



Delivering for Business: Scottish SMEs use of Postal Services



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* Explanatory Note: The term “SME” is used in this report to describe small and medium-sized enterprises with under 250 employees.

Key Findings & Recommendations

- Postal services, and the Post Office, are vitally important to SMEs. We want to see current levels of service maintained for SMEs.
- A third of Scottish SMEs have variable or poor quality broadband. We believe there is a need for a statutory telecoms consumer advocate to represent the interests of consumers, including SMEs, as governments work to increase digital connectivity.
- SMEs in Scotland can be disadvantaged by their location in a number of ways – including limited access to reliable broadband, location-based delivery surcharging and delayed deliveries. We would welcome more rural proofing in general policymaking for SMEs so that location is not a detriment.
- SMEs value convenience over cost when it comes to choosing a postal supplier, but awareness of suppliers other than Royal Mail is low.
- While SMEs are generally satisfied with postal services, there are a few areas where improvements may be needed – like better collection services or lower prices. We will highlight these findings with the regulator and postal operators.



1. Executive Summary

- 1.1. Post and Postal Services are indispensable to Scottish SMEs – **one in five say they could not function without it**. We found no evidence to suggest that the value of these services will diminish even as more communications and transactions move online. We recommend that Royal Mail maintains their current service and that SMEs are fully consulted on any future changes to the Universal Service Obligation. We also found that **a third of Scottish SMEs' broadband is of poor or variable quality**, which research carried out by Scotland's Rural College suggests could be limiting rural business turnover.¹ Scotland perpetually tops lists of worst UK broadband speeds². We believe SMEs and residential consumers would benefit from a statutory telecoms consumer advocate to represent their interests.³ Our findings underscore the importance of ensuring SMEs have access to both high quality broadband *and* postal services.
- 1.2. Although the price of postal services is important, we found that SMEs **ultimately value convenience over cost** when it comes to choosing a postal supplier. This might contribute to the popularity of **Royal Mail, which is used by almost all Scottish SMEs (97%)**. However, we also found that awareness of alternative suppliers is low – more than one in three (35%) of all SMEs were unaware of postal suppliers outside of Royal Mail or Parcelforce Worldwide. This rises to 50% for the seven in ten SMEs who *only use* Royal Mail or Parcelforce Worldwide for their postal needs. This lack of awareness suggests that meaningful choice – one of seven Consumer Principles we use to evaluate the regulated industries – is limited for SMEs in the postal market.
- 1.3. While the majority of SMEs **are generally satisfied with the service they receive from Royal Mail** – in fact, more than half (53%) say they are very satisfied – there are a few areas where improvements could be made and again, they relate to issues of convenience and cost. We found that **one in four SMEs wished for a better collection service** (more frequent, more timely or more local) and that being able to collect undelivered parcels and items locally would also be welcomed. We also found that **only 46% of SMEs are satisfied or very satisfied with the price of postal services**. A significant number of SMEs in Scotland who shop online for business also regularly experience **delayed deliveries due to their location (21%)** and report being asked to pay **location-based delivery surcharges (23%)**. Our findings identify where improvements to existing services may be necessary to meet the needs of SMEs and we will highlight these findings with postal operators so that they can reassess their services and the ways in which they engage with SMEs to promote these services.
- 1.4. We found that the Post Office is very important to Scottish SMEs – with **two in five (40%) describing the Post Office as extremely or very important to their business** – and that there is a high level of dependence on Post Offices among those SMEs who use them. **Scottish SMEs also appear to be more frequent users of the Post Office than their counterparts in other parts of Great Britain**. While we can't say for certain why this may be the case, there is evidence to suggest that SMEs in Scotland may be more reliant on the Post Office for business-related activities (like banking and other financial services) than SMEs in other parts of GB and thus may need to visit a post office more frequently. We recommend that the Post Office maintains its current network across Scotland and that they consider the impact any future changes to the network will have on SMEs. There is a clear disparity between rural and urban SMEs so we would welcome more rural proofing in government policy to ensure that Scottish SMEs are not disadvantaged by their location.

