



Office of the Director of
**Telecommunications
Regulation**

DECISION NOTICE & REPORT ON CONSULTATION

Regulation of Universal Postal Services -
Quality of Service Standards to be achieved
by An Post

Decision No: D 14/01
Document No: ODTR 01/73
Date: 20 September 2001

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Foreword

The Postal Directive obliges member states to guarantee the provision of a high quality universal service. An Post have stated in their response to this consultation that *“It is An Post’s contention that user expectations in regard to the domestic standard mail service are for a regular and reliable next day service at a reasonable price.”* I think that this statement is correct and would commend itself to the vast majority of An Post's customers.

The target I set for An Post in terms of the percentage of letters to be delivered the working day after they are posted is crucial in this regard. It must reflect not only this assessment by An Post of its customers’ requirements but also what An Post can achieve, and the timescale necessary to implement improvements. I therefore propose to set an interim target for 2002 and to invite An Post to submit detailed options for achieving further substantial improvements from 2003 onwards.

An efficient, affordable, postal service is important to major elements of the Irish economy and the requirement for next day delivery is a critical element of delivering this efficient postal service.

I very much appreciate the commitment of everyone who took part in the consultation. The quality of the responses was high and the arguments were put forward cogently. They have been very useful in informing our decisions on the way forward.

Etain Doyle,

Director of Telecommunications Regulation.

1 Introduction

The Director of Telecommunications Regulation (“the Director”) and her Office (“the ODTR”) are responsible for the regulation of Universal Postal Services in Ireland in accordance with National and EU legislation. The Director is the National Regulatory Authority (“NRA”) for the purposes of that legislation.

In carrying out her functions under the legislation, the Director is obliged to take into account the views of interested parties. The Director is currently consulting on the key issues that will form the framework of postal regulation in Ireland.

1.1 Background

In April 2001, the Director launched a consultation on the Quality of Service Standards to be achieved by An Post in order to secure improvements in the quality of service as required by the EU “Postal Directive”¹.

The process involved the publication of a consultation document (ODTR 01/28) which looked at the issue under the following headings:

- How can quality be improved;
- Measurement of Quality;
- Targets for Letter Services;
- Targets for Other Services.

The responses received to the consultation paper have been of assistance to the Director in helping her to form a view as to the appropriate regulatory measures required in relation to setting Quality of Service Standards to be achieved by An Post for next day delivery of domestic letter mail.

Eleven responses were received to the consultation document, as listed below:

- An Post
- Communications Workers’ Union (CWU)

¹ Directive 97/67/EC of the European Parliament and of the Council of 15 December 1997 on common rules for the development of the internal market of Community postal services and the improvement of quality of service. OJ L 15 21.1.1998, p. 14

- Irish Association of International Express Carriers (IAIEC)
- Irish Business & Employers Confederation (IBEC)
- Irish Direct Marketing Association (IDMA)
- Bank of Ireland (BOI)
- Direct Line Marketing
- Pitney Bowes (Ireland) Ltd
- Adrian Patrick Gebruers
- Ruth Brennan
- Mary Brennan

The Director wishes to express her thanks to everyone who contributed to the consultation. With the exception of material marked as confidential, the written comments of respondents are available for inspection at the ODTR's office in Dublin.

1.2 Legislative Background

The EU "Postal Directive" establishes a harmonised regulatory framework for postal services throughout the European Union and for securing improvements in the Quality of Service provided, and defines a decision-making process regarding further opening of the postal market to competition.

It was transposed into national law by the European Communities (Postal Services) Regulations 2000 (SI No.310/2000 "the Regulations"). Under these Regulations the Director has been given responsibility for regulation of the postal sector and An Post has been designated as a universal service provider². Under Regulations 13 & 14 the Director is required to set and publish quality of service standards in relation to the universal service, paying attention in particular to routing times and to the regularity and reliability of services, in order to achieve the improvement in quality of service required by the EU Postal Directive.

² The Minister for Public Enterprise may also designate one or more universal service providers having an obligation to provide all or part of the Universal Service.

The regulations also stipulate that the quality standards set by the Director shall be compatible with those laid down for intra-Community cross-border services and must therefore be a quantitative target. The Director must also monitor performance with the quality standards set for domestic mail.

An Post is one of 14 postal operators who have signed the REIMS II Terminal Dues Agreement. Under this agreement An Post was committed to deliver 95% of incoming letter mail the day after its receipt in Ireland. A revision of this agreement effective 1 January 2001 reduces this target to 93%. The European Commission has not officially agreed this revised target of 93%. The agreement also links the remuneration received for delivering incoming international mail to the achievement of quality of service standards.

1.3 Format of this Document

This report is structured along similar lines to the earlier consultation document. There is a section for the major topics, which is divided into three parts:

- A summary of the question posed in the consultation document.
- A summary of the responses to the question.
- The Director's views on the issues.

Each section is then concluded by comments bringing the analysis together, accompanied by the Director's decisions. The report concludes with a summary of the issues concerning how the targets might be achieved.

Quality of Service Standards – Consultation Issues

2 Quality of Service Targets

The consultation paper asked seven key questions in relation to Targets for Letter Services.

