

RESEARCH ON POSTAL USERS' NEEDS

A report prepared for ComReg

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EXECUTIVE SUMMARY

The Irish postal sector is regulated by ComReg under the Communications Regulation (Postal Services) Act 2011 (“2011 Act”). Section 12(1) of the 2011 Act sets out ComReg’s statutory objectives in relation to the provision of postal services in Ireland, namely:

1. to promote the development of the postal sector and, in particular, the availability of a universal postal service within, to and from the State at an affordable price for the benefit of all postal service users;
2. to promote the interests of postal service users within the Community; and
3. subject to subparagraph (1), to facilitate the development of competition and innovation in the market for postal service provision.

In order to continue to facilitate ComReg’s first statutory objective, the *Postal Strategy Statement 2015-2017*¹ highlighted the need to provide information regarding the provision of postal services in Ireland. As part of this, ComReg committed to undertaking and publishing research providing relevant market data to the postal sector.

Understanding postal users’ preferences and how they have changed over time is critical information to ensure that the development of the postal sector is promoted. ComReg has previously undertaken research on postal users’ needs in relation to the parcel and packets sector in Ireland². Under its latest Strategy Statement it seeks to complement this with further research on Irish postal users’ needs, focussing on research on postal users’ reasonable needs for the universal postal service.

Frontier Economics and Amárach Research have been commissioned to undertake this research. Our research has been broadly split into two categories:

- **Postal usage and trends:** In order to ascertain postal users’ reasonable needs for the universal services, we first consider their current usage of An Post’s postal services, and the importance of post in the mix of general communications channels.
- **Postal users’ reasonable needs for the universal postal service:** We then specifically consider whether the current specification of the universal postal service is appropriate, and whether the frequency of the single-piece universal postal service is appropriate. In particular, ComReg asked us to consider two questions.
 - Is the current specification of the universal postal service appropriate?
 - Is the frequency of the single piece universal postal service appropriate?

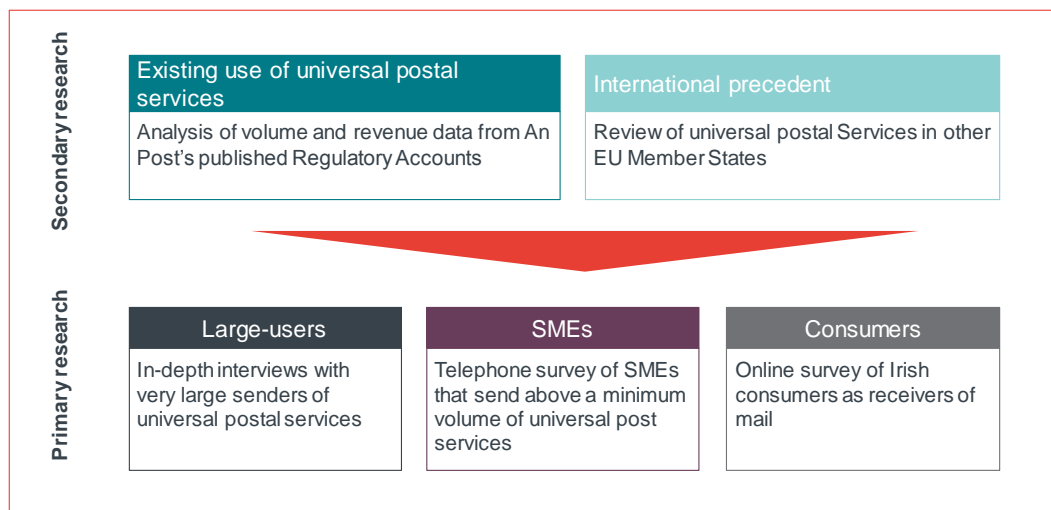
¹ ComReg 15/18 (February 2015), *Postal Strategy Statement 2015-17* - <http://www.comreg.ie/csv/downloads/ComReg1518.pdf>

² ComReg 15/47 (May 2015), *The packets and parcels sector in Ireland: Report by Frontier Economics* - https://www.comreg.ie/media/dlm_uploads/2015/12/ComReg1547.pdf

Research method

We undertook both secondary and primary research to obtain insights into postal users' needs as summarised in Figure 1.

Figure 1 Summary of our research approach



The primary research was conducted in mid-2016 with the aim of gathering insights from both a sender and receiver perspective. This included in-depth interviews with nine large senders of mail, who together comprise a large proportion of mail items sent in Ireland. On the sender side, we also surveyed 275 SMEs, who use universal postal services to a significant extent³. On the recipient side, we surveyed 1,001 households in order to understand the needs and preferences of those who receive mail.

Our research firstly focuses on the use of universal postal services. Secondly we look at trends in demand for those products.

Context

The universal postal service ensures that a continuous, affordable, reliable, nationwide postal service is maintained for the benefit of postal users and to the benefit of society more broadly. The universal postal service is the set of affordable postal services, of a minimum quality standard, whose provision is ensured within Ireland⁴. The scope of the universal postal service in Ireland is defined by legislation⁵, and is tailored towards postal users' reasonable needs, whilst reflecting current technological, economic and social developments.

³ We used a screening question to exclude SMEs that sent under 50 items per month. About half of the respondents were screened out on this basis. This shows that a large proportion of SMEs are sending relatively few postal items on a monthly basis.

⁴ Article 3 of the Directive requires that "users enjoy the right to a universal service involving the permanent provision of a postal service of specified quality at all points in their territory at affordable prices for all users".

⁵ The 2011 Act which transposes the European Postal Services Directive. As required by the 2011 Act, the universal postal service is further specified by ComReg's Statutory Instrument 280 of 2012.

An Post, as the designated⁶ provider, is required to provide these services under its universal service obligation (USO). An Post also provides non-USO services, which are products outside the USO product range and are products upon which there are no specific regulatory requirements in terms of delivery.

In 2015, An Post handled 580 million items. Table 1 shows that domestic mail accounted for 83% of the 580 million items and international outgoing and incomings accounted for 5% and 11% respectively. Overall the USO products accounts for 60% of the total number of items, and only 53% of domestic mail. Therefore, while this study focuses on USO products, we can see that An Post's network is also used for the handling of a substantial amount of non-USO products. Combining USO and non-USO services brings economies of scope and supports the sustainability of a network delivering the universal service.

Table 1 Breakdown of 2015 total volumes handled by An Post

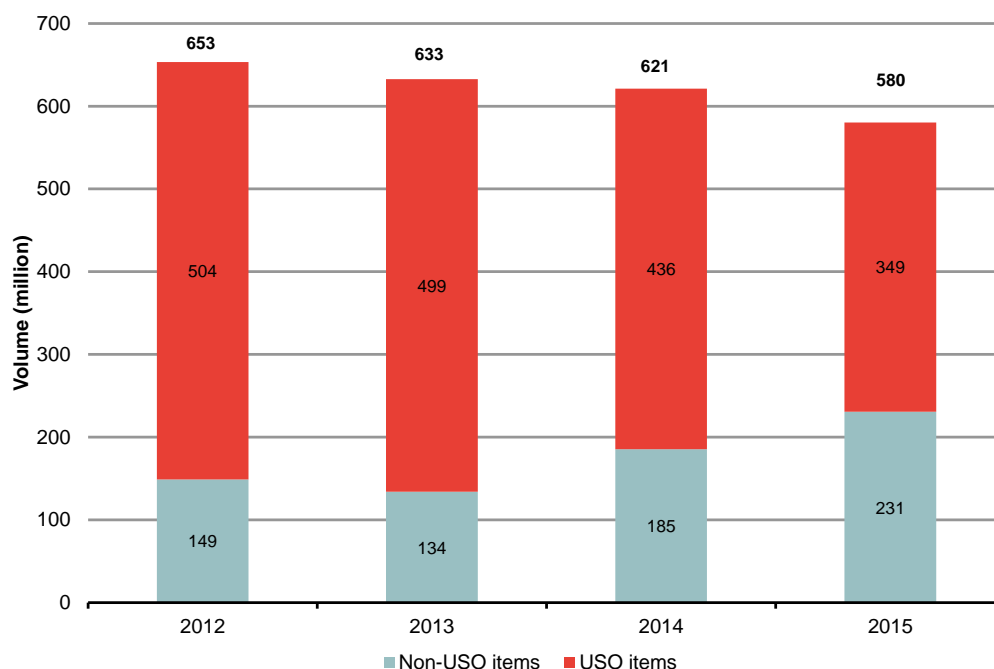
2015	USO	Non-USO	Total
Domestic	44%	39%	83%
International outgoing	5%	1%	5%
International incoming	11%	0%	11%
Total	60%	40%	100%

Source: Frontier analysis of An Post 2015 Regulatory Accounts data

In general, An Post's volumes have been declining significantly. When compared to the peak in volumes in 2007, volumes have dropped by 35%⁷. An Post's total volume fell by 11% between 2012 and 2015, or from 653 million to 580 million items. However, Figure 2 shows that the non-USO volumes have been increasing whereas the USO volumes have been declining continuously. Non-USO volumes in 2015 were 55% higher than those in 2012. In contrast USO volumes in 2015 were 31% lower than those in 2012.

⁶ Designated by the Communications Regulation (Postal Services) Act 2011

⁷ An Post media coverage (<http://www.anpost.ie/AnPost/MainContent/About+An+Post/Media+Centre/Press+Releases/2016/An+Post+Annual+Results.htm>)

Figure 2 An Post USO and non-USO volumes 2012-2015

Source: Frontier analysis of An Post Regulatory Accounts data 2011-2015

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

In the remainder of this executive summary we discuss:

- our key findings from the research;
- postal users' reasonable needs for the universal postal service; and
- the research implications for future USO policy.

Key findings

Mail senders and types of products

Most mail is sent by businesses, especially large businesses: In 2015, 65% of domestic USO volumes were sent using An Post's metered or bulk mail services, with shares of 35% and just under 31% respectively as illustrated in Figure 3⁸. These are predominantly business products. As business mailers also use An Post's stamp service, the 65% can be seen as a lower bound for the proportion of mail that is sent by businesses using An Post's USO services.

Also, large mailers account for a significant proportion of non-USO mail, in particular deferred bulk products. In 2015, non-USO volumes accounted for 40% of An Post's total mail volumes, and 47% of total domestic mail volumes. We estimate that more than 80% of these volumes are likely to be deferred bulk products⁹. Therefore, this would suggest that over half of An Post's total domestic

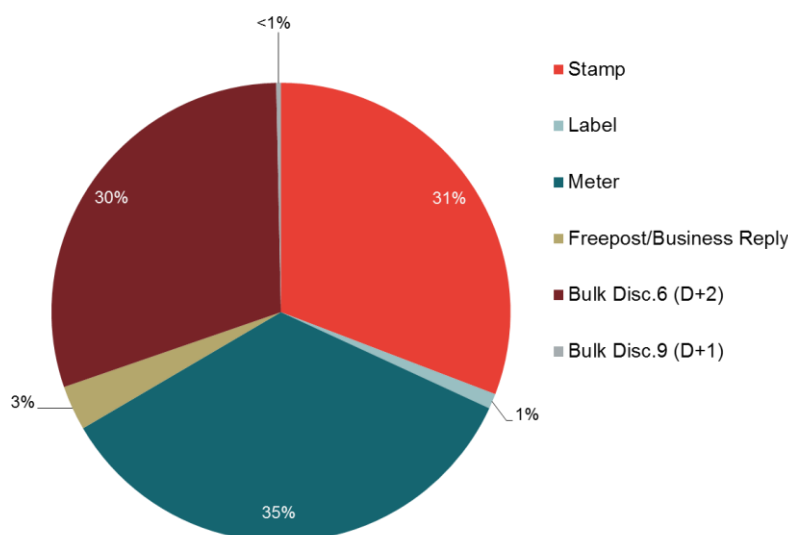
⁸ 31% includes Bulk Disc. 6 and Bulk Disc. 9

⁹ While we do not have the data to confirm this 80% estimate, our interviews with large mailers found that the majority of their non-USO mail was bulk mail (D+3). Non-USO addressed products includes other deferred products such as PostAim, whilst Express and unaddressed mail, and products above the USO maximum weight may be next delivery service, their share of volumes appear to be low. Therefore, 80% appear to be a reasonable approximation.

mail volumes are bulk products, and these products are used by very large senders of mail.

As businesses are the main senders of mail, we focus much of our primary research on business senders. In particular, it is widely acknowledged that large senders, such as utilities, banks, government departments and other large organisations, typically account for the majority of postal items sent¹⁰.

Figure 3 Breakdown of 2015 domestic USO volumes by service, %



Source: Frontier analysis of An Post Regulatory Accounts data (2015)

Mail trends and key drivers of demand

There is a downward trend in the demand for USO letters, flats and packets, but increase in parcels: Since 2011, there has been a general downward trend for USO letters, flats (i.e. large letters) and packets with USO letters and flats suffering the largest volume declines, particularly when sent via An Post's Meter product. USO parcels, on the other hand, have increased over the same period, with a very significant increase in parcels sent by Irish mailers to international addresses. This trend in parcels is consistent with the trend in the broader packet and parcel sector.

Electronic substitution is likely to further reduce mail volumes in the future, especially for large mailers: Some large mailers have already achieved very large reductions in volumes in recent years, by switching customers to electronic alternatives, especially in relation to statements, invoices and bills. Once businesses invest in systems to promote electronic substitution, they are unlikely to switch back to physical mail. Therefore, these volumes are likely permanently

¹⁰ A characteristic of the mail sector across the globe is that a relatively small number of large business mailers account for a very significant share of total letters. The demand for letters is highly concentrated among few senders.

lost to the mail network. We find that due to electronic substitution there is the potential for significant further volume declines in the coming years, which could be exacerbated by price increases, especially for bulk mailers. In general, large mailers expect the trend to switch to electronic alternatives to continue over the near term as in response to price increases in post; they continue to invest in systems and processes that will allow for a greater degree of electronic substitution. 74% of SMEs surveyed have already switched at least a 'reasonable amount' of mail volumes to electronic alternatives over the last three years. Going forward, 60% of SME respondents expect to move a sizeable amount of post to electronic alternatives.

However, significant volumes are not currently liable for electronic substitution: Many large mailers reported legal, regulatory or political constraints impact on their ability to switch specific types of mail to electronic alternatives. For example, they are under legal obligations to send letters informing customers of product changes, such as changes to interest rates for savings products.

Price sensitivity

Large mailers appear very price sensitive: Large mailers interviewed appeared to be particularly price sensitive. Large mailers indicated during the interviews that they are trying to shift as much mail as possible away from the USO bulk product range with D+1¹¹ or D+2 transit times to the non-USO Discount 11 product with a D+3 transit time. This suggests that many large bulk customers are sensitive to price as they are willing to prefer a further one day delay for a 4% (or 2 cent) discount. In fact and as mentioned above we find that over half of An Post's total domestic volumes are sent via discounted, deferred delivery by large mailers.

We also presented large mailers interviewed with a hypothetical potential future scenario of a 10% across-the-board price increase. Most saw such a change as one that would trigger and bring forward significant changes to e-substitution initiatives now under way as large mailers weighed up cost of new innovations versus increased cost of postal services. Therefore, the qualitative interviews suggest that large mailers are relatively sensitive to price increases, which could have implications for their demand response to future postal price.

SMEs are more reliant on post: SMEs typically do not meet the required volume thresholds to access bulk deferred services¹², and therefore typically send volumes using An Post's stamped or metered D+1 service. To test SME's price sensitivity, we asked them about a range of hypothetical scenarios. A large proportion of SMEs surveyed still appear to be reliant on post for their communications. If faced with a 10% price increase on letter services, 48% said that they would not change the volume of letters sent. 54% of these SMEs reported that this was because post is essential to their business or they didn't see any alternative options to change to.

SMEs are also likely less sensitive to price than large users: SMEs gave a preference for a next day delivery relative to a cheaper slower service if given the

¹¹ D+ refers to the delivery speed. For example, D+1 is next day delivery, D+2 the day after that, etc.

¹² We note that there is a metered deferred service, with low volumes threshold, but this does not appear to be availed of to any significant degree by SMEs.

choice. SMEs indicated that they would prefer a one day delivery service (as currently) rather than a two day service with a 5% discount¹³. The above two findings suggest that smaller businesses may, everything else being equal, be more reliant on postal services as they have a lower ability or a relatively lower proportion of mail that can be switched to other methods (e.g. email). While this research relies on stated preferences for SMEs, it does suggest that SMEs could be less price sensitive than large mail users.

We discuss below the implications of these findings for the specification of the USO.

Postal users' reasonable needs for the universal postal service

Next, we consider postal users' reasonable needs for the universal postal service. We specifically consider whether the current specification of the universal postal service is appropriate, and whether the speed and frequency of the single-piece universal postal service is appropriate.

The current specification of the universal postal service is broadly appropriate

The universal postal service obligations ("USO") as set out in the Communications Regulation (Postal Services) Act 2011 ("2011 Act") and Statutory Instrument 280 of 2012 ("SI 280") currently requires:

¹³ Although we note that the two day delivery timeframe in that circumstance would apply to all of their mail. In contrast, large mailers can currently tailor their required delivery speed depending on the time sensitivity of the mail.

Figure 4 Scope of the universal service: products and service requirements

-
- Clearance, sorting, transport of postal items up to 2kg covering single item letters, large letters and packets, and items sent in bulk

 - Clearance, sorting, transport of parcels at least up to 20kg

 - Provision of specific products under the USO, including PO Boxes, Redirection, Poste Restante, Mailminder, Business Reply and Freepost (below we term these “ancillary services”)

 - Sorting, transport and distribution of postal parcels from other member states up to 20kg

 - An insured service

 - A single piece service providing a “proof of delivery facility”

 - A single piece service provided free of charge for the transmission of postal packets for the blind

 - Delivery timeframes of D+1 within state, D+3 within EU and D+9 to all other foreign addresses

 - For items deposited in bulk: A next day delivery service (D+1) and a deferred delivery service (D+n)

 - Minimum one clearance and one delivery to every premise every working day
-

Source: 2011 Postal Act and SI 280

Our review of current usage, relevant legislation and regulation, and international precedent suggested three areas to focus our primary research in relation the potential changes to the USO product specification, namely with respect to:

- bulk products
- ancillary services; and
- parcels.

For bulk products we find:

- nearly 30% of SMEs had used a bulk mail product in the last month, while all large mailers regularly use bulk products;
- USO bulk products still remain important products in the postal product range for both large mailers and SMEs; and
- minimum volume and auto-sort thresholds are barriers to mailers using USO bulk products; therefore consideration should be given to revising the bulk mail requirements in the universal postal service regulations to stipulate these criteria specifically.

RECOMMENDATION 1

The evidence suggests that certain bulk services should remain in the USO. However, given minimum volume and auto-sort thresholds are barriers to mailers using USO bulk products, consideration should therefore be given to revising the bulk mail requirements in the universal postal service regulations to make these available to more postal service users.

For ancillary services we find:

- there is a demand for ancillary services even though their usage varies among SMEs with 52% of SMEs having used freepost, 40% Redirection; 38% PO Box services and 35% Business reply;
- Poste Restante and MailMinder have been used by only a quarter of SMEs – although one should bear in mind that these two services largely target the recipients of mail rather than mailers; and
- while demand for these services is lower than for other USO products, some users place a high value on these services, such as the use of redirections to manage mail flows within large organisations.

RECOMMENDATION 2

The evidence suggests that there is no obvious need to revise the current specification of USO ancillary services in the universal postal service regulations.

The speed of delivery of the single-piece universal postal service is appropriate

As noted, the current specification of the universal postal service requires delivery timeframes of D+1 within state, D+3 within EU and D+9 to all other foreign addresses. We therefore consider whether these timeframes are appropriate given postal users' reasonable needs.

Our research into postal users' demand for speed of service finds:

- large mailers rate the predictability of the day of delivery as more important than the speed of delivery;
- a large majority (72%) of SMEs prefer the current next-day (D+1) service to a slower, cheaper service;
- SMEs require a time-sensitive delivery service, even if time-sensitive mail accounts for a small proportion of their weekly mailings;
- a slower (D+2) service for non-time sensitive letter mail would be sufficient for more than 8 out of 10 SMEs;
- SMEs sending packets and parcels appear more willing to consider an even slower service (D+3) for their non-time sensitive mailings; and
- while households would prefer a next-day delivery service, most would find a two-day delivery service to be workable for them.

As noted earlier, large users, who account for most mail sent, mainly use a deferred (D+2, D+3) services to avail of their relative lower prices. For SMEs and consumers, the evidence does not suggest a strong demand to change the current USO speed of delivery for both letters and packets/parcels. However, we note that moving to a delivery speed of two days (D+2) would not appear to be a major inconvenience for most postal users according to the survey.

We note that while most would prefer a next day delivery service, there is evidence that many do not believe that this is currently being provided. For Dublin-to-Dublin mail, 30% of senders believed they do not receive a next day service. For mail originating in Dublin for a destination outside Dublin, 67% of respondents expected delivery to take at least two days.

RECOMMENDATION 3

The evidence suggests that SMEs paying for a USO next day delivery service prefer this to be retained. However, we note that moving to a delivery speed of two days does not appear to be a major inconvenience for most postal users as many expect current delivery to take this long for certain postings within Ireland.

Most mail is sent by large users and these users use a deferred service (greater than next day delivery); for these users the predictability of the day of delivery is important and these users are willing to accept a longer deferred service to avail of a lower price.

The frequency of the single-piece universal postal service is appropriate

The current specification of universal postal service requires delivery every working day (i.e. five days per week, Monday to Friday). We therefore consider whether this frequency is appropriate given postal users' reasonable needs.

Our research into postal users' demands for the frequency of delivery finds:

- most large mailers (which in the main used deferred services for the majority of their mail) and most (82%) SMEs thought that the current delivery frequency met their letter and parcel needs;¹⁴
- about 40% of SMEs said they would be majorly inconvenienced if letter or packet/parcel deliveries were reduced to four days, with a larger proportion being majorly inconvenienced by three-day delivery;
- a large majority (over 70%) of SMEs prefer the status quo over a cheaper but less frequent service;
- most consumers considered the current frequency met their needs, with more considering it was insufficient to meet their needs compared to excessive for their needs;
- however, consumers, as receivers, did not report they would be as inconvenienced by a reduction in frequency of delivery when compared to

¹⁴ Note for large mailers their answers referred to both single-piece mail and deferred bulk mail, both of which are delivered five days per week.

business senders, which may suggest that consumers would be more amenable to a reduced delivery frequency.

Therefore, this evidence appears to support retaining the current USO delivery frequency for both letters and packets/parcels. The evidence suggests that the current frequency meets the needs of both senders and receivers of mail. Moreover, there appears to be little demand for this to either be reduced, or to be changed to four working days plus Saturday deliveries.

RECOMMENDATION 4

The evidence suggests the USO's current frequency of delivery should be retained.

Research implications for future USO policy

As discussed above, our research findings largely support the maintenance of the scope of the USO in its current form, with potentially some small modifications. The research findings, however, suggest that the USO's long term sustainability and affordability are at risk.

As noted, most mail sent on An Post's network is by large users. We estimate that large users account for over half of An Post's total mail volumes, including non-USO mail. Therefore, An Post's ability to continue to deliver a sustainable and affordable USO will be in large part determined by the future mailing patterns of these large users.

It has been observed that these large users have already switched significant volumes to electronic alternatives. They are unlikely to switch these volumes back to post in the future as the investment in electronic substitution has already taken place and now these costs are sunk. As such these volumes are likely to have been permanently lost to An Post. Moreover, the trend to electronic alternatives is likely to continue, and would likely be exacerbated by any further price increase of physical mail.