1 [Scotland's Rural College \(2018\) Scottish rural businesses who go digital could add £2.5bn to Scotland's economy says report](#)

2 [BBC \(2017\) Scottish areas worst for broadband speeds, says Which?](#)

3 [Consumer Futures Unit \(2018\) Draft Work Plan 2018-19](#)

2. Background

- 2.1. The Consumer Futures Unit (CFU) of Citizens Advice Scotland seeks to improve outcomes for consumers, including SME consumers. We use research and other evidence to put consumers at the heart of policy and regulation in the energy, post and water sectors in Scotland. We work with government, regulators and business to put consumers first, designing policy and practice around their needs and aspirations.
- 2.2. SMEs are the backbone of the Scottish economy. There are currently over 360,000 SMEs operating in Scotland, providing an estimated 1.2 million jobs and as of March 2017, SMEs accounted for 99.4% of all private sector enterprises in Scotland.⁴
- 2.3. There is evidence to suggest that the postal needs of Scottish SMEs may differ from those of residential consumers and SMEs in other parts of the country. In Scotland, for example, there are fewer sole traders and more establishments with 1 to 19 employees than in the rest of the UK. Scottish SMEs are also more likely to be based in rural areas than those in England.⁵ Additionally, Scotland has a higher proportion of enterprises (10%) classified as

agriculture, forestry and fishing compared to the rest of the UK (6%). The Scottish Government has an ambition for every home and business to have access to superfast broadband by 2021 and is investing £600m over the next four years to meet this target.⁶ Similarly, the UK Government has previously stated its commitment to providing parity of minimum broadband service between the UK mainland and the Scottish Islands⁷ and last year launched a £400m fund to boost investment in “full-fibre” broadband. With the economic uncertainty surrounding business as the UK prepares to leave the EU – and recent evidence to suggest that SMEs will feel the impacts of Brexit most⁸ – it is more important than ever that Scottish SMEs have the tools they need to grow and thrive, including a postal market that works for them and access to good quality, reliable broadband.

- 2.4. Although other SME postal market surveys exist, they do not recruit a large enough Scottish sample to allow for robust analysis of this particular group of consumers.
- 2.5. The CFU therefore commissioned research to improve our understanding of the use of postal services by Scottish SMEs so that we can better represent their needs in the current market.

4 [Scottish Government \(2017\) Businesses in Scotland – Headline Figures](#)

5 While definitions used to classify urban and rural areas are different in Scotland to the rest of the UK, when comparing those who come under the broad category of rural, a much higher proportion of SMEs in Scotland are rural-based than is the case in England.

6 [Scottish Government \(2017\) £600 million for broadband](#)

7 [UK Government \(2014\) 10 point plan for Scottish islands](#)

8 [BBC \(2018\) SMEs may be worst affected by Brexit, research suggests](#)

3. Our Research

- 3.1. The aim of this research was to develop a more robust understanding of what SMEs in Scotland need from postal services – looking specifically at whether they have access to a meaningful choice of postal products, services and providers. We also wanted to find out if the current postal market is meeting the needs of Scottish SMEs or if any changes are required to improve the products and services available to these consumers.
- 3.2. We commissioned Accent to conduct telephone interviews with a range of SMEs in Scotland. They used a questionnaire designed to draw out how the organisation uses postal services, what they value in a postal operator, the products and services that are

most important to their business, and if any improvements to the current postal services offered are necessary.

- 3.3. The methodology used, described in more detail in the technical report produced by Accent⁹, guaranteed that a robust sample of SMEs took part in the research. Minimum quotas were used to ensure that SMEs of all sizes (from 0-249 employees) and locations (by region and rural/urban classification) were included, with data weighted back to representative proportions for nation-level analysis.

