inform our post monitoring.

Key findings of the User Needs Assessment

- Users need a letters service that is reliable, affordable and frequent.
- Users will always need to use postal services to send and receive letters, but overall reliance has declined.
- Users do not need six day a week deliveries for most letters they send and receive, but they have an occasional need for a faster, next day service for urgent items.

Provisional conclusions:

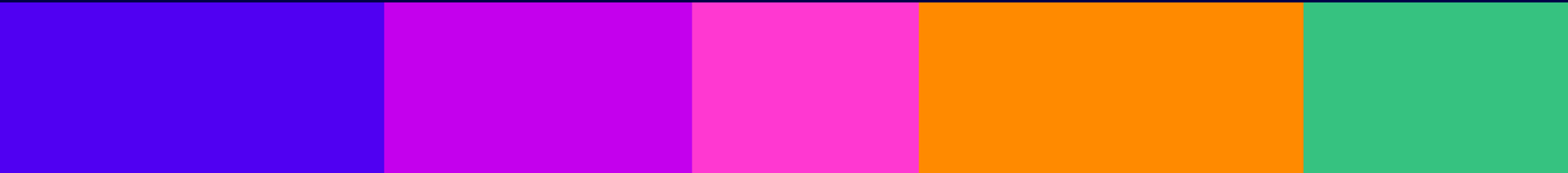
- The needs of most users would still be met with a reduced delivery frequency for Second Class letters, provided a next day delivery service continued to be available.
- The current UK letters market meets, and in the case of delivery frequency of non-priority letters, over caters for the reasonable needs of users as a whole.



Post User Needs Research 2024

Summary of residential findings

Taken from [Post User Needs Research report](#) published on 30 January 2025



Methodology – overview

| | Residential |
|------------------------|---|
| Sample | <ul style="list-style-type: none">• Total sample of 3,145 achieved• Sampled by age, gender, socioeconomic grade and urbanity• Boosts for Deep Rural residents, devolved nations, and those without access to the internet |
| Data collection | <ul style="list-style-type: none">• Conducted between 20th September and 3rd November 2024• Methodologies used: blended panel approach, face to face (using CASI-computer assisted self-interviewing) |
| Data reporting | <ul style="list-style-type: none">• Data weighted to be nationally representative of the UK-weighted by region and nation, and SEG, ethnicity, urbanity, age and gender within nations.• Effective sample size is 76%• Significance testing applied at the 95% confidence level |
| Benefits | <ul style="list-style-type: none">✓ Inclusion of more potentially vulnerable groups✓ Increases access to digitally excluded✓ Face-to-face interviewing with a tablet computer reduces mode effects |

MaxDiff Analysis was used to establish importance of different aspects to users

To better understand how respondents view the trade-offs between detailed service elements of their postal service a statistical approach known as a MaxDiff was used to analyse the data.

The MaxDiff approach offers greater statistical confidence in ranking attributes by having respondents select the most and least important options from a set through repeated choices. The attributes to be tested are run through a statistical model which places them into various combinations, but which ensures each attribute is tested evenly against each other. From this, a respondent is shown a selection of the attributes and asked to select their most and least favoured. This exercise is then repeated several times with the attributes shown in various different combinations.

This method effectively distinguishes high and low priorities, even with numerous attributes. While it doesn't directly use 'preference' and 'needs' language, score thresholds can be used to help identify primary, secondary, and lower-order considerations. In this analysis, participants were asked to choose between attributes, so scores are relative, and a lower importance score does not necessarily mean it is unimportant overall.

Respondents were shown 8 sets of 3 options and for each set were asked to pick the ONE that they felt was most important overall and the ONE that they felt was least important of the three.

Example respondent view

Thinking about the postal service and the sending and receiving of letters as a whole, we want to understand what you think is important.

To help us understand this, you will shortly be shown 8 short questions, each showing a set of 3 options. For each set, please select the one you feel is the most important and the one you feel is the least important to you.

Set 1 of 8

Most important Least important

Availability of a First Class letter service that should arrive the next working day after posting



Letters sent Second Class are delivered within three working days



The security of personal or sensitive information



Summary of key findings – residential users

Despite declining letter volumes, receiving and sending letters remains a near-universal experience.

- 8 out of 10 say their household receives letters at least once a week (82%). Fewer than 1% say they never receive letters.
- Less than a quarter send letters at least once a week. Five per cent say they never send letters.
- Finance related items are the most common letter type *received*. 71% did so in the previous month. Birthday/anniversary/occasion cards are the most common letter type *sent*. 48% did so in the previous month.
- People with no internet connection are less likely to both send and receive letters on a weekly basis. More frequent letter post users include those with higher incomes, those with children in the household, and those in work.

Affordability and reliability remain the top priorities for users from letters service – Second Class delivery within three working days and Saturday delivery are lesser priorities.

- Affordability and reliability remain the top priorities for users - echoing findings from other research*. Ninety per cent and 88% say these factors are important to them respectively.
- Second Class letters being delivered within three working days and Saturday letter deliveries are lesser priorities than factors such as security of personal information, affordability, and availability of next-day delivery services.**
- Online marketplace sellers that use letters to send items they have sold, and for whom online marketplace selling is their main source of income, are more likely to prioritise Second Class letters being delivered within three working days and Saturday letter delivery – although these considerations remain relatively low priorities overall.
- For each type of letter, overall less than a quarter of adults said that it would typically need to arrive within 3 working days of posting when if they sent it by Second Class post.

Summary of key findings - residential

Most stated user needs would continue to be met in the event of proposed letters service changes – but some groups are more likely to say that a revised service would no longer meet their needs.

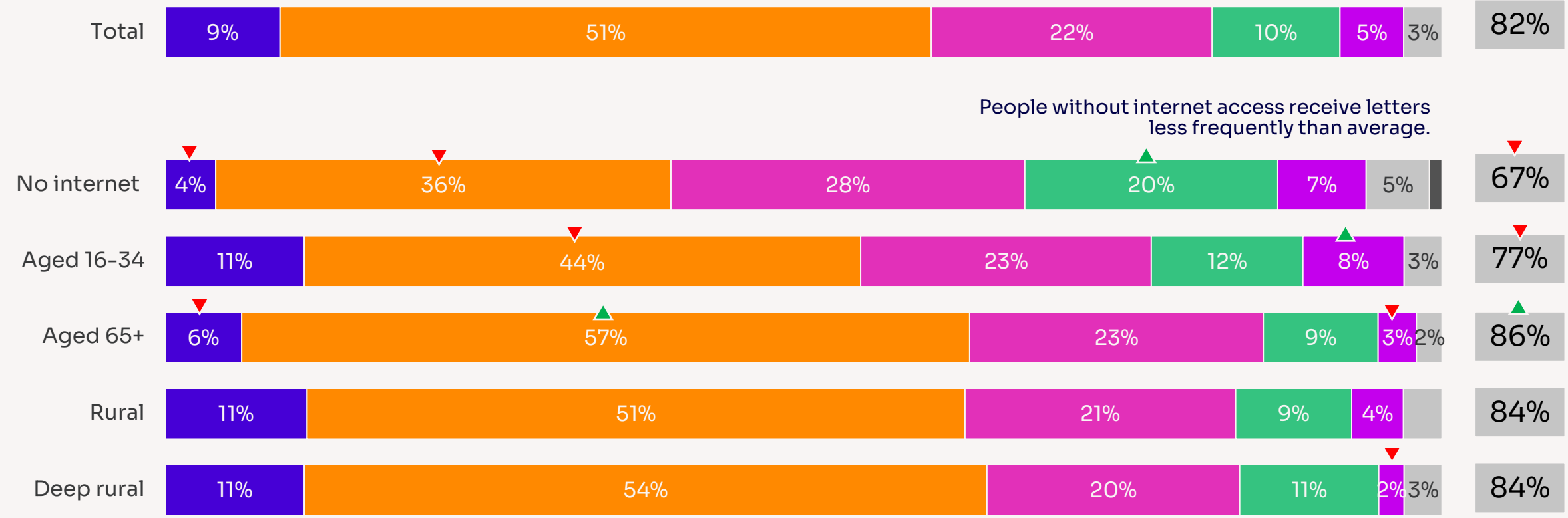
- Our survey asked respondents about the potential impact of some potential changes to letters services.
- Across different letter types, a minority of users say that the proposed changes would mean that the postal service would no longer meet their needs. This view is most prevalent in relation to healthcare and finance related letters in terms of both sending and receiving letter post.
- In total, 27% of adults say that the proposed changes would mean that the service would no longer meet their needs for at least one category of letter that they send or receive. However, when asked to state the extent of the impact of each of the three main elements of the proposed changes, *taking everything into account*, the majority of this group indicated that the proposed changes would have no more than a slight negative impact.
- Seven per cent say their needs would no longer be met *and* that at least one of the changes would have a significant negative impact on them. A further 4% say their needs would no longer be met and at least one of the changes would have a *very* significant impact.
- Groups most likely to fall into the category saying the changes would mean their needs would not be met *and* there would be **a significant or very significant negative impact** include letters service-users using online marketplace sellers, where this is their main source of income (39%), individuals who say they are financially struggling (17%), those with impacting or limiting conditions (16%), and benefit recipients (14%).
- Rural (9%), deep rural (7%) residents, and those with no internet connection (4%) are less likely to fall into the category that said that their needs would not be met *and* there would be **a significant or very significant negative impact**.

