

RESEARCH AND RECOMMENDATIONS ON THE UNIVERSAL POSTAL SERVICE SPECIFICATION

A report prepared for ComReg

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EXECUTIVE SUMMARY

This research report by Frontier Economics (“Frontier”) and Amárach Research (“Amárach”) was commissioned by ComReg in order to assess whether the current specification of the postal universal service obligation (USO) is appropriate.

Specifically, our research has considered the changing technical, economic and social environment and the reasonable needs of postal service users to ask:

- Is it appropriate to include bulk mail services in the USO?
- Is it appropriate to include parcels that weigh more than 10kg and less than 20kg in the USO?
- Is it appropriate to include ancillary services in the USO? If so, which ancillary services should be included?

The research findings and recommendations will feed into ComReg’s planned review of the universal postal service specification. That review, undertaken under section 16(9) of the 2011 Act, will seek to ensure that the USO develops in response to the changes that have occurred in the technical, economic and social environment and to ensure it meets the reasonable needs of postal service users.

Our approach to the study has been based on a combination of desk-based research and primary research in the form of surveys, focus groups and in-depth interviews.

In relation to each of the three questions above, our approach has been to seek to understand:

- What are users’ alternative options to the USO product (including physical delivery and non-physical delivery options)?
- Whether users have a reasonable need for the services?

Before we summarise our findings in relation to each question, we provide a brief background overview of the USO and recent trends in postal usage in Ireland.

Overview of the Universal Postal Service

The universal postal service is the minimum postal service requirements that the designated universal service provider (USP), is under a statutory obligation to provide to all individuals and organisations within the Republic of Ireland. This covers a *de minimis* range of postal services of a defined quality that must be available to all at an affordable price irrespective of their circumstances or geographical location. The current designated universal service provider, An Post, also provides non-USO postal services which are not subject to the same regulatory regime.

The USO does not include requirements in relation to the number of post offices or the number of collection points on the USP’s network.

How is the universal postal service defined?

The universal postal service is defined in primary legislation, with further detail provided in secondary regulation.

- Primary legislation: Section 16 of the Communications Regulation (Postal Services) Act 2011 (“2011 Act”) specifies the universal postal service in Ireland. The 2011 Act transposes the universal postal service requirements of the EC Postal Directive 97/67/EC.
- Secondary regulation: In line with section 16(9) of the 2011 Act, ComReg further specified the universal postal service through Statutory Instrument 280 of 2012 (SI 280 of 2012).

Which products are included in the universal postal service?

The inclusion of a service within the universal postal service, amongst other things, is intended to safeguard the provision of that service at an affordable price to all postal users in a transparent and non-discriminatory way. Without this protection, the USP may decide not to offer these services commercially, or only provide them to a sub-set of the population where it is most profitable to do so.

However, in line with ComReg’s statutory duties, a balance must be struck between the protection that the universal postal service offers for consumers, and any potentially detrimental impact on the development of competition that could result from restricting commercial freedom as universal postal services are subject to regulatory oversight on price, quality, and access. Non-universal postal services are not subject to this regulatory oversight.

We note removal of a product from the USO would not mean that it is no longer provided. Rather, the provision of these services would be a commercial decision for the USP. In that sense, any recommendations to decrease the specification of the USO would represent a decrease in the USP’s regulatory requirements and would not necessarily imply any change in the service provided by the USP.

The products currently included in the universal postal service are shown in Figure 1 below.

Figure 1. Universal service obligations

| Minimum obligations under the 2011 Postal Act | Universal service specifications set under the 2012 SI 280 ¹ |
|---|--|
| Clearance, sorting, transport of postal items up to 2kg. | SI 280 specifies 3 formats of items with minimum dimensions and maximum weight: Letters up to 100g, Large Envelopes up to 500g and packets up to 2kg. It also specifies that for these formats, provision for the payment of postage by stamp, meter or other reasonable methods is required. |
| Clearance, sorting, transport of postal parcels at least up to 10kg (if not specified: 20kg). | Clearance, sorting, transport of postal parcels at least up to 20kg . |
| - | SI 280 requires the provision of specific products under the USO <ul style="list-style-type: none"> ■ PO Box; ■ Redirection; ■ Poste Restante; ■ MailMinder; ■ Business Reply; and ■ Freepost. |
| - | SI 280 requires the provision of a domestic service for items deposited in bulk under the USO ² : <ul style="list-style-type: none"> ■ for “Delivery only” – which refers to a D+1 service; and ■ for “Deferred Delivery” – which refers to a D+n service, where n>1. <p>The SI 280 requires the provision of an international service for items deposited in bulk under the USO.</p> |

Source: Frontier analysis of S.I. No. 280 of 2012 and 2011 Postal Act

Key trends in postal usage

The Irish postal market has undergone significant development since 2012. Over this period, An Post’s total volumes have fallen by 13%. This has largely been driven by accelerated use of electronic alternatives to mail due to changes in the technological environment, as well as the potential demographic influence of younger generations. Moreover, An Post’s USO volumes fell by 34% from 2012 to 2016.

Underlying this overall decline, there has been a structural shift in the mix of mail sent, by method of payment and mail format.

- **Shift in bulk mail volumes away from USO:** As well as the above structural factors, this decline was also driven by a shift in volumes to non-USO products. The launch by An Post of a new Domestic non-USO bulk product in July 2014, Ceadúnas Discount 11, has seen significant volumes shift out of the USO. Previous research has highlighted that many large mailers switched to using Ceadúnas Discount 11 for their bulk mail needs as it is priced lower than the USO bulk mail products. This suggests that many bulk mailers now prefer slower but cheaper services, indicating that they place a lower value on delivery speed.

¹ http://www.comreg.ie/csv/downloads/SI_280_of_2012.pdf

² “Postal packets deposited in bulk” means a substantial number of similar postal packets deposited with a universal postal service provider at the same place and time, to be transported and distributed to the addressees as marked on each of the postal packets

- **Growth in parcels:** Since 2012, there has been significant growth in e-commerce in Ireland. This is evident in the structural shift of mail by format over this period. Parcels are the only format which has seen a volume increase, with total USO parcel volumes growing by 23% over the period. While domestic parcel volumes increased by 10%, the overall growth has been driven primarily by a 75% increase in international outbound parcel volumes.
- **Businesses remain the major senders of USO volumes:** Despite the declines in meter and bulk mail volumes, businesses remain the major senders of An Post's universal postal services within Ireland. In 2016, 61% of domestic USO volumes were sent using An Post's metered or bulk mail services. As business mailers also use An Post's stamp service, the proportion of volumes sent using meter and bulk mail services can be seen as a lower bound for the total proportion of An Post's USO services that are made up of business mail. In fact, a few very large mailers make up a large proportion of USO mail volumes. For example, we spoke to 10 large users that together account for about 10% of USO volumes, and about a third of USO bulk mail items.

Research Question: Is it appropriate to include bulk mail services in the USO?

It is widely acknowledged that large senders, such as utilities, banks, government departments and other large organisations, typically account for the majority of bulk mail items sent³. As part of the research, we interviewed 10 large users who together send over 50 million items of bulk mail per annum, which is about 10% of An Post's total mail volumes and about one third of An Post's USO bulk volumes⁴.

WHAT IS BULK MAIL?

Bulk mail products are typically sent by large users, as minimum volume thresholds apply in order to get the discounted prices. An Post offers a number of bulk mail products, both USO and non-USO. There are three USO bulk mail products:

- Discount 6 (D+2) – Letters and Flats: Presented before noon, 85%+ autosort
- Discount 7 (D+2) – Packets only: Presented before noon
- Discount 9 (D+1): Pre-sorted, presented before 5:30pm

There are also a total of eight non-USO bulk products currently offered by An Post with Discount 11, the cheapest bulk mail service, having the largest volume.

An Post's USO bulk product volumes have decreased by 62% from 2012 to 2016. This volume decline is driven by:

- the switching of bulk mail volumes away from USO products to non-USO An Post products, particularly following the introduction of non-USO Discount 11;
- switching to non-An Post physical delivery alternatives; and
- switching to non-physical communication alternatives.

Our research has, therefore, considered these alternatives in detail, as well as the potential for further switching in the future.

³ See, for example, Frontier Economics, 2016, Research on Postal Users' Needs: A Report Prepared for ComReg.

⁴ We note while our large user interviews cover about 10% of the total market, the number of organisations spoken is only a sub-segment of the market. While we have made every effort to get a cross-section of organisation, it is not necessarily representative of the market as a whole.

- **Alternative An Post products:** Amongst the large organisations interviewed as part of this research, bulk mail accounts for nearly 100% of total letter volumes. Many large users now use a non-USO bulk product (Bulk 11), introduced by An Post in 2014, rather than USO bulk products. This product is the cheapest bulk product offered by An Post and also has the slowest delivery speed, indicating that bulk mailers place lower value on delivery speed and are therefore willing to increase delivery time for lower cost. Of the bulk products used by SMEs interviewed, Discount 9 is the most popular product, followed by Discount 6. SMEs use Discount 11 relatively less often, which is likely due to the larger minimum volume threshold of 5,000 items.
- **Non-An Post physical delivery alternatives:** Alternatives for bulk mail are available on a national basis, although many of the alternatives rely in whole, or in part, on An Post's network. Of the large users interviewed, 98% of letter mail was sent via An Post. However, 39% of SMEs that use bulk mail use a provider other than An Post.
- **Usage of non-physical delivery alternatives:** For many bulk mail customers electronic substitution is an alternative for a large proportion of bulk mailing. We estimate that 36% of existing mail volumes from large users interviewed could be substituted to other means of communication over the next 3-5 years.
- **Commercial negotiation:** Our research also found that a large proportion of bulk mail customers (53% in the SME survey) commercially negotiate for their bulk mail services.

The above suggest that for many customers there are alternatives to An Post's USO bulk mail products. Regardless, it seems reasonable that An Post would continue to choose to provide bulk services if bulk services were not in the USO. An Post currently offers a number of non-USO bulk products. We estimate that significantly more non-USO bulk mail items are currently sent than USO bulk mail items.

According to An Post's Regulatory Accounts, providing bulk mail services affords it with significant cost savings over stamped mail, and it would therefore appear commercially reasonable for it to continue to offer those services even if they were not specified in the USO.

We also note that there is a general trend in other EU countries for bulk mail to not be in the USO. Hungary, Lithuania, Poland, Sweden and the UK have all taken bulk mail out of the USO since 2010. They join seven other European countries for which bulk mail also lies outside of the USO product specification.

Research Question: Is it appropriate to include parcels that weigh more than 10kg and less than 20kg in the USO?

While there has been a general downward trend for letters, flats and packets since 2012, parcel volumes have increased. This is consistent with the observed trend of changing shopping habits. In particular, there has been a marked increase in e-commerce in Ireland, leading to a significant increase in fulfilment volumes and customer needs from a packet and parcel delivery service, including returns.

WHAT ARE USO PACKETS AND PARCELS?

Packets and parcels can be sent using An Post's USO service 'Standard Post'.

- Packet – Smaller 3D item up to 2kg
- Parcel – Larger 3D item up to 20kg

USO parcels are a single-piece service. Bulk parcel services are not included in the currently USO specification.

SI 280 currently specifies the universal postal service obligation to include the provision of a product that covers the clearance, sorting and transport of postal parcels **at least up to 20kg**. However, the Act and the Directive only requires such a service for postal parcels **at least up to 10kg**.

Therefore, we have considered whether it is appropriate for the universal service obligation to include a postal parcels service between 10kg and 20kg.

Our analysis suggests the following:

- [3<]
- A variety of alternative packet and parcel delivery providers operate in the market, all offering competitively priced nationwide products with no zonal pricing.
- Our pricing analysis suggests that An Post's Standard Post parcel product is only cheaper than alternative postal products in two very small segments of the market relating to large low weight parcels, namely:
 - parcels under 1kg which are larger than the Parcel Motel medium size (19 x 38 x 64 cm); and
 - parcels between 2-3kg which are larger than the Parcel Motel maximum size (41 x 38 x 64 cm).
- Although An Post remains the main packet and parcel delivery provider chosen by all user groups, a growing proportion also use other providers for at least some of their delivery needs. In addition, 69% of consumers reported that they have alternatives to An Post that they could easily use.
- Some 41% of SMEs and some large mailers commercially negotiate for their packet and parcel delivery services.

These findings suggest that for all customers there are alternatives to the USP's USO packet and parcel delivery services (including non-USO services offered by the USP itself), and that these alternatives are competitively priced. Overall, there appears to be a high level of satisfaction with the quality and choice of parcel services – including An Post's – with the various requirements for speed, frequency, value and flexibility (including weight limits) met by a cross-section of suppliers. This also applies to all weight steps, although lower weight steps make up the majority of volumes sent.

In addition, parcels are the only mail format for which An Post has experienced an increase in volumes since 2012. This has been fuelled by the continued growth in e-commerce, which is not showing any evidence of slowing, with the number of packets and parcels received by consumers having increased considerably even over the past year. It therefore seems reasonable to assume that the USP would continue to provide packet and parcel services even if they were not in the USO. In fact, An Post has itself signalled its clear intention to target the growing Irish and International e-commerce business and to aggressively grow its current 25% market share⁵.

Research Question: Is it appropriate to include ancillary services in the USO? If so, which ancillary services should be included?

Volumes and revenues associated with An Post's USO ancillary services are relatively small in comparison with An Post's other USO products. Disaggregated data for these products is not recorded in An Post's Regulatory Accounts, we have therefore relied on the findings from our primary research to provide insight into:

- usage of ancillary services;

⁵ An Post Press Release (04-07-2017) – An Post heralds a World Wide Open while closing in on Irish Parcels Market (<http://www.anpost.ie/AnPost/MainContent/About+An+Post/Media+Centre/Press+Releases/2017/World+Wide+Open.htm>)

- available physical delivery alternatives to these services; and
- available non-physical delivery alternatives to these services.

WHAT ARE ANCILLARY SERVICES?

- **PO Box:** A Post Office Box (PO Box) may be rented at Delivery Service Units and certain Post Offices. It is used to hold mail until collected by the customer renting the box.
- **Redirection:** With its Redirection service, An Post forwards the mail wherever the recipient needs, for up to a year, whether it's at home or abroad.
- **Poste Restante:** Poste Restante is a free service that allows visitors to a town to have their mail addressed to the local Post Office, where it will be held for collection.
- **MailMinder:** MailMinder suspends delivery of mail to the home or business while recipient is away, for up to 12 weeks.
- **Freepost/ Business reply:** Both of these services are designed to speed up bill payments and generate orders/subscriptions for business customers. The service allows the customer's clients to reply without having to pay postage. The Business Response service uses pre-printed envelopes or cards, whilst the Freepost service lets respondents reply with their own envelopes or cards.

Our analysis suggests the following:

- Usage of these ancillary services is limited across all customer types, although the survey evidence shows that those SMEs that do use these services do so at least weekly.
- Competitive physical delivery alternatives are lacking, even for PO Boxes, which is the only product for which a physical delivery alternative is realistic given the close links to other An Post services.
- However, the majority of those that do use these services felt that they had reasonable non-physical delivery alternatives if they were no longer offered (this equated to 90%+ of consumers, 75%+ of SMEs and all large users interviewed).
- Other European countries do not typically include these ancillary services in their USO definition.

We consider that the majority of these products are commercial offerings, and the USP would offer them even if not included in the USO specification. For example, according to its Regulatory Accounts, in 2016 An Post made a 60% net profit margin on "other USO Services, including Redirections, MailMinder and PO Boxes". On the other hand, such a high profit margin may be indicative of a lack of competitive constraint in relation to these products. The inclusion of these products in the USO affords additional protection to consumers compared to the situation where they were removed from the USO.

The exception to this is Poste Restante, which is a free service. While Poste Restante has historically low use, it is a Universal Postal Union (UPU) requirement for the USP to provide this product.

Recommendations

As noted above, these research findings and recommendations will feed into ComReg's planned review of the universal postal service specification. Any prospective changes to the USO specification by ComReg would include further public consultation. Based on our research, we recommend that ComReg should consider in its review whether the following changes to the current specification of the USO are appropriate.

Figure 2 Recommendations

| Research question | Potential change to specification of USO |
|---|--|
| 1. Is it appropriate to include bulk mail services in the USO? | The provision of a domestic service for items deposited in bulk could be removed from the USO. |
| 2. Is it appropriate to include parcels that weigh more than 10kg and less than 20kg in the USO? | The maximum weight for the clearance, sorting, and transport of postal parcels could be reduced from 20kg to 10kg. |
| 3. Is it appropriate to include ancillary services in the USO? If so, which ancillary services should be included? | <p>The provision of the following specific products could be removed from the USO</p> <ul style="list-style-type: none"> ■ PO Box; ■ Redirection; ■ Post Restante; ■ MailMinder; ■ Business Reply; and ■ Freepost. |

In relation to our Redirection and MailMinder recommendations, in particular, we note that further analysis and consultation will be required. That is because there are no direct physical delivery substitutes or competitors to these products; rather consumers rely on alternative options that are essential self-supply (e.g. have a friend or relative collect mail). While these alternatives appear to be reasonable substitutes for most users; there is likely a sub-set of users that have a reasonable need for these products.

As discussed above, the removal of a product, or service option, from the USO would not mean that it is no longer provided. Rather, the provision of these services would be a commercial decision for the USP. In that sense, any recommendations to decrease the specification of the USO would represent a decrease in the USP's regulatory requirements.

1. INTRODUCTION

The Irish postal sector is regulated by ComReg under the Communications Regulation (Postal Services) Act 2011 (“2011 Act”). Amongst other things, Section 16 of the 2011 Act specifies the universal postal service in Ireland. In line with section 16(9) of the 2011 Act, ComReg further specified the universal postal service through Statutory Instrument 280 of 2012 (SI 280 of 2012)⁶.

ComReg plans to undertake a review of the universal postal service specification under section 16(9) of the 2011 Act, to ensure that it develops in response to the changes that have occurred in the technical, economic and social environment and to the reasonable needs to postal service users⁷. If ComReg were to conclude, based on this review, that the current specification should be revised, it could, following a public consultation process, make new regulations repealing and replacing SI 280 of 2012.

In order to inform this review, Frontier Economics (“Frontier”) and Amárach Research (“Amárach”) have been commissioned to undertake

UNIVERSAL POSTAL SERVICE

The minimum postal service requirements that the designated universal service provider is under a statutory obligation to provide to all individuals and organisations within the Republic of Ireland.

This covers a de minimis range of postal services of a defined quality that must be available to all at an affordable price irrespective of their circumstances or geographical location. The current designated universal service provider, An Post, also provides non-USO postal services which are not subject to the same regulatory regime.

market research into whether the current specification of the universal postal service is appropriate, based on the requirements of section 16(9) of the 2011 Act. This builds on research undertaken by Frontier and Amárach in 2016, which looked into Irish postal users’ needs, focussing on research on postal users’ reasonable needs for the universal postal service.

The remainder of this report presents

the findings of this research project and covers:

- the context of this research;
- our research framework and approach; and
- our findings and key research conclusions, including likely policy implications.

The report remainder of the reports is structured as:

- research context;

⁶ http://www.comreg.ie/csv/downloads/SI_280_of_2012.pdf

⁷ ComReg, Goal 2 Postal Strategy Statement 2018-2020
<https://www.comreg.ie/publication/postal-strategy-statement-2018-2010/>

- research framework and methodology
- overall trends in mail use since 2012;
- findings on bulk mail services;
- findings on packets and parcels;
- findings on ancillary services; and
- conclusions and policy implications.

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2. CONTEXT

Section 12(1) of the 2011 Act sets out ComReg’s statutory objectives in relation to the provision of postal services in Ireland. In its Postal Strategy Statements, ComReg outlines its strategic intent in relation to each objective, and goals to support these. For 2018-2020, two such goals are to “*understand the reasonable needs of postal service users*” and “*review the specification of the universal postal service.*”⁸



ComReg’s Statutory Objectives

1. Ensure the provision of a universal postal service at an affordable price
2. Promote the interests of postal service users
3. Subject to 1., facilitate the development of competition and innovation

Regulatory and legal context

The Irish postal sector is regulated by ComReg under the 2011 Act⁹. In addition to defining ComReg’s statutory objectives, the 2011 Act transposes the universal postal service requirements of the EC Postal Directive 97/67/EC¹⁰ (as amended in 2008)¹¹. The **minimum** universal postal service requirements in Ireland are set out in Section 16 of the 2011 Act. Annex A provides further details of the universal postal service specification outlined in section 16(1) of the 2011 Act.

As required by section 16(9) of the 2011 Act, the universal postal service was further specified by ComReg through the Statutory Instrument 280 of 2012 (“SI 280 of 2012”)¹². Therefore, comparison of the specification of the universal service under SI 280 of 2012 with the minimum requirements under the 2011 Act highlights areas where there is scope for ComReg to amend the USO if it identifies evidence that such an amendment would be appropriate.¹³

Figure 3 shows the universal service requirements set out in the 2011 Act and the universal service specifications set out in SI 280 of 2012.

⁸ ComReg, Postal Strategy Statement 2018-2020
<https://www.comreg.ie/publication/postal-strategy-statement-2018-2010/>

⁹ The 2011 Act enacted into Irish law the EC “Postal Directive” 97/67/EC of the European Parliament and of the Council of 15 December 1997 (as amended by subsequent Directives).

¹⁰ http://ec.europa.eu/internal_market/post/doc/legislation/2008-06_en.pdf

¹¹ As the 2011 Act transposes the universal postal service requirements of the EC Postal Directive, the legal scope for a change to this aspect of the Irish primary legislation is very limited, and could only be done by the Oireachtas.

¹² http://www.comreg.ie/csv/downloads/SI_280_of_2012.pdf

¹³ Also, we note that the specification of the universal service could, alternatively be extended should that be required to meet the reasonable needs of postal users.

Figure 3. Universal service obligations

| Minimum obligations under the 2011 Postal Act | Universal service specifications set under the 2012 SI 280 ¹⁴ |
|---|---|
| Clearance, sorting, transport of postal items up to 2kg. | SI 280 specifies 3 formats of items with minimum dimensions and maximum weight: Letters up to 100g, Large Envelope up to 500g and packets up to 2kg. It also specifies that for these formats, provision for the payment of postage by stamp, meter or other reasonable methods is required. |
| Clearance, sorting, transport of postal parcels at least up to 10kg (if not specified: 20kg). | Clearance, sorting, transport of postal parcels at least up to 20kg . |
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| - | SI 280 requires the provision of a domestic service for items deposited in bulk under the USO ¹⁵ : <ul style="list-style-type: none"> ▪ for “Delivery only” – which refers to a D+1 service; and ▪ for “Deferred Delivery” – which refers to a D+n service, where n>1. <p>The SI 280 requires the provision of an international service for items deposited in bulk under the USO.</p> |

Source: Frontier analysis of S.I. No. 280 of 2012 and 2011 Postal Act

Scope of ComReg’s review

The inclusion of a service within the universal postal service, amongst other things, is intended to safeguard the provision of that service at an affordable price to all postal users in a transparent and non-discriminatory way. Without this protection, the USP may decide not to offer these services commercially, or only provide them to a sub-set of the population where it is most profitable to do so. However, in line with ComReg’s statutory duties, a balance must be struck between the protection that the universal postal service offers for consumers, and any potentially detrimental impact on the development of competition that could result from restricting commercial freedom as universal postal services are subject to regulatory oversight on price, quality, and access. Non-universal postal services are not subject to this regulatory oversight.

We note removal of a product from the USO would not mean that it is no longer provided. Rather, the provision of these services would

¹⁴ http://www.comreg.ie/csv/downloads/SI_280_of_2012.pdf

¹⁵ “Postal packets deposited in bulk” means a substantial number of similar postal packets deposited with a universal postal service provider at the same place and time, to be transported and distributed to the addressees as marked on each of the postal packets



Examples of developments in the technical and economic environment

- New providers entering the packets and parcels market
- Development of new postal products or services, e.g. parcel lockers
- Emergence of new forms of electronic communications, e.g. smart phone apps

be a commercial decision for the USP. In that sense, any recommendations to decrease the specification of the USO would represent a decrease in the USP's regulatory requirements and would not necessarily imply any change in the service provided by the USP.

The current legal and regulatory framework narrows down the focus of this research. Section 16(9) of the 2011 Act requires ComReg to ensure that the universal postal service develops in response to any changes in:

- the technical, economic and social environment, as it relates to the universal postal service; and
- the reasonable needs of postal service users

These two aspects of section 16(9) are ultimately interdependent. Postal service users' needs and wants may have evolved because of a changing social environment. They may also have evolved due to changes on the supply side of the market, particularly developments in the technical and economic environment. In turn, changes on the supply side may mean that existing postal services users' needs and wants may now be better served.