⁹ Accent (2017) Research into the use of postal services by Scottish SMEs



4. Findings

- 4.1. **Post continues to serve an important function for Scottish SMEs.** Our research found that while post has a primarily administrative role for two-thirds of Scottish SMEs (meaning it isn't core to service delivery), **one in five (19%) say they could not function without it.** This is particularly true for those SMEs in remote rural areas – 29% of whom described post as core to their business operations (compared to 19% overall and 15% in urban areas who said this).

1 in 5



SMEs say they could not function without post

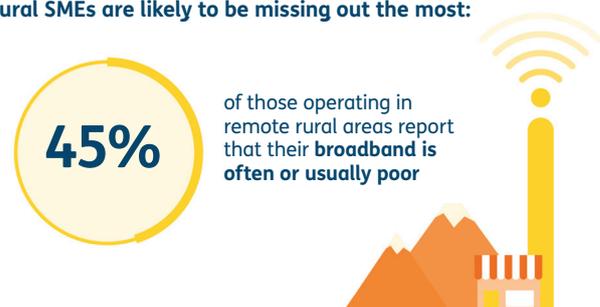
- 4.2. While a large majority of Scottish SMEs (73%) have seen no change in the volume of post that they have sent in the past 12 months, the rest are four times as likely to have seen a decrease in sending as an increase (21% saying it has decreased compared to 5% saying it has increased).¹⁰ **For those SMEs who reported a decrease in sending, 78% said it was due to the increased use of e-mail and other electronic alternatives to post.** This is in line with wider trends in the postal sector where letter volumes have declined sharply in recent years as more communications and transactions move online.
- 4.3. In order for SMEs to benefit from increased activity online however, they must have reliable access to good quality broadband. We found that while just under two-thirds of Scottish SMEs have a broadband service which is always or usually good, **broadband quality and availability is variable (16%) or poor (16%) for a third of Scottish SMEs.**



A third of Scottish SMEs reported variable or poor broadband quality

This means that as many as a third of Scottish SMEs are potentially missing out on the numerous benefits reliable, good quality broadband can bring. Our research suggests that it is rural SMEs who could be losing out the most as **the quality and availability of broadband service varies greatly by location.** For example, only 9% of Scottish SMEs located in urban areas experience poor broadband service but almost half (45%) of those in remote rural areas say that their broadband is often or usually poor. Regional differences are also evident. While 43% of SMEs in Lothian and Central Scotland report that their broadband is always very good, only 14% of those in the Highlands and Islands say this.