Receiving letters remains a universal experience - eight out of ten people said their household receives letters at least once a week

Frequency of receiving letters in the household

Summary:
Receive at least once a week

Less than 1% of people say **they never** receive letters



People without internet access receive letters less frequently than average.

■ Every day possible
 ■ A few times a week
 ■ About once a week
 ■ About once a month
 ■ A few times a year
 ■ Receive letters but don't know how often
 ■ Never

▲ Significantly higher/lower than total
▼ Significantly higher/lower than total

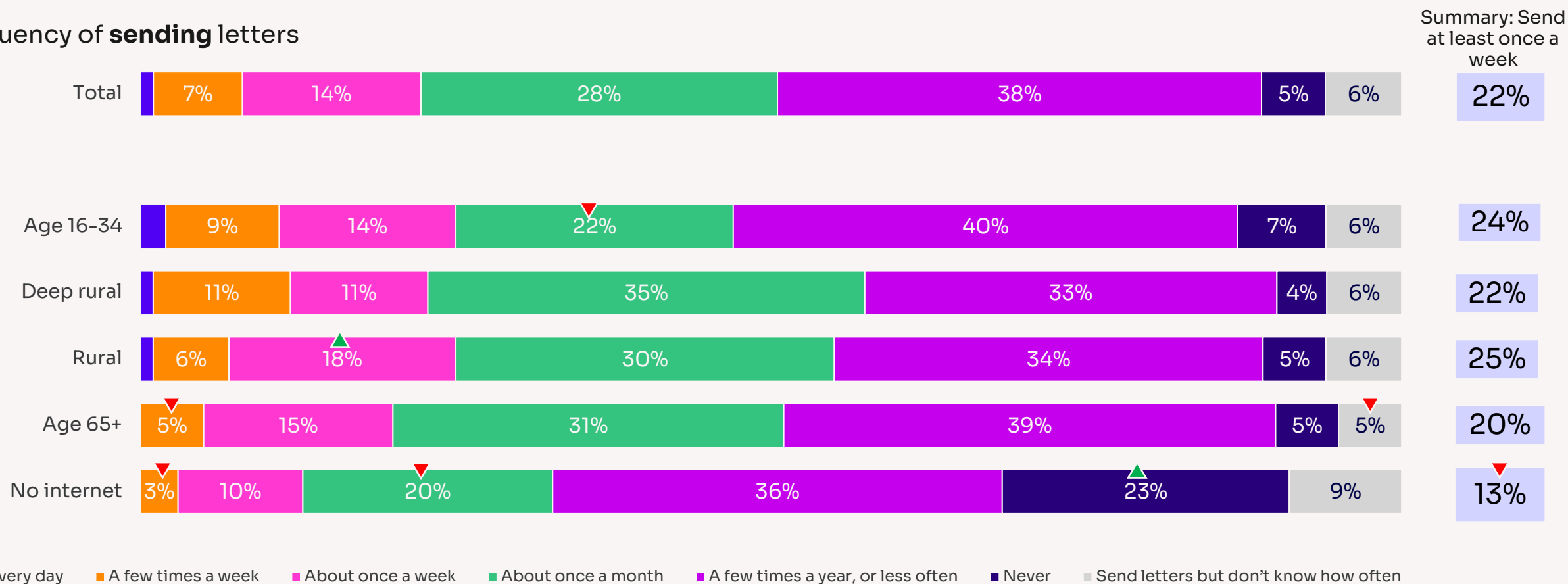
Source: Ofcom Post User Needs Residential Survey 2024

Question: A1. How often do you and/or people in your household receive letters? A2. Can we just check - have you or anybody in your household received any of the following types of letters in the post in the last year?

Base: All respondents (3145), Do not have any internet connection (148), Aged 16-34 (794), Aged 65+ (779), Rural (469), Deep Rural (176)

Fewer send than receive but almost a quarter of UK adults still send letters weekly or more often. People without internet access are among those least likely to send letters

Frequency of **sending** letters



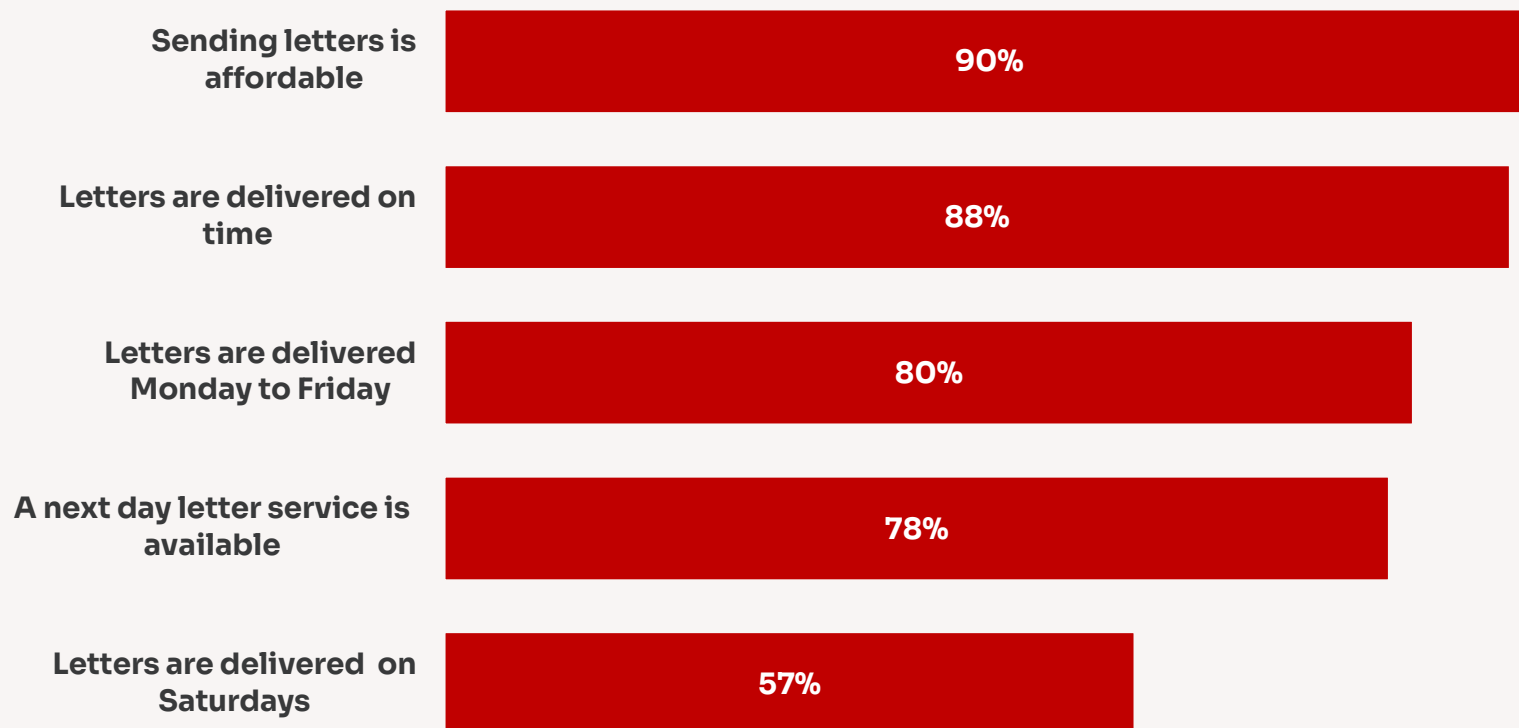
Source: Ofcom Post User Needs Residential Survey

Question: A5. How often do you send anything using letter post? This could include things like greeting cards, application forms, returning official documents, sending medical samples etc. Please only include letter post that you send within the UK. A5a. Can we just check that you never send any letters, such as birthday/Christmas cards, application forms, or official documents like passport or benefits forms?