In order to strike the balance between protection of customers and the facilitation of the development of competition, it is essential that the specification of the universal postal service reflects any changes that have happened in the postal environment since 2012. In doing so, ComReg should ensure that the universal postal service is not under- or over-specified in relation to the current environment.

The objective of this research is therefore to identify the specific, and more general, changes that have occurred in relation to the products (and product specifications) detailed in SI 280 of 2012. However, by its nature, this research has also allowed the exploration of a selection of wider topics related to the Irish Postal market.

Key policy areas explored in this research

Figure 4 sets out the three specific aspects of the current universal service specification that this 2017 research project explores¹⁶.

¹⁶ In 2016, Frontier and Amárach undertook a research project into Irish postal users' needs, focussing on research on postal users' reasonable needs for the universal postal service. In doing so, ComReg asked us to consider two questions: (1) Is the current specification of the universal postal service appropriate? (2) Is the frequency of the single piece universal postal service appropriate?

This project found that the current specification of the universal postal service was broadly appropriate in relation to the reasonable needs of postal service users, and also that the speed of delivery and frequency of the single-piece universal postal service is appropriate. However, it also highlighted that the Irish postal market has undergone significant evolution since 2012 and will continue to do so over the foreseeable future. Therefore, further market research enables ComReg to build on the existing research

Given the passage of time since 2012, when the current universal postal service was specified, there is merit in exploring whether these specific aspects remain appropriate and needed to the level specified, or whether there is scope to reduce the regulatory burden on the current Universal Service Provider (USP), so that these specific aspects of the current universal postal service are no longer subject to regulatory oversight by ComReg.

Figure 4. Specific aspects of the current universal service specification explored

- 1 Inclusion of **bulk mail services**
- 2 Inclusion of **Parcels >10kg**
- 3 Inclusion of **ancillary services**

base to dive further into specific aspects of the universal postal service specification, in the context of section 16(9) of the 2011 Act.

3. RESEARCH FRAMEWORK AND METHODOLOGY

This chapter sets out the framework and methodology for the research.

Research framework

For ComReg to revise the specification of the USO by removing a product, or reducing features of an existing universal service product, it is important to ensure that this is not to the detriment of consumers' needs. Likewise, for a product (or product specification) to remain in the USO, it is important to ensure that this is not to the detriment of the development of competition for the supply of this product.

To ensure this balance, we need to first develop a research framework that allows us to understand current customer behaviour in relation to sending and receiving mail, and how this has evolved in recent years. That framework is based on two questions:

- What are users' options for the service (including physical and non-physical delivery options)?
- Do users' have a reasonable need for the services?

What are the options available to customers?

As illustrated in Figure 5, there are three main options that are potentially available to a customer in relation to sending and receiving mail.

Figure 5. Framework for understanding customer behaviour



Note: Here, non-physical delivery alternatives cover a range of possible options available to customers. These include free options, such as email or changing behaviour to negate the need for a physical delivery product, and paid for options, such as SMS or reimbursing customer directly for postage costs.

Within this context, we believe it is important to consider whether, since 2012, there has been:

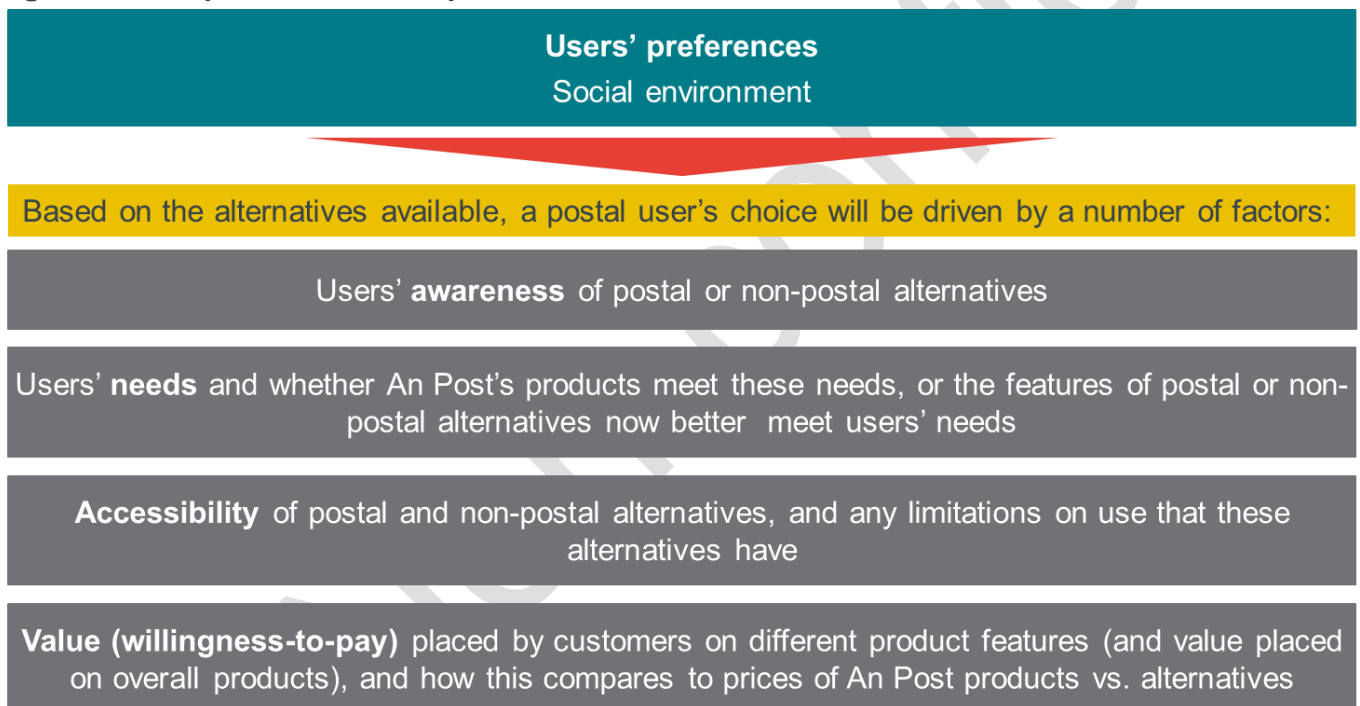
- **advances in the technological environment** meaning that new substitutes are available to a large customer base; and/or
- **changes in the economic environment** either through entry/expansion of competitors, or simply changes in the products offered by existing competitors.

Do users' have a reasonable need for the services

The choice between these three options is likely to differ depending on the type of customer, the type of mail item and the number of items sent in a single mailing. We therefore carry out this analysis with the broad customer groups (where appropriate, residential, SMEs and large users).

For each category of postal user, the choice of option will be dependent on a number of different aspects of the Irish postal market, as outlined in Figure 6.

Figure 6. Aspects of the Irish postal market that influence customer behaviour



Research methodology

Within this research framework, there are a number of research techniques that can be used to explore the demand and supply aspects outlined above. The findings from each of these aspects of the research are then presented in the following chapters. In

addition, we review international benchmarks in relation to changes in the specification of the universal services in Europe.

Availability of alternative physical delivery services

As part of this aspect of the research, we identified the other postal providers present in the Irish market who offer products that can be considered to be alternatives to the focus USO products.

In mapping the products offered by other delivery service providers to the USO products outlined above, there are a wide range of product characteristics that we compare, as detailed in the following sections. Taking the above characteristics into account, we also compare the prices of these alternative products, where available, to those offered by the designated USP.

The primary research technique used for this exercise is desk based research. This is supplemented with information collected through interviews with alternative postal service providers to explore the gaps left by the desk based research.

Users' preferences

To increase the robustness of the evidence gathered through this research, we use a mixture of techniques that explore both stated and revealed preferences of users.

- **Analysis of data on existing usage trends** – Volume and revenue data contained in the USP's Regulatory Accounts allows us to explore postal users' actual usage of USO postal services (revealed user preferences).
- **Primary research** – As a basis for this work, we undertook the following primary research (stated user preferences) with the key postal user groups:
 - Consumer survey;
 - SME survey;
 - Consumer and SME focus groups; and
 - In-depth interviews with large users.

These all included a mixture of qualitative and quantitative questions that explore postal users' usage of (and associated need for) USO services, as well as their alternatives.

In carrying out this primary research, Amárach ensured that the survey samples were representative across a number of variables, including rural vs. urban. To supplement this insight, the Consumer and SME focus groups also included groups where the participants live in rural or semi-rural locations. In analysing all of the research findings, we paid particular attention to whether there were any significant differences in the findings

between rural and semi-rural areas compared to urban areas. However, no such differences were identified.

Further details of all aspects of this primary research are given in Annex B.

EU Benchmarking

In addition, we have carried out a benchmarking exercise on the scope of the universal postal service in Ireland against that in other EU member states. This exercise:

- allows us to test whether and to what extent the specification of the universal service in Ireland differs from those observed in Europe; and
- helps us to understand how the definition of the universal service is evolving as regulators and other stakeholders consider the evolving postal environment in each Member State, providing insight into how users' needs and the technical, economic and social environment has developed over recent years in these countries.

The output of this benchmarking exercise is provided in detail in Annex C. Where relevant throughout the main sections of this report, we pull out insights into this exercise.

Summary of research framework

The following chapters present our research findings in relation to the following research questions to explore whether the following aspects of the current universal postal service specification remain appropriate:

- Is it appropriate to include bulk mail services in the USO?
- Is it appropriate to include parcels that weigh more than 10kg and less than 20kg in the USO?
- Is it appropriate to include ancillary services in the USO? If so, which ancillary services should be included?

For each we consider customers' options in relation to alternative An Post products, delivery products offered by alternative operators and non –physical delivery alternatives. First, however, the next chapter provides an overview of mail trends since 2012.

4. OVERALL TRENDS IN MAIL USAGE SINCE 2012

The Irish postal market has undergone significant development since 2012. Over the period 2012-2016, An Post's total volumes have fallen by 13%. This has largely been driven by accelerated use of electronic alternatives to mail due to changes in the technological environment, as well as the potential demographic influence of younger generations. Underlying this decline, there has also been a structural shift in the mix of mail being sent, with changing trends across format, payment method and delivery speed.

In order to set the context for a review of SI 280 of 2012, this section outlines the key overall developments in the Irish Postal market that have been seen since 2012. The majority of this insight can be gained through analysis of publically available information, such as the volume and revenue data contained in the USP's Regulatory Accounts.

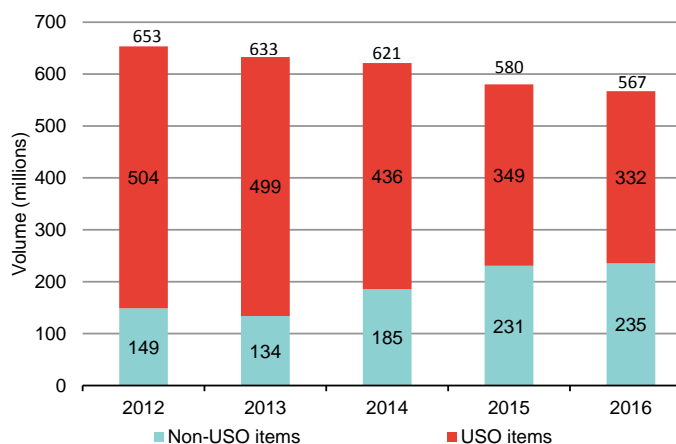
34% decline

USO volumes fell by 34%
from 2012 to 2016.

Overall trends in An Post's mail volumes

An Post's total volumes fell by 13% between 2012 and 2016, from 653 million to 567 million items. There are now substantially fewer universal postal service items being sent and received in Ireland (Figure 7). USO volumes have declined by 34% since 2012. USO volumes now account for 59% of An Post's total volumes compared to 77% in 2012.

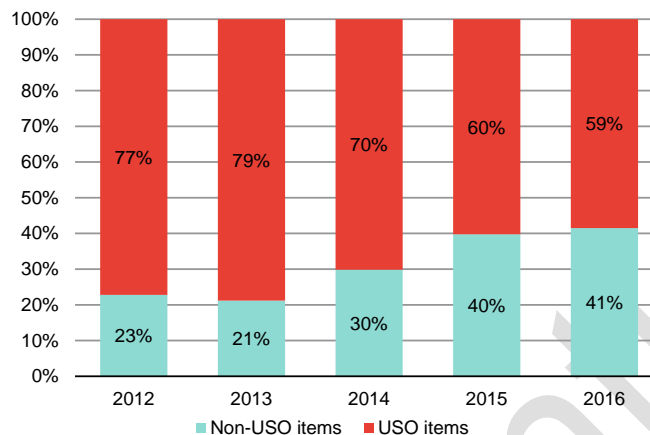
Figure 7. An Post USO and non-USO volumes 2012-2016



Source: *Frontier analysis of An Post Regulatory Accounts data 2012-2016*

Note: *These figures include Domestic, International Outbound and International Inbound volumes.*

Figure 8. An Post USO and non-USO proportions 2012-2016



Source: *Frontier analysis of An Post Regulatory Accounts data 2012-2016*

Note: *These figures include Domestic, International Outbound and International Inbound volumes*

The launch by An Post of a new Domestic non-USO bulk product in July 2014, Ceadúnas Discount 11¹⁷, has seen significant volumes shift out of the USO. Previous research has highlighted that many large mailers switched to using Ceadúnas Discount 11 for their bulk mail needs as it is priced lower than the USO bulk mail products. This suggests that many bulk mailers now prefer slower but cheaper services, indicating that they place a lower value on delivery speed (Annex D provides further details of trends in the class of mail sent). The majority of this switch happened in 2014 and 2015 when 30% of volumes shifted away from the USO, with only a further 5% shift occurring in 2016.

This shift has occurred against a more general backdrop of the continued electronic substitution of mail, driving an overall decline in volumes in the Irish postal market. As discussed in more detail in later sections of this report, this is a trend that has affected all types of postal users.

USO volume trends

According to the USP's regulatory accounts, domestic USO volumes declined by 39% between 2012 and 2016, while International outbound USO volumes declined by 23%. Underlying this overall decline, there has been a structural shift in the mix of mail sent, by method of payment and mail format.

¹⁷ Discount 11 is a slower D+3 service, with a minimum volume threshold of 5000 items per posting, and is 2 cent cheaper than comparable USO product Discount 6.

By method of payment

Looking at trends by method of payment, we can see from Figure 9 that the shift in domestic USO volumes has been wider than just the movement of Ceadúnas Discount 6 volumes out of the USO. Although domestic meter mail volumes continue to make up around one-third of domestic USO volumes; meter mail volumes decreased by 29% between 2012 and 2016. Additionally, combined freepost and business reply volumes decreased by 17% over the same period¹⁸. Stamped mail volumes saw a slower volume decline of 6%, resulting in an increase in the proportion of stamped domestic USO volumes.

Figure 9. Domestic USO volumes by method of payment

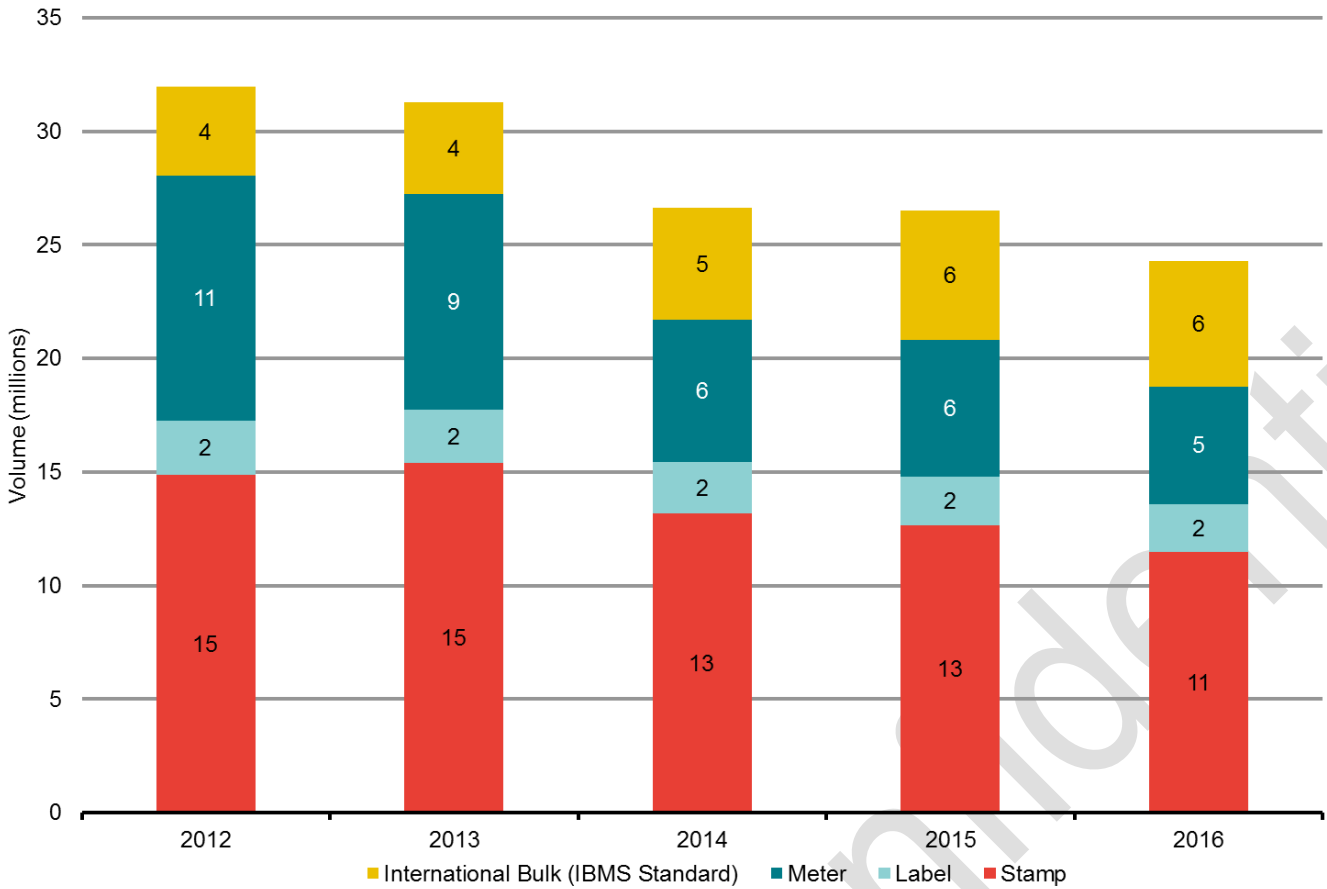


Source: Frontier analysis of An Post Regulatory Accounts data 2012-2016

As illustrated in Figure 10, the structural shift for International outbound USO mail by method of payment has not followed the same pattern as for domestic mail. Instead, the overall decline is driven predominantly by a 52% decline in meter volumes over the period, as well as lower declines in stamp and label volumes of 23% and 10% respectively. Only international bulk mail saw an increase over the period, with volumes up by 41%.

¹⁸ The USP's regulatory accounts publishes combined Freepost and Business Reply volumes.

Figure 10. International outbound volumes by service



Source: Frontier analysis of An Post Regulatory Accounts data 2012-2016

Despite the declines in meter and bulk mail volumes, businesses remain the major senders of universal postal services within Ireland. In 2016, 61% of domestic USO volumes were sent using metered or bulk mail services. As business mailers also use the stamp service, the proportion of volumes sent using meter and bulk mail services can be seen as a lower bound for the total proportion of An Post’s USO services that are made up of business mail.

Businesses account for a smaller proportion of international outbound USO volumes compared to their proportion of total USO mail. However, we still estimate that businesses account for about half of international outbound volumes with 44% of international outbound USO volumes being sent using metered or international bulk services in 2016. Again, this can be seen as a lower bound as business mailers also use international stamp services.

90% of domestic USO volumes

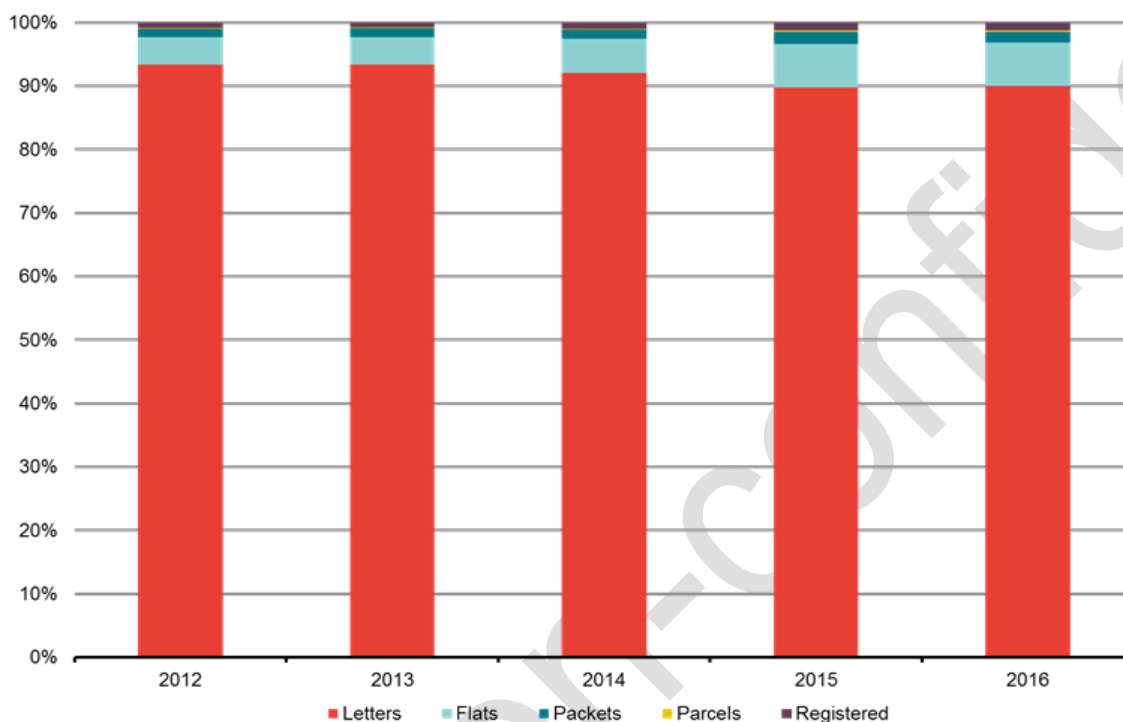
Letter mail accounts for majority of USO volumes

By format

Since 2012, there has been significant growth in e-commerce in Ireland. This is evident in the structural shift of mail by format over this period. Parcels are the only format which has seen a volume increase, with total USO parcel volumes growing by 23% over the period. While domestic parcel volumes increased by 10%, this overall growth has been driven by a 75% increase in international outbound parcel volumes.

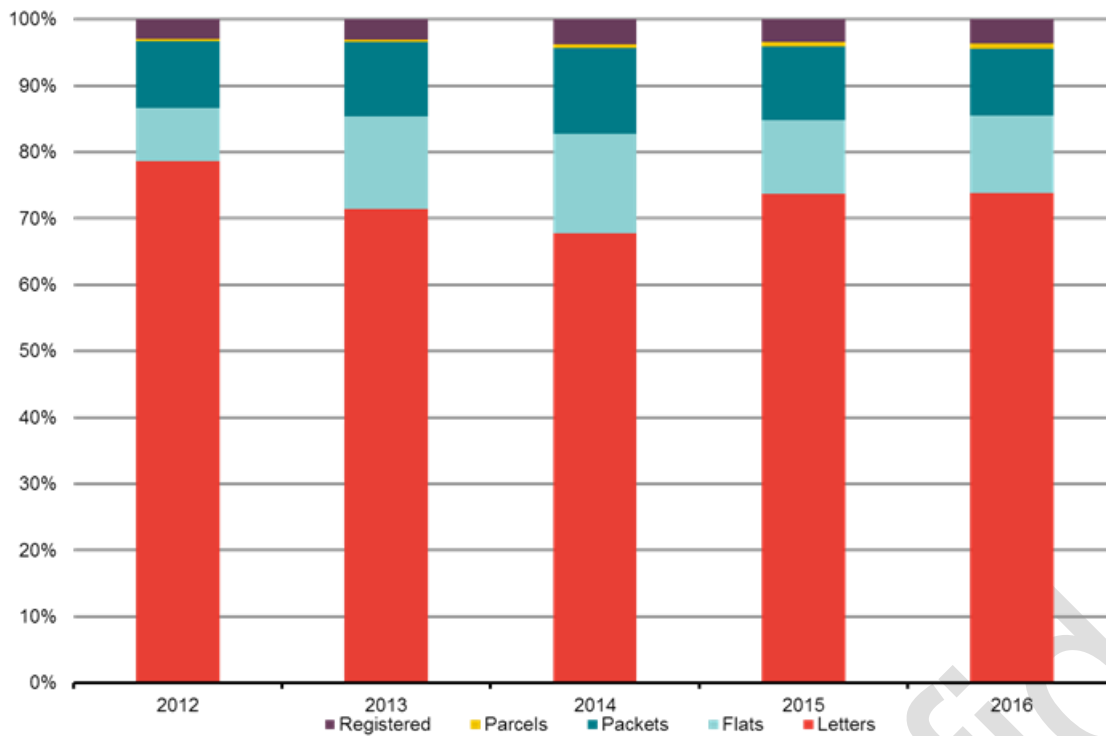
Letter mail continues to account for the majority of domestic and international outbound USO volumes, 90% and 74% respectively, as shown in Figure 11 and Figure 12. This is despite declines of 41% in domestic USO letter volumes from 2012 to 2016, and 28% in international outbound USO letter volumes.