2.1 Next Day Delivery of National Letters

2.1.1 Summary of the Consultation Topic

The obligation on the ODTR is to set a target for next day delivery of letters. The consultation document identified three possible options:

- 90% - An Post's internal target which is published in their Annual Reports and price lists.
- 95% - A target accepted by An Post under the REIMS II agreement for cross-border mail.
- 97% - A target which takes account of An Post's network design and allows for a degree of 'human error' and the difficulty of matching sorting capacity constraints with actual traffic.

If a target of 95% or 97% was set, it would involve a substantial improvement by An Post's quality of service team. Respondents were asked if they agreed that 97% should be set as the target for next day delivery of letters, and if so whether An Post should be given until the end of 2003 to achieve the target in line with the following phasing:

- in excess of 90% by year end 2001
- 95% achieved by year end 2002 and
- an overall average of 97% by year end 2003

2.1.2 Views of respondents

There is a major difference between the views expressed by the organisations representing An Post's customers, and individual customers large and small, and the views of An Post and an organisation representing a majority of its postal employees.

The customer grouping is supportive of the Director's view that there is a need for an urgent and sustained improvement in the performance of An Post when it comes to measuring the percentage of First Class Letters that are delivered on the next working day after posting.

An Post strongly rejects setting a 97% standard for next day delivery of domestic mail for a number of reasons. They argue that the price required to sustain a delivery performance of 97% D + 1 (for all mail) would be unacceptable to the market. By way of contrast An Post state that certain large volume mailers have indicated that, in certain circumstances, longer delivery times would be acceptable provided the price reflected the lower standard. A performance of 97% D + 1 would require significant increases in capacity at peak processing, significant increases in personnel and under utilisation of resources at off peak times resulting in increased costs.

They claim that no other universal service provider in Europe is required to perform at a standard of 97% for domestic letters where there is a single stream service³. Denmark comes close but at a considerable increase in the cost of a first class stamp.⁴ An Post also claims that the REIMS II target is 93% and not 95%⁵. An Post warn that in setting a standard for domestic letters there is a considerable distinction between a standard which has been commercially negotiated with that of a legally binding target which must be achieved. They also stress:

"The company considers that setting quality targets for the basic letters service at or close to those for the overnight express market would have the effect of diverting customers away from competitors in those areas and distorting the marketplace."

Another respondent opposed setting the targets as proposed, claiming that the excessive standards proposed are disproportionate in light of the aims of the Directive and the Regulations. This respondent referred to service targets set for other universal service providers in Europe and suggested that quality service improvements were largely due to the fact that liberalisation had taken place, therefore market pressures played a part in attaining increased quality as opposed to Regulators setting stringent quality targets.

³ The target set in Denmark is 97% but there are two streams of mail.

⁴ While there are issues about comparing costs in this context it is sufficient to note that in addition to delivering a high percentage of mail the working day after posting, there are deliveries of post six days a week in Denmark.

⁵ The REIMS II agreement as submitted to the European Commission provides for a 95% target. The signatories to the REIMS II agreement have agreed amongst themselves to reduce this to 93% effective from 1 January 2001.

2.1.3 Position of the Director

The Director is extremely concerned about the wide difference in opinion between An Post and its customers. Clearly a significant number of customers need a better service than that currently provided. The Director wishes to establish how best these needs can be met. She is therefore proposing to set an interim target for 2002 and to require An Post to provide detailed costed proposals to achieve a target of 97% for first class letters from 1 January 2003.

If the difference between the 97% target the Director, and the major organisations representing An Posts customers, thinks is desirable, and the 90% which An Post appear to think is the best it can achieve, were confined to specific routes⁶, or could be attributed to problems in dealing with exceptional posting loads on one or two days a year, there might be a case for giving weight to An Post's view.

However, the analysis put forward in the consultation paper is unchallenged by An Post. It is impractical to process every letter within the peak processing window, and slower delivery times would be acceptable to large volume posters providing the price reflected this. The logic of this is followed in most European countries – give the customer a choice. Instead in Ireland the service offered by An Post means that, while overall one letter in eight is not delivered the next day, for many customers, it is purely a matter of chance whether all the mail they post at the same time is delayed or not. In other words there is a "hit and miss" element to when letters are delivered:

“A letter posted in Dublin might arrive, also in Dublin, the next day: but then again it might not. If a letter is mailed on a Friday, it may not be delivered until the following Tuesday⁷.”

This is borne out by the following extract from Table 1 published in the Consultation paper which shows little difference in An Post's performance in delivering letters within Dublin compared with the national average:

Year	Local Dublin Mail	National Average
1998	86%	85%
1999	88%	87%
2000	90%	88%

⁶ Such as the problems that the British Post Office experiences in serving remote parts of the Scottish Highlands and Islands, or the Scandinavian Post Offices have in serving remote areas inside the Arctic Circle

⁷ Mary Kenny, Irish Independent Weekend magazine, Saturday, 21 July, 2001.