Our research has also shown that large users are very price sensitive. For instance, significant volumes have shifted to slower, cheaper bulk services.

Therefore, it is reasonable to infer that An Post's future mail volumes are under threat. Increasing prices of products used by large users is likely to impact negatively on volumes.

The question then becomes, how can the current USO specification be financially sustained looking forward?

The research reveals that users of stamped and metered products are likely to be less sensitive to prices, and therefore may be more accepting of future price increases. However, tariffs must remain affordable and allow the recovery of efficient costs for An Post.

The research reveals that SMEs and households, who together account for a smaller proportion of mail than large users, have a preference for maintaining the status quo in terms of delivery speed and frequency. This preference holds despite the overall higher cost to the postal network compared to slower or less frequent deliveries. However, what the research also shows is that users would not be overly inconvenienced if these specifications were relaxed to a moderate degree in the future. There is therefore the potential, in the future, for the scope of the USO to be revisited. In fact, if volumes do continue to decline then the scope of the USO may need to be reviewed to allow An Post to reduce its costs, and therefore maintain an affordable and sustainable universal postal service.

1 INTRODUCTION

The Irish postal sector is regulated by ComReg under the Communications Regulation (Postal Services) Act 2011 (“2011 Act”). Section 12(1) of the 2011 Act sets out ComReg’s statutory objectives in relation to the provision of postal services in Ireland, namely:

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Understanding postal users’ preferences and how they have changed over time is critical information to ensure that the development of the postal sector is promoted. ComReg has previously undertaken research on postal users’ needs in relation to the parcel and packets sector in Ireland¹⁶. Under its latest Strategy Statement it seeks to complement this with further research on Irish postal users’ needs, focussing on research on postal users’ reasonable needs for the universal postal service.

Frontier Economics and Amárach Research have been commissioned to undertake this research. Our research has been broadly split into two categories:

- **Postal usage and trends:** In order to ascertain postal users’ reasonable needs for the universal service, we first consider current usage of An Post’s postal services, and the importance of post in the mix of communications channels.
- **Postal users’ reasonable needs for the universal postal service:** We then specifically consider whether the current specification of the universal postal service is appropriate, and whether the frequency of the single-piece universal postal service is appropriate. In particular, ComReg asked us to consider two questions.
 - Is the current specification of the universal postal service appropriate?
 - Is the frequency of the single piece universal postal service appropriate?

The remainder of this report summarises the results of this research project and covers:

- our research approach;

¹⁵ ComReg 15/18 (February 2015), *Postal Strategy Statement 2015-17* - <http://www.comreg.ie/csv/downloads/ComReg1518.pdf>

¹⁶ ComReg 15/47 (May 2015), *The packets and parcels sector in Ireland: Report by Frontier Economics* - https://www.comreg.ie/media/dlm_uploads/2015/12/ComReg1547.pdf

- our research findings in relation to current postal usage trends and the importance of post in the general communications mix;
- our research findings specifically related to postal users' reasonable needs for the universal postal service; and
- a summary of our key research conclusions, including likely policy implications for the specification for the universal postal service and observations on the future of the universal postal service.

2 RESEARCH APPROACH

This chapter provides an overview of our research approach. We undertook both secondary and primary research to obtain insights into postal users' needs.

2.1 Secondary research

Regarding secondary research, we undertook two pieces of analysis. First, we reviewed An Post's regulatory accounts¹⁷. Second, we reviewed international benchmarks in relation to the definition of the universal services in Europe and select countries outside of Europe.

2.1.1 Regulatory Accounts data

We analysed data contained in An Post's regulatory accounts to explore postal users' actual usage of postal services.

We reviewed trends in volumes of mail over the last five years with a focus on the evolution of demand for products that fall under the scope of the universal service. This review was carried out at product-group and individual-product levels, distinguishing between universal service products and non-universal service products when relevant.

The regulatory accounts data allow us to draw insights on several important aspects of user demand. It provides information on mail volumes by payment methods which we use as a proxy for the profile of senders. For example, volumes of mail sent under contract or with franking machines are by definition mail sent by businesses. It provides information on the type of mail sent distinguishing different formats such as letters, packets and parcels – which we will show are experiencing different trends. Lastly it provides information on the split between domestic and international mail.

2.1.2 International precedents

We reviewed the definitions of the universal services adopted by member states of the European Union and selected countries. The purpose of this exercise is twofold. First, we wish to compare whether and to what extent the scope of the universal service in Ireland differs from those observed in Europe. The EU Postal Directive sets the minimum legislative standard - member states, whilst transposing the directive into national legislation, can extend the scope of the universal service to reflect their local circumstances. As a result we observe some variations in the definition of the universal service across member states.

Second, we wish to understand how the definition of the universal service is evolving as regulators and other stakeholders consider the evolving needs of postal users and the circumstances of the universal service provider.

¹⁷ <http://www.anpost.ie/AnPost/MainContent/About+An+Post/Annual+Reports/>

This benchmarking exercise uses a variety of the EC and European Regulators Group for Postal Services (ERGP) studies, together with more recent information published by regulators and other agencies.

The output of this benchmarking exercise is developed in full in Annex B. We provide the relevant insights in the proceeding report.

2.2 Primary research

Our primary research into postal users' needs aims to:

- provide insight into the value postal users place on the current provision of USO services and alternative universal service scenarios
- provide insights into postal usage today and postal users' likely needs in the future
- provide an indicator of future trends for universal postal services
- fill knowledge gaps on the demand for An Post services (e.g. data not captured as part of An Post's regulatory accounts).

Our primary research elicited the views of businesses as mail senders and consumers as recipients of mail¹⁸. Amárach Research carried out the primary research with input from Frontier Economics and ComReg.

Amárach Research conducted:

- nine in-depth interviews with large mailers (these included utilities, banks, and public bodies);
- a telephone survey of 275 SME mailers; and
- an online survey of 1,001 consumers.

Regarding business mailers, our research considered the views of large businesses and small enterprises¹⁹ (SMEs) separately in order to capture their differences in postal usage and needs.

- Large business mailers account for a very large proportion of total mail sent. Therefore, we conducted in-depth interviews with a cross-section of this grouping to fully understand their postal demands and how they are changing²⁰.
- SMEs may have different preferences and use different products than larger senders. The research sought insights on these differences in usage and postal needs. Below we provide an overview of the survey methodology and respondents for each of these key components.

In the rest of this document, we therefore use the term "SMEs" for business mailers who took part in the telephone survey and "Large mailers" for businesses with whom we conducted face-to-face interviews.

¹⁸ Businesses were also asked about few postal services as recipients of mail, such as Mailminder and Redirection. Their reliance on these services is discussed in Section 4.2.2. in relation to Ancillary services.

¹⁹ Defined as organisations with between 1 and 250 employees.

²⁰ A characteristic of the mail sector across the globe is that a relatively small number of large business mailers account for a very significant share of total letters. The demand for letters is highly concentrated among few senders and so the views of the nine large mailers that account for a very significant level of the demand of mail services provided by An Post today shed light on the drivers of demand for mail and future trends to come.

Below we describe the survey methodologies in more detail.

2.2.1 Business mailers

Qualitative interviews with large mailers

Firstly, the scope of the large user interviews was agreed by Amárach Research and Frontier Economics with ComReg. The resulting final interview guide was designed in collaboration with ComReg. Amárach tested the interview guide with a selection of face-to-face interviews.

Amárach Research conducted 9 face-to-face interviews with large mailers and clients of An Post. They interviewed senior personnel responsible for postal mailings in a mixture of banks, utilities and government departments and institutions. As discussed further below, bulk mailers account for over half of An Post's domestic mail. Therefore, in a sector characterised by a significant share of letter demand accounted by relatively few large business mailers, the views of these large businesses provide insights in terms of the future trends of the postal demand as a whole. The decisions of these large mailers with respect to their use of mail are significantly more impactful on the sector as a whole than those of the sum of all other mailers.

Telephone interviews with SMEs

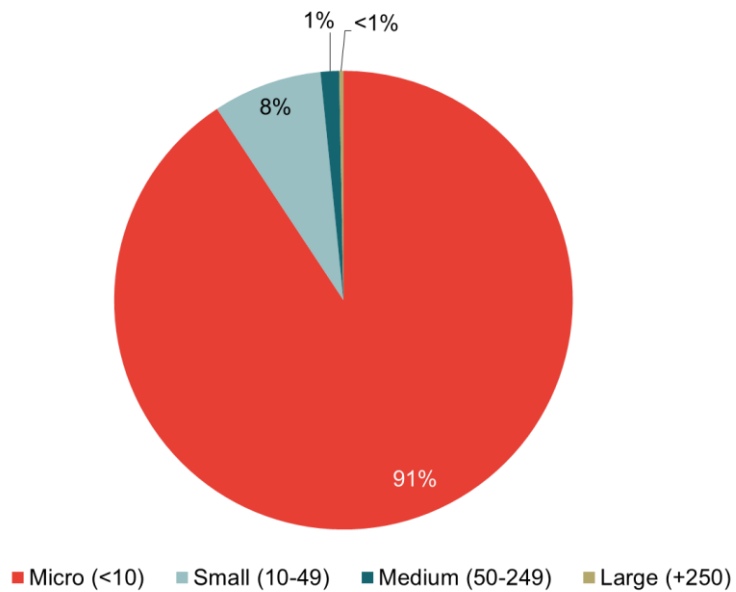
Similarly, the SME survey was scoped and designed by Amárach Research and Frontier Economics in collaboration with ComReg.

Amárach surveyed 275 businesses/organisations in early August 2016 and all respondents stated that they have decision making authority in relation to the management of mail and parcel services.

Businesses vary in size and very small enterprises may have postal needs akin to that of private households. To obtain meaningful data about the needs of SMEs, we felt important to consider SMEs that use mail to some meaningful extent. As a result, we carried out the survey with SMEs that send a minimum letter volume of 50 items sent per month. We did this by adding a screening question at the start of the interview. It is worth noting that more than 50% of the companies contacted by Amárach to take part in the survey were not meeting this minimum volume threshold. This finding highlights that mail is concentrated among large mailers accounting for a very significant share of total mail and a tail of SMEs.

The significant number of SMEs sending only few mail items per month is consistent with the distribution of businesses by size of employees in Ireland (and in many countries) as shown in Figure 5. The CSO in Ireland reports that the majority of enterprises in the business economy at 90.7% were micro-enterprises (with less than 10 employees). A further 7.7% were other small enterprises (with between 10 and 49 employees) while 1.3% were classified as medium sized enterprises (with between 50 and 249 employees). Only 0.3% of enterprises were large with greater than 250 persons.

Figure 5 Number of active enterprises by size class for all sectors, 2012

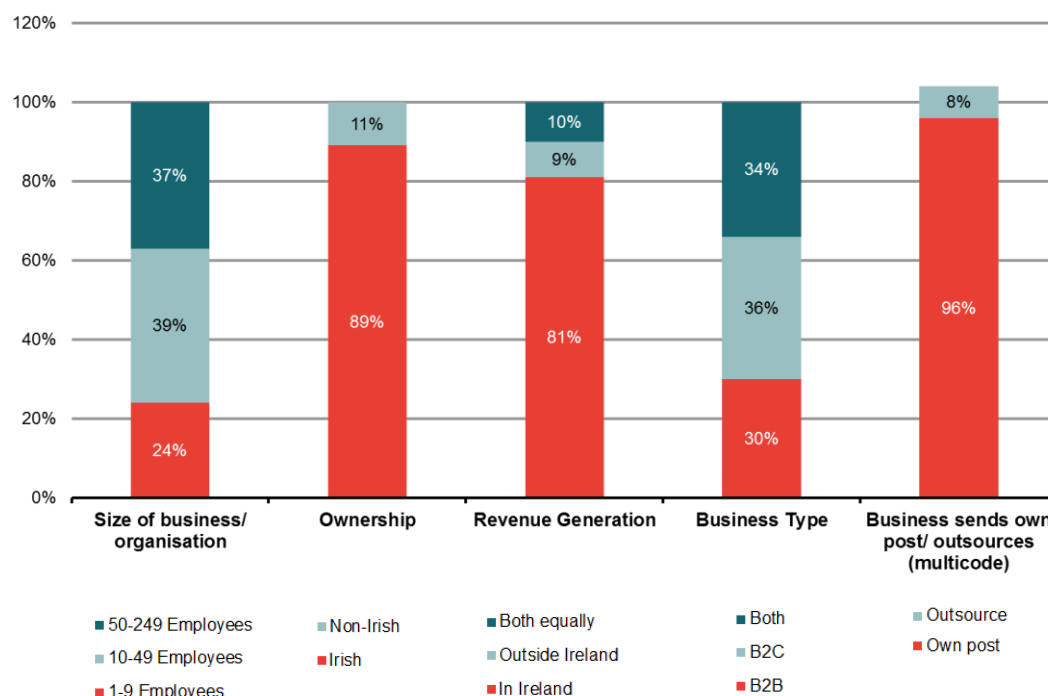


Source: CSO; <http://www.cso.ie/en/releasesandpublications/ep/p-bii/businessinirelandabridged2012/smallandmediumenterprises/>

Note: Figures in brackets correspond to the number of employees

Figure 6 shows the sample profile of respondents by type of business in terms of number of employees, ownership, business type (B2B, B2C or both) and whether the business rely on outsourcing its postal activities.

Figure 6 Profile of SMEs



Source: Amárach Research

Note: Businesses can send own post and outsource, therefore the total is greater than 100% in the last column of the chart.

Note: Base: All respondents – 275. All respondents stated that they have decision making authority in relation to management of mail and parcel services.

2.2.2 Consumer survey

Separately we carried out a survey of consumers as recipients of mail. A number of questions were placed on Amárach Research’s July Omnibus²¹. These questions concerned consumers’ satisfaction with the current postal services as recipients of mail.

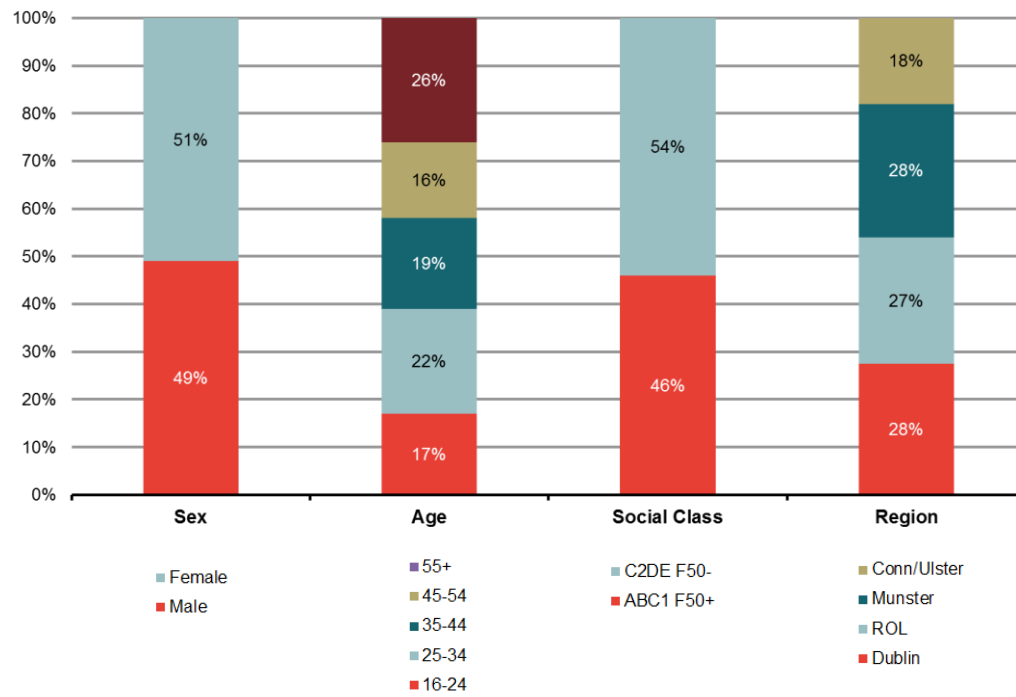
A total of 1,001 responses were received with quotas set on gender, age, social class and region to achieve a sample aligned with national population. The Amárach Research survey was completed fully online.

The survey was carried out over the period of 11 to 15 July 2016.

Figure 7 shows the sample profile of respondents to the Omnibus survey.

²¹ The omnibus survey is a syndicated survey whereby clients can include questions within the survey.

Figure 7 Profile of mail recipients



Source: Amárach Research

Note: Omnibus survey; Base: All respondents – 1001

3 RESEARCH FINDINGS

This chapter sets out our research findings in relation to universal postal use and trends. We start with a review of usage trends for An Post's postal services, before going on to present the results of Amárach's primary research which explores how these usage trends fit within the usage of postal services more widely, and the importance of post in the general communications mix.

3.1 Background on usage trends for An Post services

Our analysis of An Post's Regulatory Account data provides insight into current usage of An Post's postal services and how this has changed over the last five years. Here we summarise the key trends identified through this analysis.

The universal postal service ensures that a continuous, affordable, reliable, nationwide postal service is maintained for the benefit of postal users and to the benefit of society more broadly. The universal postal service is the set of affordable postal services, of a minimum quality standard, whose provision is ensured within Ireland²². The scope of the universal postal service in Ireland is defined by legislation²³, and is tailored towards postal users' reasonable needs, whilst reflecting current technological, economic and social developments.

An Post, as the designated provider, is required to provide these services under its universal service obligation (USO). An Post also provides non-USO services, which are products outside the USO product range and are products upon which there are no specific regulatory requirements in terms of delivery.

3.1.1 Trends of postal volumes

In 2015, An Post handled 580 million items. Table 2 shows that domestic mail accounted for 83% of the 580 million items and international outgoing and incomings accounted for 5% and 11% respectively. Overall the USO products accounts for 60% of the total number of items, and only 53% of domestic mail. Therefore, while this study focuses on USO products, we can see that we can see that An Post's network is also used for the handling of a substantial amount of non-USO products. Combining USO and non-USO services bring economies of scope and support the sustainability of a network delivering the universal service.

²² Article 3 of the Directive requires that "users enjoy the right to a universal service involving the permanent provision of a postal service of specified quality at all points in their territory at affordable prices for all users".

²³ The 2011 Act with a further specification by SI 280.

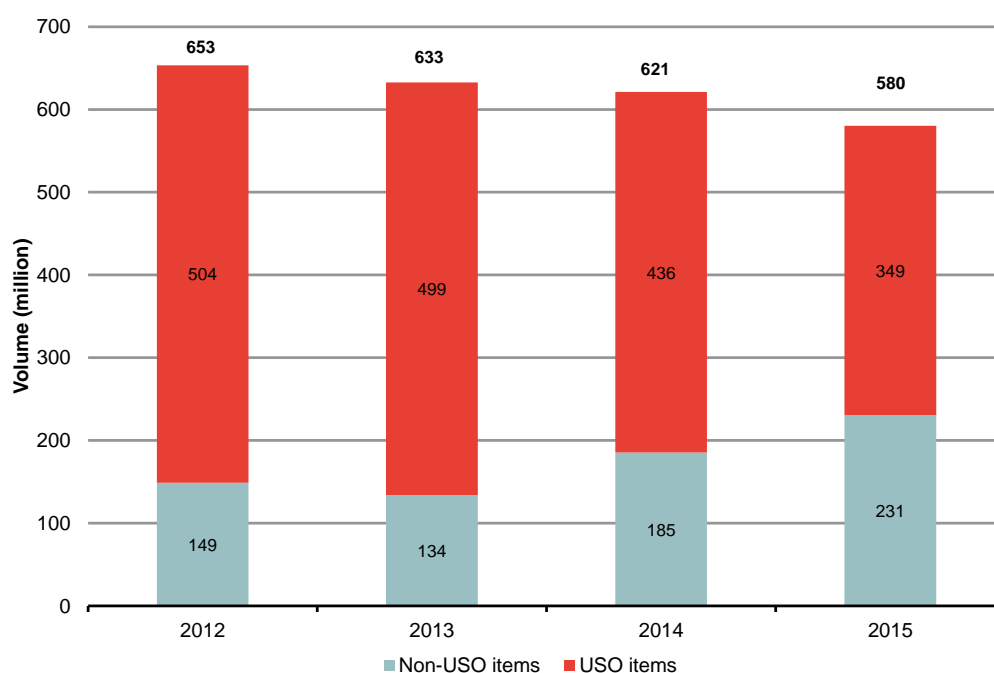
Table 2 Breakdown of 2015 total volumes handled by An Post

2015	USO	Non-USO	Total
Domestic	44%	39%	83%
International outgoing	5%	1%	5%
International incoming	11%	0%	11%
Total	60%	40%	100%

Source: Frontier analysis of An Post 2015 Regulatory Accounts data

Volumes have been declining sharply. When compared to the peak in volumes in 2007, volumes have dropped by 35%²⁴. More recently An Post's total volume fell by 11% between 2012 and 2015, or from 653 million to 580 million items²⁵. However, Figure 8 shows that the non-USO volumes have been increasing whereas the USO volumes have been declining continuously. Non-USO volumes in 2015 were 55% higher than those in 2012. In contrast, USO volumes in 2015 were 31% lower than those in 2012.

By implication, the USO share of total volume has been declined from 77% in 2012 to 60% in 2015.

Figure 8 An Post USO and non-USO volumes 2012-2015

Source: Frontier analysis of An Post Regulatory Accounts data 2011-2015

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

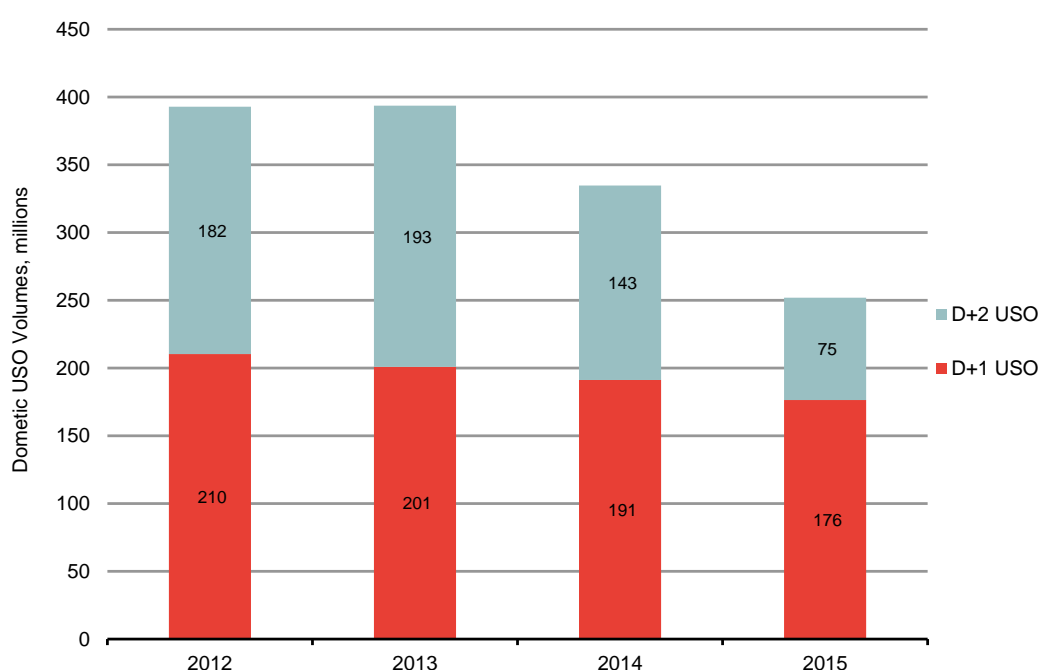
²⁴ An Post media coverage (<http://www.anpost.ie/AnPost/MainContent/About+An+Post/Media+Centre/Press+Releases/2016/An+Post+Annual+Results.htm>)

²⁵ The decline is of 35% since the 2007 peak in volumes. An Post media coverage (<http://www.anpost.ie/AnPost/MainContent/About+An+Post/Media+Centre/Press+Releases/2016/An+Post+Annual+Results.htm>)

3.1.2 Volumes by class of mail

Single-piece USO mail is delivered next day (one day after posting, D+1) and bulk USO items are delivered either next day or later (deferred with a D+2 service) in Ireland. Figure 9 shows that the USO next day delivery volumes have been declining by ten millions items each year or so (2012-2014) and by 15 million in 2015. The USO deferred products have declined substantially in the two consecutive years of 2014 and 2015. This appears to be because large mailers have switched from USO bulk products to non-USO bulk products as discussed further below.