Figure 11. Proportion of domestic USO volumes by format



Source: Frontier analysis of An Post Regulatory Accounts data 2012-2016

Figure 12. Proportion of international outbound USO volumes by format



Source: Frontier analysis of An Post Regulatory Accounts data 2012-2016

Summary of mail trends

As noted, An Post's total mail volumes have fallen by 13% since 2012. USO volumes have fallen more sharply, however; declining by 34% over the same period.

Such changes have been driven by a number of factors, including switching to alternative non-USO postal products, increased competition from alternative physical delivery providers and non-delivery alternative methods of communication.

5. BULK MAIL SERVICES

In this section, we detail our findings in relation to bulk mail services. In particular, we focus on whether bulk mail services should continue to be included in the USO, or whether there are sufficient alternative commercial options for postal users.

In this section we:

- Describe the details of An Post bulk mail products;
- Summarise recent trends in the usage of USO bulk mail;
- Explore postal users options and preferences for bulk mail products.

What are bulk mail services?

Bulk mail products are typically sent by large users, as minimum volume thresholds apply in order to get the discounted prices. An Post offers a number of bulk mail products, both USO and non-USO. The details and conditions of the three USO bulk mail products are shown in Figure 13. There are a total of eight non-USO bulk products currently offered by An Post (Figure 14) with Discount 11, the cheapest bulk mail service, having the largest volume.

Figure 13. An Post USO bulk mail products

| Product | Delivery speed | Min. posting volume | Conditions | Letter price |
|---------------------------|----------------|---------------------|--|--------------|
| Discount 6 | D+2 | 2,000 | Presented before noon 85%+ autosort | 60c |
| Discount 7 (Packets only) | D+2 | 2,000 | Presented before noon | 71c |
| Discount 9 | D+1 | 2,000 | Pre-sorted, presented before 5.30pm | 67c |

Source: An Post, Bulk Discounts for Mailers

Figure 14. An Post non-USO bulk mail products (for volumes above 2,000)¹⁹

| Product | Delivery speed | Min. posting volume | Conditions | Letter price |
|-------------|----------------|---------------------|--|--------------|
| Discount 1 | D+1 | 2,000 | Presentation before noon auto - processing | 67c |
| Discount 2 | D+2 | 2,000 | Processing before noon auto - processing | 65c |
| Discount 3 | D+1 | 2,000 | Presentation before noon 85%+ autosort | 66c |
| Discount 4 | D+1 | 2,000 | Presentation before 3pm 85%+ autosort | 67c |
| Discount 5 | D+1 | 2,000 | Presentation before 3pm | 79c |
| Discount 8 | D+1 | 2,000 | Pre-sorted before noon | 66c |
| Discount 10 | D+2 | 2,000 | Processing before noon auto-processing | 68c |
| Discount 11 | D+3 | 5,000 | Presentation before noon,95%+ auto-sort | 57c |

Source: An Post, Bulk Discounts for Mailers

According to An Post's Regulatory Accounts, providing bulk mail services affords it with significant cost savings over stamped mail (Figure 15), and it would there appear commercially reasonable for it to continue to offer those services even if they were not specified in the USO.

Figure 15. An Post's costs for domestic letters: stamped and bulk (2016)

| | 2015 | | 2016 | |
|---------------------|---------|------------|---------|------------|
| | Stamped | Discount 6 | Stamped | Discount 6 |
| Volume | 71,343 | 74,184 | 76,144 | 67,004 |
| Service expenditure | 61,547 | 40,051 | 69,732 | 39,541 |
| Cost per item | 0.86 | 0.54 | 0.92 | 0.59 |
| Difference | | 0.32 | | 0.33 |

Source: An Post Regulatory Accounts 2016

It is widely acknowledged that large senders, such as utilities, banks, government departments and other large organisations, typically account for the majority of bulk mail items sent²⁰. As part of the research, we interviewed 10 large users who together send over 50 million items of bulk mail per annum, which is about 10%

¹⁹ Note that An Post also offers discounted products for volumes over 200 items.

²⁰ See, for example, Frontier Economics, 2016, Research on Postal Users' Needs: A Report Prepared for ComReg.



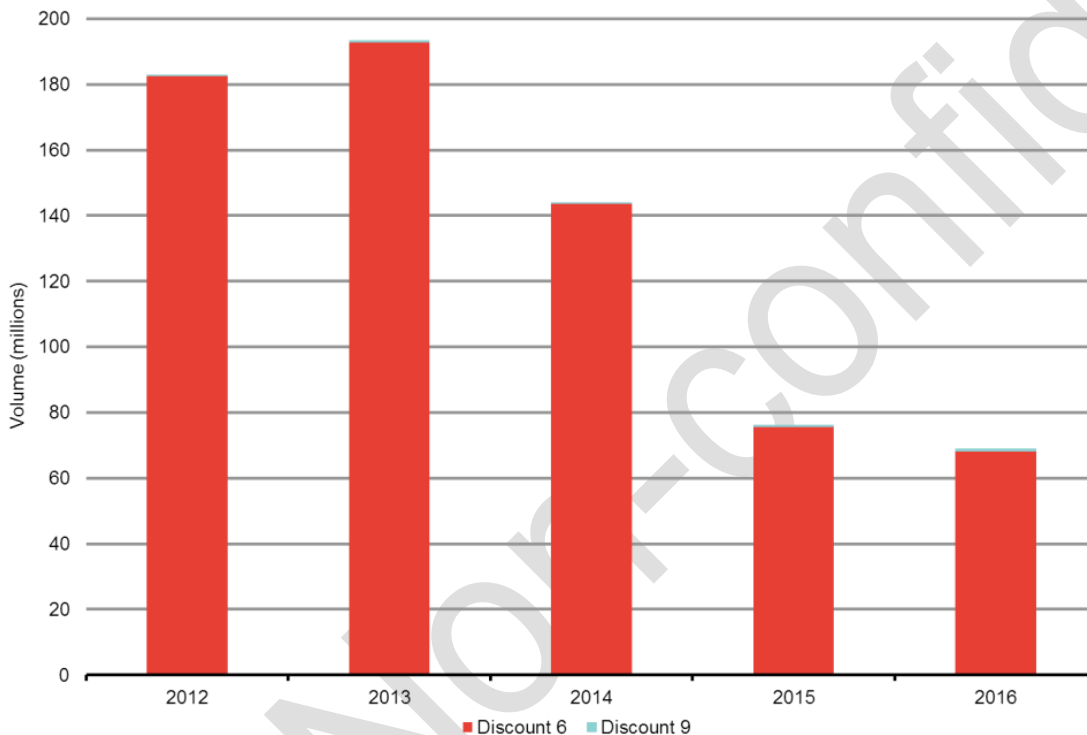
of An Post's total mail volumes and about one third of An Post's USO bulk volumes²¹.

Usage of USO bulk mail products

An Post's USO bulk product volumes have decreased by 62% from 2012 to 2016 (Figure 16). As outlined in Chapter 4, this volume decline may be driven by:

- the switching of bulk mail volumes away from USO products to non-USO An Post products, particularly following the introduction of non-USO Discount 11;
- switching to non-An Post physical delivery alternatives; and
- switching to non-physical communication alternatives.

Figure 16. USO bulk mail volumes, 2012-2016



Source: Frontier analysis of An Post Regulatory Accounts data 2012-2016

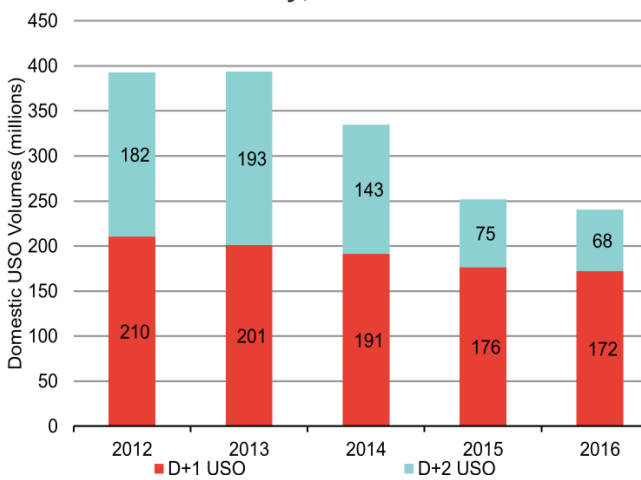
Note: Discount 7 is excluded here due to its low USO volumes

The shift of bulk mail volumes away from USO products to non-USO products, is also evident when looking at trends in domestic USO volumes by speed of delivery. Single-piece USO mail is delivered next day (one day after posting, D+1) and bulk USO items are delivered either next day (Discount 9) or later (deferred with a D+2,

²¹ We note while our large user interviews cover about 10% of the total market, the number of organisations spoken is only a sub-segment of the market. While we have made every effort to get a cross-section of organisation, it is not necessarily representative of the market as a whole.

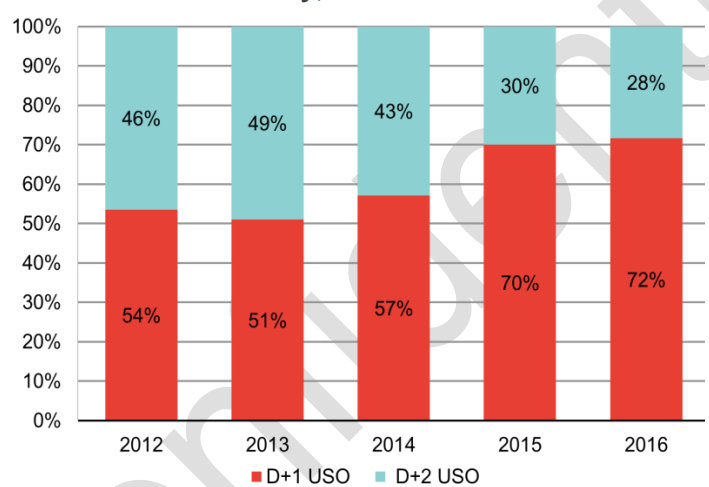
Discount 6) service in Ireland. The chart below shows that the USO next day delivery volumes have declined by 18% over the period 2012 to 2016. The USO deferred products (D+2 bulk USO) have faced significantly larger declines, with volumes down by 62% over the period 2012 to 2016. The largest declines in USO deferred bulk volumes occurred in 2015 when volumes were down 47% from the previous year. As a result of this switching, by 2016, delayed bulk mail services made up only 28% of USO volumes. As delayed bulk mail services made up 99% of total USO bulk mail volumes, this is also reflected in the significant decline in USO bulk product volumes.

Figure 17. Domestic USO volumes by speed of delivery, 2012-2016



Source: *Source: Frontier analysis of An Post Regulatory Accounts data 2012-2016 and product descriptions as reported by An Post*

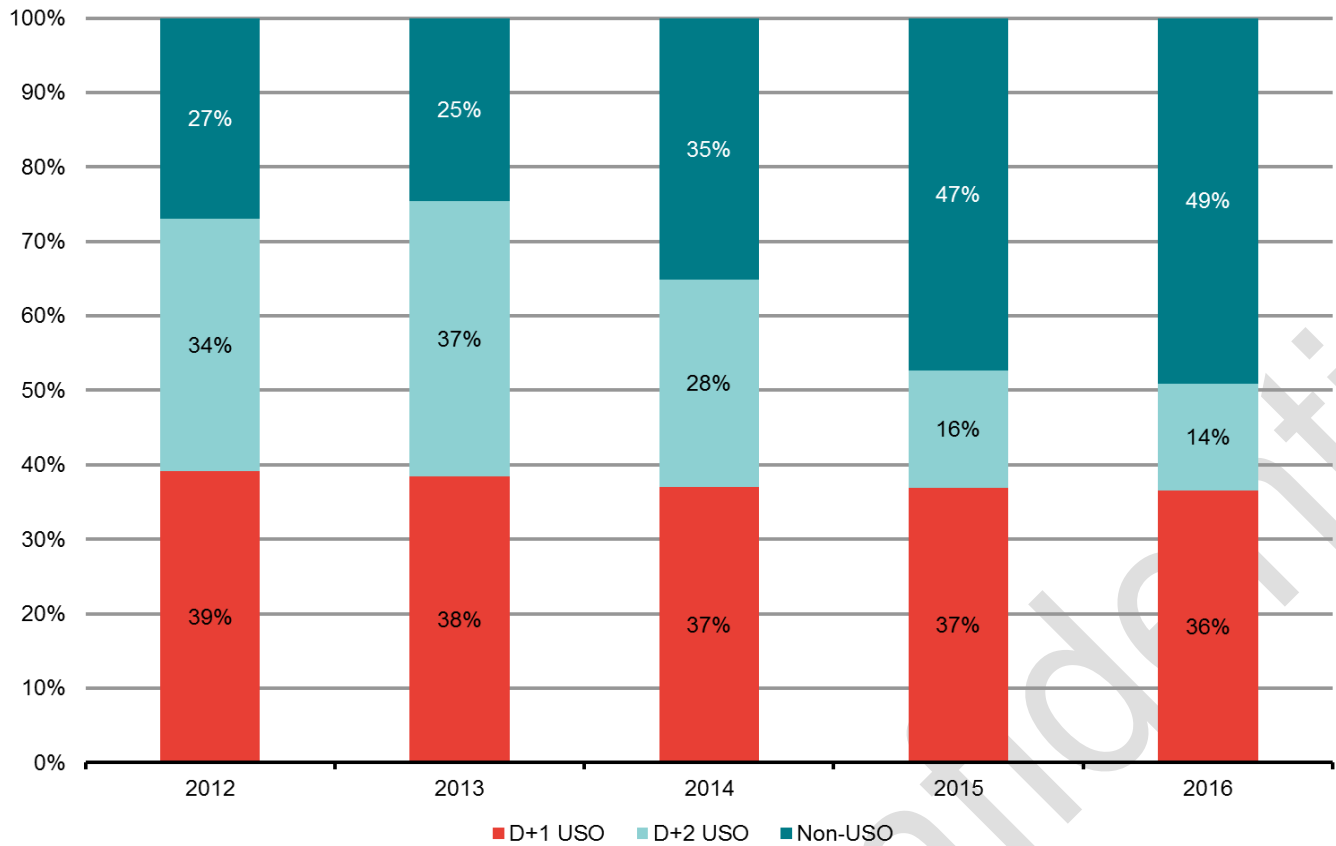
Figure 18. Domestic USO proportions by speed of delivery, 2012-2016



Source: *Frontier analysis of An Post Regulatory Accounts data 2012-2016 and product descriptions as reported by An Post*

When we consider both USO and non-USO volumes, the evidence suggests that An Post delivers more deferred items than next day delivery items. The chart below shows volume shares for domestic USO D+1, USO D+2 and non-USO volumes. The general trend seen below indicates that slower mail has moved to non-USO services.

Figure 19. Evolution of domestic USO and non-USO volumes by speed of delivery



Source: Frontier analysis of An Post Regulatory Accounts data 2012-2016

Note: Excludes freepost and business reply – which are delivered every day

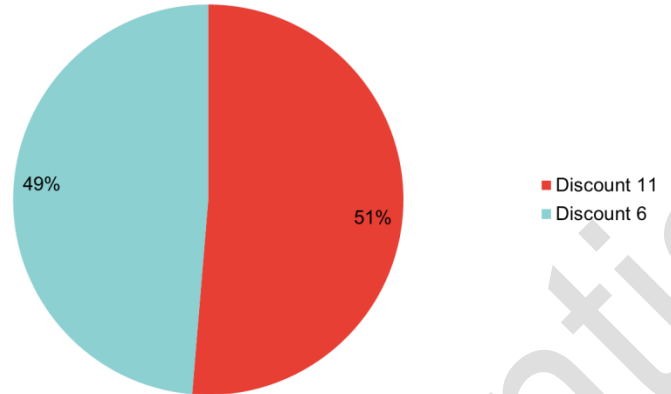
Our research has, therefore, considered these alternatives in detail, as well as the potential for further switching in the future. The remainder of this chapter outlines those research findings. We then conclude on whether the current specification of the USO is appropriate in relation to bulk mail services.

Alternative An Post products

Large mailers

Amongst the large organisations interviewed as part of this research, bulk mail accounts for nearly 100% of total letter volumes. Large mailers tend to use either Discount 6 or Discount 11. Of respondents that were able to advise their split of volumes by bulk product the split was very equal between Discount 6 and Discount 11.

Figure 20. Large users split between Discount 6 and Discount 11



Source: Amárach, 2017, Large user interviews: Research on the Universal Postal Service specification

Note: These volumes represent 87% of the bulk mail volumes of large users we spoke to. I.e. 13% did not report their split by bulk product.

The use of the different products can depend on a number of factors, namely:

- minimum volume thresholds (i.e. 2,000 vs 5,000);
- autosort requirements; and
- tolerance for delayed processing (D+2 vs D+3).

Those that can utilise Discount 11 tend to do so already, given that it has a 3 cent (5%) discount below Discount 6.

Some of the large users outsource their mail to printing and fulfilment companies, and these users tend to have less knowledge of the exact product they are receiving from An Post.

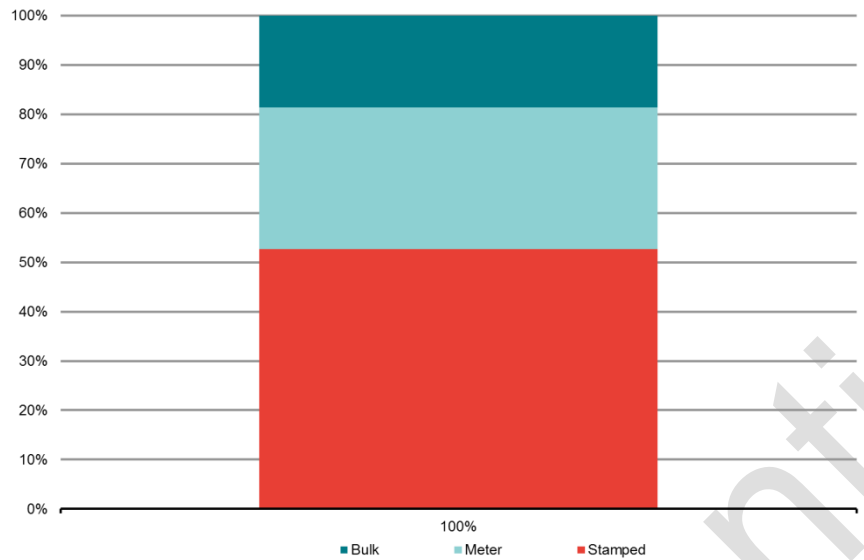
Almost all the large mailers are domestic focused, with few sending any significant volumes via international post.

Most have settled on the bulk mail rates and services that work best for them, and even with the recent price increases by An Post they have not changed the pattern of bulk mail service usage. However, some do bundle their mailings (say, across a week) to achieve certain discounts, but even then they might not have sufficient volumes to get higher discounts.

SMEs

According to our survey, the majority of SME mail sent is stamp mail, followed by meter and then bulk (Figure 21).

Figure 21. Proportion of SME letter mail sent by payment type

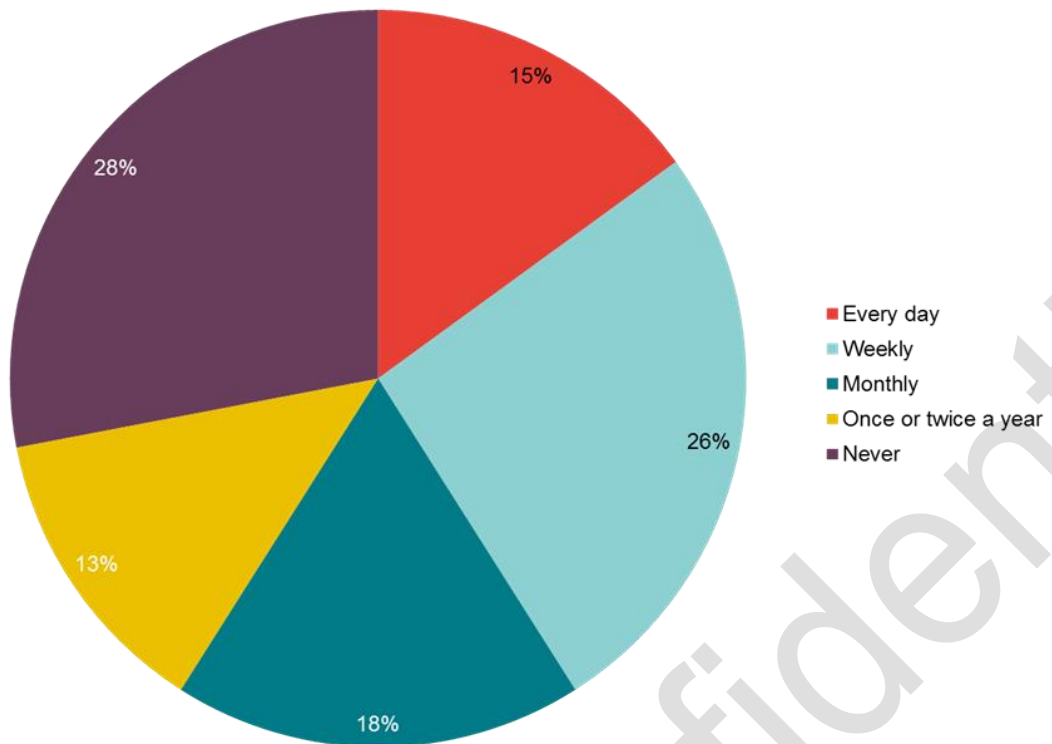


Source: Amárach, 2017, SME Survey: Research on the Universal Postal Service specification

Note: Q2A For the letters you send in a typical month, what proportion are sent using stamps, meter / franking and by bulk mail (i.e.: using special rates for regular, large volumes of mail)

Our survey found that, on average, 18% of SMEs' mail is bulk mail. Our SME surveys also found that 15% of SMEs send bulk mail every day, while 59% use bulk mail services at least once a month (Figure 22).

Figure 22. How often do SMEs use bulk letter services?