An Post's argument that to set a high target would discourage competition for valued-added express services and therefore be outside the Director's powers is not supported by the stated purpose of the Directive:

"... users ... are entitled to services of a high quality..... every effort must be made to improve and enhance the quality of services provided " (Recital 30, Postal Directive).

or the targets set in other countries:

Denmark	97%	Germany	80%
Netherlands	95%		
Portugal	95%		
Luxembourg	95%		

- In the case of Germany actual performance is substantially higher (around 95%).

Furthermore Para 2.7 of the Notice from the Commission about the application of Competition Rules⁸ to the postal sector point out that *"an abuse may consist of limiting the performance of the relevant service to the prejudice of its consumers."* It also refers to the possibility that ... *'postal operators may let quality of service decline or omit to take the necessary steps to improve service quality'*.

The target should therefore reflect what is achievable within the control of An Post. Factors such as

- geographical limitations,
- exceptionally inclement weather,
- unforeseeable** variations in traffic from day to day,
- exceptional** staff absence, eg flu epidemics,

will all tend to reduce the achievement from the theoretical 100%.

With regard to (a) An Post does not have the same problems as say Britain in the Highlands and Islands of Scotland, or the Scandinavian countries inside the Arctic

⁸ SEC (97) 2289 "Notice from the Commission on the Application of the Competition Rules to the Postal Sector and on the Assessment of Certain State Measures Relating to Postal Services"

Circle. Using An Posts data the effect of this is 0.2%. What information is available in the public domain suggests that the other three factors might account for a shortfall of between 2% and 2.5%; our weather is unusually mild in European terms, even compared with Britain, so a figure at the lower end of this range would be appropriate. This is consistent with the targets set in Denmark, Portugal and the Netherlands.

The rest of the shortfall would appear to be due to factors within the control of An Post, for example inefficient operational processes and inadequate planning for foreseeable variations in traffic. The ODTR considers that substantial improvement could be achieved by giving customers a choice about which mail should be sorted in the peak processing window and which should be deferred.

2.1.4 Conclusion

In the light of the above it appears that much could be done to improve quality and reduce costs. The points made by An Post have been examined in detail above. However, having regard to the needs of customers in the context of a monopoly service the Director is minded to set the target for the next day delivery of letters at 97%, and for this target to be effective from 1 January 2003.

It appears to the Director that for An Post to achieve this target it will be necessary to consider new options such as giving business and other customers who post large quantities of mail at the same time the choice between a first class letter post service offering next day delivery and a number of cheaper options which do not involve sortation during the evening peak.

The Director therefore intends to ask An Post to submit, no later than 2 April 2002, specific detailed costed proposals to achieve a target of 97% for first class letters from 1 January 2003. This should review all options to identify the cheapest and quickest measures to achieve the necessary result.

In the interim the Director will set the target for 2002 at 92% for nationwide delivery and 95% for local delivery (ie within the Greater Dublin area or within the same county). If this interim target is not achieved, the Director will consult with the Minister for Public Enterprise about the nature of the Direction she will be required to issue to An Post under Regulation 14(4).

Decision 1

The target for next day delivery nationwide during 2002 will be set at 92%, and that for local mail⁹, during 2002, will be set at 94%. An Post will be asked to submit, no later than 2 April 2002, detailed costed proposals to achieve a target of 97% for first class letters from 1 January 2003.

A formal notification to An Post is at Annex 1

2.2 Reliability*2.2.1 Summary of the Consultation Topic*

Whatever target is set it is necessary to address what happens to those letters that are not delivered the working day after they are posted. The consultation paper suggested a target of 99.5% within three days for this mail thus making allowance for failures outside the control of An Post, e.g. mail which is delivered to the wrong address (An Post's fault) may not be reposted by the person who receives it in error (outside control of An Post). The ODTR suggested that this target should be put in place from the beginning of 2002.

2.2.2 Views of respondents

Of the five responses received, all five agreed with a target of 99.5% to be set for delivery of domestic mail within three days.

An Post accepted the proposal to set a target of 99.5% for letters to be delivered within three working days but suggested this target should take effect from the end of 2003 when the current automation programme will be fully implemented.

2.2.3 Conclusion

The commitment by An Post to achieve the target of 99.5% by 2003 is welcomed, and the Director notes that this target may be achieved in 2001.

Decision 2

The target for delivery of first class letters nationwide within three working days will be set at 99.5%.

A formal notification to An Post is at Annex 1.

⁹ Local Mail is mail posted within the Greater Dublin Area or within any county council area for delivery within the same area.

2.3 Specific Routes

2.3.1 *Summary of the Consultation Topic*

An Post has traditionally published results for broad groupings such as:

- Dublin to Dublin
- Dublin to Provinces
- Provinces to Provinces
- Provinces to Dublin

Other Regulators have focused on setting targets for mail posted in specific areas. In Britain Postcomm sets targets for each Postcode area, for intra postcode area mail and for all mail posted in each area. An Post's letter network is based on 11 Letter Forwarding Offices (LFO's). Respondents were asked whether a higher target should be set for mail posted and delivered within these eleven areas.