Figure 9 Domestic USO volumes by speed of delivery, 2012-2015

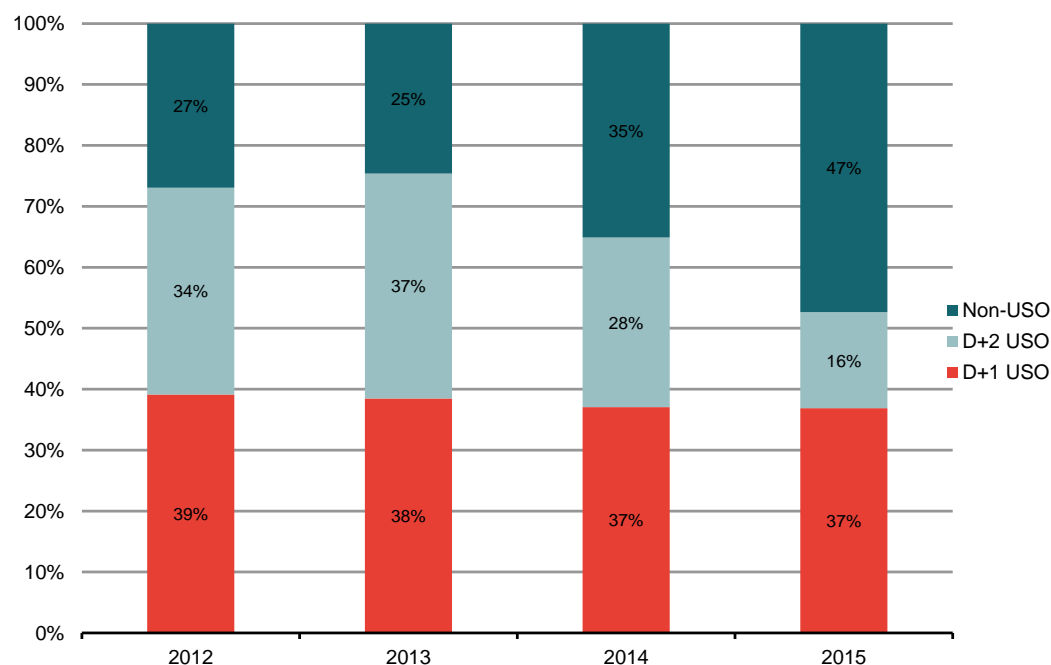


Source: Frontier analysis of An Post Regulatory Accounts data 2011-2015 and product descriptions as reported by An Post

Overall, when we consider both USO and non-USO volumes, the evidence suggest that An Post delivers more deferred items than next day delivery items. Figure 10, shows volume shares for domestic USO D+1, USO D+2 and non-USO volumes. Our interviews with large mailers found that the majority of their non-USO mail was bulk mail (D+3). In fact, perhaps more than 80% of non-USO volumes are deferred bulk products. We estimate that more than 80% of these volumes are likely to be deferred bulk products²⁶. Therefore, this would suggest that over half of An Post's total domestic mail volumes are bulk products, and these products are used by very large senders of mail.

²⁶ While we do not have the data to confirm this 80% estimate, our interviews with large mailers found that the majority of their non-USO mail was bulk mail (D+3). Non-USO addressed products includes other deferred products such as PostAim, Whilst Express and unaddressed mail, and products above the weight USO maximum weight may be next delivery service, their share of volumes appear to be low. Therefore, 80% appear to be a reasonable approximation.

Figure 10 Evolution of domestic USO and non-USO volumes by speed of delivery



Source: Frontier analysis of An Post Regulatory Accounts data

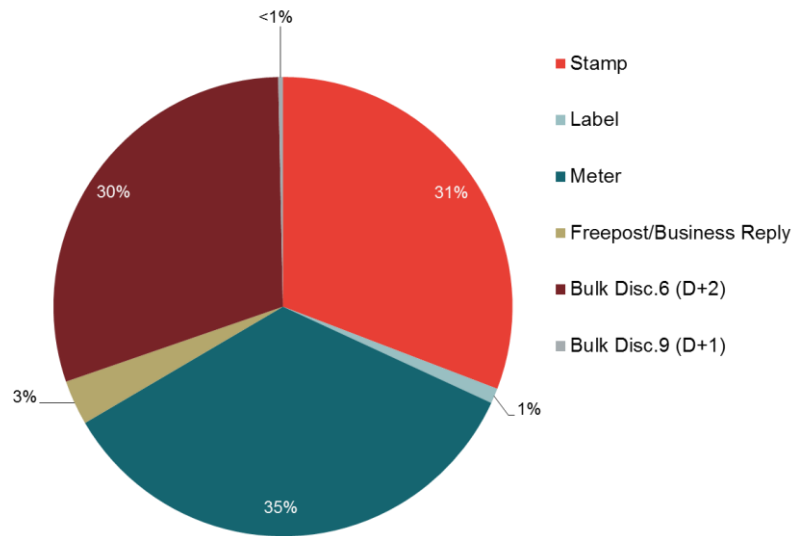
Note: Excludes freepost and business reply – which are delivered every day.

3.1.3 USO volumes by method of payment

Mail items are paid by stamp, through franking machine (meter) and by contract for bulk items. The last two methods of payments are used by business mailers only whereas stamps are used by both private individuals and businesses.

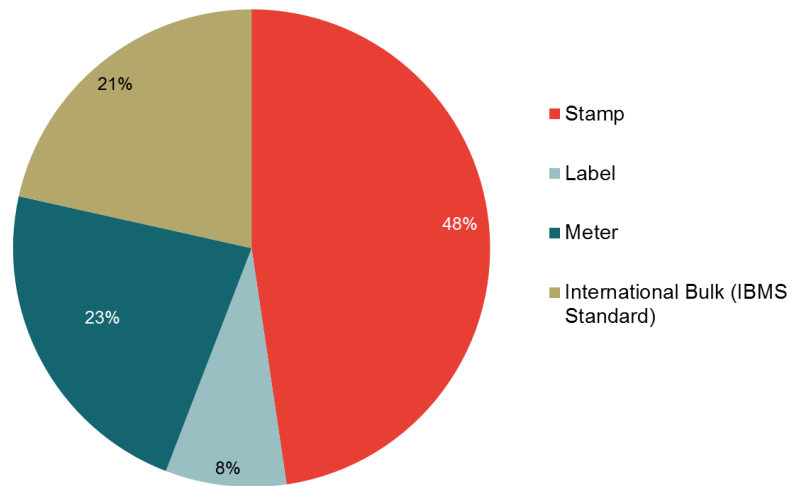
An analysis of USO volumes by method of payment shows that businesses were the major senders of An Post's universal postal services within Ireland in 2015. In 2015, 65% of domestic USO volumes were sent using An Post's metered or bulk mail services, as shown in Figure 11. As business mailers also use An Post's stamp service, the 64% can be seen as a lower bound for the proportion of business mail that is sent using An Post's USO services. As businesses are the main senders of mail, we focus much of our primary research on business senders.

As noted above, more than 80% of An Post's non-USO mail volumes may also be bulk products. If this is the case, bulk products account for around over half of An Post total domestic mail volumes.

Figure 11 Domestic USO volumes (2015), by service

Source: Frontier analysis of An Post Regulatory Accounts data (2015)

For mail sent internationally from Ireland, businesses account for a smaller proportion of USO volume compared to their proportion of total USO mail. However, we still estimate that businesses account for about half of international outbound USO volumes. As shown in Figure 12, 44% of international outbound USO volumes were sent using An Post's metered or international bulk services. Again, a proportion of volumes sent using An Post's stamped and labelled services will also have been sent by business mailers.

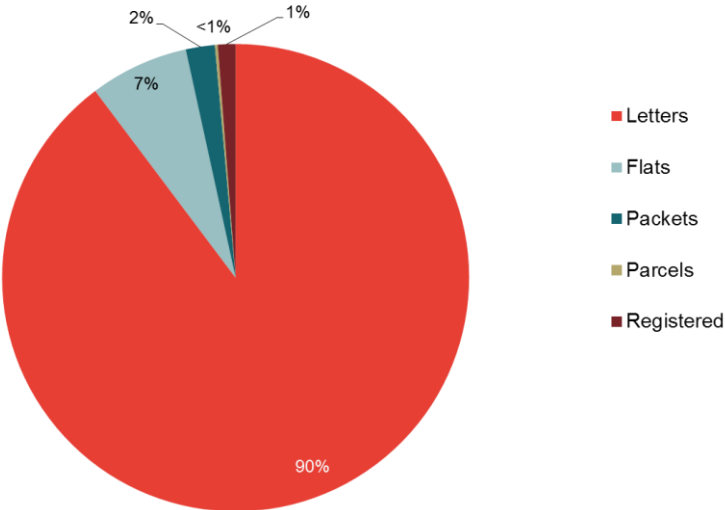
Figure 12 International Outbound USO volumes (2015), by service

Source: Frontier analysis of An Post Regulatory Accounts data (2015)

3.1.4 USO volumes by format

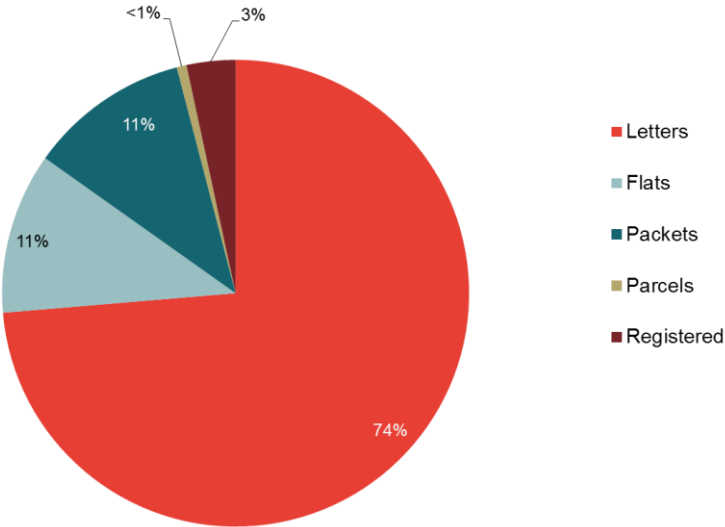
Looking at the split of volumes by mail format in 2015, we can see that letters account for most USO volumes. As shown in Figure 13 and Figure 14, letters account for 90% of Domestic USO volumes and 74% of International Outbound USO volumes. Flats account for a further 7% of Domestic USO volumes and 11% of International Outbound USO volumes.

Figure 13 Domestic USO volumes (2015), by format



Source: Frontier analysis of An Post Regulatory Accounts data (2015)

Figure 14 International Outbound USO volumes (2015), by format



Source: Frontier analysis of An Post Regulatory Accounts data (2015)

Evolution of USO volumes by format

Over the period 2011-2015, volumes for USO letters, flats and packets have declined significantly. Figure 15 shows that the following:

- USO letters and flats have suffered the largest volume declines with domestic and international volumes dropping by a fifth and a quarter respectively (-20% and -24% in the table). We note that this decline is even more severe for items that are franked (meter) – a method of payments used by SMEs: meter domestic and international (outbound) letter items have declined by a quarter and nearly 40% respectively.
- The volumes of USO domestic and international (outbound) packets were 12% and 20% lower in 2015 than they were in 2011 at a time when e-commerce may be boosting demand for packets. Again, metered packets have been more impacted than stamped packets for domestic packets.
- Only the USO parcels stream has experienced positive growth. Volumes of international USO parcels have increased by 80% and those sent to recipients in Ireland by 40%. This trend in parcels is consistent with the trend in broader packet and parcel sector²⁷.

This table combined with the trend observed for bulk products highlight that both SMEs and large mailers are reducing their demand for postal services.

Figure 15 2011-2015 USO volume trends, by format

	Total	Domestic	International Outbound
USO letters and flats	-20%	-20%	-24%
- Stamp and Label	-14%	-13%	-16%
- Meter	-26%	-25%	-37%
USO Packets	-15%	-12%	-20%
- Stamp and Label	-11%	-3%	-20%
- Meter	-25%	-26%	-19%
USO Parcels	49%	40%	80%

Source: Frontier analysis of An Post 2011-2015 Regulatory Accounts data

Note: USO letters, flats and packets are formats available for items up to 2kg. Parcels up to 20kg are treated as USO parcels. Parcels above this weight threshold are non-USO products.

3.2 Wider postal usage and the importance of post in the general communications mix for mailers

Amárach's primary research allowed us to explore these postal usage trends further. It also provides the required context around the trends in relation to the importance of mailing post in the general communications mix for business mailers. This goes beyond the usage of the postal services provided by An Post and

²⁷ Frontier Economics, 2015, The packets and parcels sector in Ireland: A report prepared for ComReg.

includes those provided by other postal delivery operators. The primary research findings provide insights into a number of key areas in relation to the postal usage, and the importance of post in the general communications mix for these businesses. The research findings in relation to each of these areas is summarised below, including:

- business mailers and their current use of postal services;
- electronic substitution of mail; and
- reliance on post as a form of communication.

3.2.1 Business mailers and their current use of postal services

We discuss the current use of postal services by both large mailers and SMEs in turn.

Large mailers

A large proportion of mail sent is typically accounted for by a relatively small number of customers. Therefore, Amárach selected a cross-section of this group of customers to interview (nine in total). Main survey findings include the following.

- These mailers reported that the majority (98-99%) of the items they send by post are letters, rather than packets or parcels.
- Further, most of these items correspond to transactional mail such as bills or statements.
- Post is used for advertising purposes by most of the commercial organisations that were interviewed, but compared to their transaction mail their mailings for advertising are less regular and sent more on an ad hoc basis.
- Two-thirds of the large mailers interviewed rely on a managed print service provider (outsource to a third-party) to print and send their regular, large volume mailings.
- All of the mailers interviewed reported using An Post's bulk mail products, mostly Ceadúnas Discount 6 (D+2) or Discount 11 (D+3), or a combination of both. Ceadúnas Discount 11 is the product most widely used by these mailers. Bulk mail items account for the majority of the mail they send.

As we discuss An Post's bulk mail products throughout the rest of this report, we summarise the key features of An Post's three USO bulk products and the non-USO Discount 11²⁸ bulk product (given it is the most commonly used) in Figure 16 below. These bulk products differ from one another in terms of minimum volume thresholds, sortation levels, access points and price.

Note that in Section 4 we discuss large mailers choice and reasoning for using different bulk products.

²⁸ In 2014, An Post launched an additional bulk product – Discount 11 with a D+3 transit time – that is outside the universal service.

Figure 16. Features of An Post bulk services

	USO Discount 6*	USO Discount 7 (packets only)	USO Discount 9	Non-USO Discount 11
Transit time	D+2	D+2	D+1	D+3
Volume threshold (# items per mailing)	2000+	2000+	2000+	5000+
Sortation level: % of mail auto- sortable	85%	n/a	n/a	95%
Access points	Presented before noon at Mails Centres or Designated Acceptance Offices		Presented before 5:30pm at Mails Centres or Designated Acceptance Offices	Presented before noon at Mails Centres
Discounted letter price	52 cents	61 cents	57 cents	50 cents

Source: Frontier Analysis based on An Post's information (http://www.anpost.ie/AnPost/Downloads/Anpost2000_items_upwards_Bulk_Discounts_For_Mailers_An_Post.pdf)

Note: * not applicable to packets

SMEs

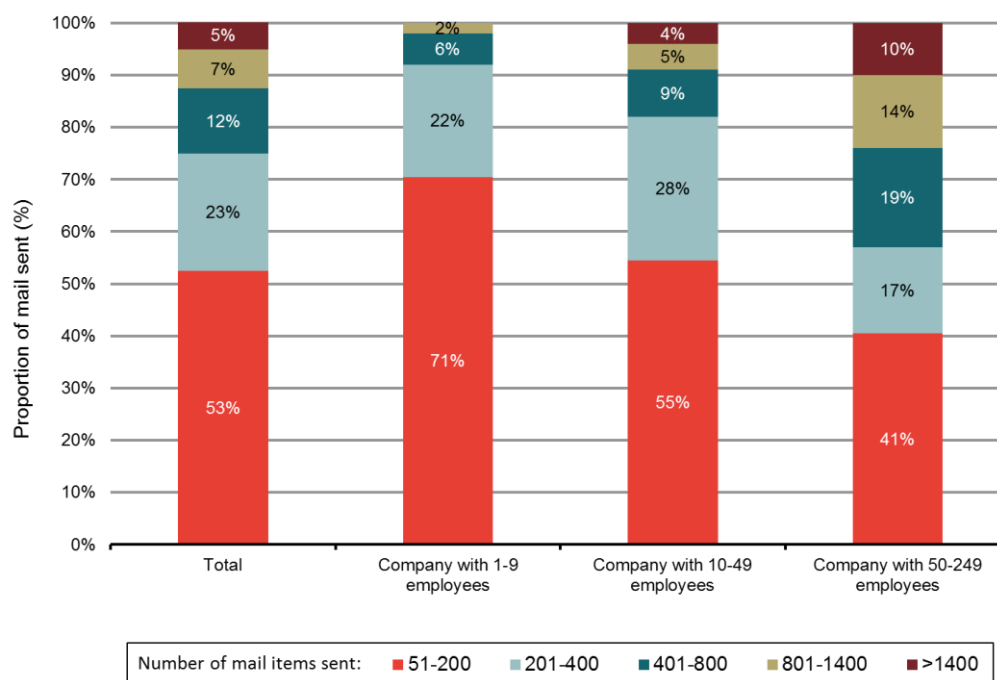
The SME survey was restricted to companies sending 50 letters or more per month.²⁹

Main survey findings in relation to mail volumes sent by SMEs

The main survey findings show:

- 53% of all SMEs surveyed reported that they send 200 items or less per month, with only 12% sending more than 800 items per month;
- as shown in Figure 17, this varies by the size of company, but even amongst companies with 50-249 employees, 41% reported that they send 200 items or less per month; and
- unlike large mailers, only 8% of SMEs reported outsourcing their mailings to a managed print service provider.

²⁹ As noted in section 2, 52% of respondents sent less than 50 items per month, and were therefore excluded from the sample.

Figure 17 Number of letters sent in a typical month by SMEs

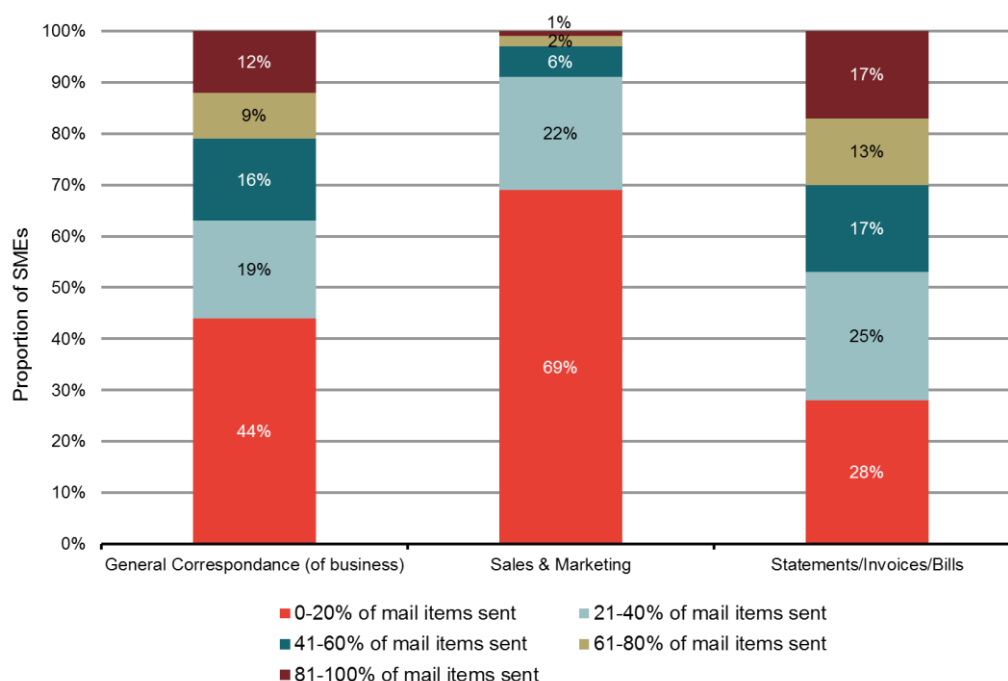
Source: Amárach Research (2016), Survey of Business mailers

Question: How many letters does your organisation send to customers in a typical month (whether in the form of bills, statements, invoices, marketing or other communications, packets) via An Post?

Main survey findings in relation to the types of mail sent by SMEs

Main survey findings show the following.

- Just over half of SMEs reported sending less than 10 small packets or parcels per month, with a further 13% sending less than 20.
- The number is even lower for large packets and parcels, with 60% of SMEs reporting that they send less than 10 per month, with a further 9% sending less than 20.
- However, 10% of SMEs reported being larger mailers of packets and parcels, sending 500 or more per month.
- The research also showed that SMEs sent most of their items domestically. Only 4% of companies indicated that they sent more than 60% of their mail to recipients outside of the Republic of Ireland.
- The majority of mail sent by respondents is statements, invoices and bills.
- As shown in Figure 18, 30% of SMEs reported that more than 60% of mail sent is made up of statements, invoices and/or bills.
- This compares to 21% of SMEs reporting that more than 60% of mail sent is general correspondence and only 3% of SMEs reporting that more than 60% of mail sent is sales and marketing.

Figure 18 Type of mail sent by SMEs

Source: Amárach Research (2016), Survey of Business mailers

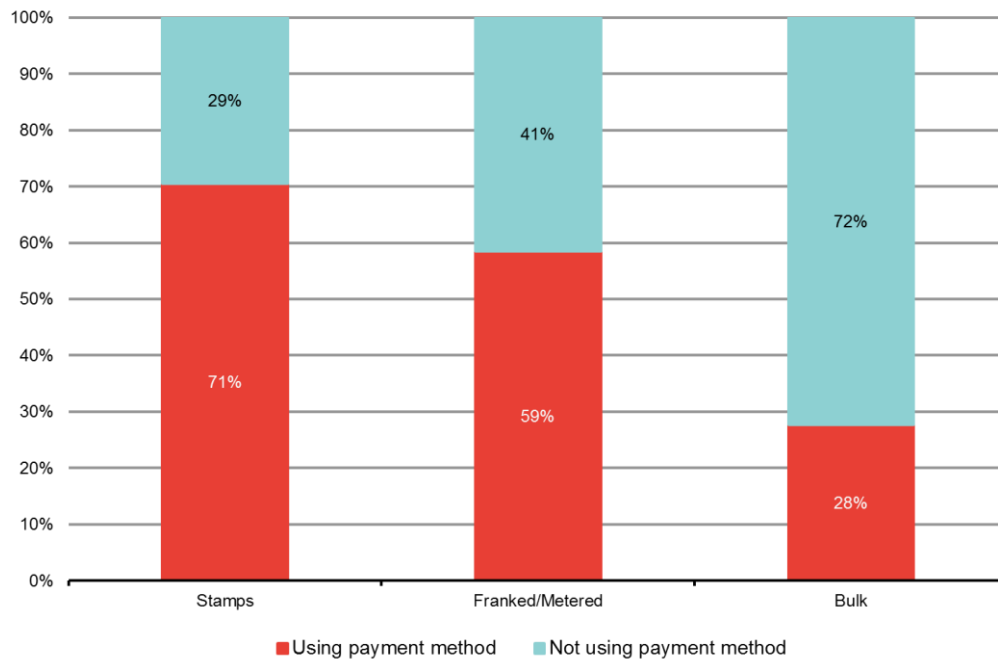
Question: For the letters you send in a typical month, what proportion are bills, invoices and statements and what proportion are other communications (e.g. sales and marketing or more general communications)?