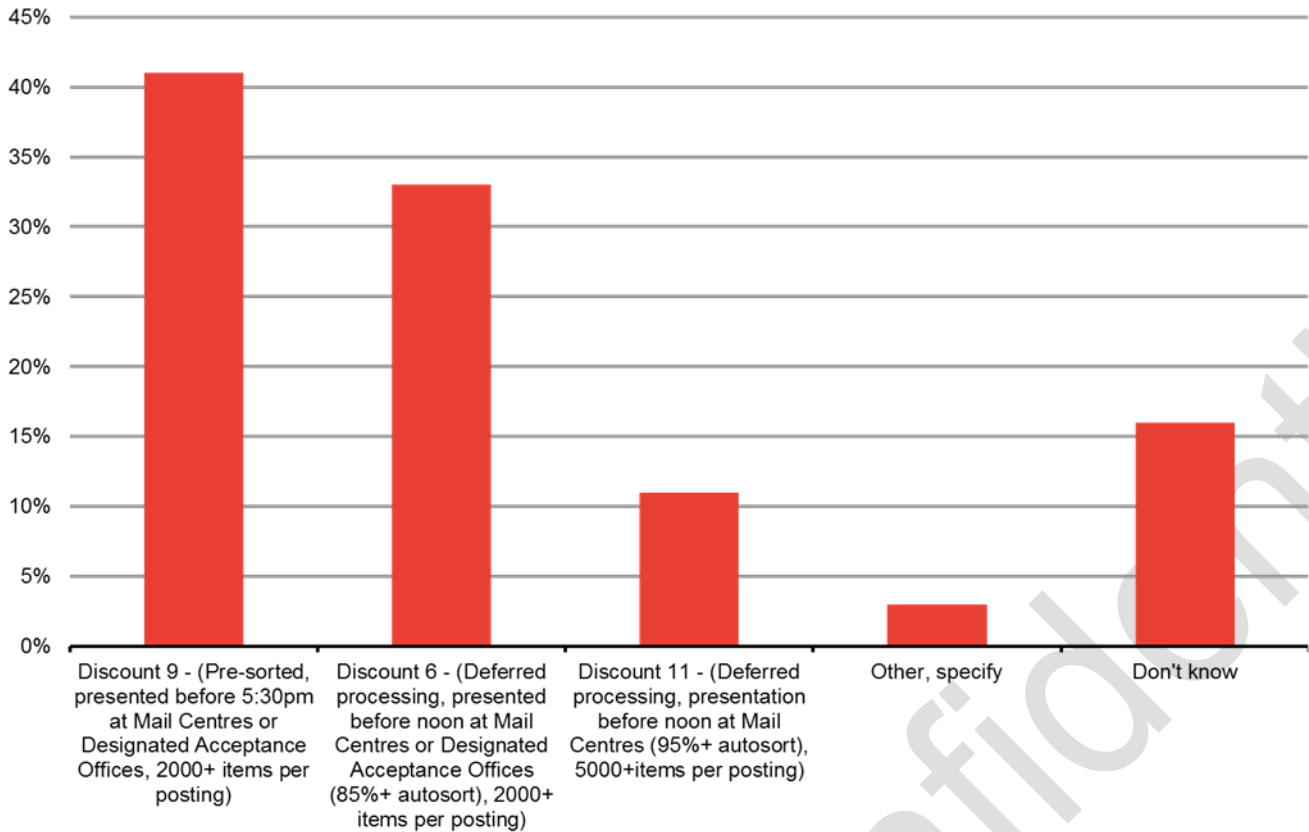
Source: Amárach, 2017, SME Survey: Research on the Universal Postal Service specification

Note: Bulk letter services (meaning you have a certain minimum volume to obtain a discount): : Q1 Do you use the following letter service...and how often do you use it...?

Also, 60% of SMEs bunch their mail in order to reach volume thresholds for discounts. This indicates that a portion of SMEs' mail may not be urgent, in that SMEs are willing to trade-off a delay in mail delivery for a lower price. This is in line with our finding from the regulatory account data that there has been a shift to An Post's non-USO bulk mail offering which offers a delayed service at a lower price (Discount 11).

Of the bulk products used by SMEs, Discount 9 is the most popular product, followed by Discount 6. SMEs use Discount 11 relatively less often, which is likely due to the larger minimum volume threshold of 5,000 items.

Figure 23. Which Ceadúnas (Bulk mail) products' have SME's used in the last 12 months?

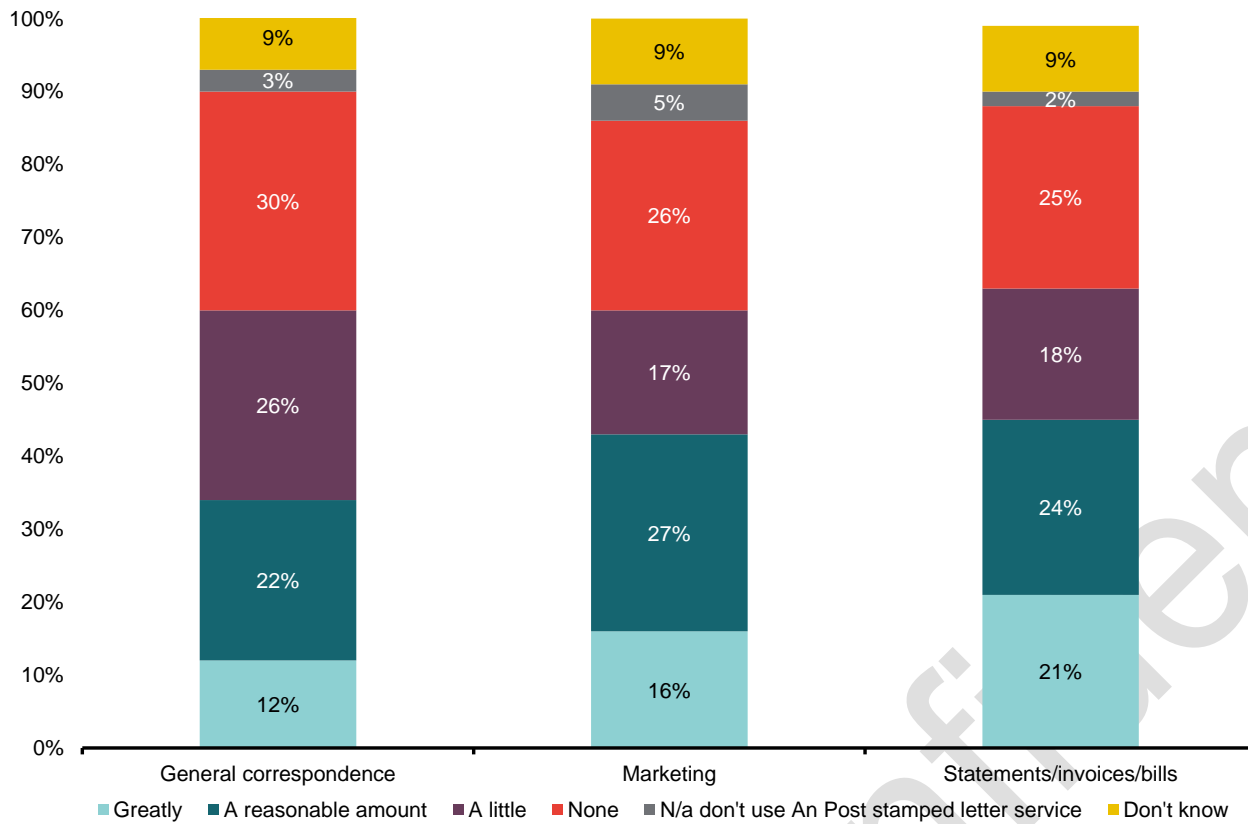


Source: Amárach, 2017, SME Survey: Research on the Universal Postal Service specification

Note: Which Ceadúnas (Bulk mail) products' has your organisation used in the last 12 months?

We also asked SMEs to what extent they expected to switch from stamp mail to meter or bulk (i.e. substituting products in the other direction (Figure 24)). For general correspondence, 34% of respondents expected to switch greatly or a reasonable amount. For marketing and statements/invoices the respective numbers were 43% and 45%.

Figure 24. To what degree do you expect to switch away from An Post stamped letter service to cheaper An Post services (e.g. meter/bulk mail)



Source: Amárach, 2017, SME Survey: Research on the Universal Postal Service specification

Note: Q25ABC: To what degree do you expect to switch away from An Post stamped letter service to cheaper An Post services (e.g. meter/bulk mail)

98% with An Post

Of the large users spoken to, 98% of letter mail was sent via An Post.

Non-An Post physical delivery alternatives

In this section we discuss the main postal alternatives to An Post for bulk mail services.

Our desk research has identified seven alternative providers of letter services for businesses. We summarise these in the table below, along with their minimum volume requirements, geographic coverage, and pricing (where available).

Figure 25. Overview of alternative providers

| Company | Volume requirements | Geographic coverage | Price |
|-----------------------------|--|---|--|
| An Post - Meter | No minimum volume | Nationwide | €0.90 to €2.70 for letters and large envelopes |
| An Post – Discount 6 | 2,000+ per posting | Nationwide | €0.60 to €2.27 for letters and large envelopes |
| An Post – Discount 9 | 2,000+ per posting | Nationwide | €0.67 to €2.44 for letters and large envelopes |
| Citypost | Bulk over 1000 | Pickup in “most business districts and industrial estates.” Delivery nationwide. | €0.48-€0.72 (see Figure 26 below for more detail) |
| | Non-bulk with unspecified minimum | As above | €0.79 per letter |
| Lettershop | Single piece – hand-delivery | Greater Dublin Area | Quote on request |
| EirPost (Nightline) | Bulk | Nationwide through An Post network | Quote on request |
| RR Donnelly | Bulk mail – min. volume not specified | Ireland, UK, International | Quote on request |
| Tico Mailworks | Bulk – min. volume not specified | Nationwide through networks of other postal operators | Quote on request (e.g. 80c per letter to print, pack and post) |
| DX Ireland | Document exchange based on a box-to-box system | Nationwide through networks of other postal operators | Quote on request |

Source: Company websites

Note the majority of these providers rely on the An Post network exclusively for delivery of mail. The exceptions to this are:

- **CityPost:** Deliver a proportion of its mail via its own delivery network (e.g. in large urban areas).
- **Lettershop:** Own delivery network in Dublin.
- **DX Mail:** Offers a document exchange primarily on a box-to-box basis. For example, used by legal companies to exchange documents.

Given the public availability of data, we have been able to compare CityPost’s pricings structure with An Post. CityPost operates a bulk mail service targeting large mailers. It offers a pickup service in most business districts with delivery available anywhere in Ireland by either:

- 3 to 4 day delivery through CityPost’s network; or
- through the national postal network (An Post).

Figure 26 compares the prices of USO bulk products with the CityPost large mailer discounts. A direct price comparison is not possible due to the differences in the products, such as the delivery timescales, and thus the most cost effective service is dependent on consumer preferences. However, as can be seen from the below, CityPost’s prices are competitive with An Post’s, and cheaper for some products.

Figure 26. Price comparison: An Post meter, An Post Ceadúnas and CityPost national bulk discounts for large mailers

| Discount name | Description | Delivery Timescales | Letter/Card (100 g) | Large Letter (100 g) | Large Letter (250 g) | Large Letter (500 g) |
|---------------------|---------------------------------|---------------------|---------------------|----------------------|----------------------|----------------------|
| An Post Discount 6 | Deferred processing before noon | D+2 | €0.60 | €1.20 | €1.62 | €2.27 |
| An Post Discount 9 | Pre-sorted before 5:30 pm | D+1 | €0.67 | €1.27 | €1.82 | €2.44 |
| CityMix | National unsorted | Next Day to Day 4 | €0.72 | €1.29 | €1.69 | €2.29 |
| CityMix Eircode | National unsorted with Eircode | Next Day to Day 4 | €0.62 | €1.00 | €1.50 | €1.99 |
| CityMachine Sort | 90% Machineable | Next Day to Day 4 | €0.55 | €1.09 | €1.49 | €1.99 |
| CityMachine Eircode | 90% Machineable | Next Day to Day 4 | €0.52 | €1.04 | €1.45 | €1.94 |
| CityMix Deferred | Unsorted w/Eircode | Up to 10 days | €0.50 | €0.99 | €1.39 | €1.89 |
| CitySort Deferred | 90% Machineable w/Eircode | Up to 10 days | €0.48 | €0.96 | €1.35 | €1.84 |

Source: An Post and CityPost pricing structures – available on company websites.

Note: An Post meter prices do not include the purchase or rental cost of the franking machine.

Large mailers

All of the large mailers interviewed as part of this research use An Post as their main postal service provider for delivering their letter mail, primarily because no other provider can provide the same scale and reach when it comes to high volume letter mailings going regularly to a large number of addresses throughout the country. Some are using alternative providers such as CityPost (in Dublin), while others have tried using alternative providers (on an experimental basis). Very large mailers tend to outsource the printing, enveloping and dispatch of their bulk mail to specialists such as RR Donnelly. This typically entails the electronic transmission of customer contact details, including postal addresses, to the sub-contractor who then processes the mailing: sometimes consolidating several together to avail of the best rates from An Post.



“We have our own print centre for producing certain forms, but we outsource some of our large volume mailings to secure, third party printers.”

Users of sub-contractors tend to be very satisfied with the standard of service they receive, including transparency about billings, discounts and overall costs. Even those who do not outsource printing tend to be happy with the clarity of billing and other volume data provided by An Post to its clients.

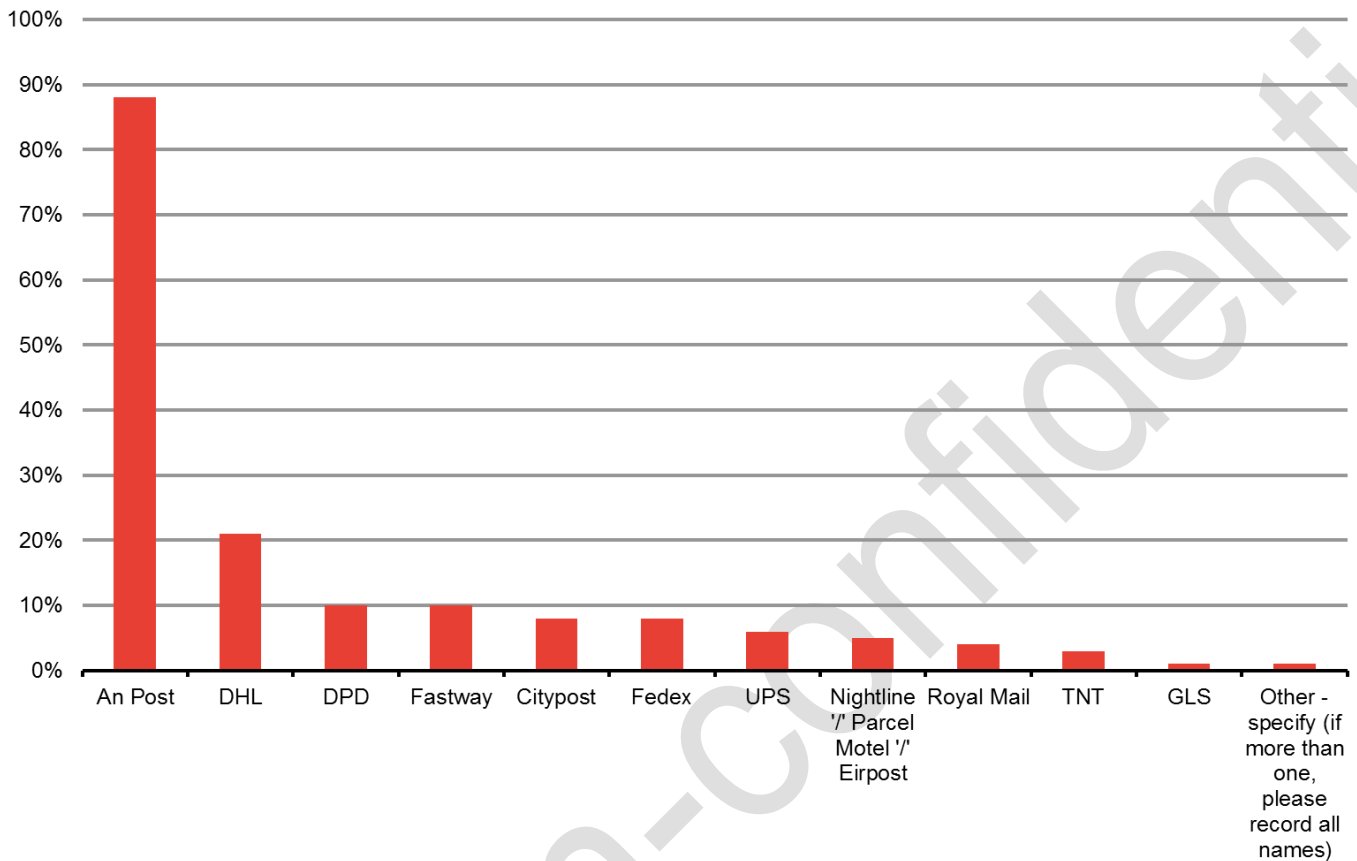
SME survey

In the SME survey, we asked which service providers are used to send letter mail (Figure 27). The vast majority (nearly 90%) use An Post. Of the alternatives, SMEs tend to use express or parcel

companies. These providers are likely used predominantly for urgent or express items.

CityPost – an alternative bulk mail postal provider – was used by 8% of SME respondents for letter mail. Of SMEs that sent between 50-200 items per month, 14% used CityPost; and of SMEs that sent over 200 items per month, 5% used CityPost.

Figure 27. Service provider in which SME's use to send mail



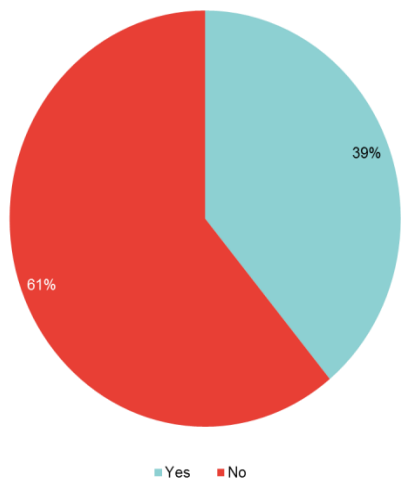
Source: Amárach, 2017, SME Survey: Research on the Universal Postal Service specification

Note: Who do you use for sending letters?

For bulk mail specifically, our SME surveys indicate that the majority of SMEs use An Post as their bulk mail provider, as shown in Figure 28. Of the SMEs which currently use only An Post, 71% have never considered using another operator for bulk mail. This is a reflection of the fact that 90% of SMEs feel that their current bulk letter service meets or exceeds their needs²².

²² SME Survey, Research on the Universal Postal Service specification

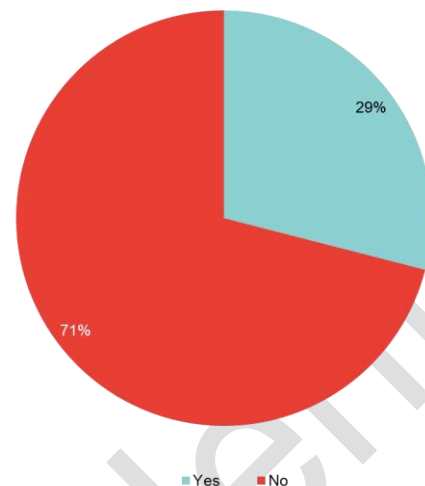
Figure 28. Do SMEs use service providers other than An Post to send bulk letter mail?



Source: Amárach, 2017, SME Survey: Research on the Universal Postal Service specification

Note: Do you use any other service providers to send bulk letter mail apart from An Post?

Figure 29. If use An Post only for bulk mail have SMEs ever considered using other operators for bulk mail?



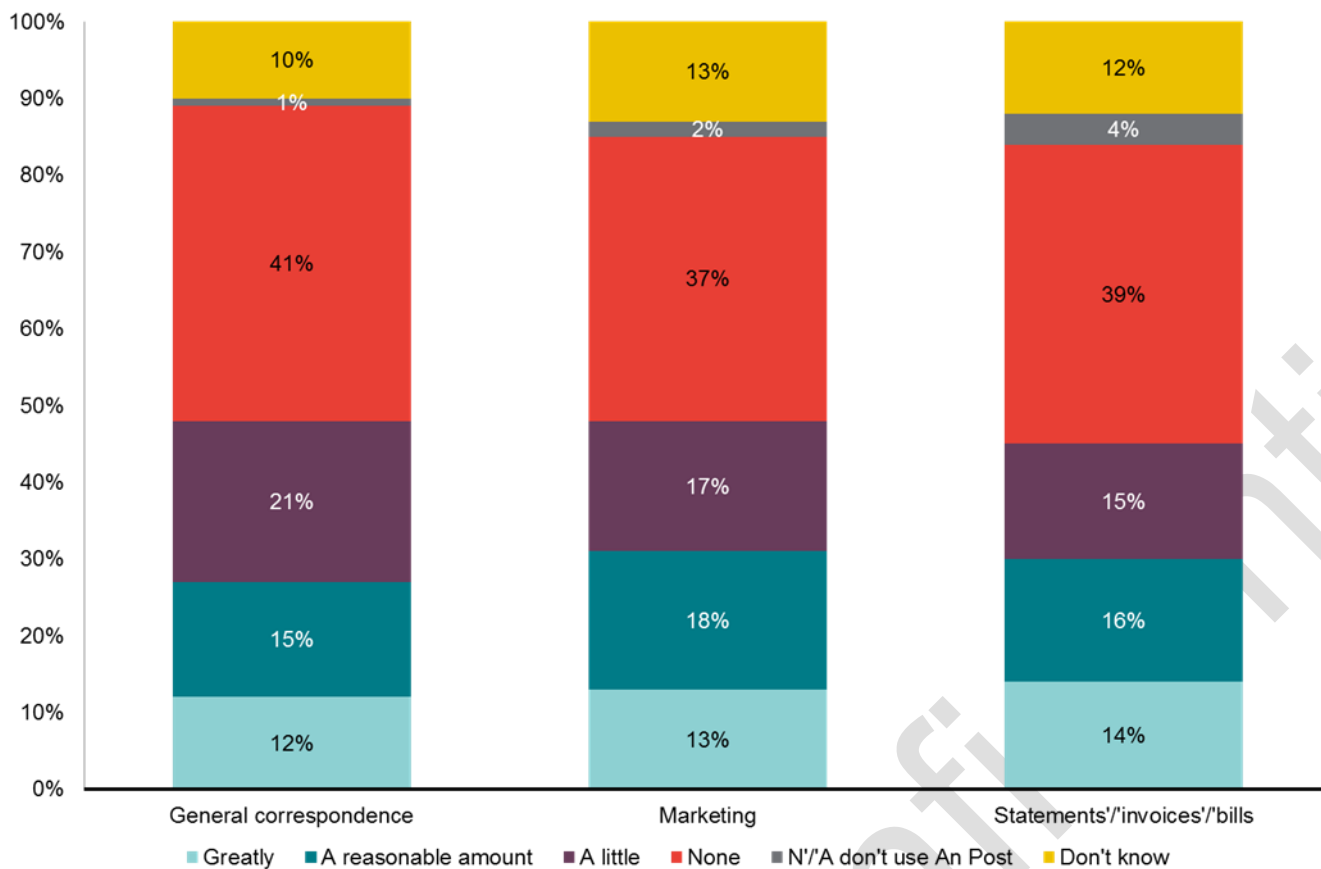
Source: Amárach, 2017, SME Survey: Research on the Universal Postal Service specification

Note: Have you considered using any other operators for bulk mail?

Of the SMEs that use bulk mail, 53% stated that they commercially negotiate on the service for bulk letter mail. This indicates that the slight majority of SMEs consider they may have options for bulk mail services.

There appears to be some appetite for SMEs to switch away from An Post to alternative providers in the future. On average, 29% expected to shift either greatly or a reasonable amount to an alternative provider. This indicates that over time SMEs expect to become less reliant on the USP.

Figure 30. To what degree do SMEs expect to switch away from An Post to alternative providers



Source: Amárach, 2017, SME Survey: Research on the Universal Postal Service specification

Note: Q27ABC: To what degree do you expect to switch away from post from An Post to an alternative provider

Usage of non-physical delivery alternatives

The other alternative to bulk mail is e-substitution, or the substitution of conventional mail for electronic communications.

In this section we explore large users' and SMEs' use of non-postal alternatives to USO bulk mail services.

Large users

We split our findings into private sector and public sector. Again, we note while our large user interviews cover about 10% of the total market, the number of organisations spoken is only a sub-segment of the market. While we have made every effort to get a cross-section of organisation, it is not necessarily representative of the market as a whole.

Private sector

In the case of large private sector mailers, there is a clear, steady trend in the reduction of letter volumes (though parcel volumes are increasing).

One of the significant differences between this study and the previous one is that most large mailers now have explicit targets for replacing letters with email and web alternatives. But they all broadly follow the same pattern of adoption.

The first wave of e-substitution focuses on new customers: usually they are either incentivised to 'go digital' through discounts or through high, explicit fees for availing of letter services. Or they are simply given no choice: newcomers to a service can only do so via digital options.

The second wave of e-substitution focuses on existing, larger customers (usually other businesses or professionals such as GPs/pharmacists) who are already sophisticated users of electronic communications with their own customers, suppliers and banks etc. Here again there may be a mixture of incentives and gradually constrained availability.

Finally the third wave of e-substitution addresses the bulk of existing customers, usually households and consumers generally. Though the second and third waves might run in parallel, there are usually differences resulting from legislative and regulatory requirements (e.g.: in relation to billings and payment dates). Again there tends to be a mix of incentives, service enhancements such as 'My Services' type portals as well as marketing communications about the benefits of e-billing and direct debit (which reinforce one another



Technology driving change

Technological changes such as the preponderance of smartphones allows for service enhancements (such as 'My Services' type portals), which results in greater level of e-substitution.