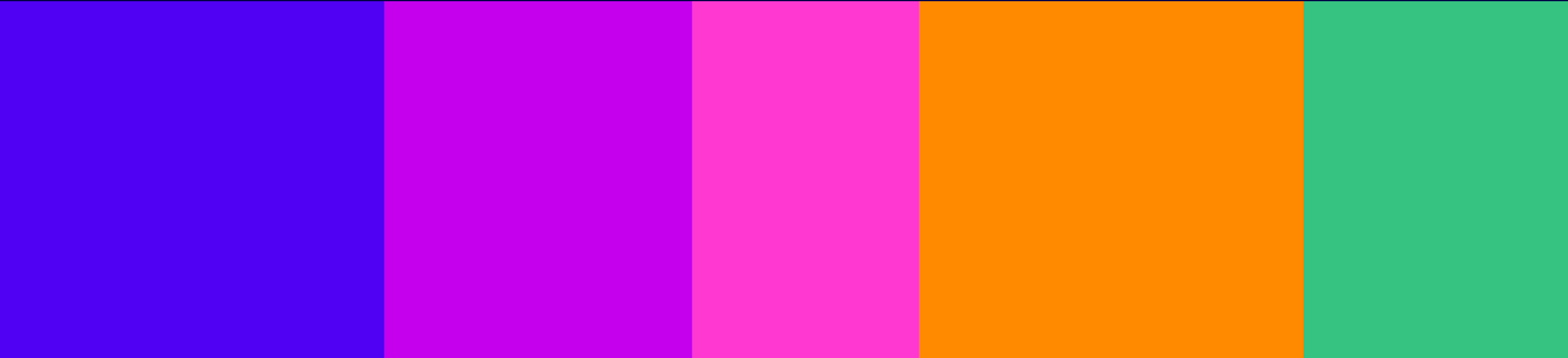
Base: All respondents (3145), aged 16-34 (794), aged 65+ (779) those without internet connection (148), rural (469) deep rural (176)

Affordability and reliability are the most important service features to users

Stated importance to UK adults: % for whom each factor is “Important” or “Very Important”



Residential users: Stated impact of proposed changes



Proposed changes to second class and business letter postal service shown to respondents

To present the changes to respondents, they were asked to read the background to the proposed changes carefully, and shown the below outline of the impacts and a further example of how this might affect Second Class post.

We will now ask you some questions about potential changes to the delivery of letters and cards. Over recent years the number of letters and cards being sent through the post has been falling. Because of this, Royal Mail has received less money from businesses and consumers but must still provide the same service and deliver six days a week.

In response to this, Ofcom is thinking about the future needs of people and businesses in the UK. Ofcom would like to understand whether the needs of the people and companies that send and/or receive mail would be met if certain changes were to be made to the delivery of letters and cards by Royal Mail.

We are interested in your views of proposed changes to the frequency of delivery of letters and cards sent by Second Class post, and Standard Business Letters (for example, letters from organisations like the NHS or other healthcare providers, and local councils, bank statements and bills from businesses such as energy and water companies, including magazines that get delivered by post).

Change 1
Letters and cards sent by Second Class post would no longer be delivered on Saturdays.

Change 2
Standard letters sent by businesses and organisations would no longer be delivered on Saturdays and could take a day longer to be delivered than they do today.

Change 3
If you sent a letter or card by Second Class post, it would no longer be delivered to the recipient on a Saturday and it may take a day longer to arrive than it would today.

No changes would be made at all to First Class letters service or **urgent** business mail (that is letters sent by businesses or organisations).

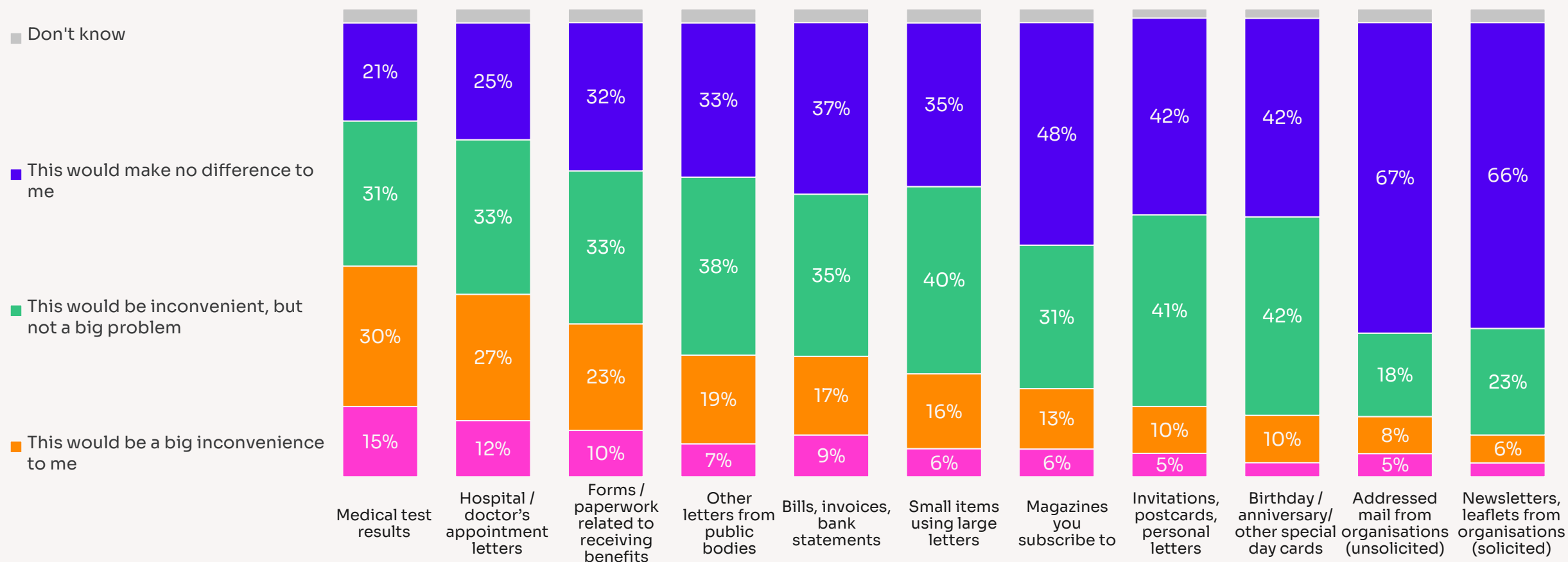
No changes would be made to the delivery of parcels sent via Royal Mail

From October 2024, the price of a standard Second Class letter stamp will be 85p and the price of a standard First Class letter stamp will be £1.65.

At the moment, when you use Second Class letter post in the UK you can expect it to arrive within 3 working days after the day it is posted (Saturday is currently counted as a working day). The new proposal means that Saturday would **no longer count as a working day for the Second Class service**, so if you posted the letter or card by Second Class post on a Wednesday, Thursday, Friday or Saturday you could expect it to arrive a day later than it would now.

Those receiving healthcare or benefits-related letters are more likely to say changes would cause substantial harm or difficulties

Impact on specific post types where received



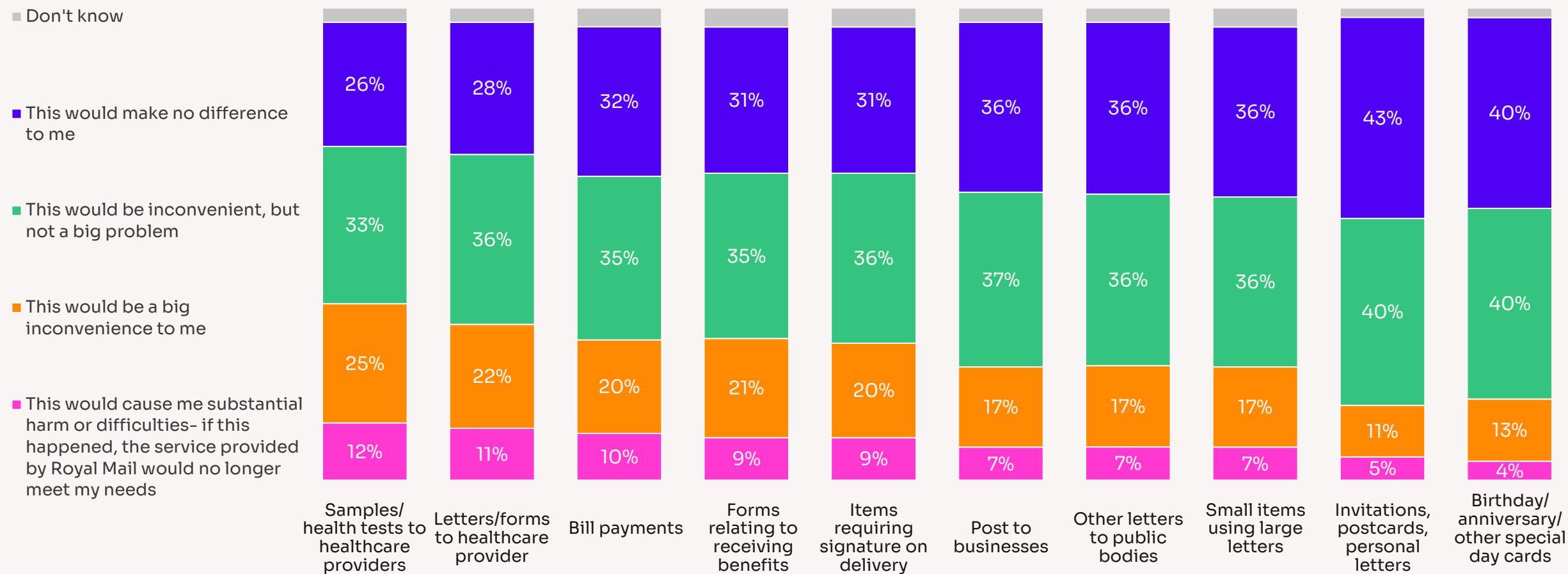
Source: Ofcom Post User Needs Residential Survey

Question: C1. How much of an impact, if any, do you think these changes would have on you, when you consider the types of letters you receive?