Main survey findings in relation to payment types

The main survey findings illustrated in Figure 19 show the following.

- While bulk mail is the predominant product used by the large mailers interviewed, only 28% of SMEs reported using these products, as shown in Figure 19.
- Stamp and Meter dominate amongst this customer group, with 71% using stamp products and 59% using meter products.
- There is, however, some correlation with size of company. For SMEs with 50 to 249 employees (larger end of SME scale), 34% of respondents use bulk mail products and the proportion using stamp products falls to 56%.

Figure 19 Mail usage by payment methods by SMEs



Source: Amárach Research (2016), Survey of Business mailers

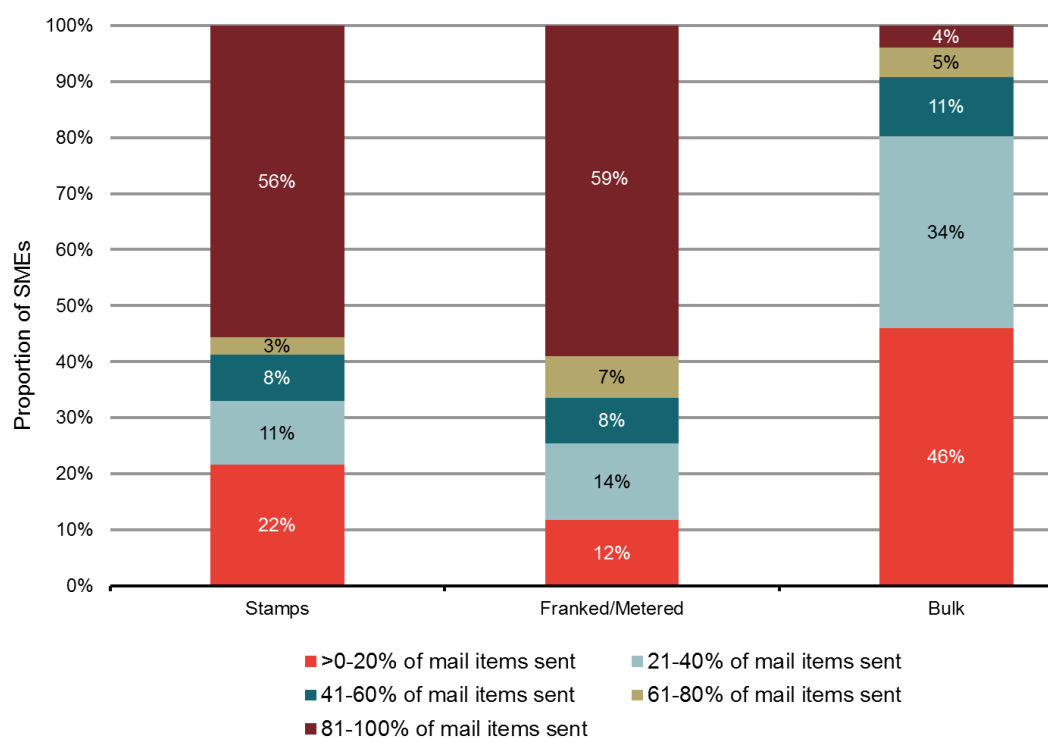
Question: For the letters you send in a typical month using An Post's services, what proportion are sent using stamps, meter/franking and by bulk (ceadúnas) mail?

Note: Mail can be paid with the purchase of a stamp. It can be sent with a franking impression on the envelope with the sender acquiring a franking machine. Bulk mail is a contract service.

For those that are using these products, Figure 16 provides further insight into the extent of this usage.

- Of those using bulk products, 46% of SMEs are sending less than 20% of their mail through these products; a further 34% are sending 20%-40% of their mail through this product.
- In comparison, of those using stamp products, 56% of SMEs are sending more than 80% of their mail through these products.

Figure 20 Proportion of mail sent by SMEs using each payment method, (excluding SMEs that do not use payment method)



Source: Amárach Research (2016), Survey of Business mailers

Question: For the letters you send in a typical month using An Post's services, what proportion are sent using stamps, meter/franking and by bulk (ceadúnas) mail?

3.2.2 Electronic substitution of mail

Large mailers

Our research explored the factors that were driving senders' changing demand patterns. Amongst large mailers, there is a large focus on postal costs. Expenditure on postal services is closely monitored and budgeted for as postal costs to these organisations can be significant. An Post's annual price increases have created a general discontent amongst many larger users, who indicated that they expect future price increases. As a result and in anticipation, these mailers are exploring ways to reduce their dependence on post. Private sector organisations that were interviewed appear to be particularly active in this respect, and some have already achieved very large reductions in volumes in recent years, by switching customers to electronic alternatives, especially in relation to statements, invoices and bills. Some stated that electronic substitution can bring additional benefits. For example, different invoicing patterns can be used to smooth incoming calls to call centres. Electronic substitution can also smooth cash flow if in conjunction with electronic billing customers are more likely to use direct debits (perhaps through use of discounting or other incentives).

In general, these mailers expect the trend to electronic alternatives to continue over the near term as, in response to price increases, they continue to invest in systems and processes that will allow for a greater degree of electronic substitution³⁰.

At the same time, the large mailers interviewed appeared to be particularly price sensitive, on the whole, with respect to the mail for which they face no legal, regulatory or political constraints. As highlighted above, many of these mailers closely monitor and budget for expenditure on postal services, and majority have shifted volumes from An Post's Ceadúnas Discount 6 product to the cheaper, slower, Ceadúnas Discount 11 product since its introduction by An Post in 2014.

To explore this price sensitivity further, we presented large mailers with a potential future scenario of a 10% across-the-board price increase. Most saw such a change as one that would trigger and bring forward significant changes to e-substitution initiatives now under way as senior management weighed up cost of new innovations versus increased cost of postal services.

SMEs

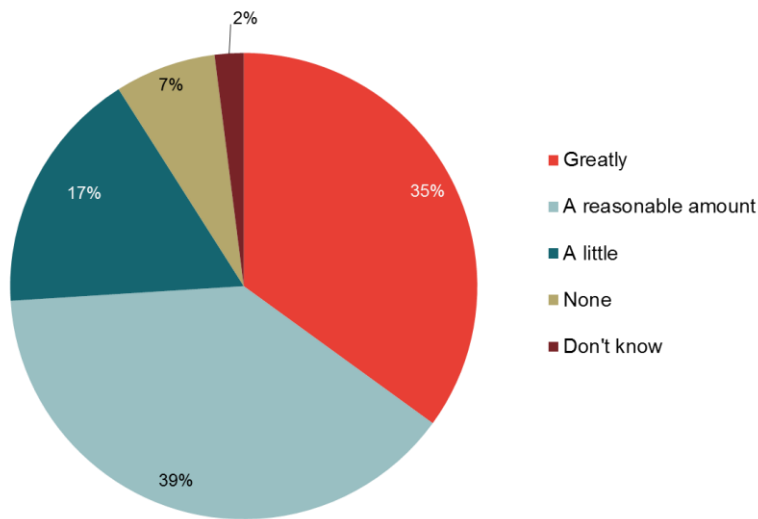
As shown in Figure 21, 74% of SMEs surveyed have already switched at least a reasonable amount of mail volumes to electronic alternatives over the last three years, with nearly half of these respondents reporting that they had 'greatly' substituted their traditional mail with electronic alternatives. Only 7% of respondents reported not to have substituted any of their mail volumes.

For the SMEs sending the largest volumes, this reported extent of electronic substitution is higher. 86% of those sending more than 1,400 letter items per month had switched at least 'a reasonable amount' and all SMEs in this group had substituted at least 'a little' of their mail volumes to electronic alternatives.

Going forward, 60% of respondents expect to shift at least a reasonable amount of post to electronic alternatives. In comparison, and in line with trends to date, only 10% of respondents expected to shift no post to electronic alternatives. Again, the reported extent of expected electronic substitution is higher amongst those SMEs sending the largest volumes. 93% of those sending more than 1400 letters per month expected to switch at least 'a reasonable amount', with all SMEs in this group expected to substitute at least 'a little' of their mail volumes with electronic alternatives going forward.

³⁰ Some suggested that volume response to a price increase is often lagged because it can take a period of time for the necessary investment and systems to enable significant volumes to be switched to electronic alternatives (for example, the creation and roll-out of an online billing system).

Figure 21 Extent of e-substitution by SMEs since 2013

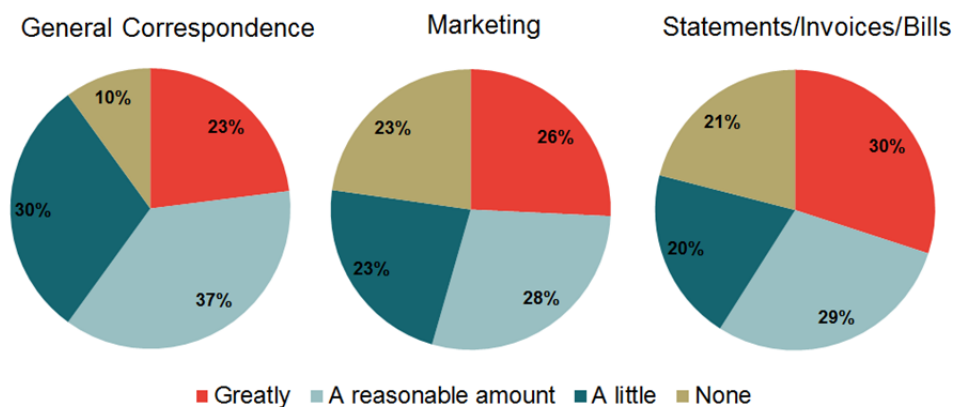


Source: Amárach Research (2016), Survey of Business mailers

Question: To what extent have you substituted your traditional mail with electronic communications such as email in the last three years?. Respondents were offered the following options: None, A little, A reasonable amount, Greatly

As shown in Figure 22, this expected electronic substitution by SMEs varies slightly by type of mail sent. 30% of SMEs expect their statements/invoices/bills will shift greatly away from post to more electronic communications.

Figure 22 SME expected electronic substitution by mail type



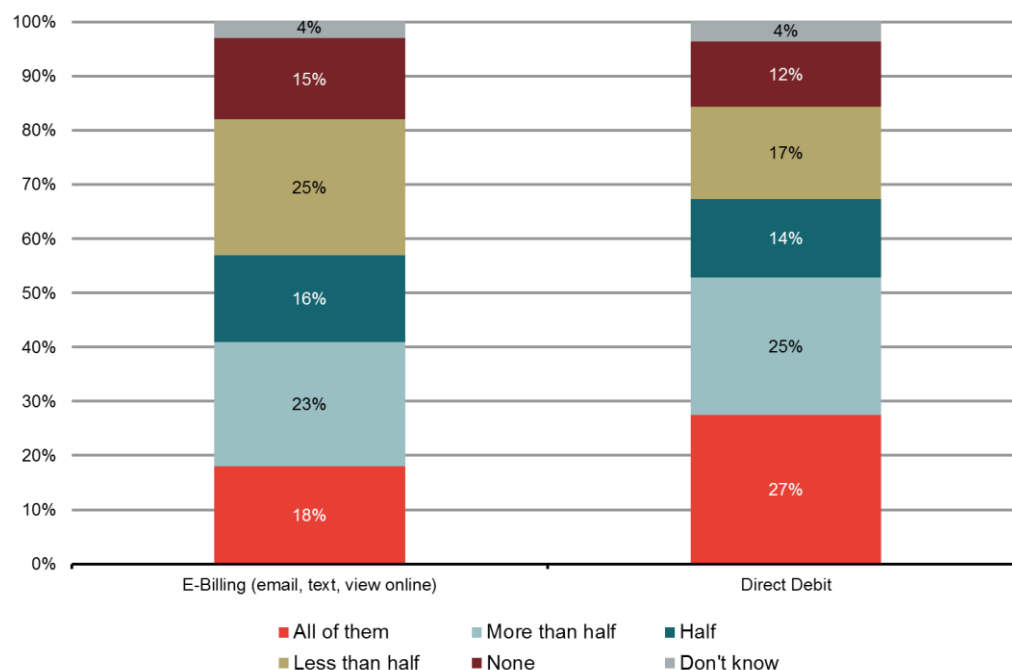
Source: Amárach Research (2016), Survey of Business mailers

Question 6a: To what degree do you expect to switch away from post to more electronic communications such as e-mail?

We also explored electronic substitution from a consumer's point of view as a receiver of post. To do this we considered the incidence of e-billing (in comparison to paper bills) and direct debit use, as shown in Figure 23. With regards to e-billing, 57% of respondents have switched half or more of their household bills to e-billing.

15% have not switched any of their household bills to e-billing and 25% receive less than all their bills by e-billing, which suggests that there is scope for more physical bills that may switch to e-billing in the future as utilities continue to incentivise their customers to switch to e-billing and direct debit payments and users value paperless options.. (We include further findings from the consumer survey in Annex A.)

Figure 23 Proportion of mail switched to e-billing by consumers and proportion of bills paid by direct debit



Source: Amárach Research – July 2016 Omnibus survey

Questions:

1. Thinking of the bills your household receives (electricity, broadband etc.), approximately what proportion of them is sent to you by email/text and that you can view online (e-billing)?
2. Thinking of the bills your household receives (electricity, broadband etc.), approximately what proportion of them are paid by direct debit?

The above findings on electronic substitution from the large mailers, SMEs and consumers suggests that there is the potential for significant volumes reduction in coming years, which could be exacerbated and brought forward by price increases in postal tariffs, especially for large mailers and large SMEs.

3.2.3 Reliance on post as a form of communication

Large mailers

As described above, many of the large mailers interviewed are actively exploring ways to use electronic alternatives to mail and reduce their dependence on post as a communication. Significant progress has already been made by some in this regard, while others expect similar progress to be made in the foreseeable future.

There were concerns expressed by some large mailers at the over reliance on An Post. For example, strikes could potentially impact future mail flows, thus presenting risks to companies' cash flows. Such concern was identified as another

reason to explore avenues for further electronic substitution so as to reduce reliance on An Post.

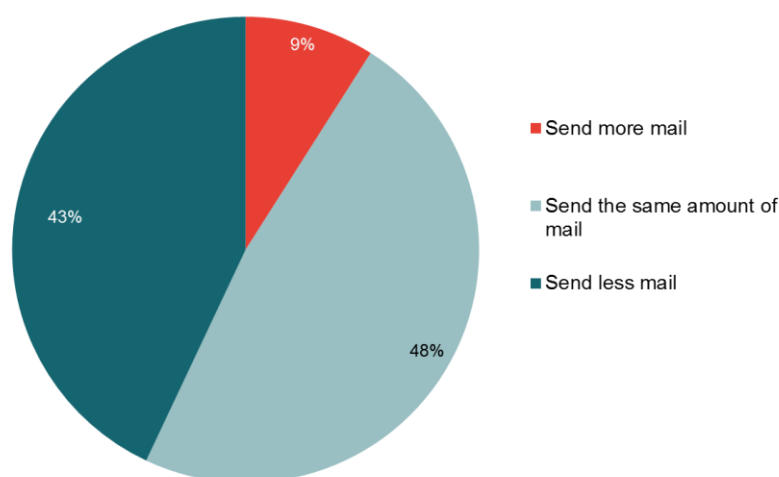
Although reliance on post is expected to decrease, it will continue to be important. In particular, many large mailers reported legal, regulatory or political constraints on their ability to switch specific types of mail to electronic alternatives. For example, legal obligations to send letters informing customers of product changes, such as changes to interest rates for savings products.

SMEs

As described above, the findings from the survey of SMEs illustrated that this customer group has also begun substituting mail for electronic alternatives, and that this is expected to continue.

However, a large proportion of SMEs surveyed, still appear to be reliant on post for their communications, as shown in Figure 24. If faced with a 10% price increase on letter services, 48% said that they would not change the volume of letters sent. 54% of these SMEs reported that this was because post is essential to their business or they didn't see any alternative options to change to.

Figure 24 Stated reaction by SMEs to a 10% price increase on letter services



Source:: Amárach Research (2016), Survey of Business mailers

Questions:

1. What would you do if the price of your letter services increase by 10%? Respondents were offered the following options: Send less mail, Send more mail, Send the same amount of mail/do nothing
2. Those who answered 'Send the same amount of mail/do nothing' were asked 'Why would you not change your letter service?'

Overall, the qualitative interviews in relation to electronic substitution and reliance on post suggests that large mailers may be relatively sensitive to price increases, which could have implications for the demand response to future price increases

from large mailers. As shown above, large mailers have also switched significant volumes to cheaper, but slower services. In fact, over half of An Post's total domestic volumes are deferred delivery products. This is indicative that large mailers are price sensitive as they are willing to accept slower delivery times for a relatively modest decrease in price (discussed further in section 4.2).

The above findings also suggest that smaller businesses may, everything else being equal, be more reliant on postal services as they have a lower ability or a relatively lower proportion of mail that can be switched to other methods (e.g. email). Also, as we discuss in detail below, there is an overwhelming preference from SMEs for the current D+1 specification to be rationed, rather than a cheaper but slower service. While this research relies on stated preferences for SME, it does suggest that SMEs are less price sensitive than large mail users.

4 RESEARCH FINDINGS IN RELATION TO POLICY QUESTIONS

This section considers two main policy questions addressed as part of our research:

1. Is the current specification of the universal postal service appropriate?
2. Is the frequency of the single piece universal postal service appropriate?

We reviewed the current specification of the universal service obligations against the minimum universal service requirements set out in the 2011 Act in Ireland. Our findings show that:

- Universal Postal Service Definition: There is scope to reduce or change the scope of the products subject to the universal service obligations, including bulk mail, ancillary services and parcels;
- Speed of Delivery: There is scope to change the speed of delivery, in particular the current D+1 standard for domestic single piece items; and
- Frequency of Delivery: There is scope to amend the frequency of delivery requirements.

We discuss in more detail below our research findings along these three key universal service dimensions.

4.1 Scope for changing the universal postal service definition

The Communications Regulation (Postal Services) Act of 2011 (“2011 Act”) transposes the universal postal service requirements of the EC Postal Directive 97/67/EC³¹ (as amended in 2008). The **minimum** universal postal service requirements in Ireland are set out in Section 16 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 in the rest of the document)³². This specification extended the scope of the universal service obligation beyond that per the 2011 Act. Therefore, comparison of the specification of the universal service under SI 280 with the minimum requirements under the 2011 Act highlights areas where there is scope to reduce parts of the universal service.³³

³¹ http://ec.europa.eu/internal_market/post/doc/legislation/2008-06_en.pdf

³² http://www.comreg.ie/csv/downloads/SI_280_of_2012.pdf

³³ Also, we note that the scope of the universal service could, alternatively be extended should that be required to meet the reasonable needs of postal users.

Reducing the current specification of the USO back to only the minimum required by section 16 of 2011 Act

Figure 25 shows the universal service requirements set out in the 2011 Act and the additional universal service specifications set out in Statutory Instrument 280. It shows that SI 280 extends the universal service relative to the Act by:

- adding specificity to formats of letters, large letters and packets;
- increasing the maximum weight threshold for domestic parcels from 10kg to 20kg;
- adding ancillary products that are subject to universal service obligations: Private boxes and bags, Redirection, Poste Restante, MailMinder, Business Reply and Freepost;
- adding the provision of bulk services under the scope of the universal service; and
- adding specific transit times to the universal service (e.g. An Post has to provide a next day single item delivery service (D+1)).

Although the 2011 Act requires ComReg to specify Quality of Service Standards it does not place any restrictions on the exact delivery speed required by An Post whereas SI 280 does.

Figure 25. Universal service obligations

Minimum obligations under the 2011 Postal Act	Additional universal service obligations set under the 2012 SI 280³⁴
Clearance, sorting, transport of postal items up to 2kg.	The 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.
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
	The 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 ■ Freepost
	The SI 280 requires the provision of a domestic service for items deposited in bulk under the USO ³⁵ <ul style="list-style-type: none"> ■ 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
	The SI 280 specifies the speed of delivery in setting out the transit time standards of all single piece services <ul style="list-style-type: none"> ■ D+1 within state ■ D+3 within EU ■ D+9 to all other foreign addresses
Sorting, transport and distribution of postal parcels from other member states up to 20kg.	-
Minimum one clearance and one delivery to every premise every working day	-
A registered service and an insured service	-
A single piece service provided free of charge for the transmission of postal packets for the blind	-

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

Note: “-” indicates that S.I. No. 280 adds no further regulation to the 2011 Postal Act

³⁴ http://www.comreg.ie/csv/downloads/SI_280_of_2012.pdf

³⁵ “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

Changing the frequency of the single piece universal postal service

The 2011 Act also requires An Post to make a minimum of one clearance and one delivery to premises nationwide every working day, except in such circumstances or geographical conditions as ComReg considers being exceptional. When considering such exceptions, ComReg shall have regard to:

- the technical, economic and social environment; and
- the reasonable needs of users.

The 2011 Act also specifies that when ComReg makes a determination in relation to delivery frequency it shall have regard to:

- the reasonable needs of users;
- the measures that An Post may be reasonably required to take in order to meet these reasonable needs; and
- such other matters that ComReg considers appropriate, including ease of access to homes or premises, and the health and safety of employees/agents of An Post.

In order to determine whether changes to the USO specification are appropriate, we need to explore users' current needs in terms of frequency of delivery and whether mailers would prefer a change in the frequency of delivery. In particular, whether the evidence suggests that a change in the current frequency of delivery would be appropriate.

On the basis of the analysis on the scope for altering the specification of the universal service in this sub-section, we identify three key areas for assessment of users' needs:

- **Usage of USO products:** We consider the usage of universal service products because, as noted above, there is potential scope for reducing the products subject to obligations, including bulk products, ancillary services and parcels above 10kg.
- **Speed of delivery:** We consider speed of delivery as there is potential scope to alter the speed of delivery.
- **Frequency of delivery:** We consider frequency of delivery as there may be potential scope to alter the frequency of delivery.

In addition, we provide further information on these three areas by considering the definition of these in other, mainly European jurisdictions in Annex B.

4.2 Usage of USO products

This section considers the scope of the products subject to the universal service obligations. We focus on USO bulk products, ancillary services and parcels above 10kg because, as noted above, the current obligations go beyond the minimum requirements set out in the 2011 Act. We consider the scope of the products by assessing users' demand for these products, drawing upon both our primary and secondary research.

4.2.1 Products: Bulk Mail

As discussed above, SI 280 requires that a deferred delivery and a next day delivery bulk product be made available under the universal service.

We therefore analyse the actual demand for such universal bulk service and the stated preferences of SMEs and large mailers in relation to such products.