"Ireland is behind other markets in terms of direct debit and e-billing, and we have explicit targets to catch up with the leading markets over the next 5-7 years. But we know it won't be quick as it wasn't for the others".

36% of bulk mail could switch to electronic alternatives over the next 3-5 years

It is estimated that 36% of existing mail volumes from large users interviewed could be substituted to other means of communication over the next 3-5 years.



“We could provide every citizen in the country with online access to a host of the services the department provides, but [due to regulatory and political constraints,] there is only so far you can push things”.

as trends, with 50% and more of the customers of some large mailers on direct debit already).

Wider innovations also have the potential to reduce mail volumes substantially for some large mailers. For example, many large insurers now send their certificates to new and renewing customers as pdf attachments to be printed out for display in the owners' cars.

It was also noted that price is only one factor behind increased substitution. For many firms, e-substitution is about providing customers with better levels of service and is therefore an inevitable evolution of how they communicate with their customers. However, An Post's price increases were seen as having accelerated this evolution.

We asked large users the proportion of their mail that could be substituted by digital/mobile/other alternatives over the next 3-5 years. From the responses, it is estimated that 36% of existing mail volumes from those large users could be substituted to other means of communication over the next 3-5 years. In fact, some large users are targeting switching up to 100% of their bulk mail to electronic alternatives over the next three years.

Public sector

There is, however, a significant cultural difference between the public and private sectors when it comes to non-postal alternatives. For public sector mailers the issue is less straightforward. Reductions in some areas due to alternative, digital channels are sometimes offset by the introduction of new services (for example, a property tax or medical cards for all children under 6) which create substantial new demands for letter services in particular.

While they might be making some efforts to persuade some of those they correspond with to switch to electronic channels (for example, GPs in the case of the HSE), there is still a 'political' requirement to be seen to offer equality of access to services to all citizens throughout the nation, regardless of age, access to technology, etc.

The main constraints on public sector operators tend to be regulatory ones. Those constraints are changing, in part due to the Government's implementation of the e-Government strategy. The implementation of this strategy will put in place the European Union's "Digital by default" principle. Such e-Government strategies have had significantly negative effects for postal volumes in other European countries²³.

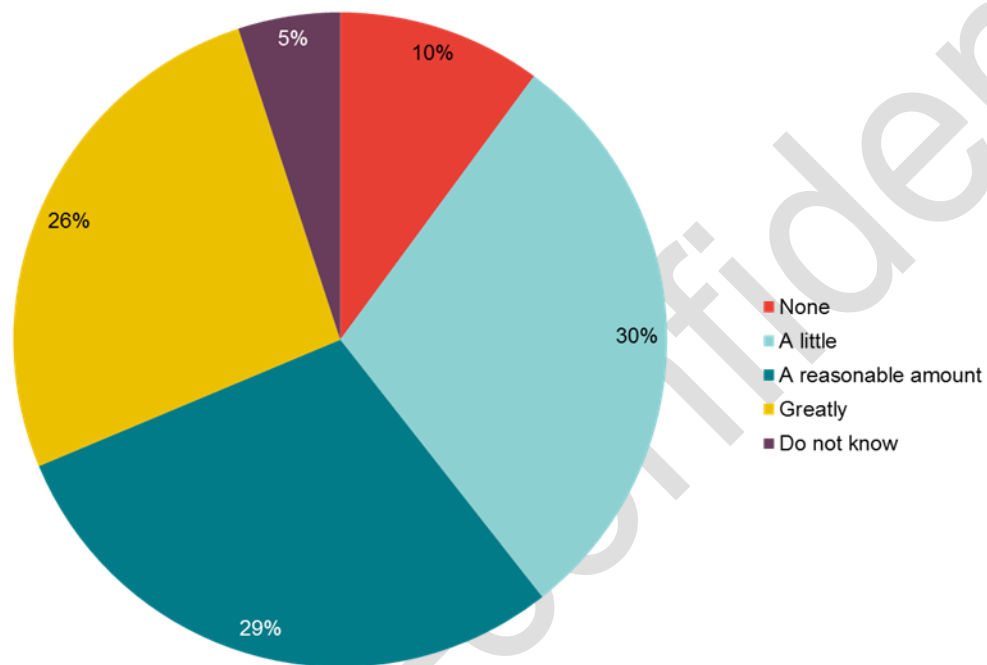
²³ For example, Denmark and Estonia.

SME survey

The SME survey did not split out electronic substitution by mail type. However, the survey revealed that SMEs have already substituted significant volumes of mail to electronic alternatives, and that trend is likely to continue into the future.

55% of respondents stated that they have substituted letter mail with electronic communications by a reasonable amount or greatly (Figure 31). Only 10% of respondents stated that they have not substituted any letter mail for electronic alternatives.

Figure 31. To what extent have SMEs substituted letter mail with electronic communications such as e-mail



Source: Amárach, 2017, SME Survey: Research on the Universal Postal Service specification

Note: To what extent have you substituted your letter mail with electronic communications such as e-mail in the last three years?

Among the 24 business owners and managers in our three SME focus groups, typically they had replaced about 60-70% of regular mail with electronic communications (in some instances up to 90%), similarly for the mail they receive. Indeed, quite a few businesses in our focus groups explicitly stated that it was their ambition to ultimately not need postal services either for inbound or outbound communications, switching everything (other than parcels) to digital channels.

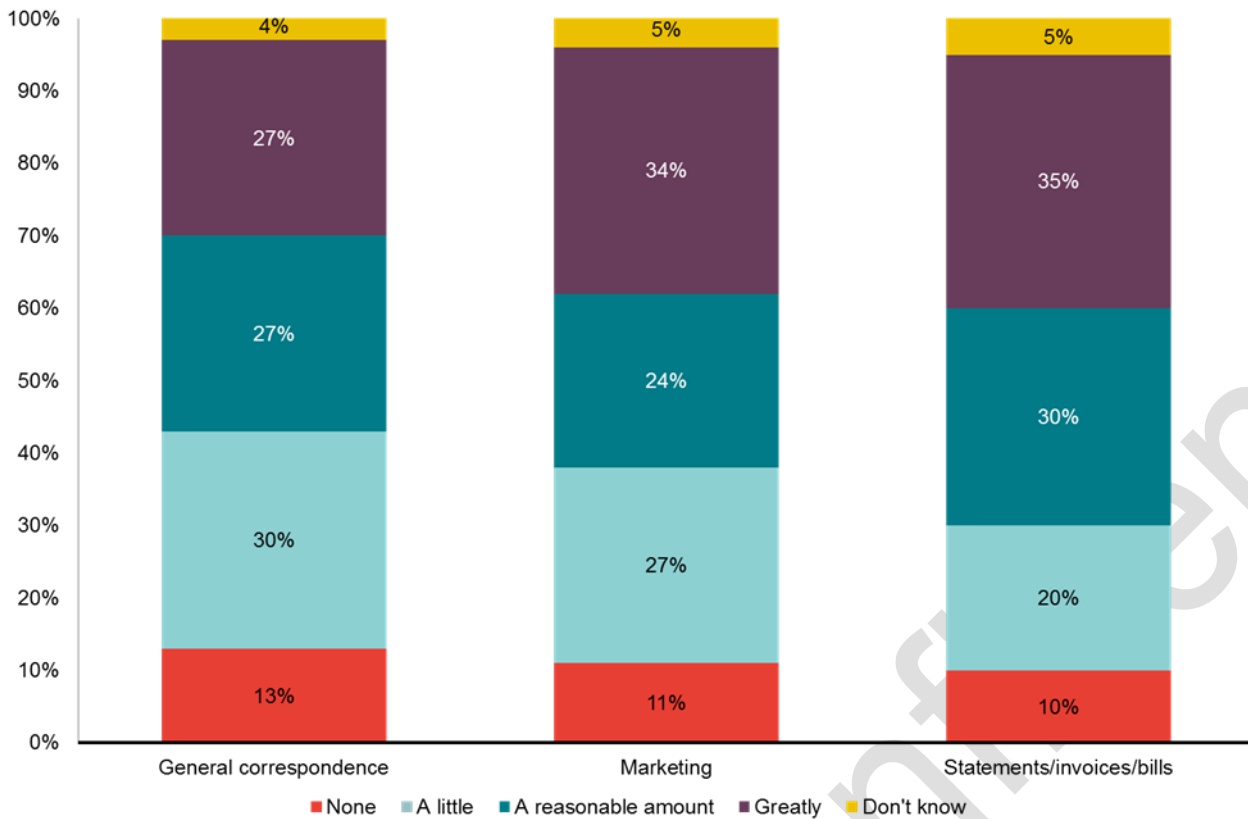
It should be stressed that the direct cost of postage is only one factor in this assessment. Simply managing outbound and inbound mail processing requires staff resources – and even dedicated space – to manage effectively. Add the costs of envelopes, printing and the total direct cost of mail is quite high. Then there are the indirect costs, including slower communications, uncertainty or lack of acknowledgement in relation to receipt of correspondence, and the demands from customers and suppliers for a move away from post.

Future e-substitution

While a large proportion of SMEs have already engaged in e-substitution, survey results indicate that this shift is not over. We also considered the likelihood of further e-substitution by mail type of communications.

- **General correspondence:** 27% of SMEs indicated that they expect to move a large amount of this communication to email or other online platforms, with 83% indicating that there will be at least some shift towards e-substitution.
- **Market communications:** Marketing communications seem more amenable to e-substitution, with 34% of SMEs indicating that they will greatly shift and 24% saying that they will shift a reasonable amount of marketing communications to online platforms.
- **Statements, invoices and bills:** For these communications, 66% of SMEs indicated that they expect to either greatly shift or shift a reasonable amount to more electronic communications. Only 10% of respondents indicated that they will not engage in any e-substitution for the various categories of communication.

Figure 32. To what degree do SMEs expect to switch away from post to more electronic communications such as e-mail by communication type?



Source: Amárach, 2017, SME Survey: Research on the Universal Postal Service specification

Note: Q22: To what degree do you expect to switch away from post to more electronic communications such as e-mail?

Chapter conclusion

The SI 280 of 2012 specifies the provision of a domestic service for items deposited in bulk under the USO²⁴

- For “Delivery only” – which refers to a D+1 service
- For “Deferred Delivery” – which refers to a D+n service, where n is greater than 1.

The SI 280 of 2012 specifies the provision of an international service for items deposited in bulk under the USO.

However, the 2011 Act and the EC Postal Directive do not require such specificity in relation to the inclusion of bulk mail services. Therefore, we have considered whether it is appropriate to include bulk mail services in the specification of the USO.

Our analysis suggests the following:

²⁴ “Postal packets deposited in bulk” means a substantial number of similar postal packets deposited with a universal postal service provider at the same place and time, to be transported and distributed to the addressees as marked on each of the postal packets

- Many large users now use a non-USO bulk product (Bulk 11), introduced by An Post in 2014, rather than USO bulk products. This product is the cheapest bulk product offered by An Post and also has the slowest delivery speed, indicating that bulk mailers place lower value on delivery speed and are therefore willing to increase delivery time for lower cost.
- Alternatives for bulk mail are available, on a national basis, although many of the alternatives rely in whole, or in part, on An Post's network.
- 39% of SMEs that use bulk mail use a provider other than An Post.
- A large proportion of bulk mail customers (53% in the SME survey) commercially negotiate for their bulk mail services.
- For many bulk mail customers, electronic substitution is an alternative for a large proportion of bulk mailing.
- We also note that there is a general trend in other EU countries for bulk mail to not be in the USO (see Annex C for details). Hungary, Lithuania, Poland, Sweden and the UK have all taken bulk mail out of the USO since 2010. They join seven other European countries for which bulk mail also lies outside of the USO product scope.

The above suggest that for many customers there are alternatives to USO bulk mail products. Regardless, it seems reasonable that the USP would continue to choose to provide bulk services if these services were not in the USO. This is evidenced by:

- the USPs Regulatory Accounts showing that providing bulk mail services affords it with significant cost savings over stamped mail; and
- the large number of non-USO bulk products that are already provided by An Post, particularly its cheapest bulk mail service, Bulk 11, which was introduced in 2014 and has seen significant USO volumes shift towards it.

In addition, the USP would face the risk of volumes switching away to alternatives (physical delivery and non-physical delivery) if it no longer offered discounted bulk services.

6. PACKETS AND PARCELS

This section considers whether it appropriate to include parcels that weigh more than 10kg and less than 20kg in the USO.



USO packets and parcels

Packets and parcels can be sent using An Post's USO service 'Standard Post'.

- Packet – Smaller 3D item²⁵ up to 2kg
 - Parcel – Larger 3D item up to 20kg
-

This section begins by detailing our research findings in relation to:

- the An Post USO packet and parcel volume trends since 2012; and
- the current packet and parcel usage trends across customer groups.

In order fully understand customer behaviour in relation to An Post's USO packet and parcel services, we then summarise our research findings in relation to the availability of other options for customers in relation to sending/receiving packets and parcels, and user preferences for these options in the following sections:

- availability of and preference for physical delivery alternatives; and
- availability of and preference for non-physical delivery alternatives.

We consider the views of consumers, SMEs and large user of postal services.

Trends in USO packet and parcel volumes

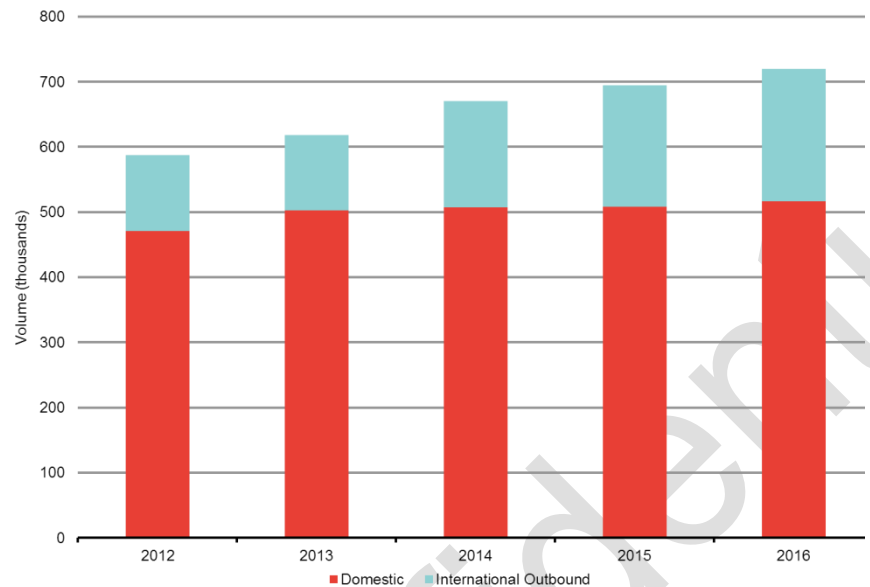
While there has been a general downward trend for letters, flats and packets since 2012, parcel volumes have increased. This is consistent with the observed trend of changing consumer shopping habits. In particular, there has been a marked increase in e-commerce in Ireland, leading to a significant increase in fulfilment volumes and customer needs from a packet and parcel delivery service.

Total USO parcel volumes have increased by 23% in the period 2012 to 2016. This has largely been driven by the 75% increase in International outbound USO parcel volumes (Figure 33). Although,

²⁵ An Post state that the "Maximum dimensions: for a packet are a combined length, height and depth of 900mm. No individual dimension can exceed 600mm, with a tolerance of 2mm.
In tube form the maximum dimensions are the length plus twice the diameter 1,040mm with no one dimension exceeding 900mm, with a tolerance of 2mm."

domestic USO parcel volumes still account for the majority of USO parcel volumes, and increased by 10% over the period.

Figure 33. USO parcel volumes, 2012-2016



Source: Frontier analysis of An Post Regulatory Accounts data 2012-2016

[X]

23% growth in volumes

Total USO parcel volumes increased by 23% from 2012 to 2016.

Current usage trends across customer groups

At a high level, An Post volume data provides a good indicator of the key volume trends that have occurred in the packet and parcel market in Ireland. However, it is not possible to gain insight into the current behaviour of individual customer groups (or the packet and parcel market more generally) from this analysis. Instead, we look to the results of our primary research for this insight.

This supplements insight previously provided by Frontier's 2015 research report into the Irish packets and parcels sector²⁶. This found that the increase in packet and parcel volumes has mainly been driven by the growth in online purchases for home delivery. This has led to a growing need for low-cost yet dependable delivery services, with customer requirements becoming more complex and exacting.

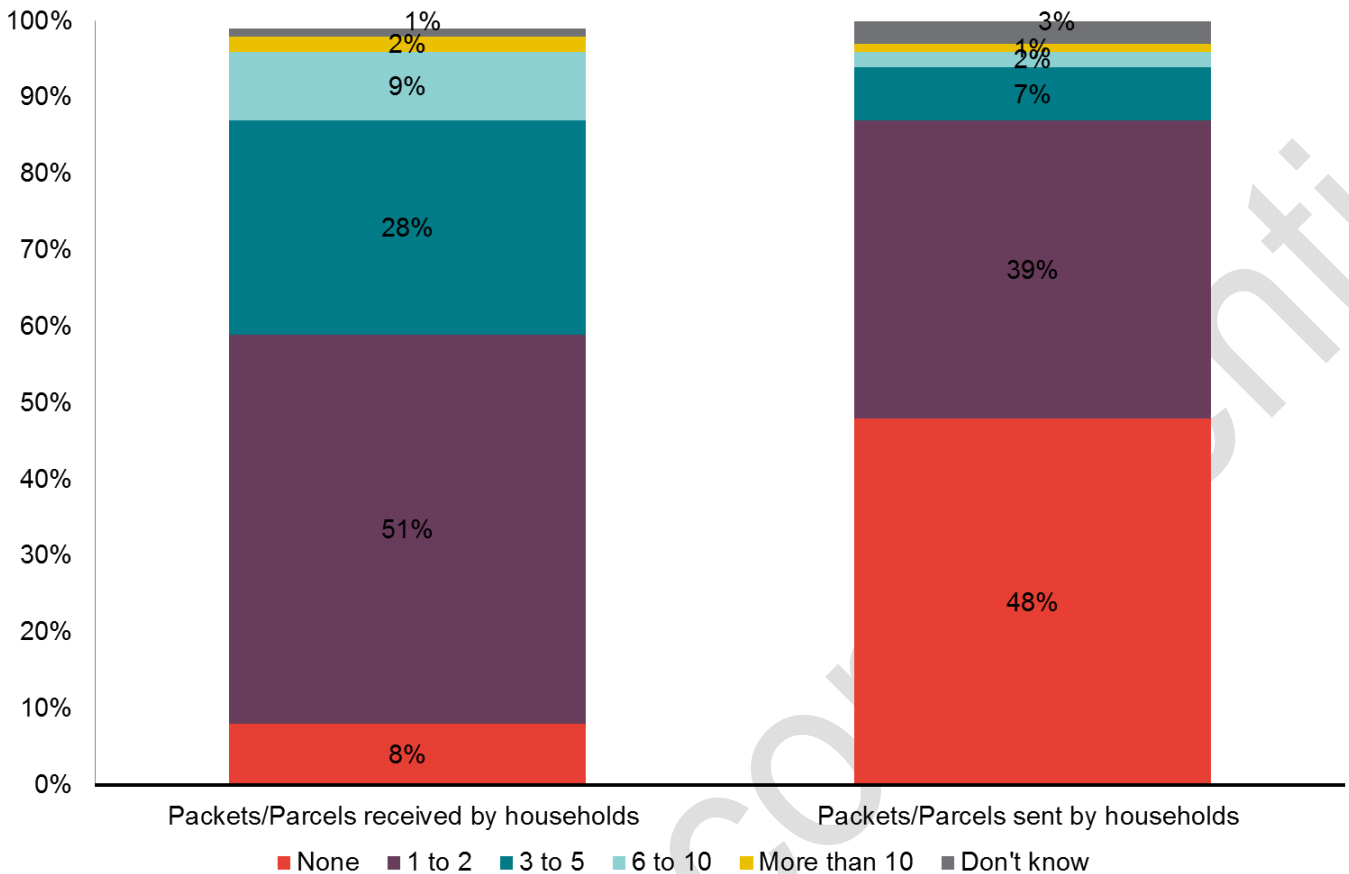
Consumers

Amongst consumers, our survey revealed that only 8% of consumers don't receive any parcels per month, with 53% of consumers receiving 6 or more (Figure 34). This has increased

²⁶ Frontier (May 2015) – The packets and parcels sector in Ireland (https://www.comreg.ie/publication/the-packets-and-parcels-sector-in-ireland-report-by-frontier-economics/?pub_type=research)

considerably, even since our 2016 survey – where 32% reported that they didn't receive any, and only 11% received more than 5. This is significantly more than the number of parcels that are sent by consumers each month, with only 1% sending more than 10 per month, and nearly half not sending any.

Figure 34. Average number of parcels received and sent by households in a typical month



Source: Amárach: Consumer Survey - 2017

Note: Question 1: On average how many packets/parcels does your household (including you and all residents of the household in which you currently reside as your primary residence) receive in a typical month?

Question 2: On average how many packets/parcels does your household (including you and all residents of the household in which you currently reside as your primary residence) send in a typical month?



Changing shopping habits

Changing shopping habits have led to significant growth in packet and parcel volumes, including returns.

It is evident that these trends are driven by changing shopping habits. 53% of consumers order goods online at least once or twice per month, with 43% of those ordering at least 3-5 times per month (13% ordering 6+ times per month). At least half of the participants in each of our consumer focus groups had ordered something online in recent months for themselves or a family member. For those with teenagers or older adults living at home then parcel deliveries are weekly if not bi-weekly phenomenon.

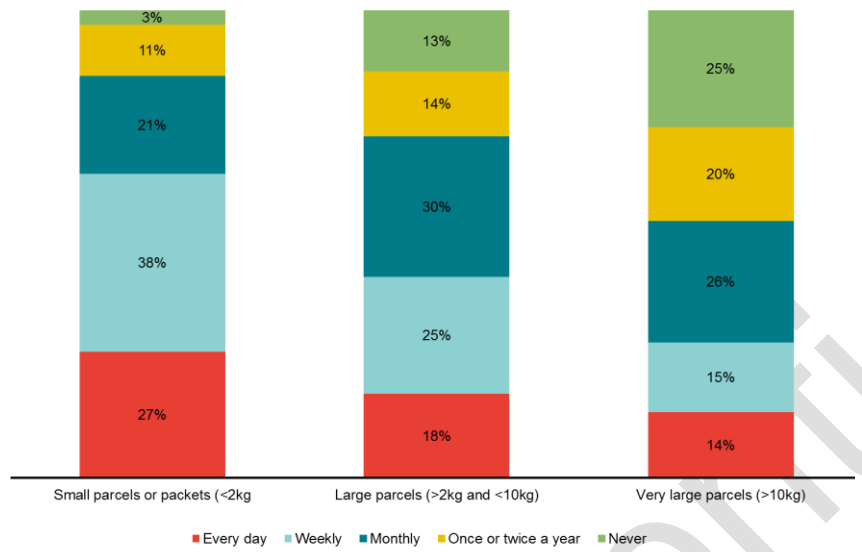
SMEs

SMEs send significant parcel volumes. For almost three quarters of SMEs, at least 10% of mail is made up of packets and parcels. For 13% of SMEs, more than 70% of mail is packets and parcels. Only 3% of SMEs report sending no parcels.

Of the packets and parcels that are sent by SMEs, small packets and parcels (less than 2kg) are sent most often, with 27% of SMEs who send these items doing so every day, and a further 38% sending them weekly (Figure 35). This compares to only 18% and 25% for large packets/parcels (between 2kg and 10kg), and 14% and 15% for very large packets (greater than 10kg).

Likewise, higher volumes are small packets and parcels (less than 2kg) are sent by SMEs in a typical month than other size of packets and parcels (Figure 36). Of those sending small packets and parcels (less than 2kg), 49% send more than 10 per month, with 14% sending more than 50 per month. In comparison, of those sending large packets (between 2kg and 10kg), 41% send more than 10 per month, and of those sending very large packets (greater than 10kg), only 31% send more than 10 per month.

