

Royal Mail's Proposed Changes to its Special Delivery Next Day Service

Postcomm's Decision

Summary

1. Before it makes “less beneficial” changes to the terms and conditions of its regulated services (that is changes which are less beneficial to users of the services than the current terms and conditions), Royal Mail has to comply with the requirements set out in its licence. The licence includes a process by which Royal Mail can first apply to Postwatch for a statement of agreement to the changes it wishes to make. On 25 January Royal Mail made an application to implement a less beneficial change, to its Special Delivery Next Day (SDND) service including with it a statement of agreement from Postwatch. In such cases, Postcomm has one month to decide whether to reject the application as unclear, or to consult more widely. The one month concluded on 25 February.

2. Royal Mail initially submitted an application to Postcomm to be allowed to make changes to its SDND service in April 2006. The main changes it proposed at this time were to:

- limit what can sent by SDND to exclude certain defined items of value. This included all cash and jewellery; and
- reduce the additional levels of compensation that a customer may purchase from a ceiling of £2,500 to £500.

3. Postcomm issued a consultation document on Royal Mail’s April 2006 proposals to gather views from interested parties¹. The overwhelming majority of the large number of responses it received urged Postcomm to reject the application. The main reasons for objections included undue discrimination against posters of jewellery and other valuable items, the change in the guaranteed delivery time and the doubling of the basic price. Royal Mail was asked to reflect on the responses.

4. In October 2007, Royal Mail submitted an application to Postwatch for a statement of agreement to the changes which set out a modification to its original application. The new application made it clear that Royal Mail wanted simply to set a limit of £500 on the amount of compensation available under SDND. Royal Mail had abandoned other aspects of its original application. Postwatch expressed concerns arising from the application and required additional information. When Royal Mail revised its application in 2008 the application was successful. In late January 2008 Royal Mail used Postwatch’s statement of agreement to apply to Postcomm to make the change.

5. Postcomm, on the basis that Royal Mail’s revised proposals met the most important objections raised by respondents to Postcomm’s consultation, has decided to allow that application to proceed. The effect of the latest proposals is that all users of SDND sending items of less than £500 can

¹ Royal Mail’s Proposed Changes to the Special Delivery Next Day Service, Postcomm September 2006, available at www.psc.gov.uk.

continue to use the service irrespective of what they are sending. Postcomm also noted that before it made its application to Postwatch and Postcomm, Royal Mail discussed the proposals with what it calls “key customers”.

6. Postcomm notes that a considerable period of time has elapsed since Royal Mail made its first application to make changes to its Special Delivery Next Day service. Royal Mail first applied to make changes in April 2006. Postcomm considers that this long period has created great uncertainty for the customers of Royal Mail's Special Delivery Next Day service. The causes of the long delay include:

- Royal Mail's making changes to the specification of its new Special Delivery High Value (SDHV) service which required the amendment of Postcomm's consultation document;
- the very large number of consultation responses which were opposed to many aspects of Royal Mail's original application which took time to analyse;
- the length of time it took Royal Mail to revise its proposals in light of the responses to Postcomm's consultation; and
- Royal Mail's initial submission to Postwatch (under Condition 21(4) of its licence) lacked vital information and led to a requirement for a revised application.

It is noted that Royal Mail has still not provided Postwatch and Postcomm with a proposed implementation date for the launch of SDHV and the changes to the compensation levels of SDND.

Background

7. SDND is the standard Special Delivery product that Royal Mail “guarantees” will reach its destination by 1pm the next working day. It is an important product in that Royal Mail currently seeks to fulfil its obligation to provide a registered and insured service through it, as required by the Postal Services Act and European Directive.

8. SDND which is provided to non-account customers, i.e. over the Post Office counter, is price controlled. At the last review of Royal Mail's price control, Special Delivery supplied to account customers was removed from Royal Mail's price control.

9. SDND currently includes a guarantee that if an item is delivered after the deadline, customers are able to claim back the postage (the current stamp price for an item up to 100g is £4.30, £4.60 from 7 April 2008). The standard price includes a level of compensation for an item which is lost or damaged of £500, but the customer is able to increase the level of compensation up to £2,500 for an additional fee.

Royal Mail's Original Application

10. In 2006, Royal Mail applied to Postcomm to make changes to its SDND service². The main changes Royal Mail proposed at this time were to:

- limit what can be sent by SDND to exclude certain defined items of value. This included all cash and jewellery;
- reduce the additional levels of compensation that a customer may purchase from a ceiling of £2,500 to £500; and
- Introduce a service (SDHV) to carry jewellery and other defined valuables at a generally higher postage cost.