Base: All who ever receive each letter type (base varies from 1450 to 2870)

Those who send finance or healthcare related post are most likely to say they would be caused harm

Impact on specific letter types sent

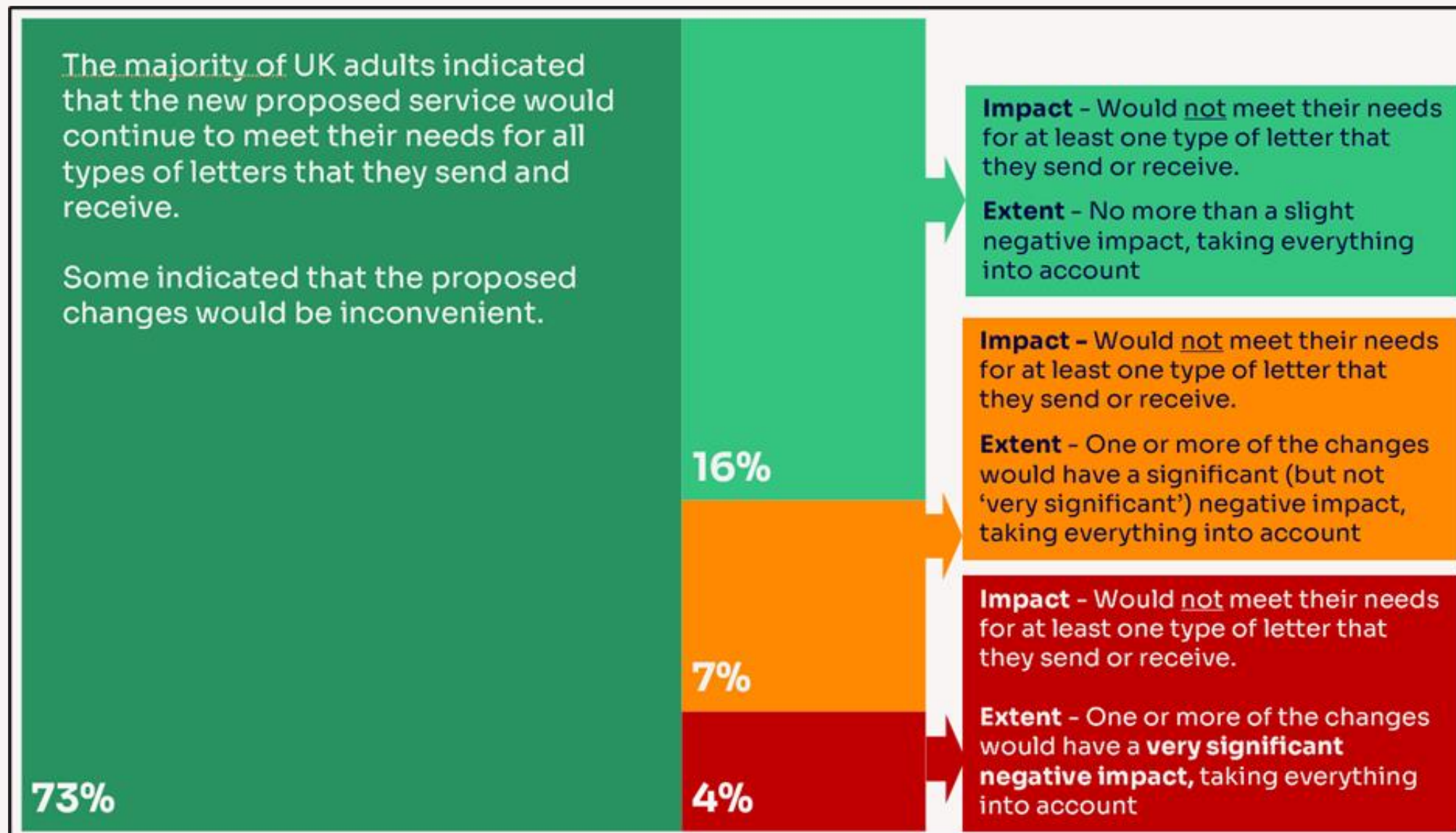


Source: Ofcom Post User Needs Residential Survey

Question: C4. How much of an impact would the proposed changes to Second Class post have in relation to the types of letters and cards that you send?

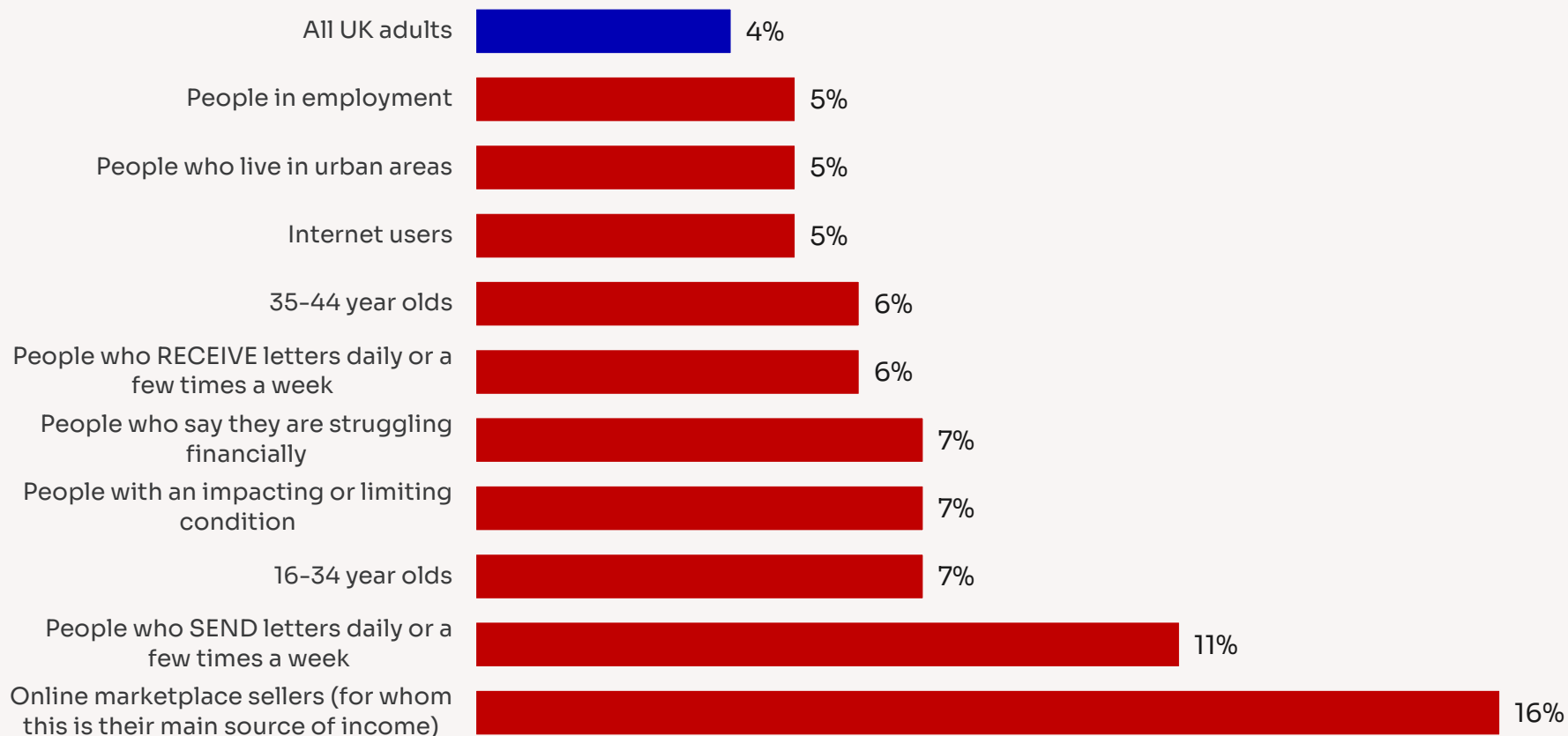
Base: All who ever send each letter type (base size varies from 1526-2444)

When taking everything into consideration, only a small proportion say that there would be a significant or very significant negative impact from the proposed changes



Some groups are more likely to say the proposed changes would have a very negative impact – but in each case, this remains a minority view

Groups that are significantly more likely than average to say that their needs would not be met for at least one type of letter sent or received AND that the changes would have a very significant negative impact



Those without internet access tend to be less frequent users of the postal service, are less likely to be impacted by the changes, and less likely to change their behaviour as a result

Summary of findings and reactions to proposed changes among postal services users with no internet connection at home or elsewhere

67% Receive letters at least about once a week (cf. 82% of total sample)

12% Send letters at least once a week (cf. 22% of all users)

2% Say needs would no longer be met in relation to at least one type of letter *and* changes would have a very significant negative impact (cf. 4% of total sample)

2% Say needs would no longer be met in relation to at least one type of letter *and* that changes would have a significant, but not very significant negative impact (cf. 7% of total sample)

15% Say needs would no longer be met in relation to at least one type of letter but went on to say that, taking everything into account, the proposed changes would make no difference or would only have a slight negative impact (cf. 16% of total sample)

Those with no internet connection are less likely to say Saturday letter delivery is important (38% cf. 57% of total) and that availability of a next day letter delivery service is important (65% cf. 78%). Affordability (87%) and Reliability (83%) are the most important factors to this group.