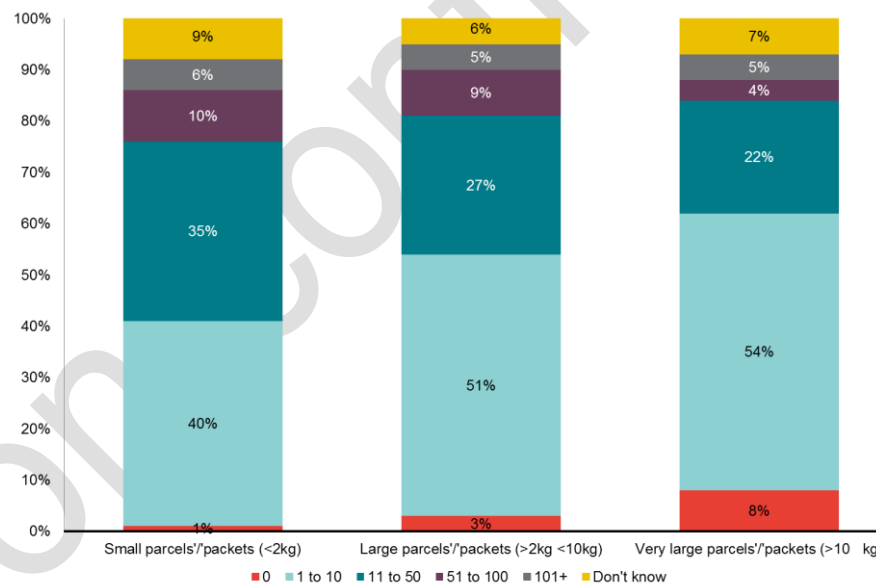
Figure 35. Frequency of sending different sizes of packets and parcels by SMEs



Source: Amárach: SME Survey - 2017

Note: Question: Do you send the following mail items...and how often do you send them?

Figure 36. Volumes sent of different sizes of packets and parcels by SMEs



Source: Amárach: SME Survey - 2017

Note: Question: In a typical month, how many...do you send?

Large users

Most large mailers interviewed as part of this research, tend to send considerably fewer packets and parcels than letters. However, two of those interviewed do have regular requirements for packet and parcel services (sending thousands per month).

Large users typically sit outside the USO for parcel services as the parcel service is a single piece service, whereas large users send in bulk, either via An Post, or one of the other firms discussed further below.

Physical delivery alternatives

In this section we consider An Post and non-An Post alternative packet and parcel services.

An Post non-USO

In addition to the express and courier services that An Post offers for postal users wishing to send packets and parcels, it also engages in commercial negotiations with some large users to offer discounted rates for large volumes of parcels. Our large mailer interviews revealed that these rates are seen as very competitive.

Availability of other delivery alternatives

Frontier's 2015 research report into the Irish packet and parcels market concluded that the developments in technology, consumer buying patterns and online retailing, have led to a diversified marketplace of packet and parcel operators. The dynamic nature of the sector has also meant that the dividing lines between segments have become more blurred. For instance, large online e-retailers now provide outsourced warehousing and fulfilment services to SMEs, which can reduce the need for cross-border deliveries if it allows, for example, additional overseas firms to have a local presence.

There are six main alternative delivery operators that offer a number of D+1 packet and parcel service across Ireland:

- Parcel Motel;
- Parcelconnect (Fastway);
- GLS ParcelShop;
- Nightline²⁷;
- CityPost; and
- DPD.

²⁷ We note that Parcel Motel is owned by Nightline, but the service offer differs, along with the pricing framework. We therefore present them separately here.



No explicit zonal pricing

None of the six alternative delivery operators identified appear to vary their prices based on the distance between, or location of, the sender and recipient.

All of these D+1 packet and parcel delivery services include 'Track and Trace' as standard (as with An Post parcel products), and all but DPD offer a residential service as well as a business service. While An Post does not offer collection of mail items for its Standard Post product, all but Parcel Motel do offer this service. In addition, ParcelConnect, GLS ParcelShop and Parcel Motel all offer store drop-off options, with longer access hours than An Post's Post Offices.

Like An Post, each of these operators provides a national product, as can be seen in Figure 37 which shows the spread of each provider's physical locations and collection coverage across Ireland. Additionally, they all operate with no explicit zonal pricing. In other words, the price to ship from one Irish address to another Irish address is not dependent on the distance between, or location of, the addresses.

Figure 37. Geographic coverage of alternative providers

| | Number of physical locations in Ireland | Additional comments |
|----------------|---|--|
| Parcel Motel | 157 | <ul style="list-style-type: none"> At least one physical location per county Highest concentration in Dublin and Cork Nearly 50% of all locations are in Dublin |
| Parcelconnect | 1,062 | <ul style="list-style-type: none"> At least six physical locations per county Most concentrated in urban areas 30% in Dublin, Cork and Galway cities combined |
| GLS ParcelShop | Approximately 200 | <ul style="list-style-type: none"> At least one physical location in each county Most concentrated in Dublin and Cork |
| Nightline | 8 | <ul style="list-style-type: none"> Collection available across Ireland Physical locations in Dublin, Waterford, Cork, Kerry, Limerick, Athlone, Galway and Sligo |
| CityPost | - | <ul style="list-style-type: none"> Parcel collection available from any address in Ireland |
| DPD | - | <ul style="list-style-type: none"> Parcel collection available from any address in Ireland |

Source: Frontier analysis of location data from company websites



Limited segments of market where An Post is cheapest provider

1. Parcels under 1kg which are larger than the Parcel Motel medium size (19 x 38 x 64 cm)
 1. Parcels between 2-3kg which are larger than the Parcel Motel maximum size (41 x 38 x 64 cm)
-

The shipment price charged by these operators is dependent on parcel weight, size, or a combination of the two. In Annex D we provide a detailed comparison of An Post's pricing for its Standard Post product with that of CityPost, Parcel Connect, GLS ParcelShop. DPD and Nightline are excluded from this analysis due to a lack of comparability and publically available information on the pricing frameworks. This analysis reveals that there are only two small segments of the market in which An Post is the cheapest provider as shown on the call out on the left.

Preferences for other physical delivery alternatives

Within the context of the pricing analysis set out above, the following sections explore the research findings in relation to user preferences for these postal alternatives.

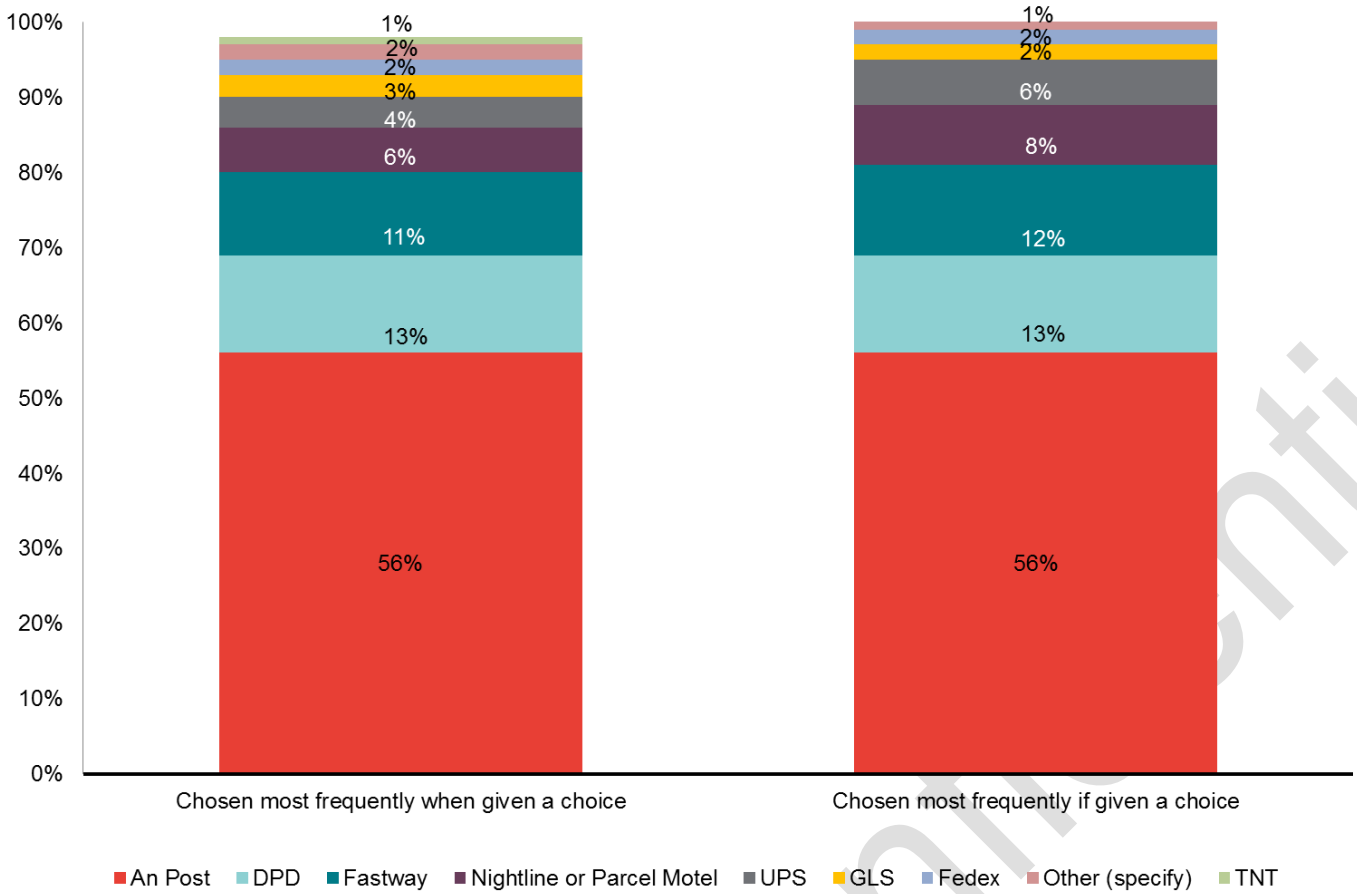
Consumers

Amongst consumers, of those that shop online, 72% typically have an option of "free delivery", with 91% of those always choosing 'free' delivery regardless of delivery time. Although given this option, only 31% of consumers reported that they are offered a choice over which provider actually delivers the package.

A similar trend was shown across the consumer focus groups, where most felt there was little choice in who delivers the order, and that the only choice is between a more expensive, faster delivery or a cheaper, slower one. Almost all are happy to go with the cheaper option (or the free one if it is from certain websites such as Book Depository).

Regardless of whether given a choice, 56% of consumers who responded to the survey would still choose An Post to deliver the parcel to them, with DPD and Fastway favoured by just over 10% of consumers (Figure 38). For all three providers, consumers cite reliability the most frequently as one of the motivations for their choice of provider. Consumers also cite 'delivers to door' as one of the motivations for all three providers.

Figure 38. Consumers' delivery provider preference when receiving packets and parcels



Source: Amárach: Consumer Survey - 2017

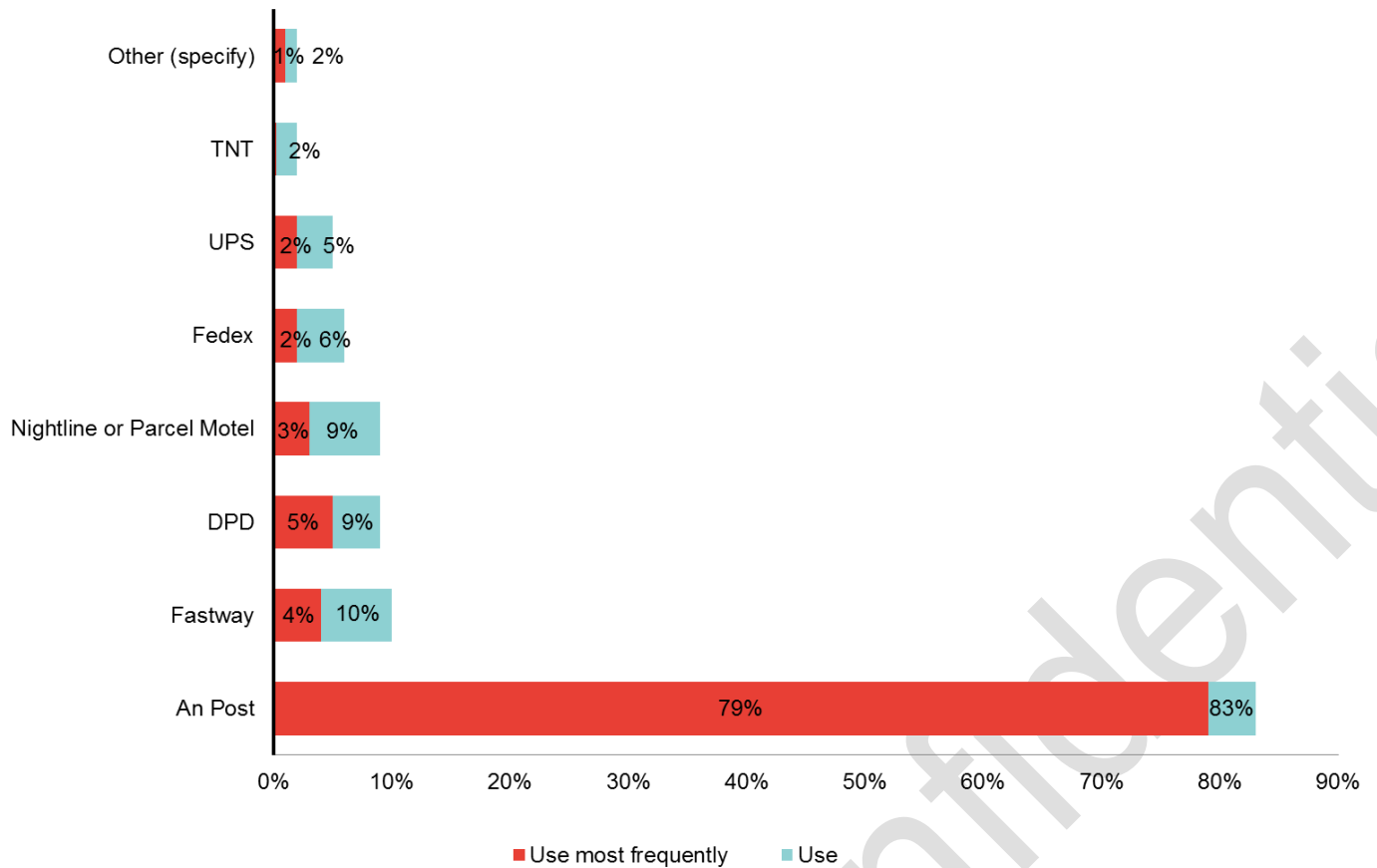
Note: Question: What service provider do you typically choose most frequently?

Consumers were also asked whether they used a product comparison service, such as Parcel2Go or Mailboxes etc., when deciding which packet/parcel service to use. 67% reported that they would rarely (or never) use such a service.

Of those consumers sending packets and parcels, An Post is used by 83%, with 79% using An Post most frequently. Again, DPD and Fastway are most popular amongst the alternative providers, with c.a. 9-10% of consumers using both, and c.a. 4-5% using the providers most frequently.

Some also use Nightline, FedEx, UPS and GLS most frequently. These findings were also reflected in the consumer focus groups, with people reporting that they are more familiar with a range of alternative parcel service providers (than letter providers), and usually have had experience of 2-3 different ones in recent years. In addition, 69% of survey respondents reported that they have alternatives to An Post that they could easily use.

Figure 39. Consumers' delivery provider preferences when sending packets and parcels



Source: Amárach: Consumer Survey - 2017

Note: Question: Which service providers do you use to send packets/parcels? And which do you use most frequently?

It appears that the price differential is driving the choice of alternative providers to An Post in a number of cases.

- Of those that use **An Post**, reliability and the convenience of the drop off location were cited most frequently as motivations for their choice, 55% and 52% of consumers respectively, only 39% of consumers reported that An Post is the cheapest option, and this was one of the motivations for their choice.
- For those that use **DPD**, 60% report that DPD is the cheapest option, with only 33% citing reliability.
- For those that use **Fastway**, 50% report that Fastway is the cheapest option, 50% cite reliability, and a further 39% cite speed of delivery.

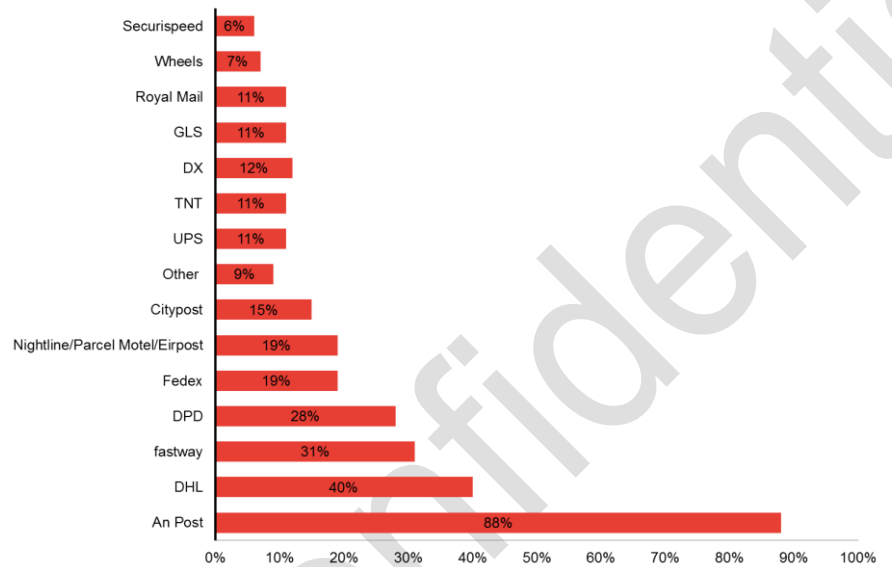
With regards to satisfaction with the existing choice of service providers, 89% of consumers state that the existing choice serves their current needs. Of those who feel that their needs aren't provided for, 52% state that this is because the current product offering across providers is 'too expensive'. With 12-13% reporting that this is either because of 'lengthy delivery times', poor service

(e.g. packages being lost or damaged) or inconvenience (e.g. restricted times for pick up/delivery or queues).

SMEs

A wide variety of delivery providers are also used by SMEs, as shown in Figure 40. Although 88% of survey respondents still use An Post for at least some of their packet and parcel delivery needs, 40% use DHL, 31% use Fastway and 28% use DPD.

Figure 40. Delivery providers used by SMEs, for at least some of their packet and parcel delivery needs

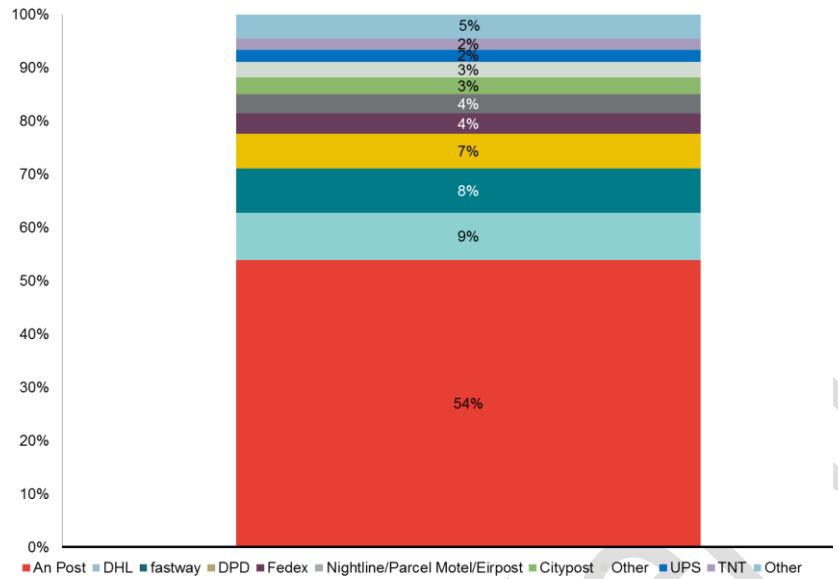


Source: Amárach: SME Survey - 2017

Note: Question: Which delivery company do you use to send parcels/packages...and what proportion of your packets/parcels are sent through each company?

With regards to volumes, on average, 54% of packets and parcels sent by SMEs, are through An Post, with 9% being sent through DHL, 8% through Fastway and 7% through DPD (Figure 41).

Figure 41. Average volumes sent by SMEs through each delivery provider



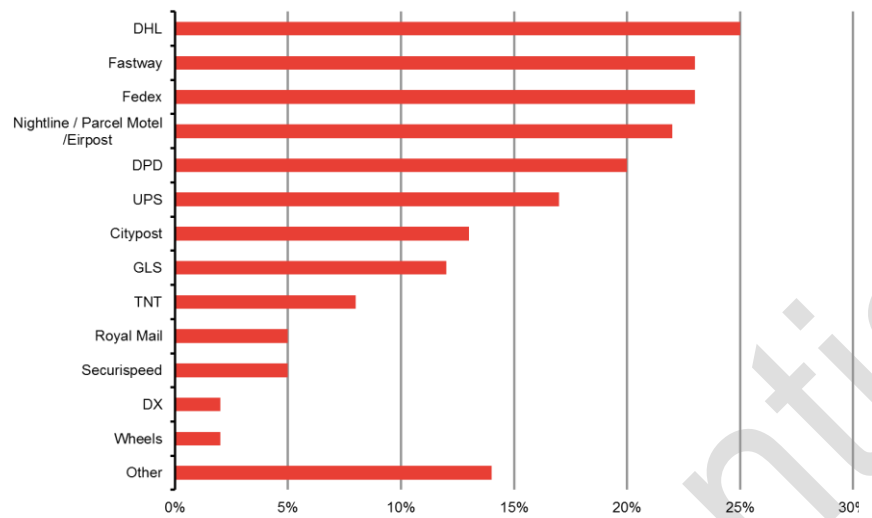
Source: Amárach: SME Survey - 2017

Note: Question: Which delivery company do you use to send parcels/packets...and what proportion of your packets/parcels are sent through each company?

An Post is also the main provider of parcel delivery services for SME focus group participants. However, companies such as DPD, DHL, Fastway, Nightline, UPS and others also work for many of the businesses represented in our groups. Overall, there was the view that other delivery providers are seen to be more flexible and cost effective than An Post (for example: later collection times), though they also acknowledge the efforts made by An Post to respond to customer needs, including the recent introduction of Saturday deliveries for parcels.

In addition, 38% of SMEs reported that they had considered using other operators to those that they currently use. Of these SMEs, 20% or more had considered DHL, Fastway, Fedex, Nightline/Parcel Motel/Eirpost and/or DPD (Figure 42).

Figure 42. Other delivery providers considered by SMEs



Source: Amárach: SME Survey - 2017

Note: Question: Have you considered using any other operators? Which operators did you consider?

Further, 89% of SMEs reported that the current choice of delivery service meets or exceeds their needs. Interestingly, for SME focus group participants, there was not necessarily uniform satisfaction (or familiarity) with all of the providers mentioned. At least two SME participants reported that they had been dissatisfied with the service provided by other providers.

In addition, 41% of SME survey respondents commercially negotiate on service in relation to price and/or terms and conditions. The distribution of An Post users between those that commercially negotiate and those that don't reflects the overall split. However, for DPD, Fastway and DHL users, the proportion that do commercially negotiate is higher at 54%, 51% and 48% respectively.

Large users

Amongst the large mailers interviewed, where the volume of parcels is low, An Post tends to collect and deliver the majority of them (with the parcel service working alongside the letters service, including picking up mail bags from customers). However, none give all their parcels to An Post to deliver, and most use DHL, Fastway or other providers, especially for heavier parcels and packets (accounting for 30%-100% of larger parcels in some instances). Most senders of large volumes of parcels that we interviewed also tend to use a combination of An Post and private operators to meet their requirements.

Generally, An Post tends to be used for smaller parcels (under 10kg), while private operators are used for larger parcels (up to 20kg or higher): though not exclusively so.



“Typically about 10% of the fashion items ordered on our website are returned, but for some of our competitors it’s up to 30%”.

Both the private sector and public sector mailers we spoke to felt that there is a sufficient choice of parcel service providers and don’t have concerns about ‘coverage’ or ‘reliability’ for private parcel delivery providers. There is usually a tender process every 2-3 years, with different providers invited to tender, including the incumbent. While price is a crucial factor, quality of service (reliable ‘on-time’ deliveries to the correct recipients) weighs heavily as well, and mailers will often favour the incumbent if service standards are satisfactorily high.

For private sector companies increasingly engaged in ecommerce and sending significant volumes of parcels to customers shopping on their websites, returns are a major logistical challenge. So companies also look to their parcel service providers to operate a return channel.

