



The Postcode Penalty: The Business Burden



Contents

Contents.....	1
The Citizens Advice Service in Scotland.....	2
Introduction.....	2
History of this campaign.....	3
Survey Methodology.....	4
Key Findings.....	5
Which businesses took part?.....	6
<i>Geographic location</i>	6
<i>Size and nature of businesses responding</i>	7
<i>Volume of parcels received and sent</i>	9
Experiences of rural businesses receiving deliveries.....	11
<i>What issues were experienced by businesses receiving deliveries?</i>	12
Possible alternatives to high delivery charges.....	16
<i>Use of Royal Mail</i>	16
<i>Alternative Delivery Options</i>	19
What impact do delivery charges have on rural businesses?.....	21
Experiences of rural businesses sending orders.....	24
<i>Experiences of courier applying surcharge for delivery to a remote location....</i>	26
What impact do additional charges for sending deliveries have on rural businesses?.....	29
Conclusion and Next Steps.....	31
Recommendations.....	32
Acknowledgements.....	33
Appendix A – Survey Questions.....	34

- ***“A constant headache and one which affects us every single day and has added considerably to the cost of every major development project we have undertaken over 30 years. Unfair. Never taken seriously as an issue. Thank you for doing so.”***

Hospitality and tourism business, Western Skye

The Citizens Advice Service in Scotland

Citizens Advice Scotland (CAS), our 61 member bureaux and the Citizen Advice Consumer helpline form Scotland's largest independent advice network.

Advice provided by the Scottish CAB Service is free, independent, confidential, impartial and available to everyone. We are champions for both citizens and consumers and in 2012/13 we helped over 314,000 people deal with over a million issues. Our financial gain for clients in this year was £120,705,471.

Our bureaux deliver frontline advice services through more than 200 service points across the country, from the city centres of Glasgow and Edinburgh to the Highlands, Islands and rural Borders communities. This network of dedicated staff and volunteers is ideal to represent and assist consumers in Scotland in all transactions and services they operate in.

Our vision is paramount to all our goals in the consumer landscape as well as being simple but robust:

“A fairer Scotland where people as citizens and consumers are empowered and their rights respected”

Introduction

The Scottish CAB service has been campaigning on the issue of unfair delivery charges for the past four years. Our 2012 report, ‘The Postcode Penalty’¹ revealed that at least 1 million Scots face surcharges, delayed parcels or are refused delivery altogether, with consumers in the Highlands charged an average of £15 extra for delivery, and those in Scotland's island communities facing a 500% mark up on the standard delivery price to receive goods they order online.

As part of the survey of over 3,000 individual consumers that shaped ‘The Postcode Penalty’, comments were received from a small number of businesses based in rural Scotland. They reported that problems caused by excessive ‘remote area’ surcharges being levied for goods ordered online affected their operations, cut into their profit margin and placed them at a competitive disadvantage based on their location. We also heard from businesses who felt they had no choice but to pass on extra charges from third party carriers to their customers.

¹ The Postcode Penalty – Citizens Advice Scotland, December 2012
<http://www.cas.org.uk/publications/postcode-penalty>

According to Scottish Government figures, there are over 20,000 businesses located in remote rural areas of Scotland, with 97% of them being classed as small businesses. They are at the heart of local economies in Scotland, and their viability is crucial to the communities they are based in. To further explore the issues raised by business consumers, Citizens Advice Scotland surveyed 247 businesses across Scotland in 2014 on their experiences of additional delivery charges to deliver to locations deemed to be 'remote'.

This report presents the findings of the survey of businesses and assesses the impact of online delivery costs on their operation.

History of this campaign

In 2010 a staff member at Skye & Lochalsh CAB was charged an unreasonably high cost for delivery of something she had bought online. This was not unusual, but it was one charge too many, and she decided to do something about it.

As the CAB works for consumers, she persuaded her colleagues to run a survey of local peoples' experience of this issue. This received an overwhelming response, which the CAB reported to Citizens Advice Scotland (CAS).

CAS sent the survey to other rural CABs - including those in Nairn, Caithness, Dingwall, Orkney and Turriff. All of these ran the survey locally, and all received similar high responses.

CAS then decided to run a national version, which saw the largest response to any survey CAS has run on any issue. In just four months they received over 3,000 responses from Scots who felt strongly about the issue and delighted to have a chance to say so.

Other groups were also campaigning on the issue, including Highland Council, Consumer Focus and the Office of Fair Trading. We joined with them to pool our evidence and fight a broad-fronted campaign.