2.3.2 *Views of respondents*

In general respondents felt that if An Post was achieving a target of 97% next day delivery there would be no need for this. If supplementary targets were necessary in the short term they should be based on administrative regions / local authorities rather than An Post's organisation.

2.3.3 *Position of the Director*

As set out in Section 2.1 there will be a separate target for mail posted for local delivery¹⁰ until such time as the national target reaches 97%.

2.4 Letter mail to Northern Ireland and Britain

2.4.1 *Summary of the Consultation Topic*

The consultation paper detailed the unique relationship which has traditionally existed for mail posted to Northern Ireland and Britain. Respondents were asked whether it would be reasonable to set a separate target, such as 95% within two days, for mail posted to or from Northern Ireland and Britain.

¹⁰ Local Mail is mail posted within the Greater Dublin Area or within any county council area for delivery within the same area.

2.4.2 *Views of respondents*

An Post strongly oppose this suggestion stating that the Director has no powers to do so and that this is a matter of cross-border mail which is covered by the REIMS II agreement and the only function that the Director has in relation to cross-border mail is that she is required to monitor performance and publish results against targets set by the European Commission.

Other respondents are divided in their opinions, mainly taking into account that An Post has to work within the constraints imposed by the REIMS II agreement. But an organisation representative of many business customers asserted that it was essential that the unique relationship between this State and the rest of the island of Ireland and the island of Britain be reflected in a minimum delivery target. A figure should be set that reflects the extra complications involved but extra effort should be devoted to minimising the effects of these complications. If the figure of 95% delivery within 2 days reflects these complications then this should be the target figure.

2.4.3 *Position of the Director*

The Director recognises the legal position, but also the commercial need. Information about actual performance is just as important as setting targets, as this will enable customers to exercise choice¹¹. Regulation 8 requires the Director to specify what information An Post should publish about its services and the quality of service provided. Full proposals in this regard will be published in a Consultation paper later this year.

2.4.4 *Conclusion*

Decision 3

The Director will require An Post to publish information about the percentage of mail posted to addressees in Britain and Northern Ireland that is delivered on or before the second working day after posting.

¹¹ In this connection it should be noted that in their comments on Consultation Paper ODTR 01/35 the IAIEC state "It is not made clear that the reservation of cross border mail where de facto there has been competition for some years is de jure re-monopolisation. an issue that has prompted action by the European Commission against other Member States."

2.5 Different periods

2.5.1 Summary of the Consultation Topic

Increased traffic can be expected at particular times of the year, especially during the months of March and December. The issue addressed in the consultation was whether periods of increased traffic should be excluded from the measurement of quality, or whether different targets should be set for these periods.

An Post currently publishes results for quality measurement over a 12 month period in its Annual Reports. However, it claims that other European postal operators exclude peak periods such as Christmas from their results due to increased mail traffic. It suggests that if periods such as Christmas were included in the statistics published by other postal operators then the average quality for the year as a whole would fall dramatically.

The consultation paper asked respondents to give their views as to whether Christmas and other peak periods should be included/excluded for measurement and publication.

2.5.2 Views of respondents

Of the five respondents to this question, four respondents are in favour of including Christmas and other peak periods for quality measurement and publication. Only An Post rejected the inclusion of these periods for quality measurement and publication stating, however, that measurement could continue as standard but publication of results for these periods should be compiled separately.

2.5.3 Position of the Director

The Director accepts that other businesses have to make provision for peak periods, eg commuter railways have to acquire sufficient rolling stock to meet the needs of people travelling to and from work at peak hours, and there is no justification for excluding these from the measurement of performance. Clearly a substantial proportion of mail posted at Christmas is not time-sensitive, except in the sense that it must be delivered before Christmas Day. The Director notes that An Post has, for a number of years, issued special Christmas Stamps at a discount and one option available to An Post to achieve its targets at this time of the year is to provide its customers with a special "deferred delivery" service for Christmas Cards and similar items of correspondence, allowing An Post to give priority to fully paid letters that need next day delivery. There may also be an argument for bringing forward the latest collection time at the height of the Christmas peak. The current arrangements applying in An Post do not enable Christmas Cards to be separated from other post delivered in December.

2.5.4 Conclusion

Decision 4

The target will be the average to be achieved over the year as a whole.

2.6 Mail characteristics

2.6.1 Summary of the Consultation Topic

Irrespective of whether targets are set for specific categories of letter mail the consultation paper asked whether it would be beneficial to customers to have an analysis of different segments of mail.

Letter mail is handled in three streams, Post Office Preferred (POP) letters, flats and packets. The consultation paper suggested that it might be useful for customers to know whether the quality afforded to each of these streams differs from the overall average.

The efficiency of the sorting process depends on the way mail is presented. This is especially important when mail is sorted by OCR¹² equipment. Research has shown that typewritten white envelopes might be sorted more efficiently than window or brown envelopes, or handwritten items. If the OCR equipment is unable to read the address as presented then this mail will have to be sorted manually thus slowing down the sortation process.

