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ComReg reports on postal users' needs

The Commission for Communications Regulation (ComReg) today published the research report on postal users' needs prepared by the economic consulting firm, Frontier Economics.

The key findings of the study are:

Most mail is sent by a small number of large businesses whose volumes are typically driven by price more than speed:

- Most mail is sent by a small number of large businesses, namely large consumer facing businesses (e.g. utilities, financial services, State). In the main, most of these mailers do not require next day delivery and so prefer to use cheaper deferred delivery products, that is, the mail is sent for delivery by 2-3 working days.
- Most of their mail is letters, largely transactional mail such as bills and statements.
- In particular, it seems that large mailers are seeking the cheapest price for mail. This was confirmed through the research interviews and observed switching behaviour. For example, since 2014, a large volume of mail has moved from a two-working day delivery service (called Bulk 6) to a three-working day delivery service (called Bulk 11) at a price that is 2 cents cheaper, currently 50 cents per letter¹.
- An Post's ability to continue to deliver a sustainable and affordable universal postal service will be in large part determined by the future mailings of these large mailers.

Half of all post is not next day delivery:

- As large mailers opt for cheaper deferred delivery products, just over half of mail sent for domestic delivery does not require next day delivery. Most is for delivery within 2-3 working days. For large mailers, predictability of the day of delivery is important and these users are willing to take a slower service to benefit from a lower price.
- Given their smaller postings, deferred delivery services at a cheaper price are not an option for most Small and Medium Enterprises ("SMEs"). Instead SMEs usually send volumes using An Post's stamped or metered services that provide next-working day delivery. However, the research shows that moving the delivery speed to two-working days does not appear to be a major inconvenience for most postal users as many already expect current delivery to take this long for certain postings within Ireland. For example, for mail originating in Dublin for a destination outside Dublin, 51% of SMEs expect a two-working day delivery rather than next working day delivery.

¹ As compared against a stamped letter which is priced at 72 cents. Further details on An Post's mail options for large mailers can be found at:

http://www.anpost.ie/AnPost/Downloads/Anpost/2000_items_upwards_Bulk_Discounts_For_Mailers_An_Post.pdf

- The research shows that consumers, as receivers of post, would not be majorly inconvenienced by a small reduction in mail delivery frequency.
- Therefore, there is potential to revisit the universal postal service next day delivery requirement as most mail currently sent on An Post's network is not next day delivery and it appears that users would not be overly inconvenienced.

Large mailers are very price sensitive:

- Large mailers (e.g. utilities, financial services) are trading a further one day delivery day for a 4% (2 cents) cost saving², demonstrating that large mailers are very price sensitive.
- The research also found that a hypothetical 10% price increase would trigger and bring forward significant moves to electronic substitution (for example, bill by email / on website instead of being posted).
- An Post's annual price increases have created a general discontent amongst many large mailers, who indicated that they expect future price increases. As a result and in anticipation, these mailers are exploring ways to reduce their dependence on post.

Large mailers are exploring electronic substitution options:

- Electronic substitution is likely to further reduce mail volumes in the future, especially for large mailers.
- The research found that some large mailers are concerned with being overly reliant on An Post. For example, some identified that industrial action at An Post could potentially impact future bill delivery, thus presenting risks to their own cash flows.
- Large mailers believe that electronic substitution can bring additional benefits. For example, they understand that electronic substitution can smooth cash flow if electronic substitution is used with electronic payment, for example by direct debit.
- For large mailers, predictability of the day of delivery is very important.

SMEs are reliant on post:

- The research was conducted on SMEs that send a minimum of 50 items a month. Over half of SMEs contacted did not meet that minimum volume threshold, this shows that a large proportion of SMEs are sending relatively few postal items on a monthly basis.
- Large SME's preferences are aligned with large mailers.
- Of those surveyed, SMEs appear particularly reliant on post for their communications; the research found that if faced with a hypothetical 10% price increase, just under half were unlikely to change the volumes of letters sent.

² Moving from Bulk 6 which delivers within 2 working days to Bulk 11 which delivers within 3 working days

Universal postal service volumes are declining and now only 6 in 10 letters use the universal postal service:

- The universal postal service³ is largely the delivery of letters for domestic delivery.
- Currently, only 6 in 10 letters use the universal postal service and this is likely to decline as more mail moves from the deferred delivery service in the universal postal service (Bulk 6) to the cheaper deferred delivery service not in the universal postal service (Bulk 11).
- Universal postal service volumes were 31% lower in 2015 than those in 2012.
- Over the period 2011-2015:
 - Universal postal service letters and large envelopes volumes have declined by 20%, with meter mail, used mainly by SMEs, experiencing the largest decline (26%);
 - At a time when e-commerce should be boosting demand for packets (also known as small parcels), universal postal service packets volumes have declined by 15%.

Implications for the future of the universal postal service:

- The research found that the current specification of the universal postal service meets postal service users' needs. A number of recommendations were made by Frontier Economics and these will be considered by ComReg in any update to the specification of the universal postal service.
- However, the research shows that as a small number of large mailers (for example, utilities, financial services) account for over half of An Post's total mail volumes, An Post's ability to continue to deliver a sustainable and affordable universal postal service will be in large part determined by the future mailings of these large mailers.
- The research shows that large mailers have already switched significant mail volumes to non-USO services, electronic alternatives and away from post altogether. These mail volumes are likely to have been permanently lost to An Post. This trend is expected to continue, and will likely be exacerbated by further postal price increases.
- Therefore, Frontier Economics notes that it is reasonable to infer that An Post's future mail volumes are under threat, especially if there are significant price increases to compensate for the significant volume declines.
- If volumes continue to decline then the current scope of the universal postal service may need to be reviewed to allow An Post to reduce its costs, and therefore maintain an affordable and sustainable universal postal service. In particular, there is potential to revisit the universal postal service next day delivery requirement as most mail currently sent on An Post's network is not next day delivery and it appears that users would not be overly inconvenienced.

³ Universal postal service is set by s.16 of Communications Regulation (Postal Services) Act, 2011 ("2011 Act") which transposed the European Postal Services Directive. ComReg, as required by 2011 Act, specified the universal postal service further by SI 280 of 2012, which added, for example, a last resort deferred delivery bulk mail option. Within the universal postal service, most mail is stamped, metered, and deferred delivery letters.

The full report (ComReg Document No. 16/107) can be found on ComReg's website at www.comreg.ie

Background

ComReg commissioned Frontier Economics to undertake a study of the Irish postal users' needs. Frontier Economics undertook this study with its research partner, Amárach Research.

Frontier Economics' research methods included both primary and secondary research. The primary research included in-depth interviews with large mailers (these included utilities, banks, and public bodies), a telephone survey of SMEs that post a minimum of 50 items a month, and an on-line survey of consumers. The secondary research included a detailed review of An Post's Regulatory Accounts⁴ and review of postal sector developments in Europe.

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⁴ Available at http://www.anpostmedia.com/Media/An_Post_2015_Regulatory_Accounts%20Summary%202015.pdf