In late 2012 CAS published our detailed evidence in the report, 'Postcode Penalty,' which found the problem was much wider than many had thought - hitting 1 million Scots.

We have taken this evidence to regular meetings with ministers at both UK and Scottish governments, the postal regulators, Ofcom, and many delivery companies as well.

There have also been a number of motions and questions in both parliaments based on our campaign - most recently Sir Robert Smith MP's private member's bill last year and a debate on the issue in the Scottish Parliament, where the campaign was praised by the First Minister. All political parties have expressed their support for it.

In November 2013, the Scottish Government and representatives of business and consumer organisations including CAS, agreed a Statement of Principles for parcel deliveries. The statement builds on traders' existing obligations and sets out five key

principles designed to spread best practice – including many problems experienced by people living in rural, remote or island communities.²

Meanwhile, the Scottish CAB service has taken on a number of new responsibilities for consumer work in general. This has given us new opportunities to push this campaign and demand action.

We continue to campaign on the issue, and believe we can make much more progress. This effort to assess the business evidence is the latest arm of our campaign, and an important one.

We will take this evidence again to ministers and delivery companies, to back up the significant base of evidence we already have from individual consumers.

Throughout the campaign we have said that Scots don't want 'special treatment'. All they want is a fair deal. We are determined to ensure they get that.

Survey Methodology

Our survey of businesses took place from 24 February to 14 March 2014. It was open to any business located in Scotland to take part online, or through filling in a paper form available from their local Citizens Advice Bureau. However, we particularly promoted the survey to small businesses located in rural areas.

The list of survey questions is attached as Appendix A. A total of 247 businesses responded to the survey, but answering each question was optional, so the total number of responses for each question varied slightly. In addition, respondents were directed to only answer particular sections of the survey, depending on whether they received or sent five or more items online each month.

The majority of questions were closed multiple choice, and the results of these are presented in their entirety. For open questions, that asked respondents to describe their experiences, we have analysed the results and grouped them into key themes that emerged from the respondents' answers.

² Statement of principles for parcel deliveries,
<http://www.consumerfutures.org.uk/files/2013/11/Statement-of-principles-for-parcel-deliveries.pdf>

Key Findings

- More than 80% of respondents regularly ordered items online for business use
- 94% of businesses ordered the majority of items from parts of the UK other than Scotland
- Based on our findings, we estimate that businesses in remote and rural Scotland order almost 4 million items for business use online each year
- Almost nine out of every ten businesses who responded reported that they regularly faced an additional surcharge for delivery due to their geographic location
- 80% of respondents regularly encountered misleading claims of free delivery, when in fact surcharges were imposed due to their location
- More than three-quarters of respondents were regularly classed as 'offshore' or 'remote' when ordering items online. This included businesses who did not consider their location to be particularly remote, and those whose premises were on the Scottish mainland, but were considered by the seller to be on an island
- Regularly encountering delays in items arriving was another common problem, with 69% of respondents having to contend with this issue
- Respondents reported that the majority of suppliers do not offer delivery by Royal Mail as an option and that therefore the Universal Service Obligation does not apply to a significant number of items rural businesses order online
- 73% of businesses reported that sellers were unwilling or unable to depart from their standard carrier arrangements to reduce delivery charges to remote areas
- The most common reason for being unable to depart from standard delivery options to achieve cheaper delivery was sellers' exclusive arrangements with specific couriers
- 86% of respondents would be prepared to collect items from their local Post Office if the costs of delivery would be reduced. 55% would be content for delivery to a local shop, such as a newsagent to reduce costs
- More than three-quarters of respondents (76%) felt that the costs of ordering items online had a substantial impact on their business
- Additional delivery costs for ordering items online are estimated to have a substantial impact on more than 15,000 businesses in remote and rural Scotland
- Business respondents face an unenviable choice of absorbing high delivery costs and cutting into their profitability, or passing on the cost to their customers and leaving themselves at a considerable disadvantage against competitors elsewhere
- 64% of respondents who sent five or more items by post had experienced a courier applying a remote delivery surcharge
- Half of respondents had been charged for sending items because their location was deemed to be remote – even if their customer was based in an urban area in another part of the UK

Which businesses took part?

Geographic location

A total of 247 businesses responded to the survey. We asked the businesses for the postcode of their main premises, which allows us to build up a picture of which areas are most affected by the issue.

The vast majority of business respondents were based in rural areas of Scotland. As shown below in Table 1, significant amounts of responses emanated from the KW (37% of respondents) and IV (25%) postcode areas.