2.6.2 Views of respondents

Of the five respondents to this question, all five agreed generally that publication of this information would be beneficial to the customer with varying comments such as: if this information is available to REIMS signatories then equivalence of treatment should apply; it is necessary for industry to know what quality is afforded and this would encourage customers to present mail in a more machine legible format while An Post would also share in the benefits. An Post stated while it is useful to publish the quality afforded to different mail categories, all mail falls within the three categories of Post Office Preferred (POP) letters, flats and packets and therefore sees little benefit in measuring quality performance in any more detail than that as machine readability rates are available from An Post upon request.

¹² Optical Character Recognition

2.6.3 Conclusion

Decision 5

The Director's reports about Quality of Service monitoring will include information, within the limits of statistical reliability, about performance according to different mail characteristics but no separate targets will be set.

2.7 Targets for other services

2.7.1 Summary of the Consultation Topic

The European Commission has only set one target, i.e., for intra-community letters, however Regulators in other countries have set targets for each service provided. An Post currently has an in-house *track and trace system* for key streams of mail which provides accurate information, and which also enables the sender to use the internet or telephone to monitor the delivery of their particular item: *Track and trace* is currently used by An Post for the following services:

- Registered Letters
- Swiftpost
- most Parcels
- EMS (Express Mail service)

Respondents were asked whether there is a need to set separate targets and to publish results for these services and also for *Postaim*, An Post's Direct Mail service.

2.7.2 Views of respondents

An Post rejects the proposal that separate targets should be set for these services as they fall within the competitive area and are subject to their internal track and trace system. Of the other five respondents to this question, two said they favoured setting separate targets for these services and two responses favoured separate measurement for *Postaim*. One response stated that if Track and Trace provides the necessary information, then there should be no reason to deviate from this.

2.7.3 Position of the Director

The Director is appreciative of the responses provided in this matter and has decided to defer a decision on this issue until after a regular monitoring system for the first class letter service provided by An Post has been put in place. She intends to initiate

discussions with major regular users of the *Postaim* service and other interested parties to develop a scheme to monitor the quality of service in terms of delivery compared with the service specification.

3 Quality Measurement issues

The consultation paper highlighted a number of issues and posed questions in this area as follows:

3.1 What should be measured?

3.1.1 *Summary of the Consultation Topic*

Until now An Post has measured performance from its own perspective as a supplier of the service, ie on the basis of the service it provides. The operator's cut-off times (latest posting time at the counter, latest collection time at post boxes) plays a key role.

Therefore, if the latest posting time is 3pm rather than 5pm there is more time to sort the letters before they have to be despatched to the delivery office.

However, the practice in Germany is to measure the delivery times both from the customer's and from the operator's perspective. From the customer's perspective, the clock starts as soon as the letter is out of the customer's hands. Measured, then, is the time from end to end – from sender to addressee. The operator's variable cut-off times do not have any bearing on the results for this method.

In Germany the results for next day delivery vary considerably, e.g. next day delivery from the customers perspective for the year 2000 was 86.7% while from the operator's perspective it was 95.6%.

From an Irish perspective there are two additional factors that need to be taken into account:

- Often there are collections from post boxes after the latest posting time; eg it may be necessary to post in time for the 5.30pm collection to secure next day delivery, while there are later collections at 7.30pm and 10.30pm from some boxes.¹³
- If measured from the customer's perspective there is a practical need to specify a latest acceptable posting time.

¹³ It should be noted that the intra-community targets set by the European Commission are measured from the **last** collection of the day at each posting point.

Views were sought as to when measurement by the ODTR of An Post's performance should start.

3.1.2 Views of respondents

Of the six respondents to this question, two (including An Post) have stated that measurement should commence at the latest collection times specified by An Post to secure next day delivery, one of which stated that any unnecessary interference by the Regulator with An Post's current practice would be unhelpful. One response stated that their customer's current expectations are that if the mail is collected by 3pm by An Post or delivered to An Post's sorting office by 5pm then it will be delivered by the next working day. One respondent suggested that there is room for the Director to adjust the times selected as the road network and general infrastructure improved. One stated there should be different cut off times for different segments of mail and business mail would generally want latest collection at 6pm. Another rejected midday for rural cut off latest collection time and contended that there should be no discrimination between rural and urban areas.

3.1.3 Position of the Director

Having regard to these comments the Director has decided that measurement should commence at the latest collection times specified by An Post to secure next day delivery. The Director will undertake a consultation later this year which will address the time of collections generally, as well as other qualitative aspects of the quality standards of An Post. The 97% target dealt with in Section 2.1 above is based on the current 'latest collection time' set by An Post.

The Director is aware that An Post does provide information about latest posting times at post offices, but not generally at pillar boxes. She will propose, therefore, that An Post publish detailed information about latest collection times when she enters into consultation later this year about the information on services to be publish by An Post.

3.1.4 Conclusion

Decision 6

Measurement will commence at the latest collection times specified by An Post to secure next day delivery.

3.2 How should it be measured?

3.2.1 *Summary of the Consultation Topic*

The consultation paper sought views as to whether quality performance should be measured by one of these options:

- Actual (“Live”) Mail – this consists of mail as it is presented to postal employees on a day-to-day basis. This type of mail is likely to be representative of the characteristics of mail generally.
- Test Mail – An Post currently measures letterpost quality of service in Ireland using test mail. Performance measurement is conducted on a continuous weekly basis throughout the year. The statistical design is representative of the mail patterns and flows which ordinarily flow through the postal system in Ireland.
- A combination of Live and Test Mail.