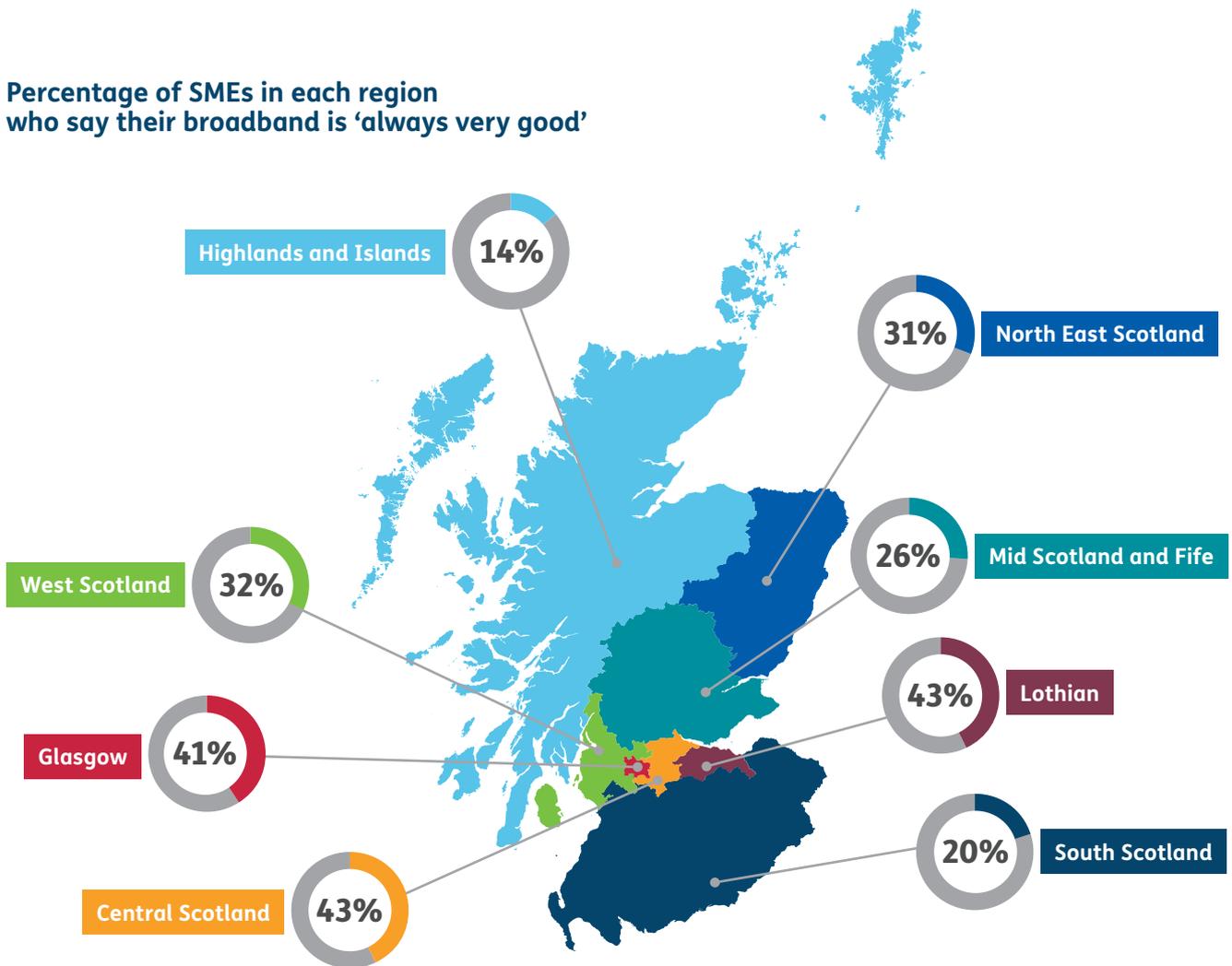
Rural SMEs are likely to be missing out the most:



- 4.4. We found that there **may be some correlation between the quality and availability of broadband in an area and the usage of postal services.** Without consistent access to broadband, businesses may be forced to undertake more transactions by post when they are not able to do so reliably online. Our findings suggest that poor broadband is twice as common among Scottish SMEs for whom post is core to their business (26% have a poor broadband service compared to 13% of those for whom post is not core). Our research also found that of those SMEs who have good quality broadband, 24% say it means they

¹⁰ The picture for receipt of mail is very similar to that for sending. Almost two-thirds report no change in the volume of post they have received over the past 12 months, but four times as many report a decrease as an increase.

Percentage of SMEs in each region who say their broadband is 'always very good'



use post less. However, for the majority of SMEs, the quality of broadband did not affect their usage of postal services. This suggests that broadband and post are both essential services in their own right, and underlines the importance of ensuring Scottish SMEs have access to high quality broadband *and* postal services.

4.5. Our research asked Scottish SMEs what factors were most important to them when selecting a postal supplier. A variety of factors for choosing a supplier were raised by the SMEs we spoke to, but **our findings suggest that SMEs ultimately value convenience over cost**. A majority of SMEs (58%) said that choice of postal supplier is most likely to be driven by ease of posting and a supplier that is nearby or easy to access. Price, though an important factor, was mentioned less frequently – with 27% of those who spend more than £100 per month on postal services citing low cost as a reason for choosing their suppliers compared to 7% of those with a lower spend.