Non-physical delivery alternatives

As highlighted above, e-commerce fulfilment volumes make up a significant proportion of total packet and parcel volumes. By its nature, e-fulfilment mail largely lacks electronic alternatives.

Rather, it can be that the format of the e-commerce product itself can be subject to e-substitution. For example, CDs and DVDs have largely been displaced by digital distribution methods. Therefore, these items no longer need physical delivery via a packet and parcel service.

However, as discussed above, the loss of volumes from the digitisation of some products has been more than offset by the substantial growth in e-commerce in other areas such as fashion and homewares.

Chapter conclusion

SI 280 of 2012 currently specifies the universal postal service obligation to include the provision of a product that covers the clearance, sorting and transport of postal parcels **at least up to 20kg**. However, the Act and the Directive only requires such a service for postal parcels **at least up to 10kg**.

Therefore, we have considered whether it is appropriate for the universal service obligation to include a postal parcels service between 10kg and 20kg.

Our analysis suggests the following:

- [X]
- A variety of alternative packet and parcel delivery providers operate in the market, all offering competitively priced nationwide products with no zonal pricing.

- Our pricing analysis suggests that An Post's Standard Post parcel product is only cheaper than alternative postal products in two very small segments of the market relating to large low weight parcels, namely:
 - parcels under 1kg which are larger than the Parcel Motel medium size (19 x 38 x 64 cm); and
 - parcels between 2-3kg which are larger than the Parcel Motel maximum size (41 x 38 x 64 cm).
- Although An Post remains the main packet and parcel delivery provider chosen by all user groups, a growing proportion also use other providers for at least some of their delivery needs. In addition, 69% of consumers reported that they have alternatives to An Post that they could easily use.
- Some 41% of SMEs and some large mailers commercially negotiate for their packet and parcel delivery services.

These findings suggest that for many customers there are alternatives to the USP's USO packet and parcel delivery services (including non-USO services offered by the USP itself), and that these alternatives are competitively priced. Overall, there appears to be a high level of satisfaction with the quality and choice of parcel services – including An Post's – with the various requirements for speed, frequency, value and flexibility (including weight limits) met by a cross-section of suppliers. This also applies to all weight steps, although lower weight steps make up the majority of volumes sent.

In addition, parcels are the only mail format for which An Post has experienced an increase in volumes since 2012. This has been fuelled by the continued growth in e-commerce, which is not showing any evidence of slowing, with the number of packets and parcels received by consumers having increased considerably even over the past year. It therefore seems reasonable to assume that the USP would continue to provide packet and parcel services even if they were not in the USO. In fact, An Post has itself signalled its clear intention to target the growing Irish and International e-commerce business and to aggressively grow its current 25% market share²⁸.

The findings of this research are therefore also consistent with those of the Frontier and Amárach's 2015 research project into the packets and parcels sector in Ireland, which identified an increasingly diversified marketplace of packet and parcel operators, and competitive pressures on operators.

²⁸ An Post Press Release (04-07-2017) – An Post heralds a World Wide Open while closing in on Irish Parcels Market (<http://www.anpost.ie/AnPost/MainContent/About+An+Post/Media+Centre/Press+Releases/2017/World+Wide+Open.htm>)

7. ANCILLARY SERVICES

Volumes and revenues associated with An Post’s USO ancillary services are relatively small in comparison with An Post’s other USO products. However, in 2016, An Post was making a 60% profit margin on these services (excluding Post Restante). By their nature, the volumes associated with these products are challenging to measure accurately and therefore not captured as part of An Post’s Regulatory Accounts. It is therefore often difficult to gauge the usage and need for these services without primary research.

An Post’s USO ancillary services are described below in Figure 43.

Figure 43. Features of USO ancillary services

| Service | Feature of service |
|--------------------------|--|
| PO Box | A Post Office Box (PO Box) may be rented at Delivery Service Units and certain Post Offices. It is used to hold mail until collected by the customer renting the box. |
| Redirection | With its Redirection service, An Post forwards the mail wherever the recipient needs, for up to a year, whether it’s at home or abroad. |
| Poste Restante | Poste Restante is a free service that allows visitors to a town to have their mail addressed to the local Post Office, where it will be held for collection. |
| MailMinder | MailMinder suspends delivery of mail to the home or business while recipient is away, for up to 12 weeks. |
| Freepost/ Business reply | Both of these services are designed to speed up bill payments and generate orders/subscriptions for business customers. The service allows the customer’s clients to reply without having to pay postage. The Business Response service uses pre-printed envelopes or cards, whilst the Freepost service lets respondents reply with their own envelopes or cards. |

Source: An Post website

USO ancillary services are relatively low volume and low revenue services (although they offer high profit margins). Freepost and Business Reply accounted for 7.7 million items in 2016, 3% of total domestic USO volumes. This was a decline of 17% from 2012 levels. Volume data is not recorded for the other USO ancillary services, however, the revenue from these products accounted for only 2% of total domestic USO revenue in 2012. Disaggregated data for these products is not recorded in An Post’s Regulatory Accounts, we have therefore relied on the findings from our primary research to provide insight into:

- usage of ancillary services;
- available physical delivery alternatives to these services; and
- available non-physical delivery alternatives to these services.

The remainder of this chapter outlines those research findings. We then conclude on whether the current specification of the USO is appropriate in relation to ancillary services.

Usage of USO ancillary services

In this chapter we outline our findings on usage of ancillary services. Given the low usage of some ancillary services, the sample size used may not be large enough to fully capture the usage of all products (e.g. Post Restante).

Consumers

There are three ancillary services that are most commonly used by consumers. The usage of each was explored as part of our consumer survey, and appears to be low for every service.

- **Mail Minder** – Only 9% of consumers would pay for a mail minding service if no one is present in their household for a long period (up to 3 months). However, 60% of these consumers have not used a mail minding service in the last 3 years. Of those who have used it, 42% have used it at least 3 times in the last 3 years.
- **Redirection** – 22% of consumers would pay to redirect mail from an old address to a new address if they moved house. But, not surprisingly given the proportion of people that move houses in any given year is low, 73% of these consumers have not used this service in the last 3 years. One of our consumer focus groups was solely made up of participants that had changed address in the past year in order to explore this point further. The findings from this group mirrored the wider survey findings, with few using the redirection service.
- **Poste Restante** – 83% of consumers have not heard of the Poste Restante service.
 - Of those that have used it, 40% have only used it once or twice, but 18% have used it 6 or more times.
 - Of those that are not aware, 56% didn't know whether they would ever need to use such a service, while only 22% said they would.

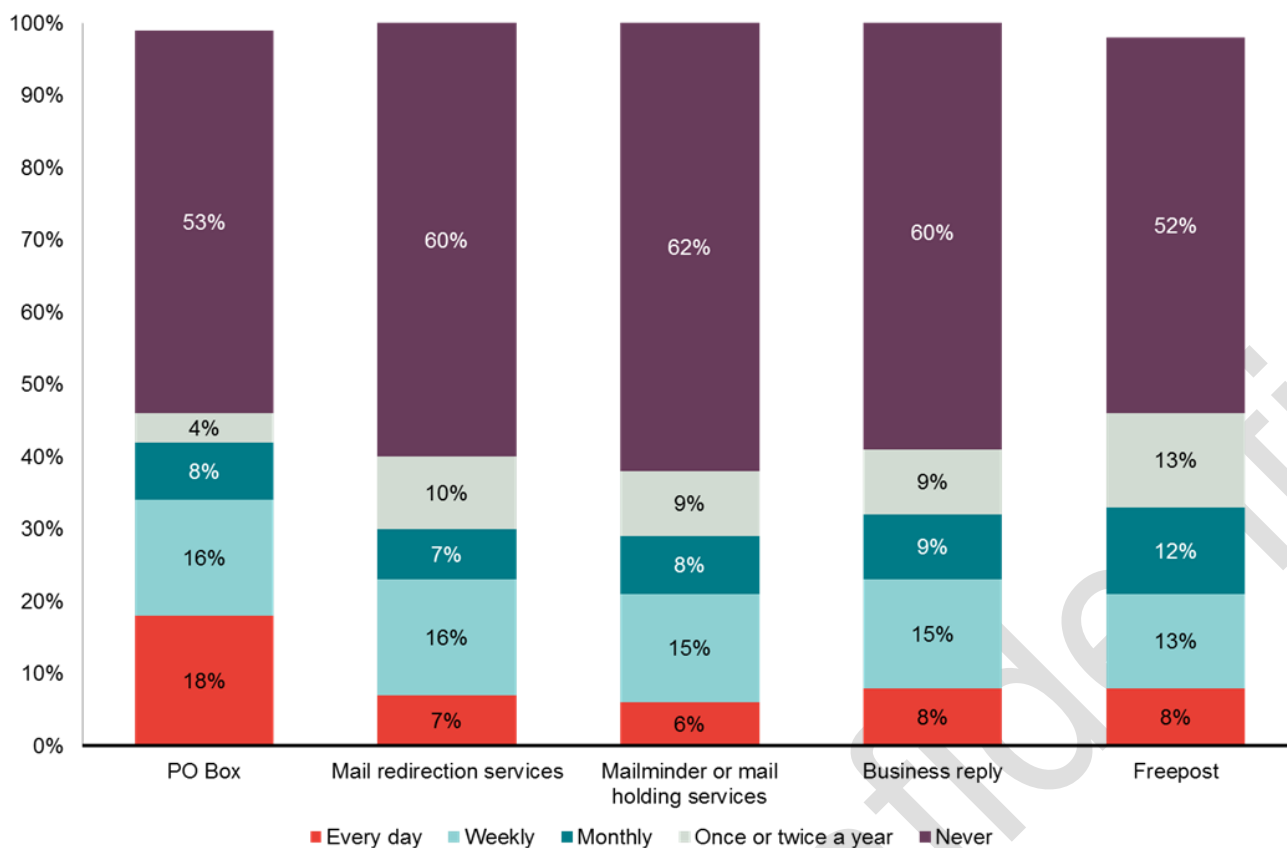
83%

Of the consumers surveyed had not heard of the Poste Restante service

SMEs

As with consumers, our research sought to identify businesses' most commonly used ancillary services. The majority of respondents had never used these services (Figure 44). Of those who do use the services, for all but Freepost, the majority use the services at least weekly.

Figure 44. Frequency of ancillary service use by SMEs



Source: Amárach: SME Survey - 2017

Note: Question: Do you use these An Post services...and how often do you use them?

Large users

Amongst the large organisations interviewed as part of our research there is some reliance on ancillary services, but within the past year there has been a considerable push to reduce usage (especially PO Boxes and Freepost).

Physical delivery alternatives

There are no alternative services offered by other providers for most ancillary services.

For PO Boxes, we are aware of one other provider – Mailboxes etc. – that offers an equivalent product. As with the PO Box, the user pays a charge to rent a private delivery box for a period of time. Although this appears to be a very similar product, An Post remains the cheaper option unless a customer would like to rent the box for less than 6 months.

Figure 45. Private mail boxes – Price comparison

| Rental period | An Post | Mailboxes etc. |
|---------------|---------|----------------|
| 3 months | €162.50 | €130 |
| 6 months | €162.50 | €230 |
| 12 months | €325 | €410 |

Source: An Post and Mailboxes etc. websites (<https://www.mbe.co.uk/mailbox/prices>)

Note: Mailboxes etc. also offer 2 year and 5 year options at a discount to the 12 month option. However, these are still more expensive on a per month basis than the An Post prices, we have therefore excluded them from this analysis.

Non-physical delivery alternatives

Consumers

The majority of consumers surveyed, would not opt to pay for a Mailminder or Redirection service.

- **Mailminder** - 71% of consumers would arrange for a friend/family to collect their mail if no one is present in their household for a long period (up to 3 months), with a further 17% stating that they would simply let mail aggregate in house/letterbox.
- **Redirection** - 41% of consumers would just notify main senders of mail of their new address, a further 27% would do this and arrange to collect mail at their old address.

In addition, if these ancillary services were no longer offered by An Post, very few of the consumers that would have paid for the service feel like they have no reasonable alternatives available to them.

- Of those who would pay for a **mail minding service**, if this service was no longer available, only 9% say that they would have no other reasonable alternatives, with 68% stating that they would arrange for a friend/family to collect the mail.
- Of those that would use a **redirection service**, only 6% say that have no other reasonable alternatives, while 71% would notify main senders and 21% would arrange to collect mail at old address.

During the consumer focus groups, there was a marked contrast between attitudes in Dublin and those outside of Dublin. Most people in the Dublin groups see value in the ancillary USO services, especially redirection services, as they are likely to move more often (and several in the Dublin groups had used the services for that reason). However, in the groups outside of Dublin, the prevalent view is that there are easier and cheaper ways to meet the need for some of the services, including getting neighbours to pick up your post when you are away, or simply making a friendly arrangement with the postman to drop post in with neighbours or to another address without any formality.

SMEs

For all of the USO ancillary services used by SMEs, 75% or more stated that the service met or exceeded their needs (Figure 46).

Figure 46. SME Satisfaction around ancillary services

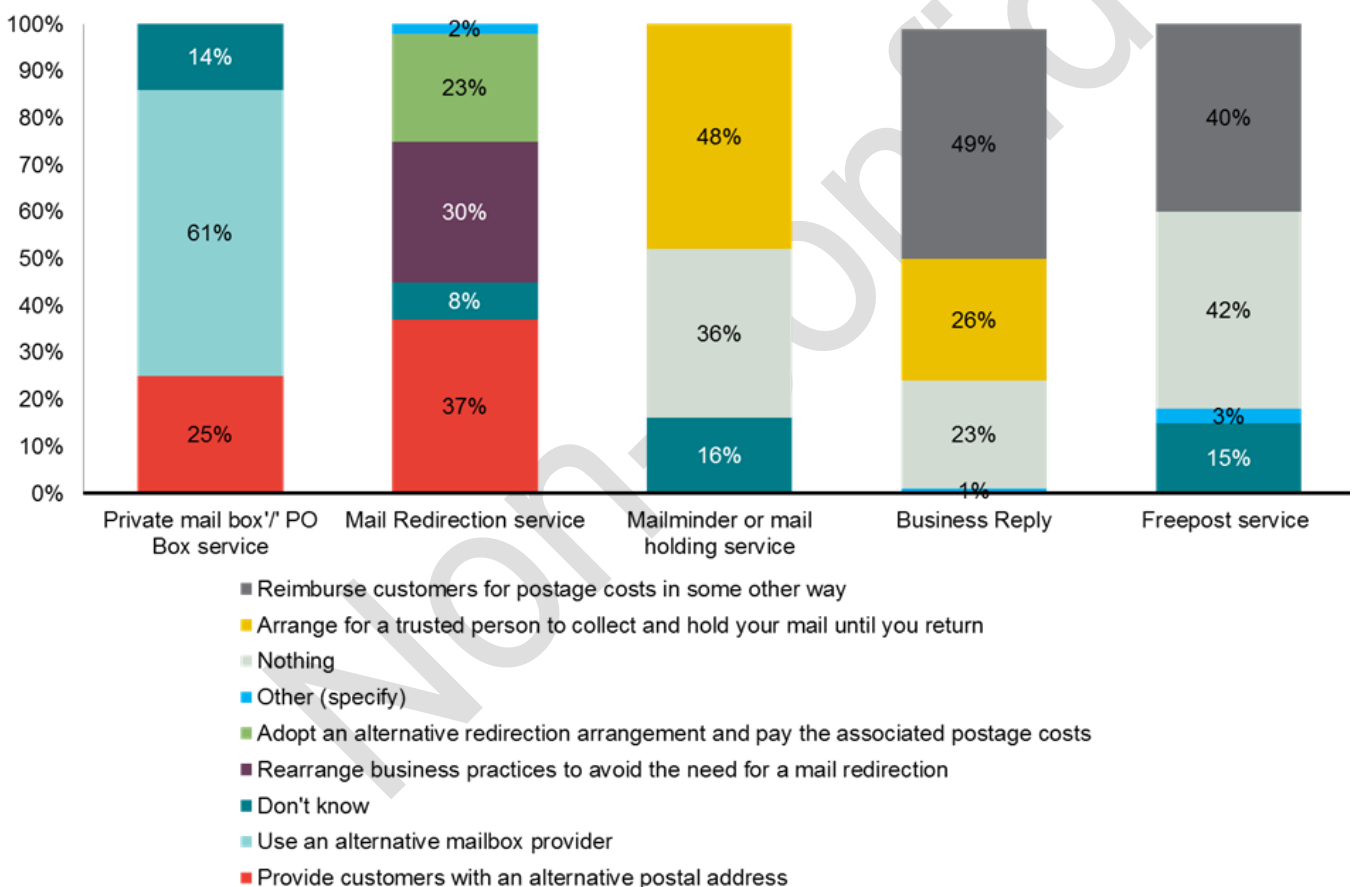
| | % for whom the service meets or exceeds their needs |
|----------------|--|
| PO Box | 80 |
| Redirection | 85 |
| Mailminder | 78 |
| Business Reply | 81 |
| Freepost | 79 |

Source: Amárach: SME Survey - 2017

Note: Questions: In relation to the...service, how does the service meet your current needs?

Further, less than a quarter of SMEs stated that they didn't know what they would do if An Post stopped offering these ancillary services.

Figure 47. Alternative options for SMEs if An Post no longer offered ancillary services



Source: Amárach: SME Survey - 2017

Note: Questions: What would you do if An Post were to stop offering a...service?

Within the SME focus groups, no SMEs had used services such as Business Reply or Freepost, though some of their suppliers did use them (or had in the past). The main barrier was not cost per se but the efficiency of digital alternatives that are significantly cheaper than the postal alternatives.



“With the recent postage increase we realised it was costing a lot of money to provide customers with a Freepost service, so now we make them pay the postage themselves. They’ll happily do it [as it is] worth a great deal anyway”.

Large users

Among large public as well as private sector organisations, there is a strong move away from ‘subsidising’ the cost of postage for customers, and a growing trend towards requiring the customer to pay for postage when other free channels (such as websites or email) are available.

Users of PO Boxes benefit from a degree of efficiency by having certain types of correspondence routed to dedicated locations and teams (especially the public sector), but here again there are quite deliberate efforts to reduce the numbers in use (as part of a wider initiative to reduce overall postal volumes).

Few large organisations consider these services to be ‘mission critical’ to their operations, and would be able to work around any gaps that might arise from changing or even removing such services in the future.

Chapter conclusion

SI 280 of 2012 specified the provision of a number of ancillary services under the USO:

- PO Box;
- Redirection;
- Poste Restante;
- MailMinder;
- Business Reply; and
- Freepost.

However, the 2011 Act and the EC Postal Directive do not require the products to be provided. We have therefore considered whether it is appropriate to include these ancillary services in the specification of the USO.

Our analysis suggests the following:

- Usage of these ancillary services is limited across all customer types, although the survey evidence shows that those SMEs that do use these services do so at least weekly.
- Competitive physical delivery alternatives are lacking, even for PO Boxes, which is the only product for which a physical delivery alternative is realistic given the close links to other An Post services.

- However, the majority of those that do use these services felt that they had reasonable non-physical delivery alternatives if they were no longer offered (this equated to 90%+ of consumers, 75%+ of SMEs and all large users interviewed).
- Other European countries do not typically include these services in their USO definition.

We consider that the majority of these products are commercial offerings, and the USP would offer them even if not included in the USO specification. For example, according to its Regulatory Accounts, in 2016 An Post made a 60% net profit margin on “other USO Services, including Redirections, MailMinder and PO Box”. On the other hand, such a high profit margin may be indicative of a lack of competitive constraint in relation to these products. The inclusion of these products in the USO affords additional protection to consumers compared to the situation where they were removed from the USO.

The exception to this is Poste Restante, which is a free service. While Poste Restante has historically low use, it is a UPU requirement for the USP to provide this product.

8. CONCLUSIONS AND POLICY RECOMMENDATIONS

The universal postal service is the set of affordable postal services, of a minimum quality standard, whose provision is ensured within Ireland. In this section we conclude on whether the set of products within the USO is still appropriate given changes in the technical, economic and social environment and to the reasonable needs to postal service users.

Our research has considered the changing technical, economic and social environment and the reasonable needs of postal service users to ask:

1. Is it appropriate to include bulk mail services in the USO?
2. Is it appropriate to include parcels that weigh more than 10kg and less than 20kg in the USO?
3. Is it appropriate to include ancillary services in the USO? If so, which ancillary services should be included?

Given the passage of time, it may not be appropriate to continue to include these in the specification of the universal postal service. Removing these aspects from the universal postal service would give An Post, as the current designated USP, greater commercial freedom as universal postal services are subject to certain regulatory oversight.

As noted above, our research findings and recommendations will feed into ComReg's planned review of the universal postal service specification. Any prospective changes to the USO definition by ComReg would include further public consultation. Based on our research, we recommend that ComReg should consider in its review whether the following changes to the current specification of the USO are appropriate.

Is it appropriate to include bulk mail services in the USO?

The below table summarises the minimum obligation under the 2011 Postal Act and the specification under the 2012 SI 280 in respect of bulk mail. The 2011 Act does not explicitly require bulk mail to be included, whereas SI 280 requires three different bulk mail products be included in the USO.

Minimum obligations under the 2011 Postal Act**Specification under the 2012 SI 280**

{not specified}

The SI 280 requires the provision of a domestic service for **items deposited in bulk** under the USO²⁹

- For “Delivery only” – which refers to a D+1 service
 - For “Deferred Delivery” – which refers to a D+n service
 - The SI 280 requires the provision of an international service for items deposited in bulk under the USO
-

Our analysis suggests the following:

- Many large users now use non-USO bulk product (Bulk 11) introduced by An Post in 2014, rather than USO bulk products. This product is the cheapest bulk product offered by An Post and also has the slowest delivery speed, indicating that bulk mailers place lower value on delivery speed and are therefore willing to increase delivery time for lower cost.
- There are available alternatives for bulk mail, on a national basis, although many of those alternatives rely on whole or in part on An Post’s network.
- 39% of SMEs that use bulk mail use a provider other than An Post.
- A large proportion of bulk mail customers (53% in the SME survey) commercially negotiate for their bulk mail services.
- For a large proportion of bulk mail customers, electronic substitution is an alternative for a large proportion of what would previously have been communication done via bulk mailing.

The above suggest that for many customers there are alternatives to USO bulk mail products.

Regardless, it seems reasonable that the USP would continue to choose to provide bulk services if these services were not in the USO. This is evidenced by:

- the USPs Regulatory Accounts showing that providing bulk mail services affords it with significant cost savings over stamped mail; and
- the large number of non-USO bulk products that are already provided by An Post, particularly its cheapest bulk mail service, Bulk 11, which was introduced in 2014 and has seen significant USO volumes shift towards it.

In addition, the USP would face the risk of volumes switching away to alternatives (physical delivery and non-physical delivery) if it no longer offered discounted bulk services.

²⁹ “Postal packets deposited in bulk” means a substantial number of similar postal packets deposited with a universal postal service provider at the same place and time, to be transported and distributed to the addressees as marked on each of the postal packets

We also note that there is a general trend in other EU countries for bulk mail to not be in the USO.

We therefore recommend that the provision of a domestic service for items deposited in bulk could be removed from the USO.

Is it appropriate to include parcels that weigh more than 10kg and less than 20kg in the USO?

The below table summarises the minimum obligation under the 2011 Postal Act and the specification under the SI 280 of 2012 in respect of parcels. The 2011 Act requires only that parcels up to 10kg be included in the USO, where SI 280 has specified that parcels up to 20kg are included.

| Minimum obligations under the 2011 Postal Act | Specification set under the 2012 SI 280 |
|---|---|
| Clearance, sorting, transport of postal parcels at least up to 10kg (if not specified: 20kg). | Clearance, sorting, transport of postal parcels at least up to 20kg |

Our analysis suggests the following:

- [X]
- A variety of alternative packet and parcel delivery providers operate in the market, all offering competitively priced nationwide products with no zonal pricing.
- Our pricing analysis suggests that An Post's Standard Post parcel product is only cheaper than alternative postal products in two very small segments of the market relating to large low weight parcels.
- Although An Post remains the main packet and parcel delivery provider chosen by all user groups, a growing proportion also use other providers for at least some of their delivery needs. In addition, 69% of consumers reported that they have alternatives to An Post that they could easily use.
- Some 41% of SMEs and some large mailers commercially negotiate for their packet and parcel delivery services.