3.2.2 *Views of respondents*

An Post responded saying that quality of service measurement should continue to be conducted on test mail only as it offers a more reliable measure of quality than random samples of live mail. Once the test mail actually goes into the system, it becomes live mail. Costs would increase if live mail were to be used solely or in conjunction with test mail.

Of the other responses to this question, two are in favour of using test mail as the basis of measurement. Two respondents suggest the use of a mixture of test mail and live mail. One responded saying that measurement should be conducted using actual mail.

3.2.3 *Position of the Director*

This is a very complex issue which can have a very significant impact on the cost of regulation. Bearing this in mind the Director proposes to monitor An Post's performance initially using a Test Mail system similar to that currently used by An Post, but will review this from time to time to ensure that the results are statistically reliable and costs are minimised.

3.2.4 Conclusion

Decision 7

Initially, the Director will monitor An Post's performance using a Test Mail system similar to that used by An Post and generally in conformity with the draft European Standard.¹⁴

3.3 Who should measure quality?

3.3.1 Summary of the Consultation Topic

Since 1984 An Post has commissioned performance measurement in conjunction with an independent body which carried out the measurement. This provides An Post management with detailed information about postal routes which, while not published, is beneficial to the company in identifying and correcting points in the network that are impacting on quality. An Post has invested substantial resources and expertise in this exercise to date.

However, Regulation 13 provides that the Director shall monitor quality of service standards achieved by a Universal Service Provider.

In the Consultation paper the Director said she believed it would be necessary for her Office to undertake the monitoring itself, using consultancy assistance. She recognised, however, that there might be benefit in setting up arrangements for the task to be undertaken on behalf of the Office by An Post which would submit the results to the ODTR for publication.

Respondents were asked whether An Post should continue to commission monitoring quality of service standards or whether the ODTR should enter into a contract with an independent body to carry out this function directly.

3.3.2 Views of respondents

An Post believe that it should continue to commission independent monitoring of quality of service and share the results with the ODTR as it would significantly increase the cost of regulation if there was duplication by the ODTR, which cost would ultimately be passed on to the customer. The current monitoring also provides valuable information to management within An Post with regard to postal routes, processing etc.

¹⁴ Postal services - Quality of service – Measurement of the transit time of end-to-end services for single piece priority mail and first class mail, prEN 13850.

Of the five other respondents to this question, three respondents felt that independent monitoring of quality of service standards should be conducted by the ODTR, another stated that it should be a joint effort between the ODTR and An Post following a further consultation process which would seek agreement by all parties for methodologies to be used while the other said that An Post should continue to commission performance measurement and submit the results to the ODTR.

3.3.3 *Position of the Director*

The advice available to the Director is that she must ensure that monitoring is undertaken by an independent organisation having no links with An Post and therefore the ODTR will commission independent monitoring. However the ODTR will ask An Post to supply information about the relative volumes of mail flows, times of posting, characteristics of envelopes etc, which will be used in determining how many test letters to post and to select panellists to send and receive test mail. This information will be subject to audit by the independent organisation appointed to conduct the monitoring. Such information can most readily be obtained by An Post, which also need it for operational, marketing and cost accounting purposes.

3.3.4 *Conclusion*

Decision 8

Monitoring of An Post's quality performance will be organised by the ODTR, ie A specification of the work to be done will be drawn up, invitations to tender will be issued in accordance with National and European guidelines, and a formal contract placed with an independent organisation having ‘no links’ with An Post.

3.4 Who should publish the results?

3.4.1 *Summary of the Consultation Topic*

Since 1984 An Post has published results for quality of service once a year in their Annual Report. Under Regulation 13 the Director is obliged to publish a report of the results of the monitoring exercise *at least* once a year.

The Consultation paper suggested that there would be some merit in An Post continuing to publish the results, but in a form and timescale specified by the Director, in addition to the ODTR meeting its statutory obligation by publishing an annual report. This would

allow for the latest results to be prominently displayed in each post office as well as on the ODTR and An Post websites.

Views were sought as to the method and frequency of publication.

3.4.2 *Views of respondents*

An Post wish to continue publishing results of the domestic quality of service in its Annual Report and does not agree with publication of these results more frequently than annually.

Of the five other respondents to this question, only one said that results should continue to be published by An Post. The remaining four wanted more frequent publication - two suggested monthly, one quarterly and one bi-annually.

3.4.3 *Position of the Director*

The Director accepts that there is a need for frequent publication. Initially results will be published quarterly, but the question of monthly results will be reviewed after the first year of operation. The Director is concerned to ensure that the results are available to all users of An Post. She will consult with users generally as to how to achieve this objective in a Consultation Paper to be published later this year about the information An Post must provide to its customers, eg, should An Post publish in a National Newspaper and in the public area of each Post Office premises. She will also publish the information herself.

3.4.4 *Conclusion*

Decision 9

Results will be published quarterly by the ODTR.