11. Royal Mail had always intended that when it makes changes to SDND it would offer a new product – which it is currently calling Special Delivery High Value (SDHV). Under Royal Mail's original application, this new service would have allowed customers to post jewellery and other valuable items as well as items of a value higher than £500. This would have offered compensation up to £2,500. Under the terms of its licence, Royal Mail could introduce this new service at any stage, subject only to compliance with Condition 7 of its licence, that requires it to give 3 months notification of the terms and conditions and prices.

12. The effect of the original proposals was to split the SDND service into two. SDND would be left to carry items (other than jewellery or cash) up to a maximum value of £500. SDHV would be used to carry valuables, including all jewellery and cash of whatever value and items worth more than £500 up to £2,500.

13. Royal Mail justified these changes by reference to its duty to protect its employees. It indicated that its employees have been subject to physical attacks as they carry high value SDND items, which were running at the average rate of one per week. Royal Mail has asserted that attacks on staff are consistently linked to the cash and jewellery that Royal Mail carries through its Special Delivery network. Royal Mail proposed to invest in additional security which would provide more protection to its employees. The additional security would have incurred additional costs which Royal Mail would have recovered through higher prices for its new SDHV service.

Response to Postcomm's Consultation

14. In 2006 Postcomm consulted on Royal Mail's original application³.

² Royal Mail's 2006 application is available at www.psc.gov.uk. "Royal Mail's Application to make changes to its Special Delivery Next Day service, including a proposal for the introduction of a Special Delivery High Value product", September 2006.

³ Royal Mail's Proposed Changes to the Special Delivery Next Day Service, Postcomm, September 2006 available at www.psc.gov.uk.

There were 318 responses to the consultation, a large number compared to other such Postcomm exercises. The responses were received from:

- jewellers, their suppliers and trade associations, who dominated in terms of numbers of responses;
- an Assay office and its regulatory body, the British Hallmarking Council;
- suppliers of foreign exchange;
- the trade association of the voucher industry; and
- miscellaneous others, including QVC the TV shopping channel.

15. The main points made by the respondents were:

- SDND is an important service for the jewellery business. Several respondents described how a single item of jewellery may be conveyed many times by SDND as different craftsmen, valuers and the Assay office work on it. In addition jewellery may be sent, on sale or return terms by SDND. It is therefore a very important postal product for the jewellery industry;
- an increase in the postage of the scale proposed by Royal Mail (in 2006/7 prices the basic postage price would have increased from £4.10 to £8.90) would adversely affect the profitability of the businesses that use SDND to convey goods;
- jewellery was being unfairly discriminated against - iPods, laptops, etc, are possibly easier to turn into cash than jewellery, but these items would have been allowed to be sent by SDND whereas jewellery of any value would be excluded;
- the value of jewellery sent by post is, on average, low compared to the postal cost, most items are not high value and few need £2,500 cover offered as standard under SDHV;
- The proposed 3pm deadline for deliveries by the SDHV service would not allow pieces to be worked on and returned on the same day;
- Some respondents said that there was little or no competition for Special Delivery services. This was especially the case for deliveries of cash, including foreign exchange;
- The proposals would not assist the safety of postmen and women, in that:
 - the proposed new secure vehicles would draw attention to valuable items;

- the proposed new tamper - proof packaging would draw attention to individual items;
- the experience of customers is that the percentage of lost and stolen SDND items is small, plus the differential between the postage price of SDHV and SDND is so large, that many respondents said they would continue to use SDND, i.e. continuing to place the post person at risk; also
- the anonymity of home workers will be lost with the proposed secure vehicles delivering items.

16. In addition to receiving responses, Postcomm met several organisations who requested a meeting to hear their views at first hand. The non-confidential responses to Postcomm's consultation were published on Postcomm's website⁴.

Analysis

17. Postcomm considered the issues raised by respondents under a number of headings, as shown below.

18. Concerns over the Practicality of the Original Royal Mail Proposals. A number of respondents made the point that the differential in postage between SDHV and SDND was so large that some customers were likely to decide to "self insure" – that is send their items through the normal SDND service and take the risk that if an item is lost in the post they will not be able to claim for it. If a large number of customers reached the same conclusion it would have meant that a number of valuable items would be posted as SDND items. These would have been handled much as they are currently and delivered with the other mail for an address, with the consequent risk that the items might have been just as attractive for criminals to target.

19. A significant proportion of respondents reported that although they were relatively heavy users of SDND services they did not experience many losses of items. They therefore regard the risks associated with the service as low and would not be prepared to pay additional postage protecting against the risk that items will be lost. If a large number of customers react in this way and continue to use SDND this may continue to place Royal Mail delivery staff at risk.

20. Undue Discrimination. Many respondents were concerned that jewellery was being discriminated against, pointing out that other items of value were as likely to be attractive to criminals and therefore place delivery personnel at an equivalent risk. One made the point that jewellery incorporates a particular design and if an item is stolen its subsequent sale is consequently subject to the taste of the purchaser, which contrasts with other items of value, for example, a piece of electronic equipment such as an iPod

⁴ Responses to the Consultation Document Royal Mail's Proposed Changes to the Special Delivery Next Day Service, March 2007 available at www.psc.gov.uk.

with a more limited range of designs, which may more readily be sold after being stolen.