Table 1 – Survey respondents by postcode area

Postcode Area	Number of respondents	Coverage
All KW	89	Orkney, Caithness, E. Sutherland
<i>KW1-14</i>	<i>39</i>	<i>Caithness, Eastern Sutherland</i>
<i>KW15-17</i>	<i>50</i>	<i>Orkney</i>
All IV	59	Western Highlands, Inverness, Skye
<i>IV areas (not Skye)</i>	<i>36</i>	<i>Western Highlands, Inverness</i>
<i>IV41-51, 55-56</i>	<i>23</i>	<i>Skye</i>
All PH	32	Perthshire, Southern Highlands
<i>PH1-14</i>	<i>4</i>	<i>Perth, most of Perthshire</i>
<i>PH15+</i>	<i>28</i>	<i>Southern Highlands, small part of Perthshire</i>
ZE	20	Shetland
PA³	14	Argyll, Bute, islands of the Clyde, Renfrewshire, Inverclyde
AB	10	Aberdeenshire, Aberdeen
HS	4	Western Isles
KA	4	Ayrshire
Other Areas⁴	8	
No answer	7	
TOTAL	247	

These results bear a similarity to the areas identified as ‘usual suspects’ in terms of postcodes which retailers refused to deliver to in the Postcode Penalty report⁵, and to the areas where individual respondents to our previous surveys on this issue lived. This is indicative of a problem that significantly affects individual consumers and businesses in several parts of Scotland.

Particularly of note are the amount of responses from businesses based on Skye, and in the KW1-14 postcode areas. As shown in Table 2 below, these featured heavily amongst the individual postcode areas where five or more business respondents were based.

³ All responses from PA20+ (Argyll, Bute, islands of the Clyde)

⁴ Responses from DD, EH, G, ML and TD areas

⁵ The Postcode Penalty, p. 19

Table 2 – Postcode districts with five or more respondents

District	Number	Post town (area covered)
KW17	27	Orkney (exc. Kirkwall or Stromness)
KW14	17	Thurso
KW1	15	Wick
ZE2	14	Shetland (exc. Lerwick or Scalloway)
KW15	13	Kirkwall (Orkney)
KW16	10	Stromness (Orkney)
IV55	8	Isle of Skye (western part)
IV51	7	Portree (Skye)
ZE1	6	Lerwick and Scalloway (Shetland)
PH49	5	Ballachulish (south eastern Lochaber)

This may be explained by particular geographical issues affecting those areas. As noted in the ‘History of this campaign’ section, the Scottish CAB Service’s activity on the issue of remote delivery charges was sparked by a local campaign by Skye and Lochalsh CAB. Whilst Skye is an island, it is linked to mainland Scotland by a toll-free bridge which means that deliveries can be made by road. Despite this, respondents continue to report that in some cases, Skye is classed as an island, and charged higher costs for delivery than neighbouring mainland areas.

- *“Seller lacks knowledge of our location in relation to the rest of the UK. We are linked to the UK mainland by a 1-mile-long road bridge, but still regarded as off-shore. I object when anywhere from Cornwall to John O’Groats is considered “normal” but the Skye Bridge sets us off-limits. We often find ourselves informing the selling company about routes and delivery companies to use which are cheaper and more convenient.”*

Hospitality and tourism business, Western Skye

The KW postcode area covers Caithness and eastern Sutherland on the Scottish mainland as well as the Orkney islands. Respondents to our previous surveys from Caithness reported that a number of retailers refused to deliver, or levied an additional surcharge on the basis that they lived on ‘an island’. In February 2014, shortly before the launch of this survey, Thurso Community Council launched a campaign for a new postcode due to the perceived mislabelling as an island by retailers and carriers.⁶ This interest may explain the slightly higher proportion of responses from the KW1-14 (mainland Scotland areas) than there was to the ‘Postcode Penalty’ surveys.