4 Quality improvement issues

4.1 Summary of the Consultation

The consultation paper put forward a number of approaches which could increase the level of quality of next day delivery of letters posted in Ireland. Respondents were invited to give their views on these as well as to put forward any other measures which may be conducive to achieving improved quality standards.

It must be borne in mind, however, that An Post has the ultimate responsibility for deciding how to meet the target for quality improvements set by the Director for next day delivery of letters.

Postal operators are faced with a number of choices when deciding the best route to take to improve quality of service. Choices are in the form of

- improving efficiency;
- providing additional capacity;
- trying to extend the time available to process the mail;
- or reducing the amount of mail to be processed at peak times.

From the responses received to this question a number of options were clearly identified and these can be summarised into three main headings as follows:

4.2 Marketing Action

There appears to be a demand for a slower service in addition to the standard next day delivery service guaranteed under the universal service obligation. Two respondents, felt that a second class service should be introduced. This would have the effect of ensuring that mail which required next day delivery would be able to get such a service. The speed of delivery selected would be determined by the price of the postage stamp paid.

Another representative body contended that the need for a second class service should be examined at some time in the future. Three responses, one of which was An Post, maintained that the single service should be retained. The ODTR has commissioned Irish Marketing Surveys to undertake market research amongst Irish businesses. 73% of those responding agreed with the proposition that *'all businesses should have a choice between a first class letter post service offering next day delivery and a cheaper second class service with delivery within three days'*

It has to be remembered that in other countries where customers have been given a choice only 30%-40% of mail is posted at the first class rate. Under the single stream service provided by An Post the remaining 60% receives a better quality of service than it would otherwise receive, or prima facie need. It is not necessarily the case that a second class mail service might be universally available, but rather that special, but simple, arrangements would be available to give business or other customers with

sufficient volume of mail a choice, while reducing the proportion of mail that has to be processed in peak periods.

It can be concluded that An Post should carefully consider whether its current product offering is in line with its customer requirements, as well as leading to capacity constraints for the mail of those customers who need next day delivery.

4.3 Work sharing

It is evident from the responses that customers with large and small volumes of mail, and organisations representing both, feels that it is unnecessary for An Post to incur the level of investment which it is currently claiming is necessary. Postal intermediaries challenge the need for further investment arguing in effect that An Post is forcing its customers to buy a service they do not need. In fact postal intermediaries are claiming that they are being forced to use a service on the basis that they have no other choice. They say that this behaviour by An Post is essentially limiting the scope for competition within the postal sector, by increasing sortation capacity to a point where all mail, irrespective of demand or necessity, will receive next day delivery. It is clear from the responses that there is considerable scope for An Post to work with postal intermediaries for the benefit of both groups and their customers.

The consultation paper identified a number of possible approaches that could assist in improving quality, one of which was to promote more aggressively the specialised services targeted at the bulk poster where discounts are available. An Post currently offers incentives to bulk mail posters in a number of ways, ie, early presentation service, pre-sortation service and *Postaim*.

The early presentation service is offered by An Post to mailers who fulfil very specific criteria in return for a 2p rebate per item posted. While the responses received have indicated that some large postal users are quite willing to deliver their mail to An Post's main sorting offices between the hours of 8am and 12noon, a time when the sorting machines are under utilised, to avail of the early presentation discount, respondents have complained that the efforts required to avail of this service are not reflected in the discount offered, ie 2p per item posted.

The ODTR has, based on this negative feedback, researched the conditions which need to be fulfilled to avail of the discount offered. The Director concludes that the objective of reducing the work to be done at peak periods, is defeated by requiring conditions such as:

- limiting the service to a minimum of 2000 items;
- requiring that all items must be identical; and
- requiring that services must be prepaid.
- However, the ODTR, without separated accounts being available to it, is not in a position at the moment to form a definitive view as to whether the rebate per item is adequate.

An Post also offers a pre-sortation service for first class post to mailers who fulfil very specific criteria in return for a 3p rebate per item posted. The ODTR has researched the conditions required to meet the discount offered by An Post and it questions:

- why all items need to be similar,
- why items should be *Mailmover*¹⁵ compliant when the sorting process has been undertaken by the customer,
- why advance agreement from An Post is necessary, and
- why prepayment, as opposed to the use of postage stamps or franking machines, is also necessary to avail of the service.

As stated earlier the ODTR is not, at the moment, in a position to clarify whether the discount that is currently offered, ie 3p per item posted, reflects accurately the cost savings gained by An Post.

The responses indicated that better use of this service could be achieved if the conditions to be met were less discriminatory. It was also suggested in the responses that a combination of the early presentation service and the pre-sortation service could improve An Post's efficiency if the discounts offered reflected the efforts required by the bulk mail posters. In the spirit of improving quality of service standards, it is clear that An Post need to review the current incentives offered in order to reduce peak processing demands.

¹⁵ The qualifying standard as set out by Letter Post which incorporates set standards in Envelopes, Printstyle/Typeface and Address Format. This standard optimises mail compatibility with automatic sorting systems, thereby allowing the opportunity to reduce processing costs.