4.6. The importance of convenience may also partly explain why **Royal Mail is used by almost all Scottish SMEs (97%)** with a range of other suppliers each used by 5% or less. We found that 59% of SMEs who use Royal Mail say that ease of posting and ease of access are the main reasons for choosing their supplier and that these users are significantly less likely than users of other suppliers to mention lowest price. In comparison, users of DPD, DHL and UPS are all significantly more likely than users of Royal Mail to give value for money as a reason for choice.

4.7. This may, however, only be part of the picture. Our research suggests that a lack of choice or the perceived lack of alternative suppliers may also have an impact. We found that a significant number of SMEs (10%) said that no alternative supplier outside of Royal Mail was available to them and this rises to 21% for SMEs located in remote rural areas. We also found that even if an organisation has a choice of postal suppliers, awareness of alternatives can be low. **Of the seven in ten Scottish SMEs**

who only use either Royal Mail or Parcelforce Worldwide for their postal needs, half are not aware of other postal suppliers. While it may not be surprising that 61% of SMEs located in remote small towns or remote rural areas, where alternatives may actually be limited, are unaware of other suppliers, we found that 41% of SMEs located in large urban areas are similarly unaware. An absence of alternative suppliers – or a perceived lack of options – means that many Scottish SMEs, including those in urban areas, do not have a meaningful choice when it comes to selecting a postal supplier and they could be losing out as a result.

4.8. Although awareness of alternative postal operators may be low, and indeed many rural SMEs may not have a range of suppliers to choose from, **most Scottish SMEs are generally satisfied with the service they receive from Royal Mail.** In fact, more than half (53%) say they are very satisfied – with just 3% of organisations describing themselves as dissatisfied or very dissatisfied.

4.9. We found that Scottish SMEs tend to be satisfied with most elements of the postal service, but there are a few areas where improvements could be made. Price is the biggest area of concern for SMEs with only 46% saying they were satisfied or very satisfied with the price of postal services. Furthermore, when those who expressed themselves dissatisfied with any element of the postal service were asked how it could be improved, 36% said that the service should be cheaper or that there should be fewer price increases. The recent increase in the prices of 1st and 2nd class stamps by 2p¹¹ makes it likely that pricing will continue to be an area of concern for Scottish SMEs going forward. We also found that one in four (24%) Scottish SMEs expressed a wish for a better collection service (more frequent, more timely or more local)

“A midday or afternoon time [for last collection] would be a significant improvement.”

“Collection from [our] local post box would be better as it’s only once a day now...”

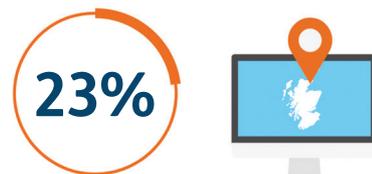
and that being able to collect undelivered parcels and items locally would also be welcomed.

“...It would be so much easier if the local post office had the facilities to pick up parcels.”

“In Aberdeen we have many cases where we have to travel miles to go pick up a parcel.”

These results echo findings referenced earlier in this report – that cost and convenience are what SMEs value most – and again, they highlight the potential areas where improvements may be needed.

4.10. Perhaps the most significant postal issues facing some Scottish SMEs – particularly those in northern Scotland or rural areas – are location-based delivery surcharges and delayed deliveries when they order online for business. Of the 82% of SMEs who said they order items online for business, **one in four (23%) reported being asked to pay an additional delivery surcharge due to their location and almost half of those who have experienced this issue say it happens regularly.**



of SMEs that order items online reported **paying additional delivery surcharges due to their location**

Almost half say it happens regularly

This issue is even more pronounced in remote or rural areas – where SMEs may be particularly reliant on ordering online for business due to their location. 74% of SMEs based in remote rural areas and 66% of those in remote rural small towns told us they have experienced an additional delivery surcharge due to location and this rises to 87% for SMEs located in the Highlands & Islands. Similarly, **around one in five (21%) SMEs who order items online for business reported delivery**

11 [Royal Mail Group \(2018\) First and Second Class Stamp Prices](#)



of SMEs that order items online reported **delivery being late or delayed due to their location**

being later or delayed due to their location and a third (34%) of those who have experienced this said it happens regularly. It is clear from this research – and our previous work¹² – that consumers living in some parts of Scotland still face a postcode penalty when it comes to the delivery of goods ordered online.