Source: Ofcom Post User Needs Residential Survey,

Various questions

Base: All respondents who do not have any internet connection (148)

Findings for urban and rural users

Deep rural

- Areas classified as ‘hamlet and isolated dwellings’, ‘hamlet and isolated dwellings in a sparse setting’, or villages in a sparse setting.
- Approximately 2% of the UK population live in these areas.
- 22% send letters every week.
- 4% of residential users in deep rural areas say that the proposed changes would mean that the service will no longer meet their needs in relation to at least one type of letter that they send or receive.

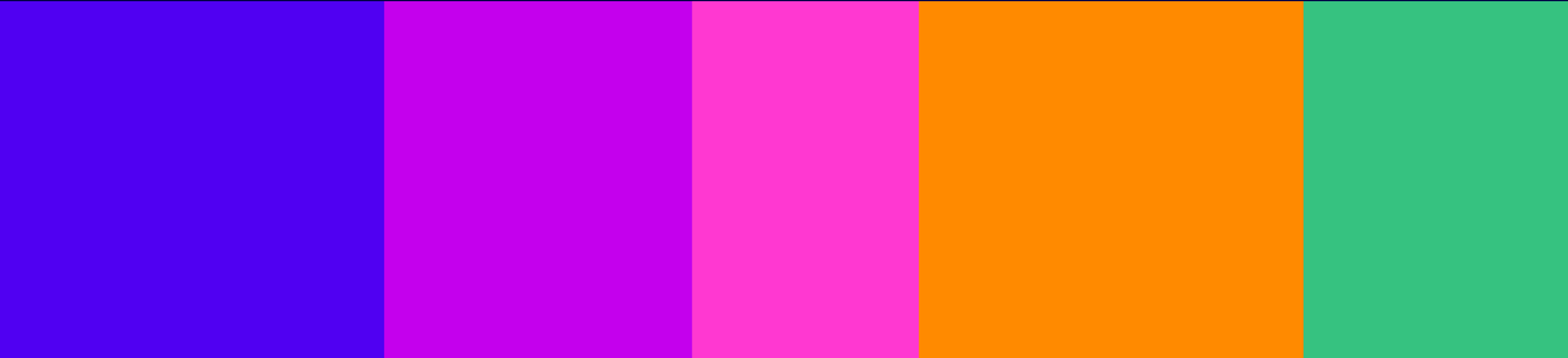
Rural (excluding Deep rural)

- Areas classified as ‘villages’, ‘town and fringe’, or ‘town and fringe in a sparse setting’.
- Approximately 16% of the UK population live in these areas.
- 25% send letters every week.
- 3% of residential users in rural (excluding deep rural) areas say that the proposed changes would mean that the service will no longer meet their needs in relation to at least one type of letter that they send or receive.

Urban

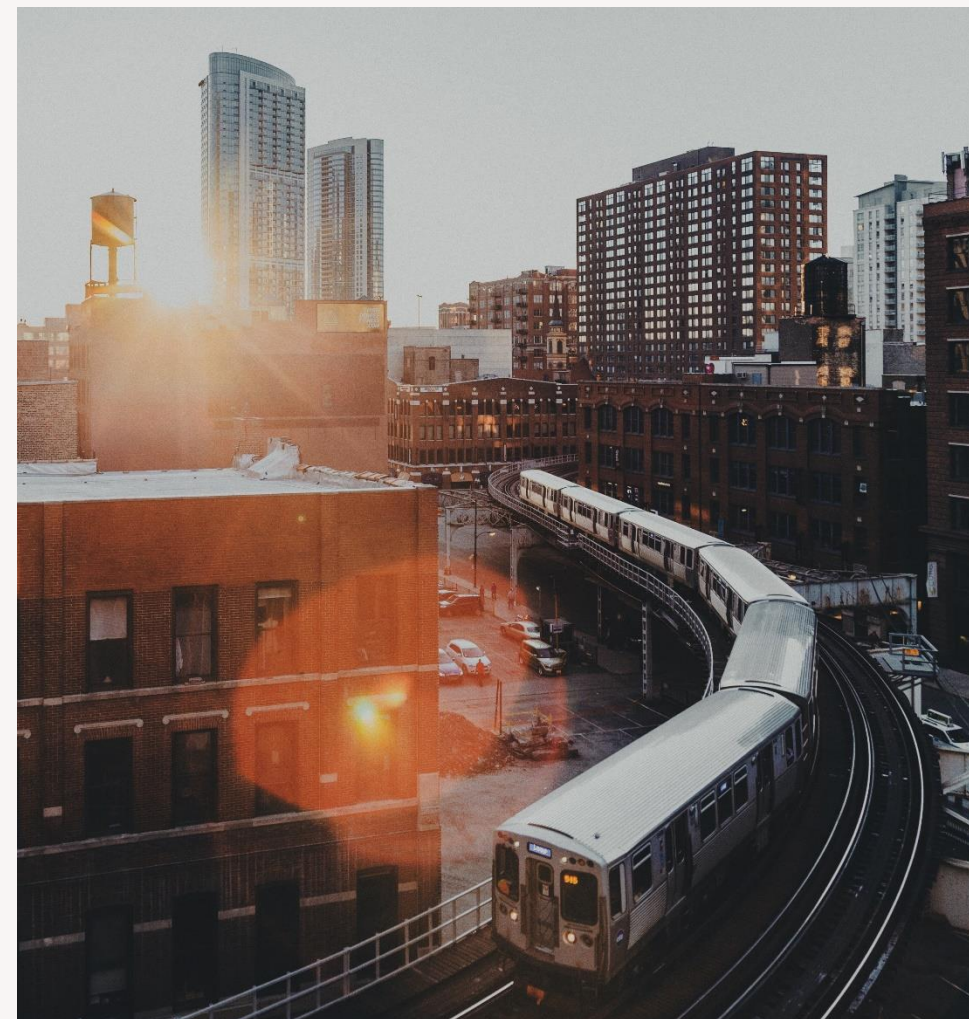
- All other areas, not classified as Rural.
- Approximately 82% of the UK population live in urban areas.
- 22% send letters every week.
- 5% of residential users in urban areas say that the proposed changes would mean that the service will no longer meet their needs in relation to at least one type of letter that they send or receive.

Annex 1: summary for urban, rural and deep rural areas



Urban Summary

- Findings amongst residents in urban areas are broadly in line with average UK figures.
- 82% receive letters at least once a week; 22% send letters every week.
- 9 in 10 say affordability (89%) and reliability (88%) are important to them. Saturday letter deliveries are considered the least important element we asked about (58%). In the MaxDiff data, security of personal/sensitive information and letters not being lost/damaged were still most important despite being of relatively lower importance than UK average.
- 5% of residential users in urban areas say that the proposed changes would mean that the service will no longer meet their needs in relation to at least one type of letter that they send or receive, and that taking everything into account, at least one of the changes would have a *very* significant negative impact.
- A further 7% say that their needs would not be met, and at least one of the changes would have a significant negative impact.
- 15% of those in urban areas say that the proposed changes would mean services would no longer meet their needs for at least one type of letter that they send or receive, but that taking everything into account, the proposed changes would make no difference or would only have a slight negative impact.



Rural Summary (excluding deep rural)

- In general, rural residential users show some deviation from the UK average, for example reporting slightly lower impacts as a result of changes.
- In rural areas, 84% receive letters at least once a week; 25% send letters every week.
- 9 in 10 say affordability (92%) and reliability (88%) are important to them. Saturday letter deliveries are considered the least important service factor we asked about (47%). In the MaxDiff data, the security of personal/sensitive information was rated relatively more important than the UK average.
- 3% of residential users in rural (excluding deep rural) areas say that the proposed changes would mean that the service will no longer meet their needs in relation to at least one type of letter that they send or receive, and that taking everything into account, at least one of the changes would have a *very* significant negative impact. This is lower than the UK average.
- A further 6% say that their needs would not be met, and at least one of the changes would have a significant negative impact.
- 17% say that the proposed changes would mean services would no longer meet their needs for at least one type of letter that they send or receive, but that taking everything into account, the proposed changes would make no difference or would only have a slight negative impact.

