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## Ofcom concludes review of Royal Mail regulation

01 March 2017

- Royal Mail's performance has improved since Ofcom introduced rules
- Research shows most people are largely happy with postal services
- Ofcom to leave current postal rules in place for five years

Ofcom has today concluded a comprehensive [review of Royal Mail](#) and its delivery of the universal postal service.

As the postal regulator, Ofcom secures the universal postal service. This requires Royal Mail to deliver to every address in the UK, six days a week, at a standard price, and is relied upon by millions of people and businesses.<sup>(1)</sup>

The universal service had been under significant pressure, incurring a loss of more than £100m in 2011, as people continued to send fewer letters.

These concerns prompted Ofcom to introduce a new framework for postal regulation in 2012 to secure the universal postal service. This included greater commercial freedom for Royal Mail, alongside a safeguard cap on Second Class stamp prices to protect vulnerable consumers.<sup>(2)</sup>

Ofcom's review, completed today, has found that these rules and safeguards are generally working well for people and businesses who use the post.

Therefore, we have decided to retain the current framework for postal regulation – which had been due to expire in 2019 – until 2022.

Ofcom's review has also concluded that:

- Royal Mail's profit margin for 2015/16 was within, but at the lower end of, the 5-10% range, which Ofcom considers likely to be consistent with a sustainable universal service.
- Royal Mail has made efficiency improvements in recent years, but there is scope for it to go beyond those currently planned.
- The company's delivery performance has improved since Ofcom's framework was put in place in 2012, but some targets are still being missed. If this continues, Royal Mail could face significant fines.<sup>(3)</sup>
- Consumer satisfaction with postal services, and value for money, are generally high.<sup>(4)</sup>
- Consumers in the UK benefit from having one of the most competitive parcels markets in the world. However, Royal Mail retains a strong position in the delivery of small, individual parcels.

Ofcom has decided not to impose new controls on Royal Mail's wholesale or retail prices, as the company already has strong commercial incentives to improve its efficiency.

Jonathan Oxley, Ofcom Competition Director, said: "We know people value the universal postal service and we will continue to ensure that it remains effective. Our review has shown that current rules are generally working well for companies and households.

"Royal Mail still has room to improve. So we'll keep a very close eye on all aspects of the company's performance, and step in if we need to protect consumers from high prices."

## Competition in parcels and access markets

Competition in the parcels sector has intensified in recent years with the emergence of several rival postal operators, particularly for heavier parcels (above 2kg) and those requiring fast delivery. This has delivered significant benefits to consumers through innovation, choice and value for money.

But despite increasing competition, Royal Mail retains an advantage in the delivery of small, individual parcels. So Ofcom has decided to keep the safeguard cap on Second Class parcel prices in place, to protect consumers from high prices.

Our review also found strong competition in the 'access' market for large senders of letters – where rival operators collect and sort mail, before handing it over to Royal Mail to complete delivery. Some 58% of all letters in the UK are delivered this way.

We have decided to tighten some of the rules in this area. This will stop Royal Mail being able to give shorter notice periods for changes in its contractual agreements with access operators.

## Royal Mail delivery targets

Royal Mail's performance against its delivery targets has generally improved since current rules were introduced in 2012, but it has missed some targets. In the last financial year 2015/16, Royal Mail failed to meet its target of delivering 93% of First Class mail within one working day.

Ofcom decided not to impose a fine on this occasion, noting some circumstances beyond Royal Mail's control – including the surge in online shopping deliveries around 'Black Friday', which has become a day of pre-Christmas discounting in the UK.

Royal Mail is exempt from performance targets during December, to reflect the volume of pre-Christmas deliveries. But promotional days such as Black Friday and 'Cyber Monday' usually fall in November.

So we are now considering whether any changes to the rules are needed to reflect these shifting online shopping habits. However, Ofcom expects Royal Mail to hit the delivery targets it is set.

ENDS

## NOTES TO EDITORS

1. Evidence shows the universal postal service is extremely important to consumers. See Ofcom's previous [Review of Postal Users' Needs PDF, 1.9 MB](#) . Ofcom is likely to conduct another review of postal users' needs in the next five years, given the changing demand for some postal services, particularly parcels.
2. The safeguard cap on Second Class stamps was set at 55p in 2012. Royal Mail may only increase prices from this base during the seven-year period of the current regulatory framework. This means the cap currently stands at 58p. The current price of a Second Class stamp is 56p.
3. See Ofcom's [investigation](#) of Royal Mail's quality of service performance in relation to First Class postal services in the year 2015/16.
4. A large majority of residential consumers said they were satisfied with postal services overall (85%), with Royal Mail (82%), and with value for money (75%).
5. Ofcom's review was announced in 2015, after Royal Mail's competitor Whistl announced that it was withdrawing from the market for direct delivery – where an operator collects, sorts and delivers bulk mail entirely using its own network. This left Royal Mail without any national competition for direct delivery of letters.
6. Separate to the Review of the Regulation of Royal Mail, Ofcom is investigating whether Royal Mail has abused a dominant position in contravention of the Competition Act 1998, by virtue of the access prices that it announced in November 2013 and January 2014. This investigation followed a complaint by TNT Post UK (now Whistl). In July 2015, Ofcom issued a Statement of Objections to Royal Mail, setting out Ofcom's provisional view that Royal Mail had breached competition law by engaging in conduct that amounted to unlawful discrimination against postal operators competing with Royal Mail in delivery.

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