4.11. Our research also examined the role and importance of the Post Office for SMEs in Scotland. We found that the Post Office is very important to Scottish SMEs – with **two in five (40%) describing the Post Office as extremely or very important to their business and a further 32% saying it is fairly important** – and that there appears to be a high level of dependence on Post Offices among those SMEs who use them, particularly those located in remote rural areas. When asked where they would go or what other method they would use to access the type of services their businesses currently use at their local Post Office if their local Post Office was no longer available, two-thirds (66%) of SMEs suggested using another Post Office. This rises to 78% for organisations based in remote rural areas, suggesting that alternative options for the services provided by the Post Office may be limited.



describe the Post Office as **very important** to their business

A further 32% say it is fairly important

4.12. We also found that Scottish SMEs are fairly regular users of their Post Office with **almost half (47%) saying they visit a Post Office at least once a week, and a further third visiting at least once a month.** Usage is particularly high in remote areas where 60% of those in remote small towns or remote rural areas visit at least once a week. While results from this research generally tallied with results from other UK surveys, we found that **Scottish SMEs appear to be more frequent users of the Post Office than their counterparts in other parts of Great Britain.** A GB wide study of smaller SMEs found only 28% using the Post Office once a week or more¹³ compared to 47% of Scottish SMEs who used a Post Office this frequently. This discrepancy can partially be explained by the difference in the sample – our survey had a higher proportion of rural businesses (32%) compared with the GB wide study (27%)¹⁴ to provide a representative Scottish sample – but this does not fully account for the dissimilarity. One potential explanation is that Scottish SMEs are more reliant on the range of business-related services provided by the Post Office, like banking and financial services, than their GB counterparts. While our study did not ask SMEs what facilities they used at the Post Office, the GB wide study did and found that rural SMEs were more likely than urban SMEs to use the Post Office for withdrawing cash, paying cheques, posting letters and documents, posting parcels, exchanging foreign currency, picking up or accessing government forms.¹⁵ Because a higher proportion of SMEs in Scotland are based in rural areas, we can infer that they may be more likely than their GB counterparts to use the Post Office to meet a range of business needs. Thus, they may need to visit a Post Office more frequently.



66% of SMEs would **actively seek a new Post Office** if theirs was not available

¹² [Citizens Advice Scotland \(2017\) The Postcode Penalty: Delivering Solutions](#)

¹³ [Citizens Advice \(2017\) Consumer use of post offices](#)

¹⁴ [Citizens Advice \(2017\) Consumer use of post offices](#)

¹⁵ [Citizens Advice \(2017\) Consumer use of post offices](#)

5. Conclusions & Recommendations

5.1. Postal services, and Post Offices, are critically important to Scottish SMEs. Even as more communications and business transactions move online, our findings suggest that the need for these services is unlikely to diminish. With the recent announcement of more bank branch closures across Scotland¹⁶ it is likely that the banking services offered by the Post Office will become even more crucial for Scottish SMEs, highlighting the importance of maintaining the Post Office network across Scotland.

RECOMMENDATION:

We recommend that Royal Mail and the Post Office maintain the current level of service that SMEs in Scotland have come to rely on. Any future changes to the Post Office Network or the Universal Service Obligation should take into account the needs of SMEs in Scotland – particularly those in rural areas who may not have access to alternative services.

5.2. Given the continued importance of postal services to Scottish SMEs, it is critical that the postal market is meeting their needs. We identified that what SMEs value most in a postal supplier are convenience and cost, with convenience being more important than cost to a majority of SMEs. This finding suggests that the convenience of using Royal Mail may outweigh any potential savings that could be made by using an alternative supplier.