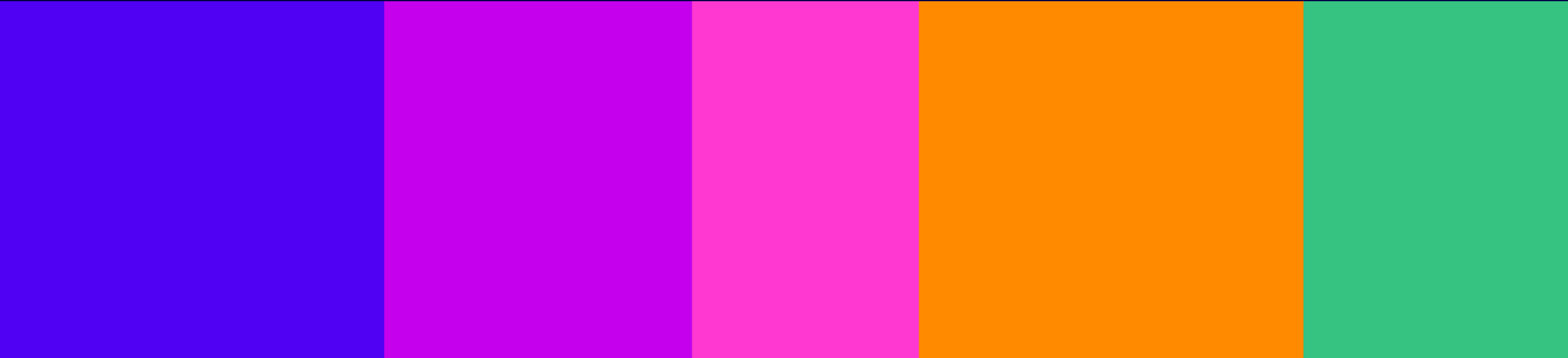


Deep Rural Summary

- People living in deep rural areas show a few significant differences compared to the UK average.
- In deep rural areas, 84% receive letters at least once a week; 22% send letters every week.
- 9 in 10 say affordability (90%) and reliability (91%) are important to them. Saturday letter deliveries are considered the least important service factor we asked about (58%). In the MaxDiff exercise, security of personal/sensitive information and letters not being lost/damaged were most important.
- 4% of residential users in deep rural areas say that the proposed changes would mean that the service will no longer meet their needs in relation to at least one type of letter that they send or receive, and that taking everything into account, at least one of the changes would have a *very* significant negative impact.
- A further 3% say that their needs would not be met, and at least one of the changes would have a significant negative impact. This is lower than the UK-wide figure of 7%.
- 18% of those in deep rural areas say that the proposed changes would mean services would no longer meet their needs for at least one type of letter that they send or receive, but that taking everything into account, the proposed changes would make no difference or would only have a slight negative impact.

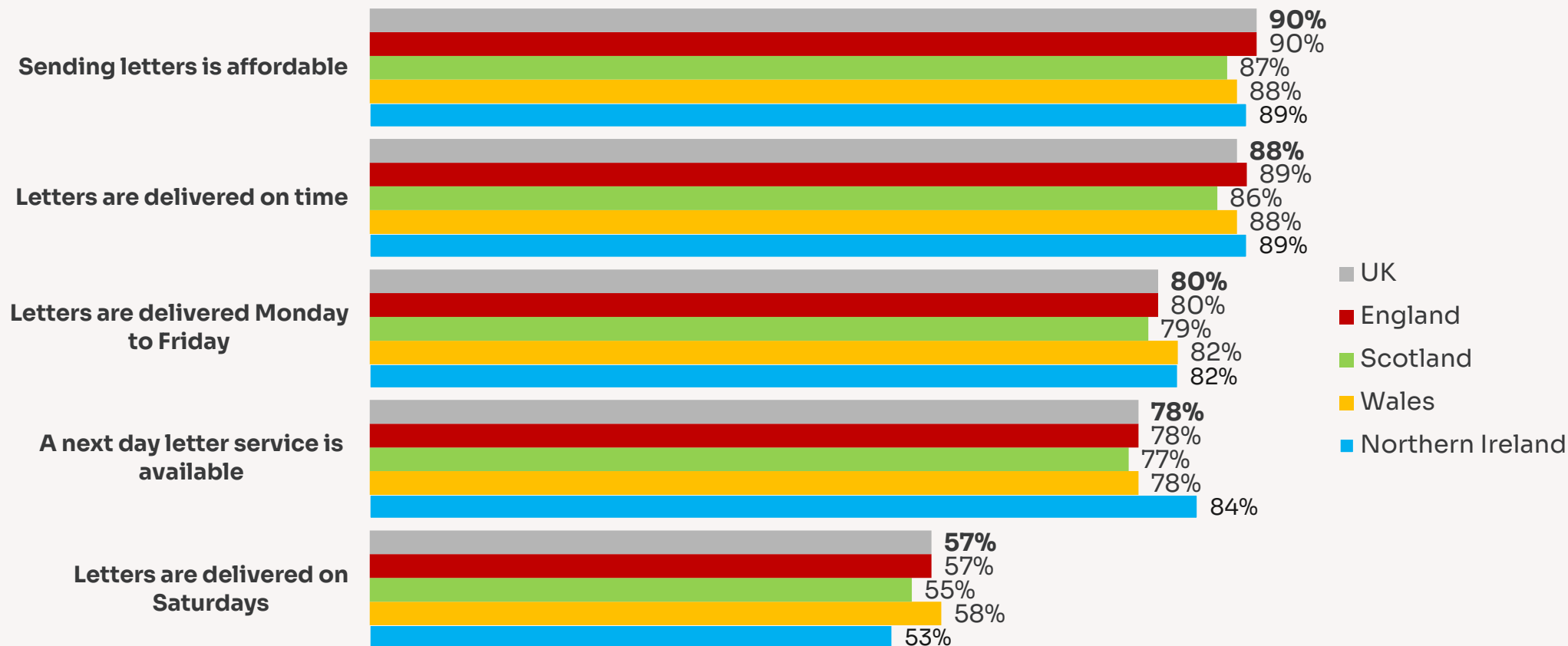


Annex 2: summary for each UK Nation



What's important to users across the UK nations?

Stated importance to UK adults: % for whom each factor is "Important" or "Very Important" – split by UK Nation (including UK average)



National Summary – England

- In England, 82% receive letters at least once a week; 23% send letters every week.
- 9 in 10 say affordability (90%) and reliability (89%) are important to them. In the MaxDiff data, security of personal information and letters not being lost/damaged were most important. Saturday letter deliveries are considered the least important, followed by Second Class letters being delivered within three working days.
- 5% of residential users in England say that the proposed changes would mean that the service will no longer meet their needs in relation to at least one type of letter that they send or receive, and that taking everything into account, at least one of the changes would have a *very* significant negative impact. A further 7% say that their needs will not be met, and at least one of the changes will have a significant negative impact.
- 16% of those in England say that the proposed changes would mean services would no longer meet their needs for at least one type of letter that they send or receive, but that taking everything into account, the proposed changes would make no difference or would only have a slight negative impact.



National Summary – Northern Ireland

- Findings in Northern Ireland show a few significant differences, including a lower level of impact.
- 4 in 5 (80%) of those in Northern Ireland receive letter post at least once a week. One fifth (20%) send letters at least once a week.
- Those in Northern Ireland are significantly more likely to consider the availability of a next day letter delivery service as important (84%). MaxDiff analysis finds that those in Northern Ireland are also more likely to say security of personal/ sensitive information is important.
- 1% of residential users in Northern Ireland say that the proposed changes would mean that the service will no longer meet their needs in relation to at least one type of letter that they send or receive, and that taking everything into account, at least one of the changes would have a *very* significant negative impact. This is lower than the UK average.
- A further 3% say that their needs would not be met, and at least one of the changes would have a significant negative impact.
- 18% of those in Northern Ireland say that the proposed changes would mean services would no longer meet their needs for at least one type of letter that they send or receive, but that taking everything into account, the proposed changes would make no difference or would only have a slight negative impact.



National Summary – Scotland

- Residential users in Scotland show some significant differences from the average, with less impact reported in general.
- 82% of those in Scotland receive letter post at least weekly, and 18% send letters at least once a week.
- The priorities and levels of importance of different aspects of the postal service in Scotland are aligned with the UK average, except for Saturday letter delivery, which, in the MaxDiff, is seen as relatively less important than the overall UK figure.
- 3% of residential users in Scotland say that the proposed changes would mean that the service will no longer meet their needs in relation to at least one type of letter that they send or receive, and that taking everything into account, at least one of the changes would have a *very* significant negative impact. This is lower than the UK average.
- A further 6% say that their needs would not be met, and at least one of the changes would have a significant negative impact.
- 11% of those in Scotland say that the proposed changes would mean services would no longer meet their needs for at least one type of letter that they send or receive, but that taking everything into account, the proposed changes would make no difference or would only have a slight negative impact.