The *Postaim* service is a deferred service provided by An Post and therefore does not form part of the First class service. This service is designed with direct mailers in mind. From the responses received it seems clear that the discounts available do not reflect the conditions imposed on the user to avail of the service. It could be argued that if the conditions to avail of the *Postaim* service were less discriminatory, then many of the mail items processed as First Class mail could be put through the *Postaim* service, reduce peak processing and hence improve the quality of the First Class service.

4.4 Efficiency gains

Customers argue that An Post should pay for its investments by improving its efficiency. Consensus is clear from all respondents, save An Post, that quality should be improved by seeking improvements in efficiency and that An Post should secure improved quality through efficiency gains without the need to increase the price of the postage stamp. One respondent claimed that society in general today demands increased quality with greater choice and lower prices.

The Director has noted the Annual Report and Accounts of An Post for the year 2000 which states:

During the year, the Board approved the Letter Post Automation Strategic Plan which involves an investment of IR£76m in facilities and equipment. The plan is designed to transform mail processing over the next three years from a partially automated operation to a fully integrated and automated national network. This will facilitate the introduction of new products and pricing strategies to meet customer needs and position Letter Post to meet the competitive challenges which will come with further liberalisation of the European postal market. The strategy is based on a total network solution involving the consolidation of all mails processing into four automated hubs located at Dublin, Cork, Portlaoise and Athlone. Each hub will utilise state-of-the-art equipment to process the mail volumes generated in its own catchment area and to inter-connect with the other hubs to provide a nationwide overnight service. The leading-edge technology to be deployed will enable each hub to transmit electronically to the destination hub images of live mail while the physical mail is in transit. This will facilitate advance programming of the local automated sorting systems thereby reducing processing time. The investment also encompasses a major extension of over 70,000 square feet to the Dublin Mails Centre to house the installation of

additional integrated mail processing lines and flat sorting machines as well as the construction of new Mails Centre buildings at Cork and Athlone.

Capital investment of this order must deliver quantifiable results in terms of cost savings or quality improvements or both.

While An Post advocates that capital investment of IR£76m is essential to meet the existing "90% next day" level of service by way of providing additional sorting capacity, it is not the only option. There are a number of other ways in which improvements in the quality of service level could be achieved. It is ultimately a matter for An Post to decide as to which or how many measures it feels are necessary to increase efficiency in the use of the current sortation equipment and how these can be implemented. It is accepted, however, that peak periods are inevitable during certain times of the year.

Peak processing problems could be alleviated by introducing measures to ensure that the sorting equipment is utilised intensively throughout the day and night. While it is accepted that the introduction of a generally available two-tier service may not necessarily be the most appropriate or cost saving option, a slower service could be introduced for certain times of the year as required, eg, at Christmas incentives could be deployed to encourage customers to avail of a slower service at a reduced cost.

Postal intermediaries should be encouraged to present mail between the hours of 8 am and 12 noon, a period where the mails centres are under utilised, using appropriate incentives. This service, if exploited properly, has the potential to take the bulk of processing out of the peak periods and yet allow the user to avail of the next day delivery standard.

Investment of the type which An Post argues to be necessary, needs to be justified in terms of cost savings and improved service for the customer.

4.5 Conclusion

Having considered the responses and taking the concerns expressed by respondents into account, the Director believes that there is considerable scope for An Post to achieve improvements in quality. A number of the options outlined above will require further analysis by An Post.

Respondents raised some other issues which are more appropriate to a proposed consultations on service specifications due to be issued later in the year and these will be considered in that context.

ANNEX 1

FORMAL NOTIFICATION OF QUALITY OF SERVICE TARGETS FOR DOMESTIC MAIL

The Secretary
An Post
General Post Office
O'Connell Street
Dublin 1

Notification to An Post regarding Quality of Service standards for the delivery of domestic letter mail

The Director of Telecommunications Regulation (hereafter “the Director”) in pursuance of Regulations 13 and 14 of the European Communities (Postal Services) Regulations 2000 (S.I. No. 310 of 2000), and having taken into account the views of interested parties following a public consultation, hereby gives the following notification regarding targets to be achieved by An Post for the delivery of domestic National and Local First Class letters during the calendar year 2002:

National Mail (D+1)	92%
Local Mail ¹⁶ (D+1)	94%
All Mail (D+3)	99.5%

The quality standards for domestic mail in the State are established in relation to the time limit for routing measured from end to end¹⁷ for postal items of the fastest standard category according to the formula D+n, where D represents the date of deposit¹⁸ and n the number of working days which elapse between that date and that of delivery to the addressee.

Etain Doyle
Director of Telecommunications Regulation

¹⁶ Local Mail is mail posted within the Greater Dublin Area or within any county council area for delivery within the same area.

¹⁷ End-to-end routing is measured from the access point to the network to the point of delivery to the addressee.

¹⁸ the date of deposit to be taken into account shall be the same day as that on which the item is deposited, provided that deposit occurs before the latest collection time notified from the access point to the network in question. When deposit takes place after this time limit, the date of deposit to be taken into consideration will be that of the collection on the following working day.