Size and nature of businesses responding

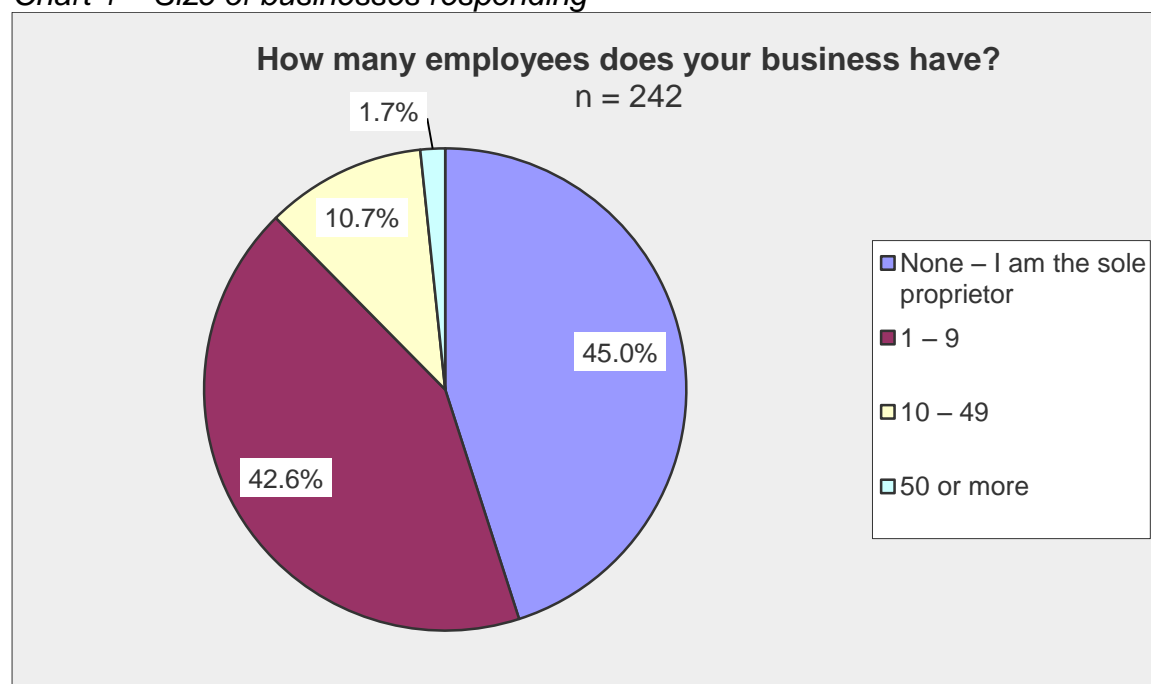
As shown in Chart 1 below, the vast majority of respondents are classed as small businesses⁷, with less than 2% of respondents having 50 or more employees.

⁶ ‘Return to sender as area demands a new postcode’ – The Herald, 1 February 2014
<http://www.heraldscotland.com/news/home-news/return-to-sender-as-area-demands-a-new-postcode.23324295>

⁷ As defined for accounting purposes by Companies Act 2006

Almost 88% of respondents ran micro-businesses (9 employees or fewer), with the largest group being sole proprietor businesses, with no employees.

Chart 1 – Size of businesses responding



This is in line with the reported business profile for remote rural areas of Scotland. According to Scottish Government figures, 20,145 of the 20,665 businesses located in remote rural areas (97%) are small businesses.⁸

The businesses who responded to the survey represented a diverse range of industries. This diversity is perhaps best illustrated by the fact that when asked 'What is the nature of your business?' the most popular answer was 'Other', with almost a quarter of respondents selecting this option.

Table 3 below shows the categories of business selected by survey respondents. Retail was the most common industry of those selecting from the range of options presented in the survey, followed by tourism.

⁸ 'Businesses in Scotland 2013' p.94, Scottish Government
<http://www.scotland.gov.uk/Resource/0043/00437279.pdf>

Table 3 – Nature of businesses responding

Answer	%	Number
Retail	16.3%	40
Tourism	14.7%	36
Manufacturing	8.6%	21
Service	8.2%	20
Agriculture	6.1%	15
Engineering	5.3%	13
Computer/IT	4.5%	11
Construction	4.1%	10
Catering	3.7%	9
Education	2.0%	5
Communications	0.8%	2
Financial	0.4%	1
Wholesale	0.4%	1
Other (please specify)	24.9%	61
No answer		2
TOTAL		247

The answers given by those who chose 'Other' are summarised in Table 4 below. The text responses have been grouped together into broad categories for the purposes of analysis. The most common 'other' business were arts and crafts related enterprises, though a wide range of industries were represented, including breweries (listed under 'retail and manufacturing') a radio station ('media/multimedia') and an alpaca breeder ('agriculture').

Table 4 – Nature of businesses who selected 'Other (please specify)'

Answer category	Number
Arts and Crafts	16
Community development/charity/advice	6
Agriculture (inc. forestry and aquaculture)	6
Media/multimedia	5
Retail and manufacturing	5
Upholstery	3
Beauty therapy/massage/hairstyling	3
Consultancy	3
Retail	3
Manufacturing	2
Automotive	2
Tourism	2
Other (none of the above)	5
TOTAL	61

Volumes of parcels received and sent

We asked business respondents whether they regularly ordered items online for business use and whether they regularly sent parcels as part of their business. In

this context, 'regularly' was defined as more than 5 deliveries per month, which is the minimum qualifying threshold for a business account with some couriers.