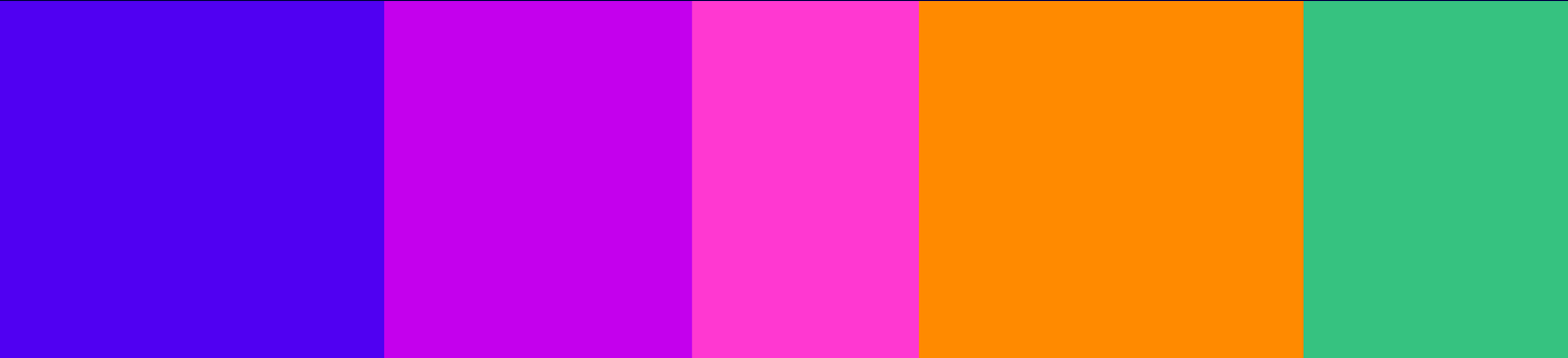


National Summary – Wales

- Residential users in Wales fall in line with the UK average.
- In Wales, 83% of households receive letters at least once a week; 21% send letters every week. In line with the total, nearly nine in ten say affordability (88%) and reliability (88%) are important to them.
- 6% of residential users in Wales say that the proposed changes would mean that the service will no longer meet their needs in relation to at least one type of letter that they send or receive, and that taking everything into account, at least one of the changes would have a *very* significant negative impact. A further 9% say that their needs will not be met, and at least one of the changes will have a significant negative impact.
- 12% of those in Wales say that the proposed changes would mean services would no longer meet their needs for at least one type of letter that they send or receive, but that taking everything into account, the proposed changes would make no difference or would only have a slight negative impact.



Annex 3: SME summary



Summary of key findings – SME survey

A third of SMEs say letter post is very important or core to their business – with over 90% sending and receiving post.

- A third (34%) of SMEs say letter post is very important or core to their business, while two thirds use it mainly for administrative purposes (65%).
- Sending and receiving post remains a part of business for SMEs. Just 2% never receive and 8% never send letters.
- 70% of SMEs receive, and 51% send letters at least about once a week.
- The frequency of sending and receiving letters increases with the size of the SME. For example, 46% of 0-employee SMEs send letters at least about once a week, rising to 87% of 50-249-employee SMEs.

Affordability and reliability are key priorities for SMEs, while Saturday delivery is a lower priority.

- Reliability (confidence that letters will be delivered on time) (89%) and affordability (86%) are the most important service aspects for SMEs, while Saturday letter delivery is important to just over a third of SMEs (35%).
- SMEs that send marketing materials to customers/clients are more likely to say Saturday letter deliveries are important (47%).
- A minority (13%) of SMEs do not receive letter post on a Saturday. Of those that do receive it, a third (32%) don't open it until Monday or later. Smaller SMEs are more likely to open Saturday letter post on the same day.
- The large majority of SME senders of each type of letter we asked about say they would typically not need Second Class letters to be delivered within 3 working days of posting.

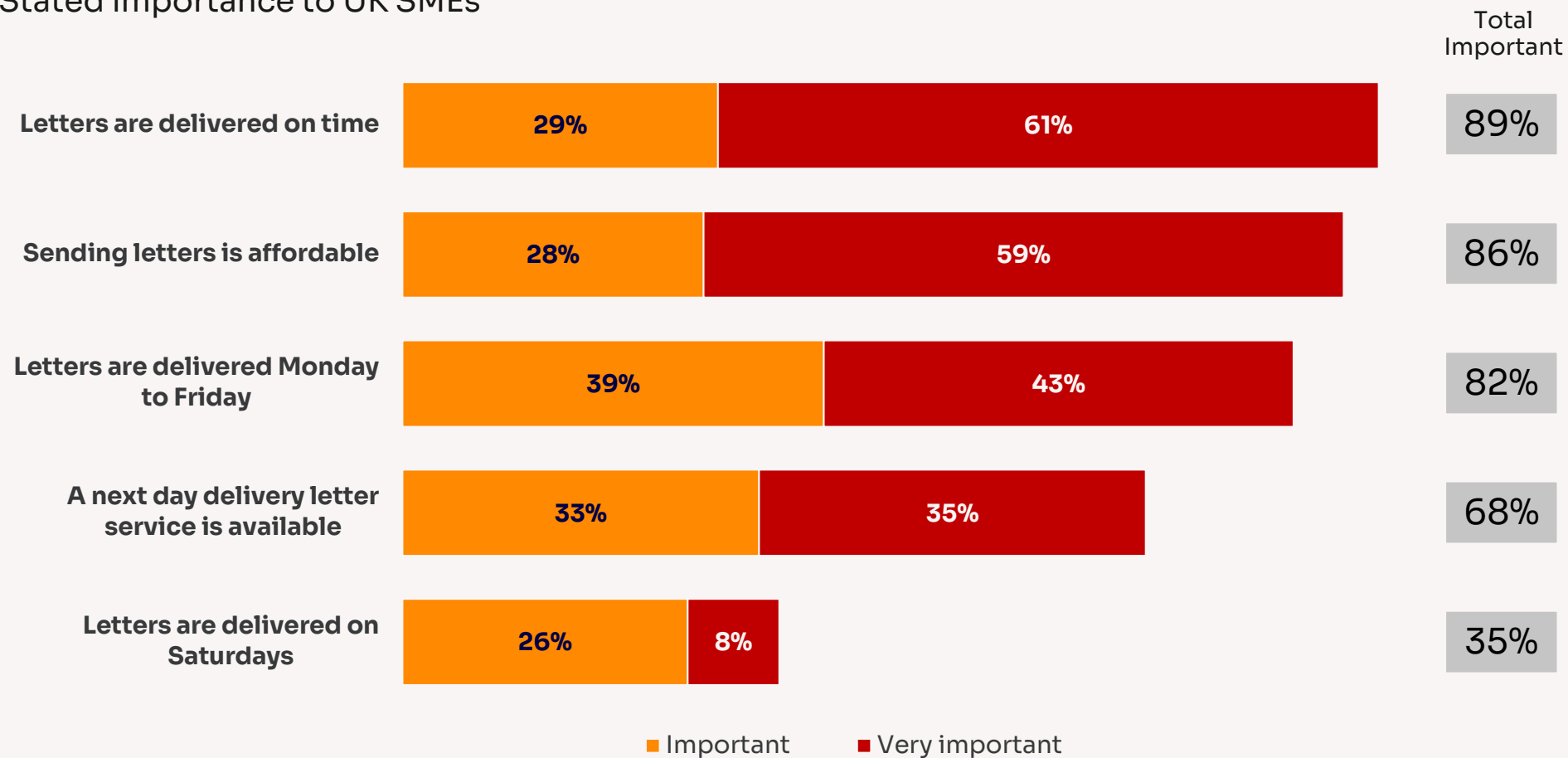
Summary of key findings – SME survey

Most SMEs say they would not be impacted by the proposed service changes.