As noted earlier, An Post provides three universal service (USO) bulk products bearing a Ceadúnas and requiring a minimum of 2000 items per mailing, namely:

- Ceadúnas Discount 6 with a D+2 transit time,
- Ceadúnas Discount 9 with a D+1 transit time and
- Ceadúnas Discount 7 with a D+2 transit time.

In 2014, An Post launched an additional bulk product – Ceadúnas Discount 11 with a D+3 transit time – that is outside the universal service and is commonly used by large mailers.

An Post also provides USO deferred bulk services for mailings from 200 items upwards and where the postage is paid by a meter/ franking machine.³⁶

Lessons from Regulatory Account data

Figure 26 shows that the demand for USO bulk products has been declining sharply since 2013. Mailers sent just under 200 million universal bulk items in 2013, dropping to 82 million items in 2015.

There are two main drivers behind this change.

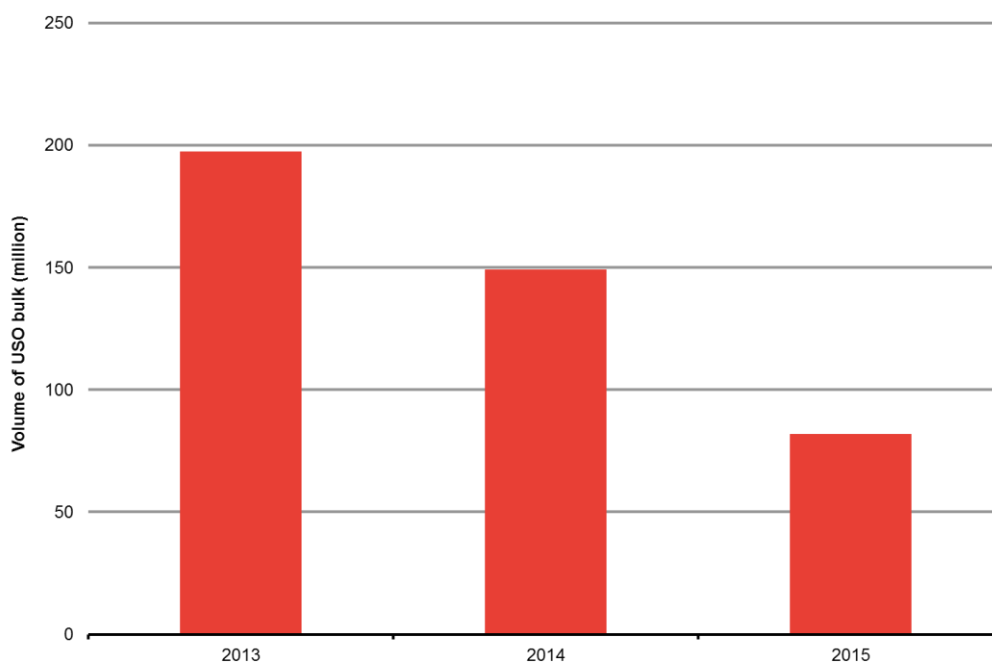
- The large mailer interviews highlight a general trend towards switching to more electronic communications, resulting in sending lower volumes of postal mail.
- The launch by An Post of a new bulk product, Discount 11³⁷. This new bulk product Discount 11 is a non-USO product and as a result is not included in the figures from the Regulatory Account data below. Large mailer interviews highlighted that many have switched to using Discount 11 for their bulk mail needs as it is priced lower than the USO bulk mail products – discussed in the next sub-section.

³⁶

http://www.anpost.ie/AnPost/Downloads/Anpost/200_items_upwards_Bulk_Discounts_For_Mailers_An_Pos_t.pdf An Post offers Discount A and Discount B for mailings between 200 and 1999 items with manual and automated processing. The transit time is D+2.

³⁷

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.

Figure 26 Volume trends of USO bulk products (Disc. 6 & 9)

Source: An Post's Regulatory Accounts

Usage of Bulk mail products by business mailers

All the mailers we interviewed use either the USO Discount 6 or 9 or non-USO Discount 11 bulk products, or a combination of both. Large mailers indicated that they try to shift as much mail as possible away from the USO Ceadúnas bulk product range with D+1 or D+2 transit times to the non-USO Discount 11 (D+3) product. The Discount 11 product provides a cheaper but slower service when compared with the USO products. This suggests that many bulk customers are very sensitive to price as they are willing to accept a further one day delay for a 4% (or 2 cent) discount³⁸.

However, large mailers also expressed a continued need for faster bulk services for some of their more time sensitive mailings, which are possible with the USO bulk product range.

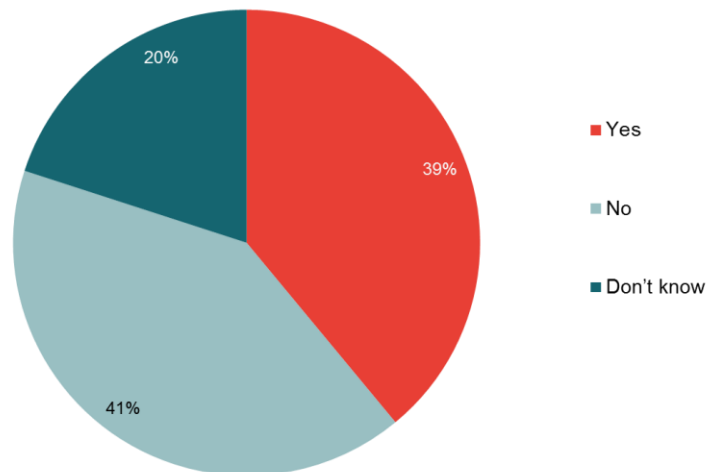
Some of those who currently use the USO product Discount 6 (D+2), indicated their desire to shift to Discount 11 (D+3), but noted that the main barrier to such a switch was their inability to meet An Post's additional sortation requirements (from 85% to 95% of it being sortable to its destination by mail sorting automated equipment) rather than their inability to meet the volume requirements (from 2000+ to 5000+ items/ mailing).

Whilst all large mailers interviewed use bulk services (with a switch to non-universal bulk service Discount 11), not all SMEs use bulk services. According to the SME survey, 39% of SMEs reported having used An Post Ceadúnas (bulk mail)

³⁸ As we discuss further below in the speed of delivery section, most SMEs would prefer a one day delivery service than a two day service with a 5% discount. Although we note that the two day delivery timeframe in that circumstance would apply to all their mail, while large mailers can currently tailor their required delivery speed depending on the time sensitivity of the mail.

products for domestic mail in the last month; 41% did not with another 20% not knowing as shown in Figure 27³⁹. The proportion of those having used a bulk service in the last month is higher among businesses with 50-249 employees (49%).

Figure 27 Use of An Post bulk mail products by SMEs



Source: Amárach Research

Note: Q.17 In the last month has your organisation sent large mailings and used any of An Post Ceadúnas (bulk mail) products for domestic mail?

Regarding bulk services for international mail, 29% of all SMEs reported having used these services and 54% replied that they had not (the other 17% of SMEs did not know).

Of those using bulk domestic mail products among SMEs surveyed, it remains the case that their bulk mailing accounts for a small proportion of their overall mailings. 46% of SMEs using Bulk mail products are only sending 1-20% of their mail through these bulk products. A further 34% send 21-40% of their mail through these bulk products.

Regarding the size of each bulk mailings, the following findings were drawn from the survey.

- 86% of SME bulk users reported that the average number of items in each of their bulk mailings were under 200 items⁴⁰.
- 11% of SMEs send bulk mailing with an average number of items between 200 and 1999. With mailings of such a size, these SMEs can be expected to have

³⁹ SME survey, Q.17: In the last month, has your organisation sent large mailings and used any of An Post Ceadúnas (bulk mail) products for domestic mail? Based on all who used bulk services in the last month.

⁴⁰ SME survey, Q.19: What is the average number of items in each bulk mailing?

access to discounted bulk services that are available for machineable 200+ items mailings and bearing a franking impression⁴¹.

- 4% of SMEs send mailings made of more than 2000 items per mailing, which would give them access to An Post bulk services bearing a Ceadúnas impression.

Overall, in relation to usage of bulk mail, the research on both large mailers and SMEs finds that:

- large mailers regularly use both USO and non-USO bulk products;
- for SMEs, a smaller proportion use bulk services, and bulk mail accounts for a smaller proportion of their mail;
- the larger the size of the SME, the more likely they appear to use a bulk service;
- the bulk services used by SMEs are mainly the USO discounted bulk range bearing a franking impression and less than 5% of SMEs have mailings of more than 2000 items that give them access to the Ceadúnas bulk range (Discount 6, 9 and 11)⁴².

A significant proportion of SMEs reported sending under 200 items per mailing – which would suggest that they may not qualify for discount on the basis of volume but only on the basis of being prepaid by franking meter impression. Nonetheless, these SMEs claimed to use bulk services. We recommend that future research could consider the range of bulk services used by SMEs.

4.2.2 Products: Ancillary services

We refer to the following products as ancillary services:

- private boxes and bags;
- Redirection;
- Poste Restante;
- MailMinder;
- Business Reply; and
- Freepost.

The SI 280 requires that these products are part of the universal service which goes beyond the 2011 Act requirements.

The ancillary services listed above are very specific services with a targeted use. Figure 28 summarises the features of each of these services. We note that Redirection, Poste Restante and MailMinder are services used by recipients of mail.

⁴¹ http://www.anpost.ie/AnPost/Downloads/Anpost/Schedule_of_Charges_21_July_2016.pdf;
http://www.anpost.ie/AnPost/Downloads/Anpost/200_items_upwards_Bulk_Discounts_For_Mailers_An_Post.pdf

⁴² A Ceadúnas is a mailing licence which enables the mailer to send mail without the use of stamps or a meter mark.

Figure 28. Features of USO ancillary services

	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.

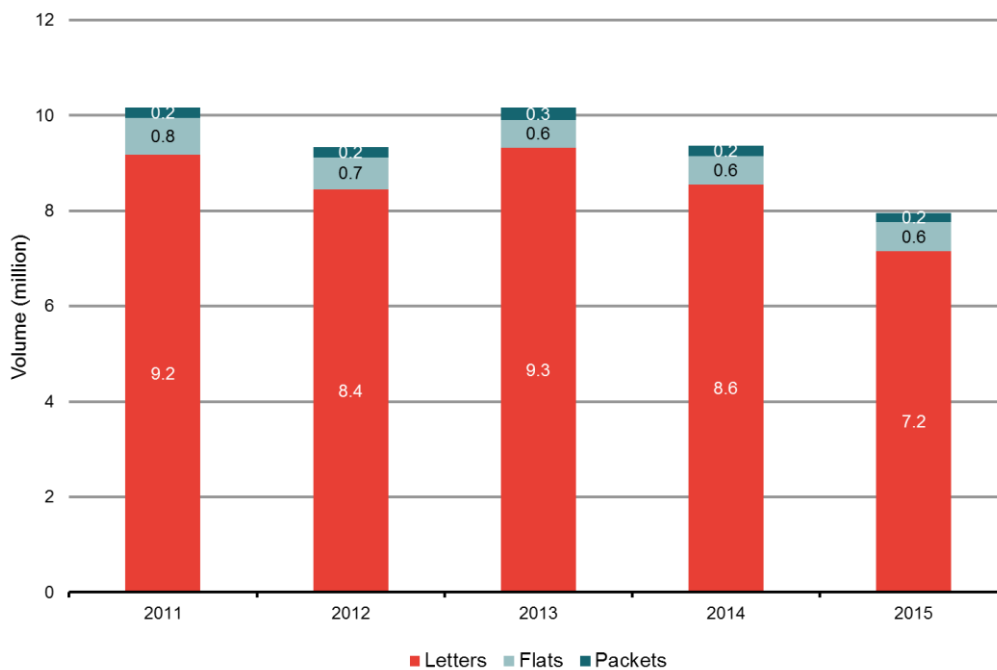
Source: An Post's website

Insights from Regulatory Account data

An Post's regulatory accounts data suggests that the use of ancillary services is low compared to other services, which is partly attributable to their targeted use. The charts below show that the volume of freepost and business reply amounted to about 8 million items in 2015. This has declined by about 22% since 2011. In comparison, the total volume of USO mail is of the order 350 million items in 2015.

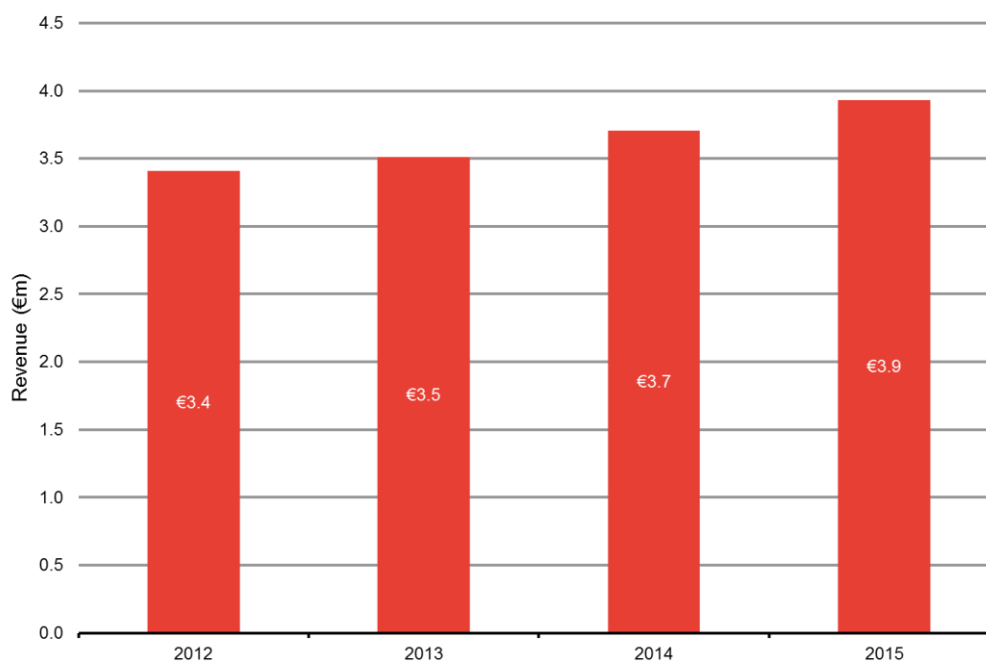
Based on revenue data for other ancillary services (Redirection, Post Boxes, MailMinder), we note that the demand for these services could be on the rise from a low base and generated just under €4 million in 2015 after allowing for a price increase in 2014.

Figure 29 Items sent using Freepost / Business Reply



Source: An Post Regulatory Accounts

Figure 30 Revenue trends for 'Other' USO product



Source: An Post Regulatory Accounts

Note: 'Other' ancillary products cover Redirection, Post Boxes, MailMinder. Poste Restante is a free service.

Usage of ancillary services

For large mailers interviewed, the most commonly used service is PO Box. It is seen as an inexpensive way to streamline delivery of inbound mail. Some large mailers also said that they use the Redirection service for this purpose as well.

Based on the responses from large mailer interviews, we observe that:

- the demand for PO Box might be lower in the private sector than in the public sector;
- large mailers in the public sector use PO Box in relation to application forms and other services; this use of PO Box is also often tied to the usage of Freepost and Business Reply; and
- whilst using PO Box, private sector organisations noted that they tend to be more focussed on switching customers to electronic communication channels than promoting the use of post through Freepost and Business Reply.

Among the SMEs surveyed, we find that the majority (over 60%) never use the 'Other' ancillary products, apart from Freepost. Figure 31 shows the following:

- More than half (52%) use Freepost at least once per year. Of those using Freepost, it is most common to use it several times a year.
- PO Box and Redirection are the most common products that are used at least monthly (23%). This is significantly higher for respondents sending over 1400 items per month (43%).
- 20% of respondents use Business Reply at least monthly.
- Poste Restante and MailMinder are used by the fewest respondents, with 74% having never used Poste Restante and 77% having never used MailMinder. Usage of both products is even lower for respondents who send 800+ items (91% 'Never' for MailMinder and 82% for Poste Restante). These results are less surprising given that Poste Restante and MailMinder are services for recipients of mail.

Figure 31. Frequency of usage of ancillary USO services, % of SMEs

	Everyday	Weekly	Monthly	Several times a year	Once a year	Never
PO box, private box/bag	7	5	11	9	5	62
Redirection	5	8	10	11	5	60
Poste restante	4	4	7	6	4	74
Mail minder	3	3	6	5	5	77
Business reply	4	8	8	11	4	65
Freepost	7	11	12	16	5	48

Source: Amárach Research

Note: Q.8 Do you use the following services... and how often do you use them?

Spend on ancillary services by SMEs

We also considered the typical monthly spend on ancillary services by SMEs, and we summarise the main findings below:

- **PO Box:** 32% of SMEs (or, 40% if “don’t knows” are excluded) who use PO Box typically spend more than €50 per month on these services, while 19% (24% excluding “don’t knows”) spend more than €100 per month.
- **Business Reply:** 33% (39% excluding “don’t knows”) of SMEs who use Business Reply typically spend more than €50 per month on these services, while 18% (22% excluding “don’t knows”) spend more than €100 per month.
- **Freepost:** 22% (31% excluding “don’t knows”) of SMEs who use Freepost typically spend more than €50 per month.
- **MailMinder:** 22% (still 22% excluding “don’t knows”) of SMEs who use MailMinder typically spend more than €50 per month.
- **Redirection:** 17% (24% excluding “don’t knows”) of SMEs who use Redirection typically spend more than €50 per month.

It is evident that a relatively small proportion of SMEs typically spend a significant amount on these services, which is expected as they are products that target a sub-segment of the market, and are used relatively infrequently.

4.2.3 Demand for parcels by weight

SI 280 requires that a universal domestic parcel service be made available for items up to 20kg rather than 10kg under the 2011 Act.

Face-to-face interviews with large mailers and the SME survey indicate that parcels tend to be concentrated in lower weight steps. Large mailers reported that they send very few packets and parcels. The vast majority (98-99%) of postal items sent by large mailers is Letters. When large mailers have ad hoc needs to send packets and parcels, these are usually sent through third parties, such as couriers.

The SME survey shows that 91% of SMEs had used packet/parcel services. Only 2% of these sent parcels over 10kg (on average) in weight. In fact, 90% of SMEs sent parcels that weighed less than 6kg on average, with over half of these sending parcels weighing less than 2kg on average.

4.2.4 Emerging themes

Below we summarise our key findings in relation to the usage of universal service products which are required under SI 280.

For bulk products we find:

- nearly 30% of SMEs had used a bulk mail product in the last month, while all large mailers regularly use bulk products;
- USO bulk products still remain important products in the postal product range for both large mailers and SMEs; and

- minimum volume and auto-sort thresholds are barriers to mailers using USO bulk products; therefore consideration should be given to revising the bulk mail requirements in the universal postal service regulations to stipulate these criteria specifically.

RECOMMENDATION 1

The evidence suggests that certain bulk services should remain in the USO. However, given minimum volume and auto-sort thresholds are barriers to mailers using USO bulk products, consideration should therefore be given to revising the bulk mail requirements in the universal postal service regulations to make these available to more postal service users

For ancillary services we find:

- there is a demand for ancillary services but their usage varies among SMEs: 52% of SMEs have used freepost, 40% Redirection; 38% PO Box services and 35% Business reply;
- Poste Restante and MailMinder have been used by only a quarter of SMEs – although one should bear in mind that these two services largely target the recipients of mail rather than mailers; and
- while demand for these services is lower than for other USO products, some users place a high value on these services, such as the use of redirects to manage mail flows within large organisations.

RECOMMENDATION 2

The evidence suggests that there is no obvious need to revise the current specification of USO ancillary services in the universal postal service regulations

4.3 Speed of service

We now review the findings in relation to mailers needs with respect to speed of delivery. The SI 280 specifies the speed of delivery for single piece services, which are:

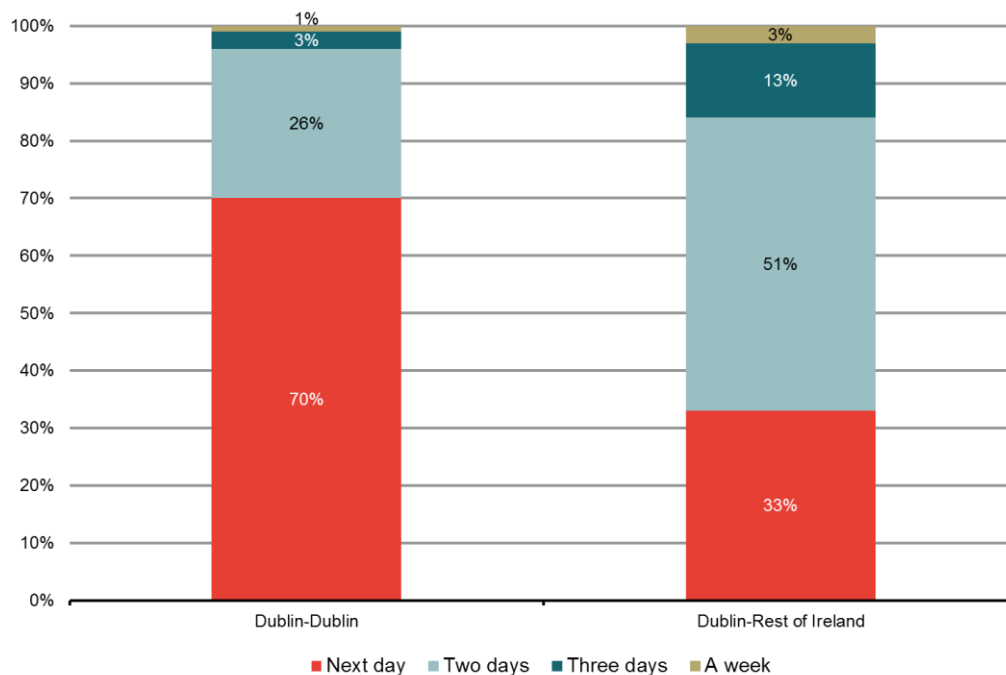
- D+1 within state;
- D+3 within EU; and
- D+9 to all other foreign addresses.

4.3.1 Current needs for time sensitive mail

Users perceptions around current speed of delivery

Domestic standard mail comes with a D+1 delivery quality standard, but not all business mailers appear to be either aware, or believe that the mail will be delivered within that timeframe. Figure 32 shows that for mail from/to Dublin, 70% of SME respondents believe they would receive a next day service. For mail originating in Dublin for a destination outside Dublin, 51% of respondents expect a D+2 service and only 33% expect a next day service.

Figure 32 Expected speed of letter delivery



Source: Amáarach

Note: Base – All respondents – 275

Question: If you posted a letter in Dublin today before 5.30pm, by when would you expect the letter to be delivered?