These findings suggest that for all customers there are alternatives to USO packet and parcel delivery services, and that these alternatives are competitively priced. Overall, there appears to be a high level of satisfaction with the quality and choice of parcel services – including An Post's – with the various requirements for speed, frequency, value and flexibility (including weight limits) met by a cross-section of suppliers. This also applies to all weight steps, although lower weight steps make up the majority of volumes sent.

In addition, parcels are the only mail format for which An Post has experienced an increase in volumes since 2012. This has been fuelled by the continued growth in e-commerce, which is not showing any evidence of slowing, with the number of packets and parcels received by consumers having increased considerably even over the past year. It therefore seems reasonable to assume that

the USP would continue to provide packet and parcel services even if they were not in the USO. In fact, An Post has itself signalled its clear intention to target the growing Irish and International e-commerce business and to aggressively grow its current 25% market share³⁰.

Given the competitive dynamics in the Irish packet and parcel market, and other findings of this research, we recommend that the maximum weight for the clearance, sorting and transport of postal parcels could be reduced from 20kg to 10kg in the USO, In addition, the USO parcel product could be specified as a “last resort” product.

Is it appropriate to include ancillary services in the USO? If so, which ancillary services should be included?

The below table summarises the minimum obligation under the 2011 Postal Act and the specification under the 2012 SI 280 in respect of ancillary services.

| Minimum obligations under the 2011 Postal Act | Specification set under the 2012 SI 280 |
|---|--|
| {not specified} | <p>The SI 280 requires the provision of specific products under the USO</p> <ul style="list-style-type: none"> ■ PO Box ■ Redirection ■ Poste Restante ■ MailMinder ■ Business Reply ■ Freepost |

Our analysis suggests the following:

- Usage of these ancillary services is limited across all customer types. However, the survey evidence shows that those SMEs that do use the business services, which is less than half of SMEs surveyed, most do so at least weekly.
- Competitive physical delivery alternatives are lacking, even for PO Boxes, which is the only product for which a physical delivery alternative is realistic given the intrinsic link to other An Post services.
- However, the majority of those that do use these services felt that they had reasonable alternatives if they were no longer offered (this equated to 90%+ of consumers, 75%+ of SMEs and all large users interviewed).
- Other European countries do not typically include these ancillary services in their USO definition.

We consider that the majority of these products are commercial offerings, and the USP would offer them even if not included in the

³⁰ An Post Press Release (04-07-2017) – An Post heralds a World Wide Open while closing in on Irish Parcels Market (<http://www.anpost.ie/AnPost/MainContent/About+An+Post/Media+Centre/Press+Releases/2017/World+Wide+Open.htm>)

USO specification. For example, according to its in 2016 An Post made a 60% net profit margin on “other USO Services, including Redirections, MailMinder and PO Boxes”. On the other hand, such a high profit margin may be indicative of a lack of competitive constraint in relation to these products. The inclusion of these products in the USO affords additional protection to consumers compared to the situation where they were removed from the USO.

The exception to this is Poste Restante, which is a free service. While Poste Restante has historically low use, it is a UPU requirement for the USP to provide this product.

Based on these findings, we recommend that the provision of all specific ancillary services, with the exception of Poste Restante, be removed from the USO.

In relation to our Redirection and MailMinder recommendations, in particular, we note that further analysis and consultation will be required. That is because there are no direct physical delivery substitutes or competitors to these products; rather consumers rely on alternative options that are essential self-supply (e.g. have a friend or relative collect mail). While these alternatives appear to be reasonable substitutes for most users; there is likely a sub-set of users that have a reasonable need for these products.

ANNEX A SECTION 16(1) OF THE 2011 ACT

Section 16(1) of the 2011 Act defines the universal postal service as meaning that:

- on every working day, except in such circumstances or geographical conditions as ComReg considers to be exceptional, there is at least – (i) one clearance, and (ii) one delivery to the home or premises of every person in the State (or to appropriate installations as ComReg may consider to be appropriate); and
- the following services are provided:
 - the clearance, sorting, transport and distribution of postal packets up to 2 kilograms in weight;
 - the clearance, sorting, transport and distribution of parcels up to 20 kilograms, or a lower weight that ComReg specifies, as long as that weight is not less than 10 kilograms;
 - the sorting, transportation and distribution of parcels from other Member States up to 20 kilograms in weight;
 - a registered items service;
 - an insured items service within the State, and to and from all countries which, as signatories for the Universal Postal Union, declare their willingness to admit such items whether reciprocally or in one direction only; and
 - postal services, free of charge, to blind and partially sighted persons.

ANNEX B PRIMARY RESEARCH – OVERVIEW

In order to gather evidence on users' preferences in relation to the focus USO postal products, along with use of postal and non-postal alternatives, Amárach undertook four strands of primary research. This annex provides further details about the research methodology used, the respondent profiles and timelines of this research.

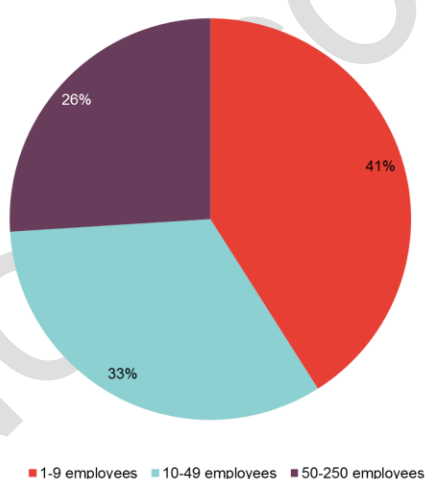
Consumer survey

Amárach undertook a survey of 1,000 Irish adults during July 2017. This was completed fully online with quotas set on gender, age, social class and region to achieve a sample aligned with the national population.

SME survey

Amárach also conducted a survey of 225 Irish SMEs sending 50 or more pieces of mail per month. This was carried out over July and August 2017 through a combination of mainly online, but also Computer-Assisted Telephone Interviewing (CATI) to gain additional participants. Within each SME, the survey was completed by those with responsibility for the budget and management of mail and parcel services for their business or organisation. Figure 48 illustrates the profile of respondents.

Figure 48. Respondent profile by number of employees



Source: Amárach – Consumer Survey – July 2017

Consumer and SME focus groups

In addition to the consumer and SME surveys, Amárach undertook eight focus groups with these types of postal users in August 2017 to explore the survey topics in more depth. The compositions of the focus

groups are shown in Figure 49 and Figure 50, and were designed to capture the opinions of a wide cross-section of citizens throughout Ireland who are postal users. In addition, a separate pre-task questionnaire was issued to the small business representatives for completion before attending the focus groups.

Figure 49 Consumer Groups

| | Age | Circumstances | Location |
|---|------------|--------------------------------------|-----------------|
| 1 | 18-24 | Mix of An Post/other company users | Dublin |
| 2 | 25-44 | Have changed address in past year | Dublin |
| 3 | 60-75 | Mix of An Post/other company users | Athlone |
| 4 | 45+ | Living in rural/semi-rural locations | Athlone |
| 5 | 45+ | Living in rural/semi-rural locations | Cork |

Figure 50 Business Groups

| | Size | Circumstances | Location |
|---|--------------------|---|-----------------|
| 6 | Under 50 employees | Send under 50 letters, mix of An Post/other courier users | Cork |
| 7 | Over 50 employees | Send over 50 letters, mainly other courier users + mix of international/non-international users | Dublin |
| 8 | Mix of sizes | Send any volume of letters, mainly other courier users + mix of international/non-international users | Dublin |

Large user interviews

In order to gather evidence on the experiences and views of large postal users, Amárach undertook a series of one-to-one interviews among this user group in the Republic of Ireland during August and September 2017. These interviews were conducted with senior decision makers responsible for postal and parcel service needs across:

- Eight large users of letter delivery services; and
- Two large users of packet and parcel delivery services.

A separate follow up questionnaire was also sent to each interviewee to fill out electronically.

ANNEX C EUROPEAN USO BENCHMARKS

This Annex sets out the definitions of the universal services adopted by member states of the European Union and a selection of countries. The EU Postal Directive sets the minimum standards and member states, whilst transposing the directive can extend the scope of the universal service to reflect their local circumstances.

Here we summarise how the definition of the universal service has been changing over time across the member states.

This exercise:

- allows us to test whether and to what extent the specification of the universal service in Ireland differs from those observed in Europe; and
- helps us to understand how the definition of the universal service is evolving as regulators and other stakeholders consider the evolving postal environment in each Member State, providing insight into how users' needs and the technical, economic and social environment has developed over recent years in these countries.

The first below table shows the main changes in relation to product specification in other European countries in recent years. The second shows the resulting overall USO product scopes.

Bulk mail and direct mail are the main products that have been removed from countries' USO. Of the 30 countries covered by the EU Postal Directive, 17 now include bulk and 12 include direct mail in their USO definition.

The main reason provided for removal of products is liberalisation (to ensure more competitive market) and changing consumer demand.

It is difficult at to assess the impact these changes have had on finances and operations of USPs given:

- the changes are relatively recent; and
- it is difficult to separate changes from other operational and demand changes in a dynamic market³¹.

In some countries, the USO represents a relatively small proportion of the market (for example, in Finland USO volumes are 6% of the USPs total mail items), and therefore any impact of a change in the scope of the USO on its financials would likely be minimal.

³¹ Cape, Steven, and Philip Groves. "Changes to the Universal Service: Influencing Factors, Impacts and Regulatory Implications." The Changing Postal and Delivery Sector. Springer International Publishing, 2017. 257-269.

Figure 51. Products recently taken out of the specification of the USO elsewhere in the EU

| Country | Bulk letters | Bulk parcels | Direct Mail* | Periodicals | Non-Priority letter post | Parcels |
|----------------|--------------|--------------|--------------|-------------|--------------------------|---------------------------------|
| Austria | | | | | Taken out | Reduced weight limit to 10kg |
| Czech Republic | | | | | | Reduced weight limit to 10kg |
| Estonia | | | | | Taken out | |
| Finland | | | | | | <i>Removed domestic parcels</i> |
| Greece | | Taken out | | | | |
| Hungary | Taken out | | Taken out | | | |
| Lithuania | Taken out | Taken out | Taken out | | | |
| Luxembourg | | | | | Taken out | |
| Latvia | | | Taken out | Taken out | Taken out | Reduced weight limit to 10kg |
| Poland | Taken out | Taken out | | | | |
| Portugal | | | Taken out | | | Reduced weight limit to 10kg |
| Romania | | | Taken out | | | |
| Slovakia | | | | | | Reduced weight limit to 10kg |
| Slovenia | | | | | | Reduced weight limit to 10kg |
| Sweden | Taken out | | | | Taken out | |
| UK | Taken out | Taken out | Taken out | | | |
| Iceland | | | Taken out | | | |

* Direct mail refers to printed advertisements that are addressed and personalised without altering the nature of the message

Figure 52. USO according to national regulatory authorities

| Country | Basic letter post | Basic parcel post | Bulk letters | Bulk Parcels | Direct Mail | Periodicals | Non-Priority letter post |
|--------------|-------------------|-------------------|--------------|--------------|-------------|-------------|--------------------------|
| Austria | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | |
| Belgium | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Bulgaria | ✓ | ✓ | | | | | ✓ |
| Cyprus | ✓ | ✓ | ✓ | | | | |
| Czech | ✓ | ✓ | | | | | |
| Germany | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | |
| Denmark | ✓ | ✓ | | ✓ | ✓ | ✓ | ✓ |
| Estonia | ✓ | ✓ | | | | | |
| Greece | ✓ | ✓ | ✓ | | ✓ | ✓ | ✓ |
| Spain | ✓ | ✓ | ✓ | ✓ | | | |
| Finland | ✓ | ✓ | | | | | ✓ |
| France | ✓ | ✓ | ✓ | | ✓ | ✓ | ✓ |
| Croatia | ✓ | ✓ | | | | | ✓ |
| Hungary | ✓ | ✓ | | ✓ | | | ✓ |
| Ireland | ✓ | ✓ | ✓ | | | | |
| Italy | ✓ | ✓ | ✓ | | | ✓ | |
| Lithuania | ✓ | ✓ | | | | | ✓ |
| Luxembourg | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | |
| Latvia | ✓ | ✓ | ✓ | | | | ✓ |
| Malta | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | |
| Netherland | ✓ | ✓ | | | | | |
| Poland | ✓ | ✓ | | | | | ✓ |
| Portugal | ✓ | ✓ | ✓ | ✓ | | ✓ | ✓ |
| Romania | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Sweden | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | |
| Slovenia | ✓ | ✓ | | | | ✓ | |
| Slovakia | ✓ | ✓ | ✓ | ✓ | ✓ | | ✓ |
| UK | ✓ | ✓ | | | | | ✓ |
| Iceland | ✓ | | ✓ | | | | ✓ |
| Norway | ✓ | ✓ | ✓ | | | | ✓ |
| Switzerland | ✓ | ✓ | ✓ | ✓ | | | ✓ |
| Total | 31 | 30 | 18 | 11 | 9 | 11 | 18 |

Source: Main Developments in the Postal Sector (2010-2013), WIK-Consult (2013) and Cullen International for Sweden and Germany

Note: The WIK study found large discrepancies in views between national regulatory authorities and universal service providers with respect to the scope of the USO. The table above reports NRA's views, which tend to note a narrower definition of the USO.

ANNEX D PRIMARY RESEARCH – PACKETS AND PARCELS – PRICE COMPARISON

In this annex we compare An Post's 2017 pricing, which is solely dependent on weight, with that of CityPost, Parcelconnect, GLS ParcelShop, and Parcel Motel. We exclude DPD from the pricing comparison as its pricing ranges from 1-10 parcels per consignment and is therefore not comparable for residential customers. We also exclude Nightline as its pricing schedule is not publicly available.

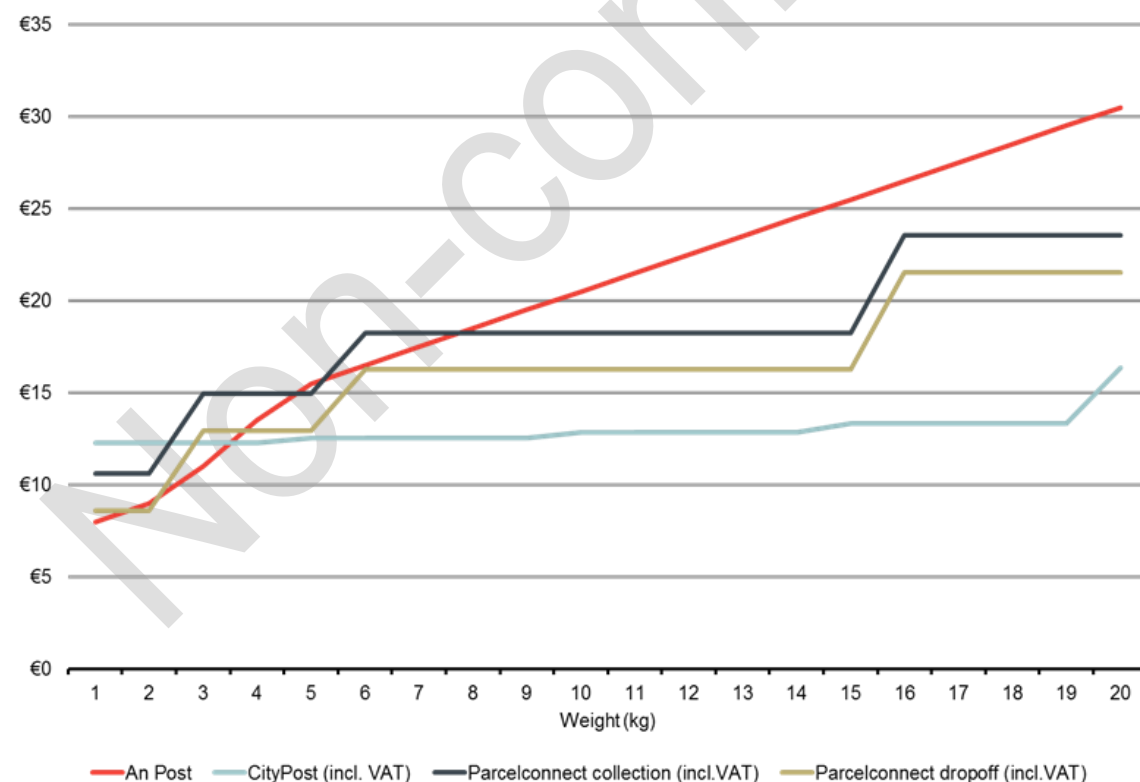
Weight based price comparison

Both CityPost and Parcelconnect calculate the price of a parcel based on weight only. An Post also prices based on weight, subject to maximum parcel dimensions, which allows for a direct price comparison of the three providers. Figure 53 shows that there are only two weight steps in which An Post is the lowest cost provider:

- 0-1 kg; and
- 2-3 kg.

For parcels between one and two kilograms Parcelconnect is the lowest cost provider. From three to twenty kilograms, CityPost is the lowest cost provider.

Figure 53. Parcel pricing comparison by weight, inclusive of VAT



Source: Frontier analysis of An Post, CityPost and Parcelconnect pricing information from company websites

Size based price comparison

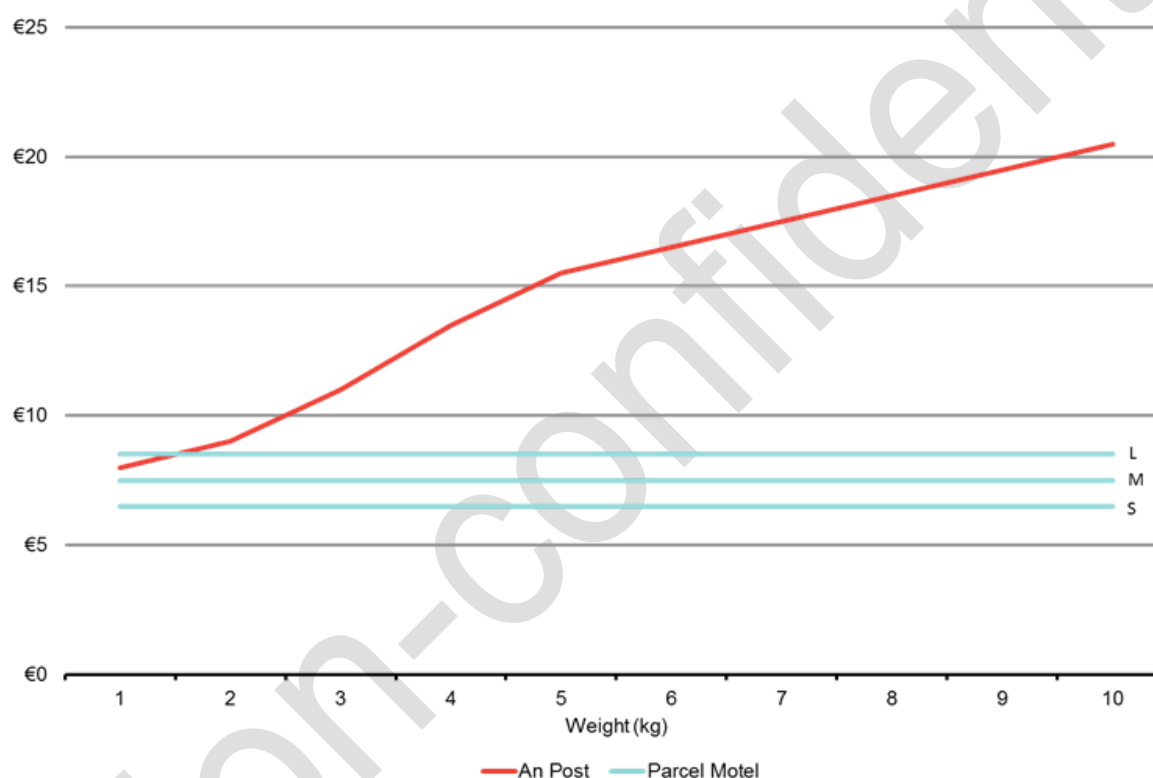
Parcel Motel and GLS ParcelShop determine pricing based on the size of the parcel, rather than its weight. We compare An Post prices at each weight step to Parcel Motel and GLS ParcelShop prices at each size classification in Figure 54 and Figure 55 respectively. The cheapest option will depend on the size and weight combination of each parcel.

Parcel Motel offers the following three size options for parcels up to 10 kg:

- Small (8 x 38 x 64 cm);
- Medium (19 x 38 x 64 cm); and
- Large (41 x 38 x 64 cm).

Figure 54 shows that Parcel Motel is cheaper than alternatives up to 10 kg for all small and medium size parcels and from 1-10 kg for large parcels.

Figure 54. Parcel Motel and An Post pricing comparison, inclusive of VAT



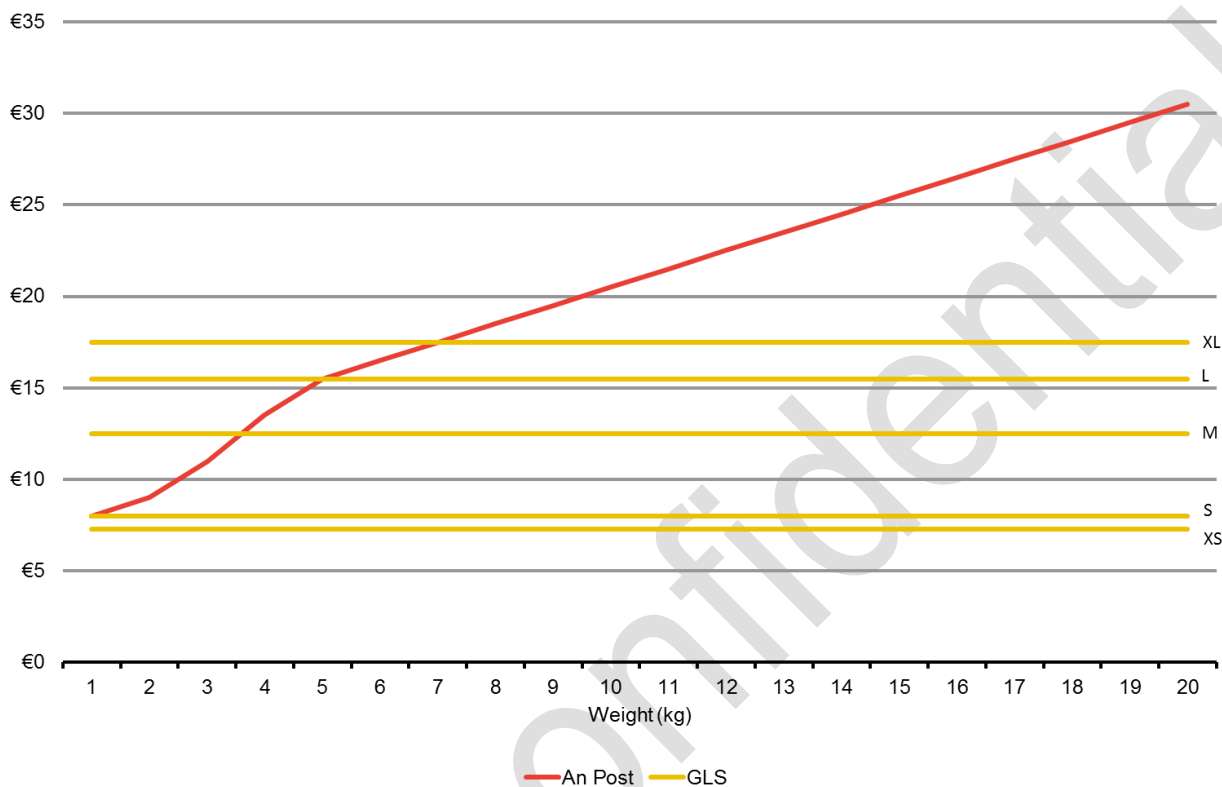
Source: Frontier analysis of An Post and Parcel Motel pricing information from company websites

GLS ParcelShop offers the following five size options, with size determined by the sum of the longest and shortest side of the parcel:

- Extra-small: Max. 35 cm;
- Small: Max. 50 cm;
- Medium: Max. 65 cm;
- Large: Max. 80 cm; and
- Extra-large: Max. 3 m girth.

Figure 55 shows that for extra-small and small parcels, GLS is cheaper than alternatives at all weight steps above 10 kg. For larger parcels, GLS may be cheaper but this is dependent on parcel weight. For example, a parcel fitting the GLS large dimensions and weighing 12 kg is more cheaply sent through GLS than An Post. However, a parcel of the same size which weighs only 4 kg is more cheaply sent through An Post's network.

Figure 55. ParcelShop and An Post pricing comparison, inclusive of VAT



Source: Frontier analysis of An Post and GLS ParcelShop pricing information from company websites