21. The effect of Royal Mail's original proposals was that its customers would have found that they had to pay more to send an inexpensive piece of jewellery, than if they sent a far more expensive item which was not jewellery. At the least this would have struck customers as odd and potentially make it difficult for Royal Mail to ensure that customers are using the services as it designed them, without checking the contents of each individual package.

22. Postcomm was also concerned that there was a risk that Royal Mail regarded the jewellery trade and cash transfer as a captive market and was using its ability to increase prices for customers who do not have an alternative supplier of postal services.

23. Design of the Product. A number of respondents indicated that they would be ill-served by the SDHV limit for compensation of £2,500. A number of jewellers reported that they customarily post items worth £100 or less and therefore have no need of such a high compensation limit. This is particularly relevant in the case of jewellers who specialise in silver items; its intrinsic worth is far lower than that of gold. There was a danger therefore that Royal Mail was effectively requiring customers to pay for compensation cover that they would not need.

24. A second issue, that the cut off for the guaranteed time of delivery of SDHV would be two hours later than SDND at 3pm was raised by a large number of respondents. A number of jewellers, especially those concerned with the repair of items, were concerned that they would no longer be able to work on an item and return it on the same day that it was received through the post.

Postcomm's Conclusion

25. Postcomm carefully considered the responses it had received and the other representations made to it. As a result, Royal Mail was asked to reflect on the responses and to consider if it was able to make changes to meet the objections that they set out.

Royal Mail's Revised 2008 Application

26. In its 2008 revised application, Royal Mail responded to the responses to Postcomm's consultation by:

- removing the discrimination by content. Under its 2008 proposals, if an item is worth less than £500 Royal Mail will carry it under SDND. This means that its customers are not faced with the prospect of having to pay higher prices for certain valuable items;
- bringing forward the proposed delivery time of the SDHV service to 1pm, that is, the same as the current SDND service; and
- reviewing the proposed prices of the SDHV service. The price

customers will pay at higher compensation levels will increase by up to 40%, but most prices will increase by around 25%. These price increases are far lower than those suggested in the original application which included increases in excess of 100%. Royal Mail has also abandoned the element of format based pricing that it sought to introduce with the SDHV service.

27. Postcomm was very pleased to note that before it put a revised application to Postwatch, Royal Mail discussed its plans with key customers. The British Jewellers Association indicated to Postcomm that it was basically supportive of Royal Mail's revised proposals. Postcomm has long urged Royal Mail to consult its customers before proposing major changes to its services.

28. The effect of Royal Mail's revision of its pricing plans for SDND can be seen in the table below. It indicates that customers sending items at a compensation level of up to £500 will not be subject to an increase in price for any weight step.

Table 1 Prices for SDND and indicative prices for SDHV

2008/9 Pricing	April 2008 Special Delivery Next Day			Indicative proposed pricing			
	Compensation Level	£500	£1,000	£2,500	SDND £500	SDHV £1000	SDHV £2500
Weight							
0 – 100g	£4.60	£5.35	£6.45	£4.60	£6.70	£8.80	
100 – 500g	£5.05	£5.80	£6.90	£5.05	£7.40	£9.50	
500g – 1kg	£6.40	£7.15	£8.25	£6.40	£8.20	£10.30	
1kg – 2kg	£8.25	£9.00	£10.10	£8.25	£10.45	£12.55	
2kg – 10kg	£20.70	£21.45	£22.55	£20.70	£26.20	£28.30	

Source: Royal Mail

29. Royal Mail has not so far provided Postwatch and Postcomm with a proposed implementation date for the launch of SDHV and the changes to the compensation levels of SDND.

Postcomm's Decision

30. Royal Mail applied to Postcomm to make changes to the SDND service which it accompanied with a statement of agreement from Postwatch. Under the terms of Royal Mail's Licence Postcomm has a month to decide whether to reject the application as unclear or to determine that consultation is required before the change is introduced.

31. During the one month allowed to it, Postcomm carefully considered the issue and concluded that Royal Mail's revised proposals meet the most important objections raised by respondents during Postcomm's consultations. The Commission decided to allow Royal Mail to proceed, without further

consultation, with the change to SDND it proposed, that is to limit the compensation available to £500.

Next Steps

32. Under the terms of the price control in Royal Mail's licence, once the Special Delivery High Value service is notified by Royal Mail, and Postcomm has been provided with the full product details, the Commission will be asked to make a decision on its "substantial similarity" to the price controlled Special Delivery Next Day service. If it is determined that it is substantially similar the service will fall within the scope of Royal Mail's price control.