This mismatch between specification and expectation may explain the mailing choices made by mailers when they have a time sensitive item to be delivered next day – in particular the survey finds that:

- very few business mailers (1%) would use An Post Standard for the delivery of time sensitive letters; and
- 64% of respondents would use a value added product of An Post (Registered Post, Express Post) for a next day delivery for their time sensitive mail.⁴³

Time sensitive mail requiring next day delivery

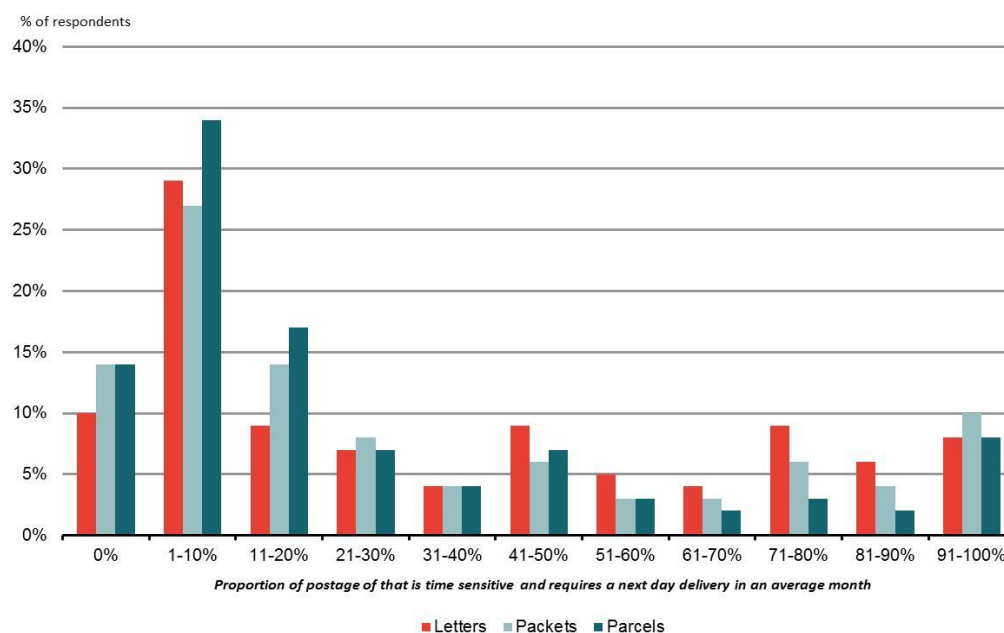
For large mailers interviewed, we find that the importance attached to having a next day delivery service for time sensitivity of mail varied across respondents. One mailer highlighted that the availability of such a next day delivery service is important as its business needs information back from recipients within particular timescales. Another large mailer highlighted that it tries to balance time sensitivity with cost depending on the type of mail, with time being more important for certain types of fulfilment mail, and less important for transactional mail. In general, large mailers stated that it was more important to know what day the item was going to be delivered as this helped with business and resource planning (such as contact centres) and when to take follow-up action with the customer.

According to the SME survey, there is a need for a next day delivery service, albeit to differing degrees. One out of every three SMEs has more than 50% of its mailing that is time sensitive requiring next day delivery.

Figure 33 shows the proportion of letters that are time sensitive requiring next day delivery in an average month for SMEs surveyed. For 29% of SMEs, the proportion of their letters that are time sensitive is between 1-10%. But as just said, for 32% of respondents, the proportion of their letter mailing that is time sensitive is above 50%.

The proportion of parcels that is time sensitive is lower but it remains the case that a next day service for parcels is needed among some SMEs. For 18% of SMEs, the proportion of their parcel mailing that is time sensitive is above 50%.

⁴³ Q23 If you had a time sensitive letter that needed to be delivered by the next day within Ireland, what service would you use?

Figure 33 Time sensitive postings sent by SMEs in an average month

Source: Amárach Research

Note: Q.26 Thinking of your postage in an average month, what proportion would you say is time sensitive and requires a next day delivery? A) letters; B) Packets and C) Parcels.

4.3.2 Current needs for non-time sensitive mail

Large mailers' needs for non-time sensitive mail

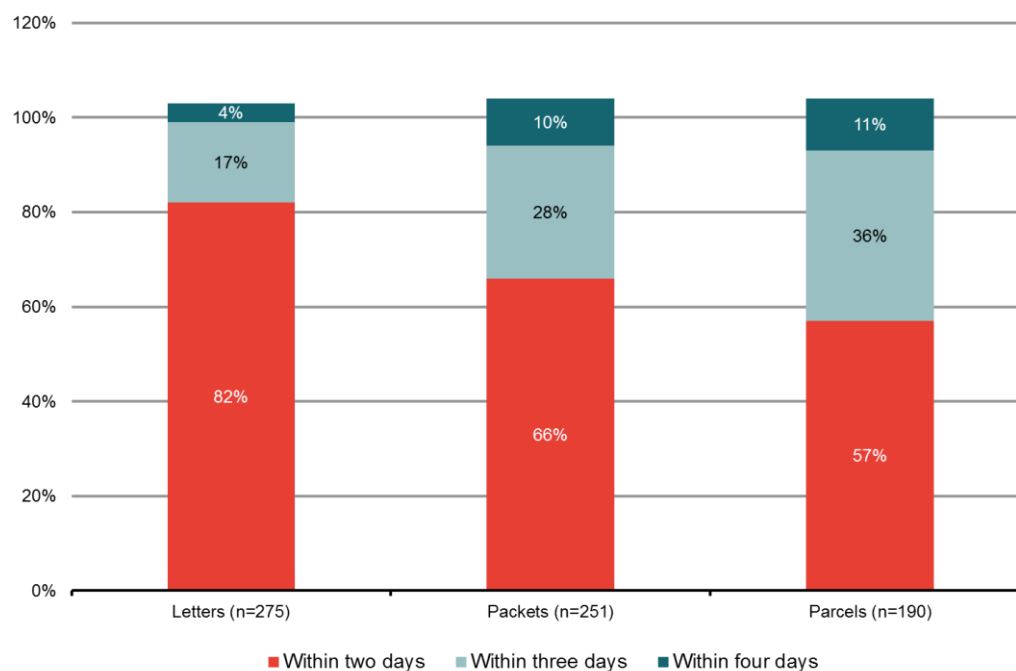
As discussed earlier and evidenced by Regulatory Account data, the demand for USO D+1 (Discount 9) and D+2 (Discount 6) is declining as large mailers switch to D+3 Discount 11 suggesting that large mailers are willing to trade-off price for slower services for their non-time sensitive bulk mailings.

This is consistent with the feedback shared during interviews with large mailers. Most large mailers indicated that they work backwards from desired delivery date so as to pre-plan their mailings such as bill generation. This is indicative that transit time is less of a driver of service choice whereas predictability of time of arrival is an important matter.

SMEs needs for non-time sensitive mail

Our SME survey finds that a sufficient transit time for non-time sensitive mail would be D+2 for 82% of respondents for their letters, 66% for packets and 57% for parcels as shown in Figure 34.

Mailers of packets and parcels appear more willing to consider a slower service than D+2. 28% and 36% of mailers of packets and parcels would find a delivery within 3 days sufficient for their non-time sensitive items.

Figure 34 Sufficient delivery speed for non-time sensitive items

Source: Amárach Research

Note: Q25. For items that are not time sensitive, what delivery speed would be sufficient a) letters, b) packets and c) parcels

4.3.3 Response to alternative speeds of service

Large mailers

As discussed above, large mailers typically have access to alternative speed times through discounted, deferred bulk products. Their demand shows that for the majority of their demand they prefer this over faster, more expensive options. However, a proportion of their mail is more time sensitive, such as offers to customers and certain campaigns.

Therefore we asked them their views on reducing the standard (D+1) delivery time. The proposition of a reduction in speed of service from D+1 to a slower service was received negatively among large mailers. For certain mail volumes, large mailers appear to require a more speedy service than for the bulk of their mailings.

The discussion also found that large mailers really value 'certainty of delivery' more than 'speed of delivery' per se. They expressed the views that their concern with speed of delivery is less about how long it takes for recipients to receive mail but more about the fact that it can be difficult for them to predict when their mail will be received by customers. Large mailers appear to value the certainty of knowing which exact day their mail will be delivered.

SMEs

The SME survey asked respondents to consider a number of trade-off scenarios between speed of service and tariffs for single item letters, packets and parcels.

In the survey, we asked SMEs to consider the current next day delivery service at 75 cents per letter compared with a slower 2 day service at 71 cents (circa 5% cheaper) or a 3 day service at 68 cents (circa 9% cheaper). SMEs were asked to consider similar trade-offs for packets and parcels⁴⁴.

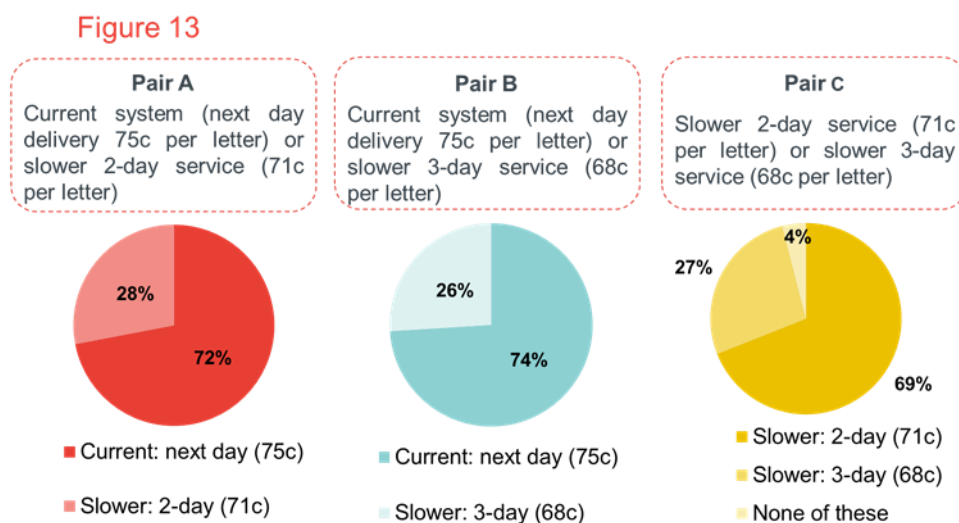
Alternative speeds of service for domestic single item letters

The majority of SMEs said that they would prefer the current system to a cheaper, slower letter delivery service. Figure 35 shows that:

- Given the choice between a D+1 service or cheaper D+2 service, 72% of mailers of letters would prefer the current D+1 option; and
- Given the choice between a cheaper D+2 service and further discounted D+3, 69% would prefer a D+2 service.

These results are stable and do not vary according to business size of SMEs. For example, a small firm with less than nine employees does not have a higher probability of preferring the current option. So to the extent we are concerned by the needs of small SMEs, we note their equal preference for the current provision given the scenarios presented to them as part of the survey.

⁴⁴ The price differentials in return for a slower service considered in the scenarios for our survey were informed by the differences in tariffs between a USO Discount 9, Discount 6 and the non-USO Discount 11 which are D+1, D+2 and D+3 services respectively. A 50 gram letter sent under USO Discount 9 is charged at 57 cent for a D+1 and requires the mailing to presorted (151 sorts) handed over before 5:30pm. The equivalent letter under a USO Discount 6 is charged at 52 cent for a D+2 service and requires the mailing to be 85% auto-sort (ie machine readable) and handed over before noon. The price differential for 1 day difference is thus 5c and can be attributed to a slower service and variants in the presentation of mail. For our scenario in our survey, we thus assume a 4c price difference between a D+1 and D+2 for a single item letter. To come to a view on a reasonable price difference between a D+1 and D+3 service – we informed our assumption on the basis of the price differential between a Discount 9 (D+1) and Discount 11 service charged at 50c with a 95% auto-sort and volume threshold of 5000. The price differential for a slower service by 2 days is thus 7 cents. For our scenario in our survey, we also assume a 7c price difference between a D+1 and D+3 services for mail services used by SMEs. We are aware that the price differentials observed for bulk products are not necessarily those that a fully informed operator may choose for mail services for SMEs and private households. However this information on bulk price differentials to account for different speed of delivery seemed to be a sound basis for this research on customers' preferences. http://www.anpost.ie/AnPost/Downloads/Anpost/2000_items_upwards_Bulk_Discounts_For_Mailers_An_Post.pdf

Figure 35. Domestic Letters: alternative delivery systems

Source: Amárach Research

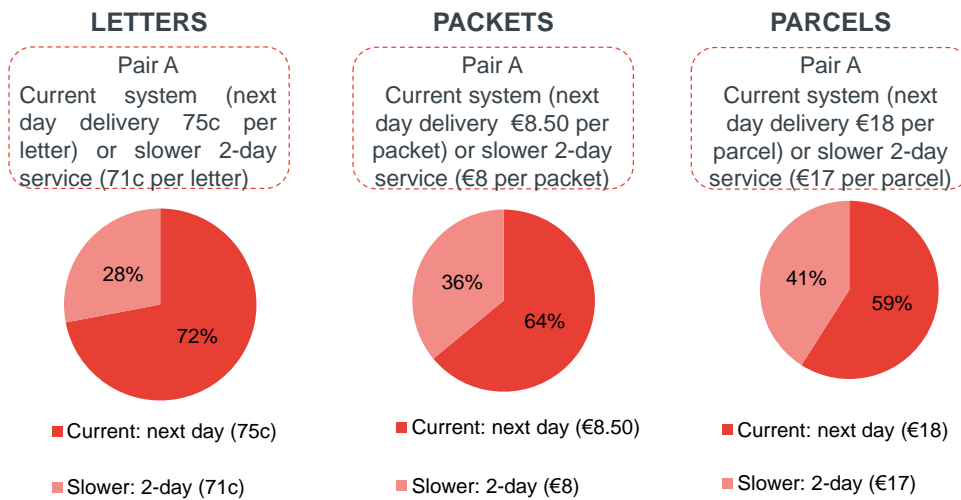
Note: Q27. Thinking about your postal needs for a domestic single letter mail in the future, if you could choose what was offered, which one of these options would you choose between the following pairs: Pair A, Pair B, Pair C.

Alternative speeds of service for domestic single item packets and parcels

We reviewed the extent to which this preference for the current next day delivery varies when the mailing is made of letters, packets or parcels as illustrated in Figure 36. It shows that this preference for the current next day delivery applies to all types of mail – letters, packets and parcels but weaker for packets and parcels:

- 72% of SMEs would prefer the current D+1 system when sending letters. This proportion declines to 64% and 59% of SMEs when it is about sending packets and parcels respectively.
- Faced with a choice, 41% of mailers would choose a D+2 service for their parcels mailings whereas only 28% would choose this slower service for their letters mailings.

Figure 36. Current delivery system vs. slower 2 day service for letters, packets and parcels



Source: Amárach Research

Note: Q27. Thinking about your postal needs for a domestic single letter/ packet/ parcel mail in the future, if you could choose what was offered, which one of these options would you choose between the following pairs: Pair A, Pair B, Pair C.

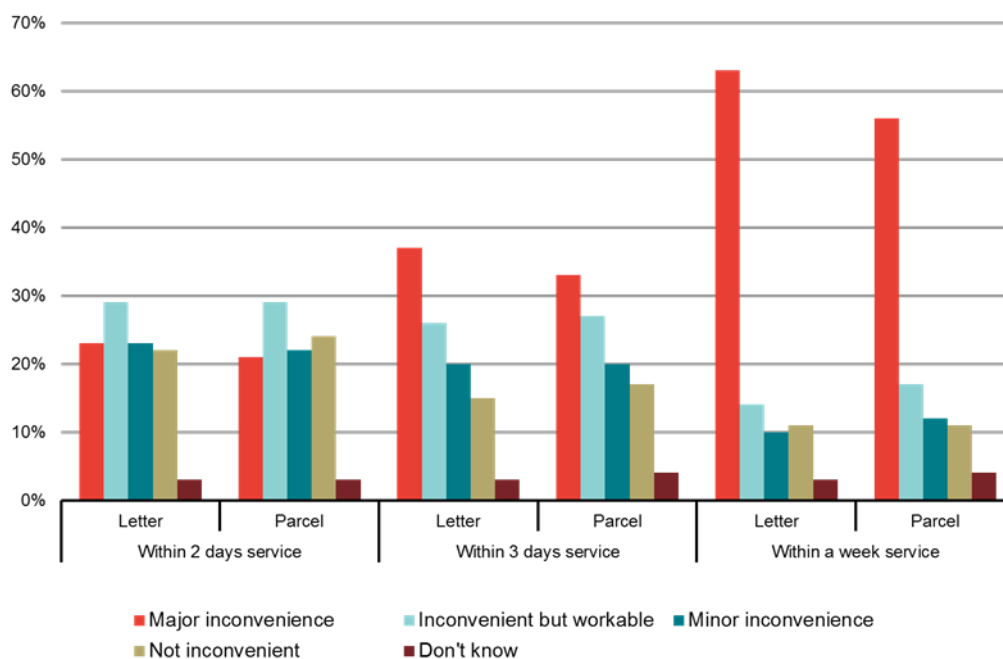
Recipients' perspectives

Our consumer survey asked recipients of mail how they would be impacted if mail addressed to them was delivered within two days, within three days and within a week, as shown in Figure 37.

The consumer survey finds that households would be negatively impacted by a reduction to slower, weekly service. More than 60% and more than 50% of recipients of letters and parcels respectively would find a weekly service a major inconvenience.

Responses were mixed in relation to a reduction to a 'within 2 days' service:

- nearly 50% reporting either a minor inconvenience or not inconvenient; and
- only c. 20% of respondents report that a two day service would be a major inconvenience.

Figure 37 Recipients of mail: Impact of reduced speed of delivery

Source: Amárach Research

Note: Base: All respondents – 1001

Question: In relation to receiving letters or packets/parcels, how would you be impacted if the speed of delivery of this mail was reduced from the current day delivery service

4.3.4 Emerging themes

Our research into postal users' demand for speed of service finds:

- large mailers rate the predictability of the day of delivery as more important than the speed of delivery;
- a large majority (72%) of SMEs prefer the current next-day (D+1) service to a slower, cheaper service;
- SMEs require a time-sensitive delivery service, even if time-sensitive mail accounts for a small proportion of their weekly mailings;
- a slower (D+2) service for non-time sensitive letter mail would be sufficient for more than 8 out of 10 SMEs;
- SME mailers of packets and parcels appear more willing to consider an even slower service (D+3) service for their non-time sensitive mailings; and
- while households would prefer a next-day delivery service, most would find a two-day delivery service to be workable for them.

As noted earlier, large users, who account for most mail sent, mainly use a deferred (D+2, D+3) service to avail of its lower price. For SMEs and consumers, the evidence does not suggest a strong demand to change the current USO speed of delivery for both letters and packets/parcels. However, we note that moving to a delivery speed of two days would not appear to be a major inconvenience for most postal users according to the survey.

We note that while most would prefer a next day delivery service, there is evidence that many do not believe that this is currently being provided. For Dublin-to-Dublin mail, 30% of senders believed they would not receive a next day service. For mail originating in Dublin for a destination outside Dublin, 67% of respondents expected delivery to take at least two days.

RECOMMENDATION 3

The evidence suggests that SMEs paying for a USO next day delivery service prefer this to be retained. However, we note that moving to a delivery speed of two days does not appear to be a major inconvenience for most postal users as many expect current delivery to take this long for certain postings within Ireland.

Most mail is sent by large users and these users use a deferred service (greater than next day delivery), for these users predictability of the day of delivery is important and these users are willing to accept a longer deferred service to avail of a lower price.

4.4 Frequency of delivery

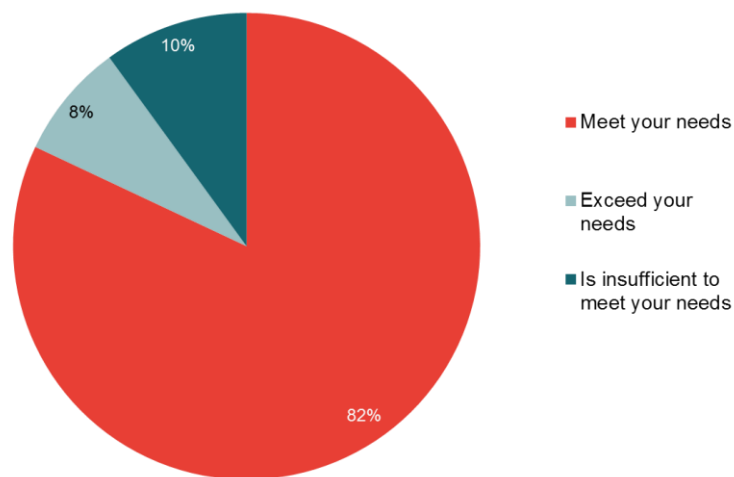
We now review the findings in relation to mailers needs with respect to frequency of delivery. The USO currently requires a minimum of one clearance and one delivery to every premise every working day.

4.4.1 Current needs

Large mailers, in general, expressed a satisfaction with the current five day delivery frequency. The current delivery frequency met their letter and parcel needs.

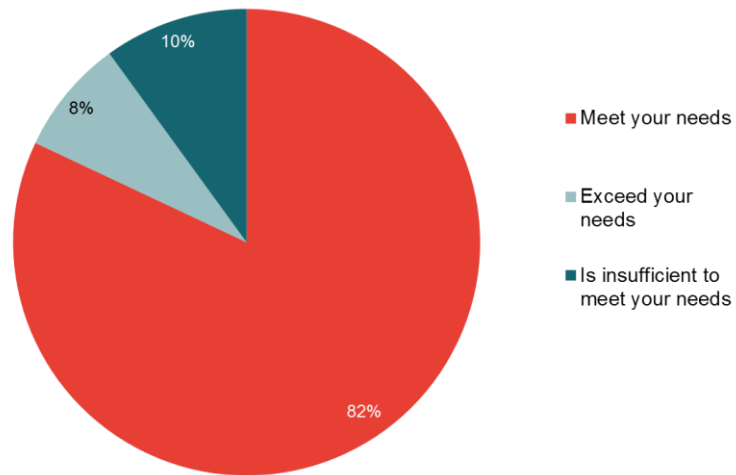
Most respondents to the SME survey thought that the current delivery frequency met their letter (82%) and packet/parcel needs (82%). Less than 1 in 10 thought that their needs were exceeded by the current five day frequency as shown in Figure 38 and Figure 39 below.

Figure 38 Satisfaction with delivery frequency for letters (n = 270)



Source: Amárach Research

Note: Base: All respondents - 1001

Figure 39 Satisfaction with delivery frequency for packets/ parcels (n= 251)

Source: Amárach Research

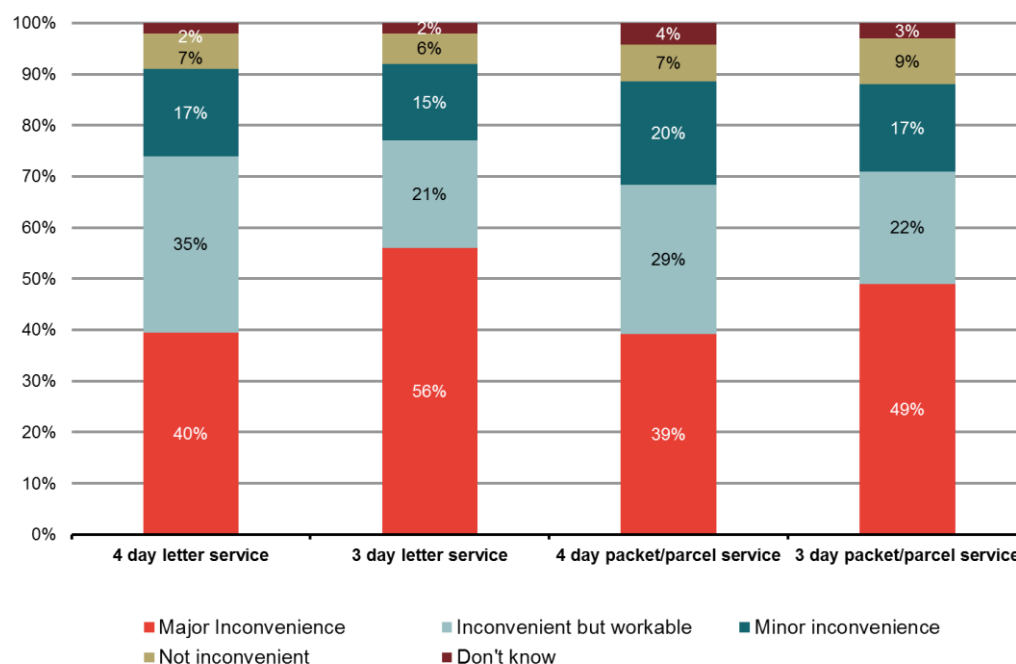
Note: Base: All respondents - 1001

4.4.2 Response to alternative frequencies of delivery

Reported impact of a reduction in delivery frequency by mailers

A high proportion of respondents to the SME survey reported that any reduction in frequency (specifically asked about 4 days or 3 days) would cause major inconvenience for them given their letters and / or packets / parcels needs as shown in Figure 40.