We found that while Scottish SMEs are satisfied with most elements of the postal service – except for price – convenience could be improved through a collection or delivery service that is more frequent, timely or local. The findings from our research also suggest that a significant number of SMEs either don't have a meaningful choice when it comes to postal suppliers or are unaware of alternative providers – meaning they could be missing out on a service that is

more convenient or cost effective than the one they are currently using. SMEs should be able to choose a supplier that best meets the needs of their business – whether they are looking for the lowest prices or the most convenient service – and a lack of choice, perceived or otherwise, is stopping the market from being as competitive as it could be.

RECOMMENDATION:

Ofcom announced in their 2018/19 Annual Plan their intention to review the Second Class safeguard caps on Universal Service letters and parcels. Given that Scottish SMEs overwhelmingly depend on Royal Mail to meet their postal needs, we hope that Ofcom will consider the views of these consumers as part of this review and be mindful of their concerns about the rising costs of postal services.

We will highlight the findings of this research with postal operators to draw their attention to the suggestions raised by SMEs with regards to collection and delivery services, including delayed deliveries, so that the views of SMEs can be taken into consideration if and when operators review their current arrangements. We will also raise the lack of awareness SMEs have of alternative postal suppliers with operators so that they can re-evaluate the ways in which they engage with SMEs to promote their services.

5.3. We found that SMEs in Scotland can be disadvantaged by their location in a number of ways – including limited access to reliable broadband, location-based delivery surcharging and delayed deliveries. We have set out elsewhere the work we are doing to reduce parcel delivery surcharges in Northern Scotland¹⁷, but further action is needed by government to ensure location – rurality in particular – is not detrimental to Scottish SMEs.

¹⁶ [BBC \(2017\) RBS branches under threat of closure](#)

¹⁷ [Citizens Advice Scotland \(2017\) The Postcode Penalty: Delivering Solutions](#)

RECOMMENDATION:

In light of our findings, governments in Westminster and Holyrood should prioritise the needs of rural SMEs and work to remove barriers that prevent these organisations from accessing good quality broadband. Research carried out by Scotland's Rural College found that removing digital constraints from rural businesses could add at least £1.44bn to rural business turnover in Scotland so there is an economic incentive to ensuring SMEs have access to the broadband they need.¹⁸ We have stated elsewhere our position on the need for a statutory telecoms consumer advocate to represent the interests of consumers, including SMEs,¹⁹ and this research further highlights the growing necessity for a consumer advocate in this area. We believe SMEs and residential consumers in Scotland have particular need for an advocate because the potential for detriment is high and geography and population distribution have been used in the past as excuses for poor, partial or non-service. UK Government is now consulting on extending

consumer advocacy to the telecoms sector as part of the Consumer Green Paper²⁰ and the findings from this research will inform our response to the Government's consultation.

We would also welcome more rural proofing in general policymaking for Scottish SMEs. There is, for example, an opportunity in the delivery of the Islands Bill – through the provision of the national islands plan – to consider the broadband and postal needs of SMEs based in the Scottish Islands. Last year UK Government published rural proofing guidance to help policy makers in government assess the effects of their policies on rural areas²¹ but we do not yet know how effective this has been. We will highlight this research with UK and Scottish Government so that our findings can be considered in future discussions about rural proofing for SMEs.

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- 18 [Scotland's Rural College \(2018\) Scottish rural businesses who go digital could add £2.5bn to Scotland's economy says report](#)
- 19 [Consumer Futures Unit \(2018\) Draft Work Plan 2018-19](#)

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- 20 [Department for Business, Energy & Industrial Strategy \(2018\) Modernising Consumer Markets: Consumer Green Paper](#)
- 21 [Department for Environment Food & Rural Affairs \(2017\) Rural proofing: Practical guidance to assess impacts of policies on rural areas](#)





For more information about the Consumer Futures Unit, visit:

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