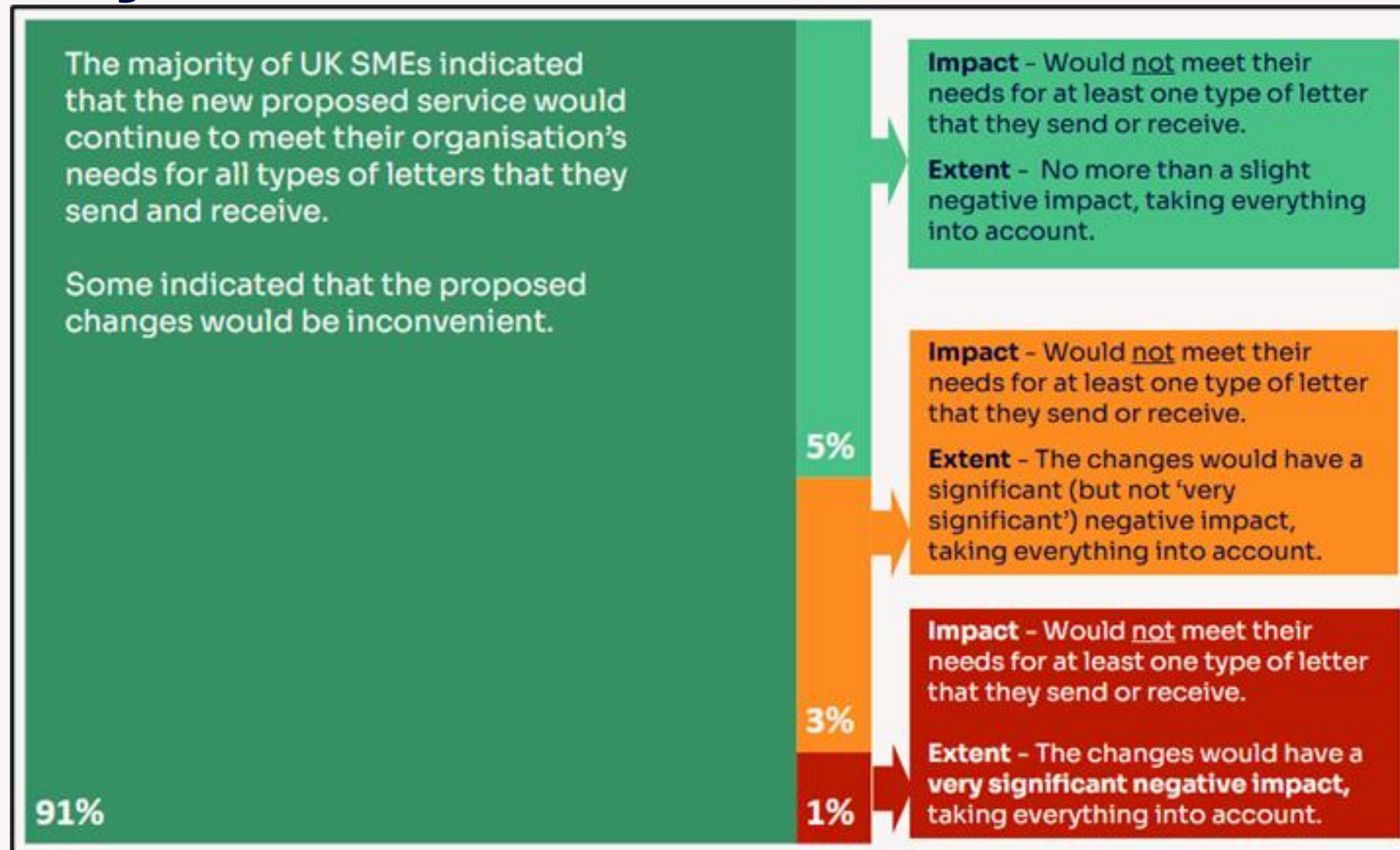
- 9 in 10 SMEs say that if the proposed changes were made, the service would still meet their needs for all types of letters that they send and receive (91%).
- The 9% of SMEs who say their needs would not be met for at least one type of letter that they send or receive consists of:
 - 1% who also say the changes overall would have a *very* significant negative impact on their business and 3% that say the changes would have a significant impact.
 - A further 5% say the changes would have no more than a slight negative impact on their business overall.
- Small items would be the most impacted letter post. Four per cent of SMEs say that the changes would mean their needs are no longer met in relation to sending this type of post and a similar proportion (5%) say the same in relation to receiving this type of post. Meanwhile, addressed direct mail and marketing materials would be the least impacted.
- Almost 8 in 10 (78%) SMEs that said they would be impacted, said they would take an action if the service changes were made, most commonly by sending things earlier than previously needed (32%) and using more online/digital alternatives (31%).

Affordability and reliability are the most important service aspects for SMEs

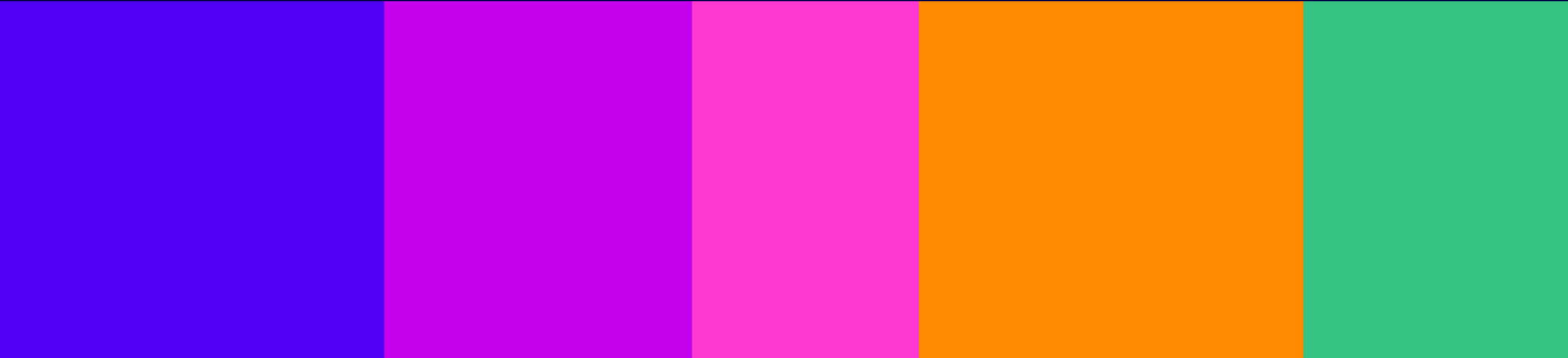
Stated importance to UK SMEs



When taking everything into consideration, only a very small proportion of SMEs say that there would be a significant or very significant negative impact from the proposed changes



Annex 4: our proposals for reform



Proposal to allow Royal Mail to deliver Second Class letters on alternate weekdays

| Day of posting | Current due delivery day | Future due delivery day |
|----------------|--------------------------|-------------------------|
| Monday | Thursday | Thursday |
| Tuesday | Friday | Friday |
| Wednesday | Saturday | Monday |
| Thursday | Monday | Tuesday |
| Friday | Tuesday | Wednesday |
| Saturday | Wednesday | Thursday |
| Sunday | Thursday | Thursday |

- Second Class letters would still need to be delivered within 3 working days after collection, but Saturday would not be included in the calculation which means that items posted on Weds – Sat could arrive one day later than now.
- We consider that the needs of postal users as a whole would continue to be met as our research indicates that a very small proportion of people (4%) considered that they would be very significantly impacted by the proposed changes.
- Users may benefit from USO reform if it enables Royal Mail to improve reliability of performance and redeploy existing resources to other areas such as parcels.

Proposed changes to USO quality of service targets

Users expect a reliable service

- Delivery targets are an important part of holding Royal Mail to account.
- Stakeholder responses and user research have shown that users increasingly value reliability over speed.

However, quality comes at a cost, and affordability must be protected

- Changes in the postal market and the way people use the post have made it much more expensive to deliver to the current target levels. Small changes to target levels can have significant cost implications.
- Our evidence indicates users would be impacted more by price rises, than by small changes to targets.

We have therefore proposed two sets of changes to rebalance the framework of targets:

With small adjustments to the primary targets...

| | | | | | |
|-----------------------|------|--------------|----|------------|---------------------------|
| 1ST | From | 93% | to | 90% | D+1 nationally |
| Class | From | 91.5% | to | 87% | D+1 in each postcode area |

| | | | | | |
|-----------------------|------|--------------|----|------------|----------------|
| 2ND | From | 98.5% | to | 95% | D+3 nationally |
| Class | | | | | |

...and *new* backstop targets for reliability

| | | |
|-----------------------|--------------|----------------|
| 1ST | 99.5% | D+3 nationally |
| Class | | |

| | | |
|-----------------------|--------------|----------------|
| 2ND | 99.5% | D+5 nationally |
| Class | | |

Proposed changes to the access condition

- Most letters sent today (c.63%) are bulk mail sent by large organisations (such as banks or the NHS), but bulk mail is not part of the USO. To realise the benefits from any reform to the universal service, changes are also needed to the access obligations on Royal Mail to ensure it can operate the same alternate weekday delivery model for non-priority bulk mail.
- Our proposed changes to the access conditions aim to enable alignment of the delivery of non-priority bulk mail with Second Class USO letters, i.e. on alternate weekdays, while continuing to support a competitive bulk mail market that meets users' needs.

| Access Service | Proposals |
|----------------|---|
| D+2 | Continue to regulate this service while the postal market and users respond to reform. |
| D+3 | To regulate this new Royal Mail service (which will be delivered on alternate weekdays to align with Second Class USO letters) by imposing a number of protections including: margin squeeze control (against the current Relevant Retail Services for the D+2 access control); delivery performance reporting requirements; provision of the service on fair and reasonable terms, conditions and charges. |
| D+5 | To remove Saturday delivery so that delivery frequency will align with Second Class USO letters. |

Impact of our proposals on Financial Sustainability

- Royal Mail's financial performance in recent years means that there are material risks to the financial sustainability of the universal service; the Reported Business has not achieved 5% EBIT margin (an indicative commercial benchmark) since 2015/16.
- Our estimate of the potential net cost savings, both in terms of the cost savings from moving to the alternate day delivery model and the reduced requirement to invest due to lower quality of service targets, are a significant and likely necessary component of returning the USO to long term financial sustainability.
- However, Royal Mail must also achieve significant growth in parcels, manage effectively the decline in letter volumes, and improve its efficiency by adapting its network to volume and workload changes.

Securing the benefits of our proposals will rely on effective implementation by Royal Mail

- The proposed changes are necessary to support the continued provision of a universal postal service, which in turn will benefit consumers, businesses and the wider economy.
- These changes alone will not provide the answer to Royal Mail's broader operational and financial challenges. It needs to do more to ensure it remains financially sustainable, e.g. transforming its network and operations; improving growth through its parcels service.
- It is unlikely we can do significantly more under the current regulatory framework to respond to the challenges facing the universal service.
- It may become necessary to review the USO specification again in the future as the letters market continues to decline. Any further substantial changes would likely require changes to legislation.