Figure 40 Impact of reduction in frequency of delivery for letters, packets/parcels according to SMEs



Source: Amárach Research

Note: Q33 and Q34: In relation to [letter mail sent]/ [packets/parcels] sent, how would your organisation be impacted if the frequency of delivery was reduced from 5 working days every week to: ...

Large mailers also expressed a number of concerns in relation to reducing the delivery of frequency of mail. First, a reduced delivery frequency would require mailers to 'bunch' their mail, which would cause difficulties for processing, sortation and despatch. Second, such bunching of mail would lead to a 'bunching' of calls to their call centres which is more difficult to manage and adds costs to businesses. Lastly, some large mailers expressed the concern that this would have some negative impact on cash flow if a reduction in the frequency of delivery led to delays in bill payments.

Mailers' preferences between delivery frequency and cost

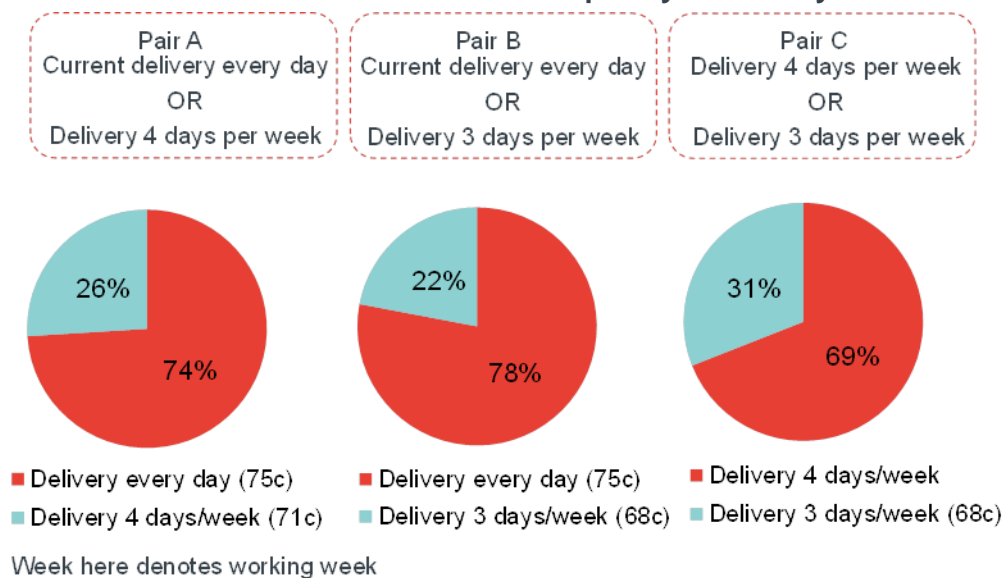
The SME survey tested whether senders would prefer a cheaper but less frequent service. Figure 41 shows the following:

- the large majority of respondents would prefer the current level of service over a cheaper more infrequent (lower level) of service; and
- a similar preference is found for packets and parcels, although not as strong as for letters.

Large mailers were also asked about a scenario in which the days of delivery would change from every working day to four working days and Saturday. On balance a reduction in the frequency of working day deliveries was seen as deterioration in service, which would not be compensated by a Saturday delivery. Several reasons were put forward. A reduction in the frequency of delivery would translate into a more 'fragmented' delivery schedule, which would make it more difficult to plan for customer responses (such as calls to call centres) than at the moment. In addition

this would require staffing up for Saturday deliveries (e.g. in a call centre), which would be an added expense. It would also involve considerable 're-programming' of internal operations to allow for a 'start-stop' schedule during the week and at the weekend rather than the current on-off arrangement.

Figure 41 Domestic Letters: alternative frequency of delivery



Source: Amárach Research (2016), Survey of Business mailers

Notes: Q35: Thinking about your postal needs for a domestic single letter mail in the future, if you could choose what was offered, which one of these options would you choose between the following pairs: Pair A, Pair B, Pair C.

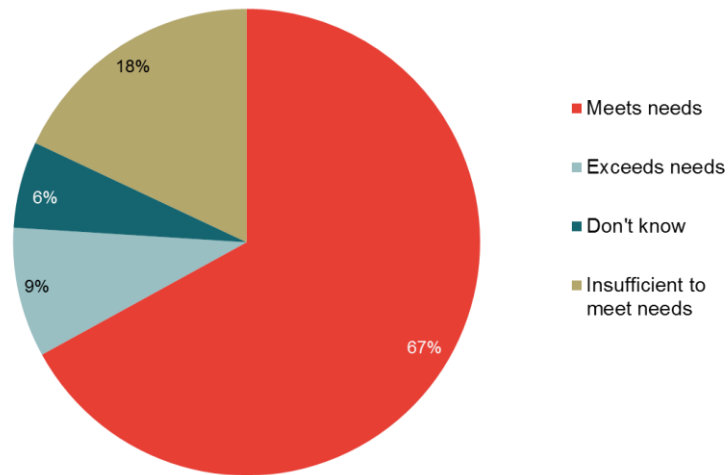
Recipients' perspectives

Previous research had found that a daily service is not essential for residential users, but important for businesses⁴⁵.

Through the consumer survey, we investigated how recipients of mail would be impacted by a reduction in the frequency of delivery. Figure 42 shows that:

- most consumers (67%) consider the current frequency of delivery meets their needs; and
- 18% consider that it is insufficient to meet their needs, while 9% consider it exceeds their needs.

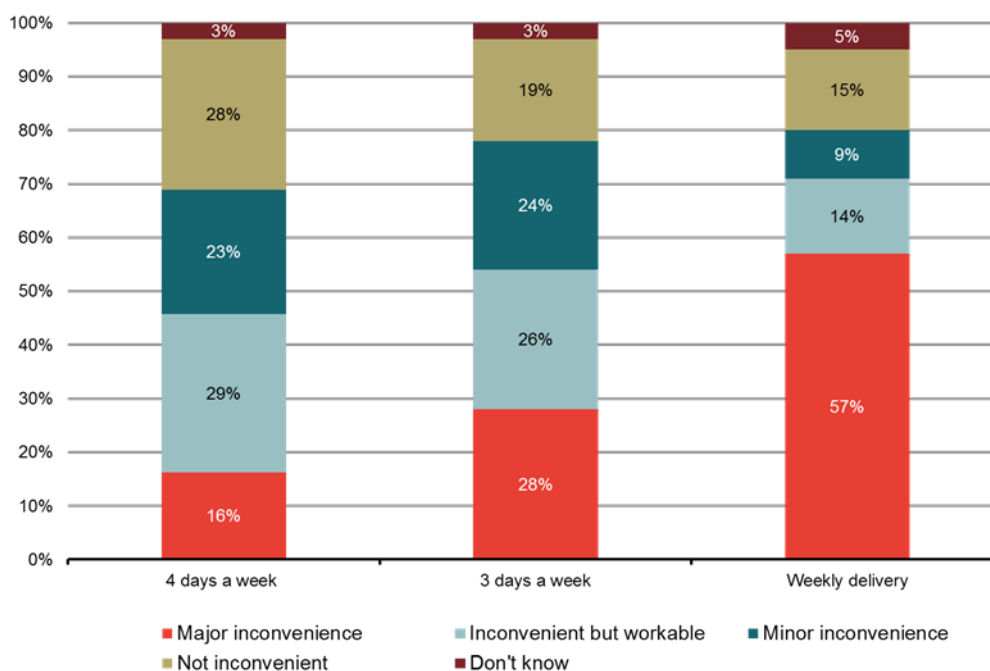
⁴⁵ "Findings from qualitative research into the national need for communication and distribution services", by The Research Perspective Ltd, 2010. This report can be found at the following address: http://www.comreg.ie/csv/downloads/ComReg_10102.pdf

Figure 42. Satisfaction with delivery frequency

Source: Amáarach Research

In relation to reducing delivery frequency, 16% said reducing to 4 days would be a major inconvenience, while 28% said it would not be inconvenient as shown in Figure 43. This may suggest that consumers would be more amenable to a reduced delivery frequency compared to business senders (SMEs and large mailers).

Figure 43 Impact of reduction in frequency of delivery for letters, packets/parcels according to consumers as recipients of mail



Source: Amárach Research

4.4.3 Emerging themes

The current specification of universal postal service requires delivery every working day (i.e. five days per week, Monday to Friday). We therefore consider whether this frequency is appropriate given postal users' reasonable needs.

Our research into postal users' demands for the frequency of delivery finds:

- most large mailers (which in the main used deferred services for the majority of their mail) and most (82%) SMEs surveyed thought that the current delivery frequency met their letter and parcel needs;
- about 40% of SMEs said they would be majorly inconvenienced if letter or packet/parcel deliveries were reduced to four days, with a larger proportion being majorly inconvenienced by three-day delivery;
- a large majority (over 70%) of SMEs prefer the status quo over a cheaper but less frequent service;
- most consumers considered the current frequency met their needs, with more considering it was insufficient to meet their needs compared to excessive for their needs; and
- however, consumers, as receivers, did not report they would be as inconvenienced by a reduction in frequency compared to business senders. This may suggest that consumers would be more amenable to a reduced delivery frequency.

Therefore, this evidence appears to support retaining the current USO delivery frequency for both letters and packets/parcels. The evidence suggests that the

current frequency meets the needs of both senders and receivers of mail. Moreover, there appears to be little demand for this to either be reduced, or to be changed to four working days plus Saturday deliveries.

RECOMMENDATION 4

The evidence suggests the USO's current frequency of delivery should be retained.

5 CONCLUSIONS AND POLICY IMPLICATIONS

Our research was broadly split into two categories:

- **Postal usage and trends:** In order to ascertain postal users' reasonable needs for the universal services, we first consider their current usage of An Post's postal services, and the importance of post in the mix of general communications channels.
- **Postal users' reasonable needs for the universal postal service:** We then specifically consider whether the current specification of the universal postal service is appropriate, and whether the frequency of the single-piece universal postal service is appropriate. In particular, ComReg asked us to consider two questions.
 - Is the current specification of the universal postal service appropriate?
 - Is the frequency of the single piece universal postal service appropriate?

We undertook both secondary and primary research to obtain insights into postal users' needs.

Our research first focused on the use of universal postal services, and trends in demand for those products.

Context

The universal postal service ensures that a continuous, affordable, reliable, nationwide postal service is maintained for the benefit of postal users and to the benefit of society more broadly. The universal postal service is the set of affordable postal services, of a minimum quality standard, whose provision is ensured within Ireland⁴⁶. The scope of the universal postal service in Ireland is defined by legislation⁴⁷, and is tailored towards postal users' reasonable needs, whilst reflecting current technological, economic and social developments.

An Post, as the designated provider, is required to provide these services under its universal service obligation (USO). An Post also provides non-USO services, which are products outside the USO product range and are products upon which there are no specific regulatory requirements in terms of delivery.

In 2015, An Post handled 580 million items. Table 1 shows that domestic mail accounted for 83% of the 580 million items and international outgoing and incomings accounted for 5% and 11% respectively. Overall the USO products accounts for 60% of the total number of items, and only 53% of domestic mail. Therefore, while this study focuses on USO products, we can see that An Post's network is also used for the handling of a substantial amount of non-

⁴⁶ Article 3 of the Directive requires that "users enjoy the right to a universal service involving the permanent provision of a postal service of specified quality at all points in their territory at affordable prices for all users".

⁴⁷ The 2011 Act with further specification by SI 280.

USO products. Combining USO and non-USO services bring economies of scope and support the sustainability of a network delivering the universal service.

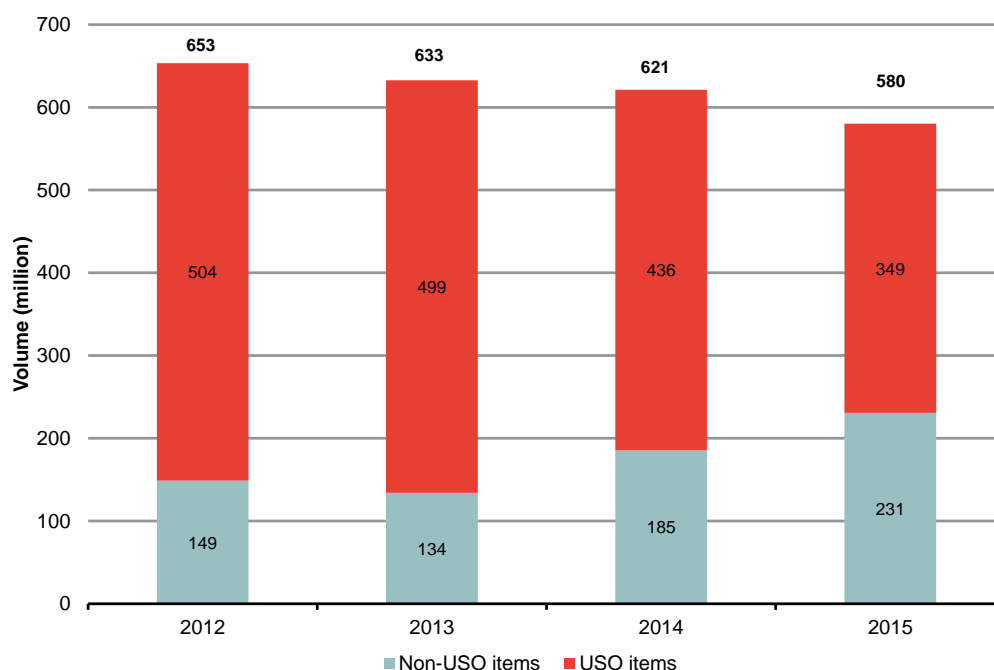
Table 3 Breakdown of 2015 total volumes handled by An Post

2015	USO	Non-USO	Total
Domestic	44%	39%	83%
International outgoing	5%	1%	5%
International incoming	11%	0%	11%
Total	60%	40%	100%

Source: Frontier analysis of An Post 2015 Regulatory Accounts data

In general, An Post's volumes have been declining significantly. When compared to the peak in volumes in 2007, volumes have dropped by 35%⁴⁸. An Post's total volume fell by 11% between 2012 and 2015, or from 653 million to 580 million items⁴⁹. However, Figure 8 shows that the non-USO volumes have been increasing whereas the USO volumes have been declining continuously. Non-USO volumes in 2015 were 55% higher than those in 2012. In contrast USO volumes in 2015 were 31% lower than those in 2012.

Figure 44 An Post USO and non-USO volumes 2012-2015



Source: Frontier analysis of An Post Regulatory Accounts data 2011-2015

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

We now conclude on:

- our key findings from the research;

⁴⁸ An Post media coverage (<http://www.anpost.ie/AnPost/MainContent/About+An+Post/Media+Centre/Press+Releases/2016/An+Post+Annual+Results.htm>)

⁴⁹ The decline is of 35% since the 2007 peak in volumes. An Post media coverage (<http://www.anpost.ie/AnPost/MainContent/About+An+Post/Media+Centre/Press+Releases/2016/An+Post+Annual+Results.htm>)

- postal users' reasonable needs for the universal postal service; and
- the research implications for future USO policy.

Key findings

Mail senders and types of products

Most mail is sent by businesses, especially large businesses: In 2015, 65% of domestic USO volumes were sent using An Post's metered or bulk mail services, with shares of 35% and just under 31% respectively as illustrated in Figure 45⁵⁰. These are predominantly business products. As business mailers also use An Post's stamp service, the 65% can be seen as a lower bound for the proportion of business mail that is sent using An Post's USO services.

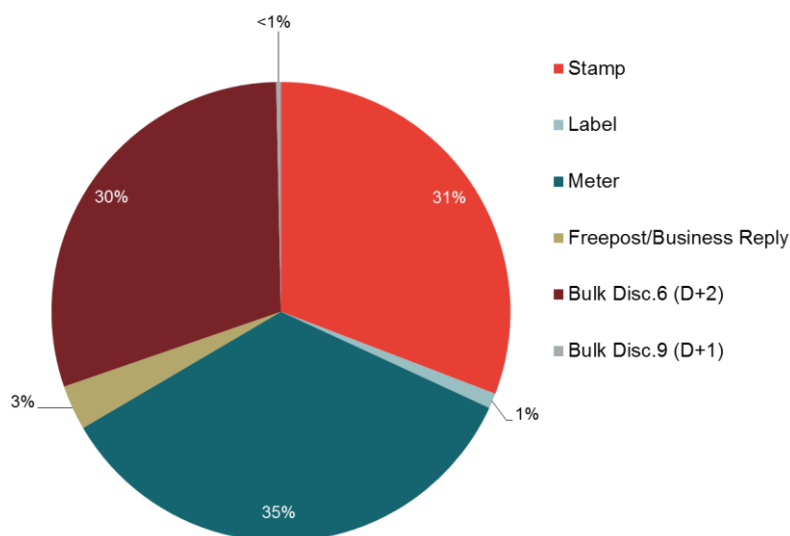
Also, large mailers account for a significant proportion of non-USO mail, in particular deferred bulk products. In 2015, non-USO volumes accounted for 40% of An Post's total mail volumes, and 47% of total domestic mail volumes. We estimate that more than 80% of these volumes are likely to be deferred bulk products⁵¹. Therefore, this would suggest that over half of An Post's total domestic mail volumes are bulk products, and these products are used by very large senders of mail.

As businesses are the main senders of mail, we focus much of our primary research on business senders. In particular, it is widely acknowledged that large senders, such as utilities, banks, government departments and other large organisations, typically account for the majority of postal items sent⁵².

⁵⁰ 31% includes Bulk Disc. 6 and Bulk Disc.9

⁵¹ While we do not have the data to confirm this 80% estimate, our interviews with large mailers found that the majority of their non-USO mail was bulk mail (D+3). Non-USO addressed products includes other deferred products such as PostAim, Whilst Express and unaddressed mail, and products above the weight USO maximum weight may be next delivery service, their share of volumes appear to be low. Therefore, 80% appear to be a reasonable approximation.

⁵² A characteristic of the mail sector across the globe is that a relatively small number of large business mailers account for a very significant share of total letters. The demand for letters is highly concentrated among few senders,

Figure 45 Domestic USO volumes (2015), by service

Source: Frontier analysis of An Post Regulatory Accounts data (2015)

Mail trends and key drivers of demand

There is a downward trend in the demand for USO letters, flats and packets, but increase in parcels: Since 2011, there has been a general downward trend for USO letters, flats (i.e. large letters) and packets with USO letters and flats suffering the largest volume declines, particularly when sent via An Post's Meter product. USO parcels, on the other hand, have increased over the same period, with a very significant increase in parcels sent by Irish mailers to international addresses. This trend in parcels is consistent with the trend in the broader packet and parcel sector.

Electronic substitution is likely to further reduce mail volumes in the future, especially for large mailers: Some large mailers have already achieved very large reductions in volumes in recent years, by switching customers to electronic alternatives, especially in relation to statements, invoices and bills. Once businesses invest in systems to promote electronic substitution, they are unlikely to switch back to physical mail. Therefore, these volumes are likely permanently lost to the mail network. We find that due to electronic substitution there is the potential for significant further volume declines in the coming years, which could be exacerbated by price increases, especially for bulk mailers. In general, large mailers expect the trend to switch to electronic alternatives to continue over the near term as in response to price increases; they continue to invest in systems and processes that will allow for a greater degree of electronic substitution. 74% of SMEs surveyed have already switched at least a 'reasonable amount' of mail volumes to electronic alternatives over the last three years. Going forward, 60% of respondents expect to move a sizeable amount of post to electronic alternatives.

However, significant volumes are not currently liable for electronic substitution: Many large mailers reported legal, regulatory or political constraints on their ability to switch specific types of mail to electronic alternatives. For example, legal obligations to send letters informing customers of product changes, such as changes to interest rates for savings products.

Price sensitivity

Large mailers appear very price sensitive: Large mailers interviewed appeared to be particularly price sensitive. Large mailers indicated that they are trying to shift as much mail as possible away from the USO bulk product range with D+1⁵³ or D+2 transit times to the non-USO Discount 11 product with a D+3 transit time. This suggests that many large bulk customers are sensitive to price as they are willing to prefer a further one day delay for a 4% (or 2 cent) discount. In fact, we find that over half of An Post's total domestic volumes are sent via discounted, deferred delivery by large mailers.

We also presented large mailers interviewed with a hypothetical potential future scenario of a 10% across-the-board price increase. Most saw such a change as one that would trigger and bring forward significant changes to e-substitution initiatives now under way as large mailers weighed up cost of new innovations versus increased cost of postal services. Therefore, the qualitative interviews suggest that large mailers are relatively sensitive to price increases, which could have implications for the demand response to future price increases from large mailers.

SMEs are more reliant on post: SMEs typically do not have the required volume for bulk deferred services⁵⁴, and therefore typically send volumes using An Post's stamped or metered D+1 service. To test SME's price sensitivity, we asked them about a range of hypothetical scenarios. A large proportion of SMEs surveyed, still appear to be reliant on post for their communications. If faced with a 10% price increase on letter services, 48% said that they would not change the volume of letters sent. 54% of these SMEs reported that this was because post is essential to their business or they didn't see any alternative options to change to.

SMEs are also likely less sensitive to price than large users: SMEs gave a preference for a next day delivery to a cheaper slower service if given the choice. SMEs indicated that they would prefer a one day delivery service (as currently) rather than a two day service with a 5% discount⁵⁵. The above two findings suggest that smaller businesses may, everything else being equal, be more reliant on postal services as they have a lower ability or a relatively lower proportion of mail that can be switched to other methods (e.g. email). While this research relies on stated preferences for SMEs, it does suggest that SMEs could be less price sensitive than large mail users.

We discuss below the implications of these findings for the USO.

⁵³ D+ refers to the delivery speed. For example, D+1 is next day delivery, D+2 the day after that, etc.

⁵⁴ We note that there is a metered deferred service, with low volumes threshold, but this does appear to be availed of to any significant degree by SMEs.

⁵⁵ Although we note that the two day delivery timeframe in that circumstance would apply to all of their mail. In contrast, large mailers can currently tailor their required delivery speed depending on the time sensitivity of the mail.

Postal users' reasonable needs for the universal postal service

Next, we consider postal users' reasonable needs for the universal postal service. We specifically consider whether the current specification of the universal postal service is appropriate, and whether the speed and frequency of the single-piece universal postal service is appropriate.

The current specification of the universal postal service is broadly appropriate

The universal postal service obligations ("USO") as set out in the Communications Regulation (Postal Services) Act 2011⁵⁶ ("2011 Act") and Statutory Instrument 280 of 2012 ("SI 280") currently requires:

Figure 46 Scope of the universal service: products and service requirements

Products
<ul style="list-style-type: none"> ■ clearance, sorting, transport of postal items up to 2kg covering single item letters, large letters and packets, and items sent in bulk
<ul style="list-style-type: none"> ■ clearance, sorting, transport of parcels at least up to 20kg
<ul style="list-style-type: none"> ■ provision of specific products under the USO, including PO Boxes, Redirection, Poste Restante, MailMinder, Business Reply and Freepost (below we term these "ancillary services")
<ul style="list-style-type: none"> ■ sorting, transport and distribution of postal parcels from other member states up to 20kg
<ul style="list-style-type: none"> ■ an insured service
<ul style="list-style-type: none"> ■ a single piece service providing a "proof of delivery facility"
<ul style="list-style-type: none"> ■ a single piece service provided free of charge for the transmission of postal packets for the blind
<ul style="list-style-type: none"> ■ delivery times frames of D+1 within state, D+3 within EU and D+9 to all other foreign addresses
<ul style="list-style-type: none"> ■ For items deposited in bulk: A next day delivery service (D+1) and a deferred delivery service (D+n)
<ul style="list-style-type: none"> ■ minimum one clearance and one delivery to every premise every working day

Source: 2011 Postal Act and 2012 SI 280

⁵⁶ The 2011 Act transposes the Postal Directive

Our review of current usage, relevant legislation and regulation, and international precedent suggested three areas to focus our primary research in relation the potential changes to the USO product specification, namely with respect to:

- bulk products
- ancillary services; and
- parcels.

For bulk products we find:

- nearly 30% of SMEs had used a bulk mail product in the last month, while all large mailers regularly use bulk products;
- USO bulk products still remain important products in the postal product range for both large mailers and SMEs; and
- minimum volume and auto-sort thresholds are barriers to mailers using USO bulk products; therefore consideration should be given to revising the bulk mail requirements in the universal postal service regulations to stipulate these criteria specifically.

RECOMMENDATION 1

The evidence suggests that certain bulk services should remain in the USO. However, given minimum volume and auto-sort thresholds are barriers to mailers using USO bulk products, consideration should therefore be given to revising the bulk mail requirements in the universal postal service regulations to make these available to more postal service users.

For ancillary services we find:

- there is a demand for ancillary services even though their usage varies among SMEs with 52% of SMEs having used freepost, 40% Redirection; 38% PO Box services and 35% Business reply;
- Poste Restante and MailMinder have been used by only a quarter of SMEs – although one should bear in mind that these two services largely target the recipients of mail rather than mailers;
- while demand for these services is lower than for other USO products, some users place a high value on these services, such as the use of redirects to manage mail flows within large organisations.

RECOMMENDATION 2

The evidence suggests that there is no obvious need to revise the current specification of USO ancillary services in the universal postal service regulations.

The speed of delivery of the single-piece universal postal service is appropriate

As noted, the current specification of the universal postal service requires delivery timeframes of D+1 within state, D+3 within EU and D+9 to all other foreign addresses. We therefore consider whether these timeframes are appropriate given postal users' reasonable needs.

In terms of delivery preferences, our research into postal users' demand for speed of service finds:

- large mailers rate the predictability of the day of delivery as more important than the speed of delivery;
- a large majority (72%) of SMEs prefer the current next-day (D+1) service to a slower, cheaper service;
- SMEs require a time-sensitive delivery service, even if time-sensitive mail accounts for a small proportion of their weekly mailings;
- a slower (D+2) service for non-time sensitive letter mail would be sufficient for more than 8 out of 10 SMEs;
- SME mailers of packets and parcels appear more willing to consider an even slower service (D+3) for their non-time sensitive mailings;
- while households would prefer a next-day delivery service, most would find a two-day delivery service to be workable for them.

As noted earlier, large users, who account for most mail sent, mainly use a deferred (D+2, D+3) service to avail of its lower price. For SMEs and consumers, the evidence does not suggest a strong demand to change the current USO speed of delivery for both letters and packets/parcels. However, we note that moving to a delivery speed of two days would not appear to be a major inconvenience for most postal users according to the survey.

We note that while most would prefer a next day delivery service, there is evidence that many do not believe that this is currently being provided. For Dublin-to-Dublin mail, 30% of senders believed they do not receive a next day service. For mail originating in Dublin for a destination outside Dublin, 67% of respondents expected delivery to take at least two days.

RECOMMENDATION 3

The evidence suggests that SMEs paying for a USO next day delivery service prefer this to be retained. However, we note that moving to a delivery speed of two days does not appear to be a major inconvenience for most postal users as many expect current delivery to take this long for certain postings within Ireland.

Most mail is sent by large users and these users use a deferred service (greater than next day delivery), for these users predictability of the day of delivery is important and these users are willing to accept a longer deferred service to avail of a lower price.

The frequency of the single-piece universal postal service is appropriate

The current specification of universal postal service requires delivery every working day (i.e. five days per week, Monday to Friday). We therefore consider whether this frequency is appropriate given postal users' reasonable needs.

Our research into postal users' demands for the frequency of delivery finds:

- most large mailers (which in the main used deferred services for the majority of their mail) and most (82%) SMEs thought that the current delivery frequency met their letter and parcel needs;⁵⁷
- about 40% of SMEs said they would be majorly inconvenienced if letter or packet/parcel deliveries were reduced to four days, with a larger proportion being majorly inconvenienced by three-day delivery;
- a large majority (over 70%) of SMEs prefer the status quo over a cheaper but less frequent service;
- most consumers considered the current frequency met their needs, with more considering it was insufficient to meet their needs compared to excessive for their needs;
- however, consumers, as receivers, did not report they would be as inconvenienced by a reduction in frequency compared to business senders, which may suggest that consumers would be more amenable to a reduced delivery frequency.

Therefore, this evidence appears to support retaining the current USO delivery frequency for both letters and packets/parcels. The evidence suggests that the current frequency meets the needs of both senders and receivers of mail. Moreover, there appears to be little demand for this to either be reduced, or to be changed to four working days plus Saturday deliveries.

RECOMMENDATION 4

The evidence suggests the USO's current frequency of delivery should be retained.

Research implications for future USO policy

As discussed above, our research findings largely support the maintenance of the scope of the USO in its current form, with potentially some small modifications. The research findings, however, suggest that the USO's long term sustainability and affordability are at risk.

As noted, most mail sent on An Post's network is by large users. We estimate that large users account for over half of An Post's total mail volumes, including non-USO mail. Therefore, An Post's ability to continue to deliver a sustainable and affordable USO will be in large part determined by the future mailing patterns of these large users.

It has been observed that these large users have already switched significant volumes to electronic alternatives. They are unlikely to switch these volumes back to post in the future as the investment in electronic substitution has already taken place and now these costs are sunk. As such these volumes are likely to have been permanently lost to An Post. Moreover, the trend to electronic alternatives is

⁵⁷ Note for large mailers their answers referred to both single-piece mail and deferred bulk mail, both of which are delivered five days per week.

likely to continue, and would likely be exacerbated by any further price increase of physical mail.

Our research has also shown that large users are very price sensitive. For instance, significant volumes have shifted to slower, cheaper bulk services.

Therefore, it is reasonable to infer that An Post's future mail volumes are under threat. Increasing prices of products used by large users is likely to impact negatively on volumes.

The question then becomes, how can the current USO specification be financially sustained looking forward?

The research reveals that users of stamped and metered products are likely to be less sensitive to prices, and therefore may be more accepting of future price increases. However, tariffs must remain affordable and allow the recovery of efficient costs for An Post.

The research reveals that SMEs and households, who together account for a smaller proportion of mail than large users, have a preference for maintaining the status quo in terms of delivery speed and frequency. This preference holds despite the overall higher cost to the postal network compared to slower or less frequent deliveries. However, what the research also shows is that users would not be overly inconvenienced if these specifications were relaxed to a moderate degree in the future. There is therefore the potential, in the future, for the scope of the USO to be revisited. In fact, if volumes do continue to decline then the scope of the USO may need to be reviewed to allow An Post to reduce its costs, and therefore maintain an affordable and sustainable universal postal service.

ANNEX A SURVEY RESULTS OF CONSUMERS AS MAIL RECIPIENTS

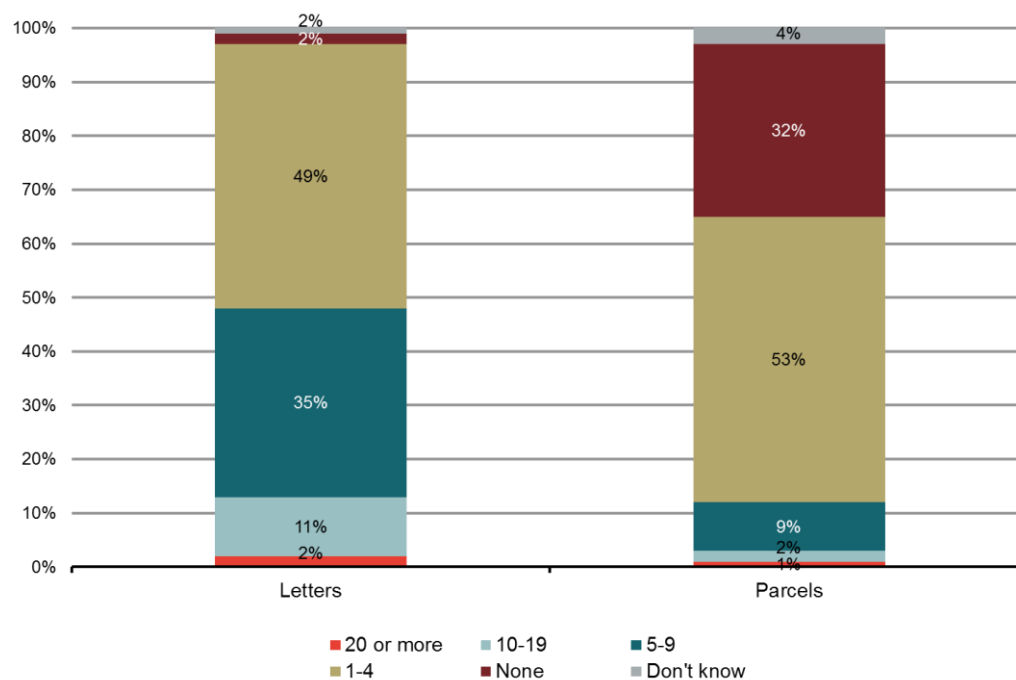
The online survey of consumers provides insights into a number of key areas in relation to the postal usage of consumers as receivers of mail, and the importance of post as a communications channel for them. The research findings in relation to each of these areas is summarised below.

Receiving mail

As shown in Figure 47, 84% of respondents receive between 1 and 9 letters per week, with 49% of respondents receiving 1-4 letters per week. Only 2% of consumers surveyed received no letters at all.

In comparison, 62% of respondents receive between 1 and 9 parcels per week. However, majority of these consumers receive 1-4 parcels per week (53% of respondents). The percentage of respondents receiving no parcels per week is much higher, at 32%, than that for letters.

Figure 47 Number of letters and packets/parcels received in a typical week by consumers

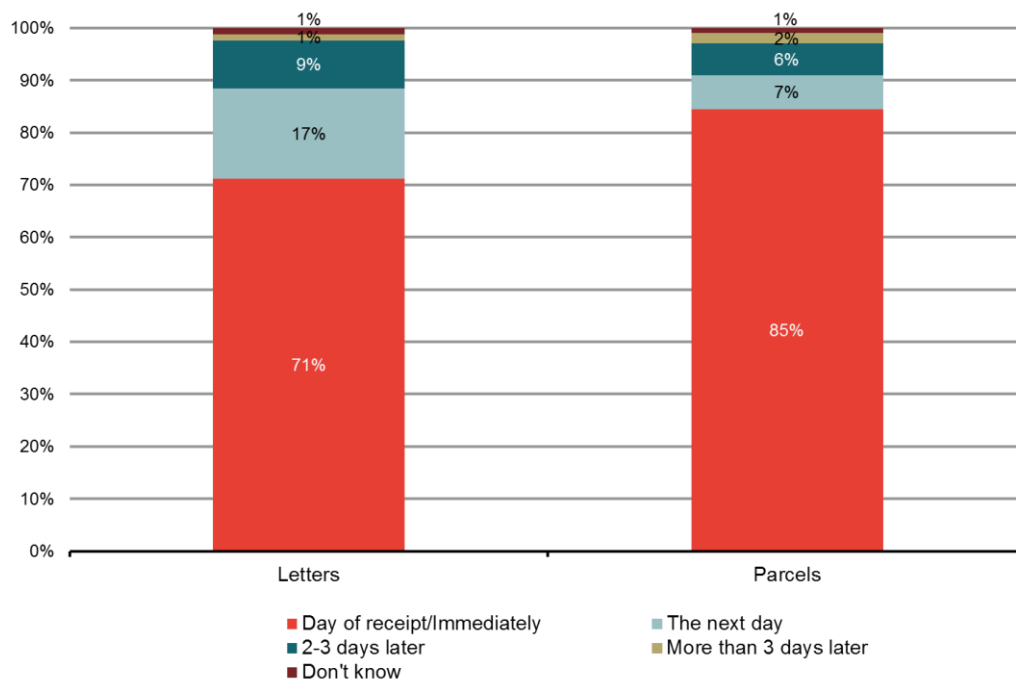


Source: Amárach Research – July 2016 Omnibus survey

Questions: On average how many letters does your household (including you and all residents of the household in which you currently reside as your primary residence) receive at home in a typical week? Please exclude leaflets and unaddressed items.

To provide further insight into consumers' behaviour with regards to post, we also explored when consumers deal with post after receiving it, as shown in Figure 48. The proportion of respondents who deal with post on the day of receipt or the following day is similar for letters and parcels. However, a higher proportion deals with parcels (85%) on the day of receipt, in comparison to letters (71%).

Figure 48 Time taken by consumers to deal with Letters and packets/parcels after receipt



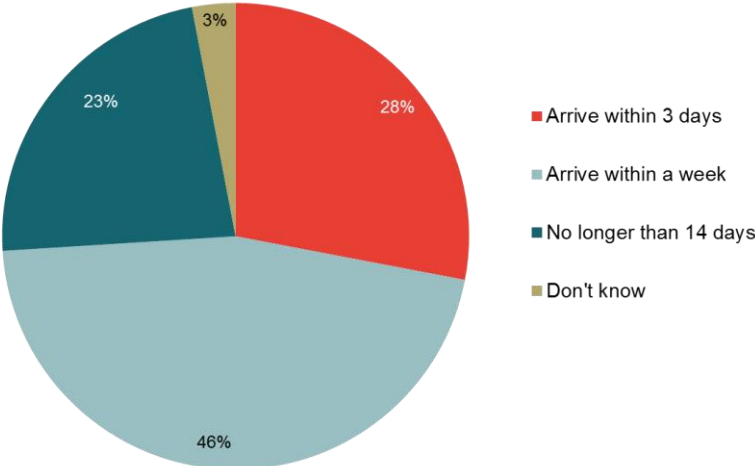
Source: Amárach Research – July 2016 Omnibus survey

Question: When you receive you're a) Letter b) Packet/parcel, by when do you deal with it?

Waiting time for a parcel delivery

In addition to exploring how long consumers take to deal with post that they receive, the consumer survey also asked how long respondents are prepared to wait for a domestic packet or parcel to be delivered in order to get free delivery. As shown in Figure 49 under half of all respondents would be willing to wait up to a week for free delivery, with a further 23% willing to wait up to two weeks.

Figure 49 Speed of delivery consumers willing to accept for free parcel delivery



Source: Amárach Research – July 2016 Omnibus survey
Question: In receiving domestic packets/parcels, if you want free delivery on an order you have made, how long are you prepared to wait for the item to be delivered?

ANNEX B INTERNATIONAL 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. This annex analyses these variations in the definition of the universal service across member states and how the definition of the universal service is changing over time.

Our benchmarking exercise focuses on three key universal service dimensions:

- products within the scope of the USO;
- the frequency of delivery; and
- the speed of delivery.

5.1 Products within the scope of the USO

USO core product definition across EU member states

Figure 50 shows the core product scope of the USO in EU member states in 2013, as reported by the National Regulatory Authorities. There are two products acting as a common ground for all the member states: basic single item letters and single item parcels are subject to universal service obligations (only Iceland omits the latter). This is in line with the minimum requirements under the Directive⁵⁸.

Meanwhile, the inclusion of other products in the universal service differs across countries, in particular, as we consider Bulk letters, Periodicals, Direct Mail, Non-Priority letter post, and Bulk parcels. In a sample of 31 countries, we find that in 18 countries, the NRA sees bulk letters as part of the USO. The same applies to non-priority letter post. Periodicals and bulk parcels are within the USO in 11 countries, and Direct Mail in 9 countries. This illustrates the diversity of the USO product scope, apart from basic letter and parcel post, amongst EU member states.

Ireland, in comparison to the other countries, has a definition of the scope of USO that goes beyond basic letter and parcel post and incorporates bulk letters as well⁵⁹.

⁵⁸ DIRECTIVE 97/67/EC Art. 3 (4)

⁵⁹ Products under scope of the universal service in Ireland also include registered and insured items. The same applies in the following countries according to Cullen International: Belgium, Germany, Spain, Finland, France, Italy, Netherlands, Sweden and the UK.

Figure 50. USO core product scope 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.

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

Evolution of USO product definition over time

The scope of the products included in the USO has been subject to a number of changes in a number member states over the recent years. There has been a clear trend to remove products from the USO definition. Figure 51 shows, that since 2010, there were 13 member states reducing their universal services this way. Most of the changes concern the removal of bulk services and/or direct mail from the universal product definition.

However, the trend to reduce the scope of the USO did start before 2010. Bulgaria removed Direct Mail in 2008, and in 2000, Spain excluded Periodicals (but meanwhile, Latvia included them in the same year).

Figure 51. Products recently taken out of the scope of the USO

Country	Bulk letters	Bulk parcels	Direct Mail	Periodicals	Non-Priority letter post
Austria					Taken out
Estonia					Taken out
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
Poland	Taken out	Taken out			
Portugal			Taken out		
Romania			Taken out		
Sweden	Taken out				Taken out
UK	Taken out	Taken out	Taken out		
Iceland			Taken out		

Sources: *Main Developments in the Postal Sector (2010-2013)*, WIK-Consult (2013) / *Main Developments in the Postal sector (2008-2010)*, Copenhagen (2010) / *ERGP (13)33 (2013)* / *ERGP (14)16 (2014)*

Lowering the maximum weight of parcels has been another common way to reduce the USO. In the last few years, five countries – Austria, Latvia, Portugal, Slovenia and Slovakia - moved from a 20kg threshold down to 10kg. In total today, there are 13 countries (out of a sample of 30) where the maximum parcel weight is 10kg. Ireland along with 16 other countries has the maximum parcel weight for the universal parcel product set at 20kg⁶⁰.

Announced changes to the USO product scope in 2016

The Finnish regulator, FICORA, announced its decision to remove domestic parcels up to 10kg and inbound parcels up to 20kg from the universal service

⁶⁰ Based on data reported in *ERGP (13)33 (2013)* / *ERGP (14)16 (2014)*

obligation (USO) imposed on national postal incumbent Posti⁶¹. The changes will enter into force on October 31, 2016. The USO to deliver items of correspondence and international outbound parcels up to 10kg remain in place. According to the market assessment made by FICORA, there are several competing companies delivering domestic and inbound parcels on a commercial basis. Therefore, it is no longer necessary to assign an operator to provide these services as part of the universal service.

5.2 Frequency of delivery

The usual frequency of delivery is 5 days for both parcels and letters. Though some countries offer a 6 day delivery, they are the exception, as Figure 52 illustrates. In two countries, the UK and Denmark, the frequency of delivery varies between parcels and letters.

⁶¹

https://www.viestintavirasto.fi/en/ficora/news/2016/universalserviceobligationfordomesticparcelservice_sremoved.html

Figure 52. Collection and Delivery Frequencies for products within the scope of the USO

Country	5 days for letters, not specified for parcels	5 days for letters, 5 days for parcels	6 for letters, 5 for parcels	6 for letters, 6 for parcels
Austria		(newspapers 6 days)		
Belgium				
Bulgaria				
Cyprus				
Czech				
Germany				
Denmark				
Estonia				
Greece				
Spain				
Finland				
France				
Croatia				
Hungary				
Ireland				
Italy				
Lithuania				
Luxembourg				
Latvia				
Malta				
Netherlands				
Poland				
Portugal				
Romania				
Sweden				
Slovenia				
Slovakia				
UK				

Source: *Main Developments in the Postal Sector (2010-2013)*, WIK-Consult (2013) / ERGP 14(23) (2014)

Recently, 6 day deliveries are being removed in 3 countries:

- In **Denmark**, MPs just voted in 2016 in favour of a new proposal that – amongst other changes – would end Saturday deliveries, in response to the continuing decline in mail volumes and revenues⁶².

⁶² <http://www.thelocal.dk/20160503/denmarks-postal-service-just-got-even-worse>

- In Finland, Posti intends to reform mail delivery on Tuesdays⁶³. From January 2017, Tuesday's deliveries will no longer cover magazines, advertisements, letters and free publications, provided that all early-week items have been delivered on Monday. Universal service letters posted on Mondays will primarily be delivered on Wednesdays⁶⁴. Posti will pick letters and parcels normally on Tuesdays. Note that basic delivery on Tuesdays will continue to cover the majority of newspapers as well as parcels, express letters, international letter items and laboratory items. So the number of delivery days will not change, it is just that some streams of mail will not be delivered on Tuesday. However the Finnish postal operator Posti is demanding that changes to a new postal law should financially "secure universal services in all parts of the country" by reducing the USO from five to three deliveries a week⁶⁵. On November 7 2016, a draft bill was put for consultation with the proposition that the frequency of letter deliveries in urban areas of Finland could be reduced to three days per week. Postal items within the scope of the USO will continue to be subject to the five days per week delivery obligation in rural areas.
- In **Italy** and since early 2015, an alternate day delivery (with delivery on Monday, Wednesday and Friday in one week, and delivery on Tuesday and Thursday in the following week), is being rolled out. The affected municipalities are identified based on infrastructural and geographical criteria. Once this will be fully implemented in 2018, it is expected to concern up to a quarter of Italy's population⁶⁶.
- In the **Netherlands** the frequency of delivery was reduced from six to five. While Saturday deliveries are maintained, those on Tuesdays are discontinued.

5.3 Speed of delivery

There have been further adjustments to the USO definitions, but instead of narrowing the range of products offered, the specifications of the existing products have been changed.

- In France, single item products with different transit times were introduced. France added 1) a D+2 single item called the "lettre verte" (green letter) in 2011, advertising it as an ecological friendly alternative to the range of D+1 ("lettre prioritaire") and 2) a D+3/4 service.
- In Denmark, the MPs just voted in favour of new proposals with the aim to remove the requirement that Post Danmark provides a first-class mail service⁶⁷. The USO now only includes non-priority letters, which are to be delivered within

⁶³ https://www.posti.fi/business-news/english/current/2016/20160607_posti-to-reform-tuesday-basic-delivery.html

⁶⁴ According to the Postal Act, letters that fall within the scope of the universal service obligation must be delivered so that at least 95% of the items are delivered by the second weekday after posting and at least 98% by the third weekday.

⁶⁵ <http://postandparcel.info/75559/news/posti-re-affirms-schedule-for-combining-domestic-letter-classes-and-supports-calls-for-deliveries-three-days-a-week/>

⁶⁶ http://www.emarketstorage.com/storage/20160415/20160415_14380.6096626.pdf and <http://www.posteitaliane.it/resources/editoriale/pdf/En/Annual-Report-2015.pdf>

⁶⁷ <http://www.thelocal.dk/20160503/denmarks-postal-service-just-got-even-worse>

5 working days. If a mailer wishes to send a letter overnight, this is outside the USO, and it will be sent with the packet/parcel stream (at a higher price).

- Outside Europe, similar developments took place. Australia, for example, added a slower service to its current faster service due to changes in demand.