The results showed that:

- More than four out of five businesses (80.4% of respondents) regularly ordered more than 5 items online for business use each month, indicating the importance of deliveries to rural businesses.
- 38.1% regularly sent five or more items each month, which allows us to assess the experiences of businesses who send items from a remote location, in addition to those who receive deliveries.

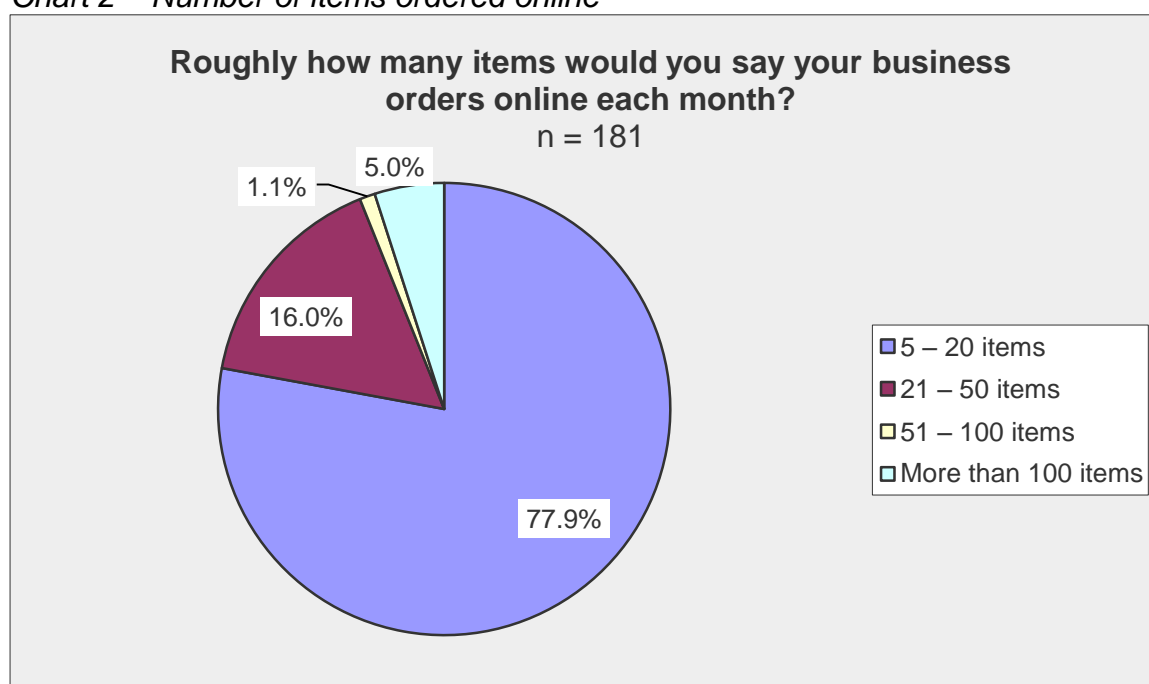
As noted in the 'Survey Methodology' section, we went on to ask those who answered 'yes' to each of the questions about their experiences of sending and receiving deliveries respectively.

Experiences of rural businesses receiving deliveries

To establish the volume of deliveries that the respondents received, we asked them to estimate the number of items their business ordered online each month.

The majority of businesses taking part in the survey ordered between 5 and 20 items online each month, though some ordered considerably more, with 5% of respondents estimating that they typically order more than 100 items for business use online each month. Chart 2 shows the number of items that respondents ordered for delivery.

Chart 2 – Number of items ordered online



On this evidence, this would add up to several thousand deliveries to rural businesses each month, underscoring the significance of delivery costs to the respondents' balance sheets. If these averages were replicated across businesses across remote and rural Scotland, this would equate to almost 4 million deliveries per year, which is a powerful illustration of the potential power and value of this market.

We asked respondents where the majority of their orders were delivered from, which produced a very clear outcome, with 93.5% ordering the majority of items from parts of the UK outside of Scotland. Just 5.4% ordered the majority of items from within Scotland, and just 1% from outside the UK.

Based on this it is clear that deliveries within the UK should be the focus of attention in tackling the issue, and suppliers and couriers from all parts of the UK should be aware of the volume of business fulfilled to rural Scotland, and ensure their pricing policies are fair.

What issues were experienced by businesses receiving deliveries?

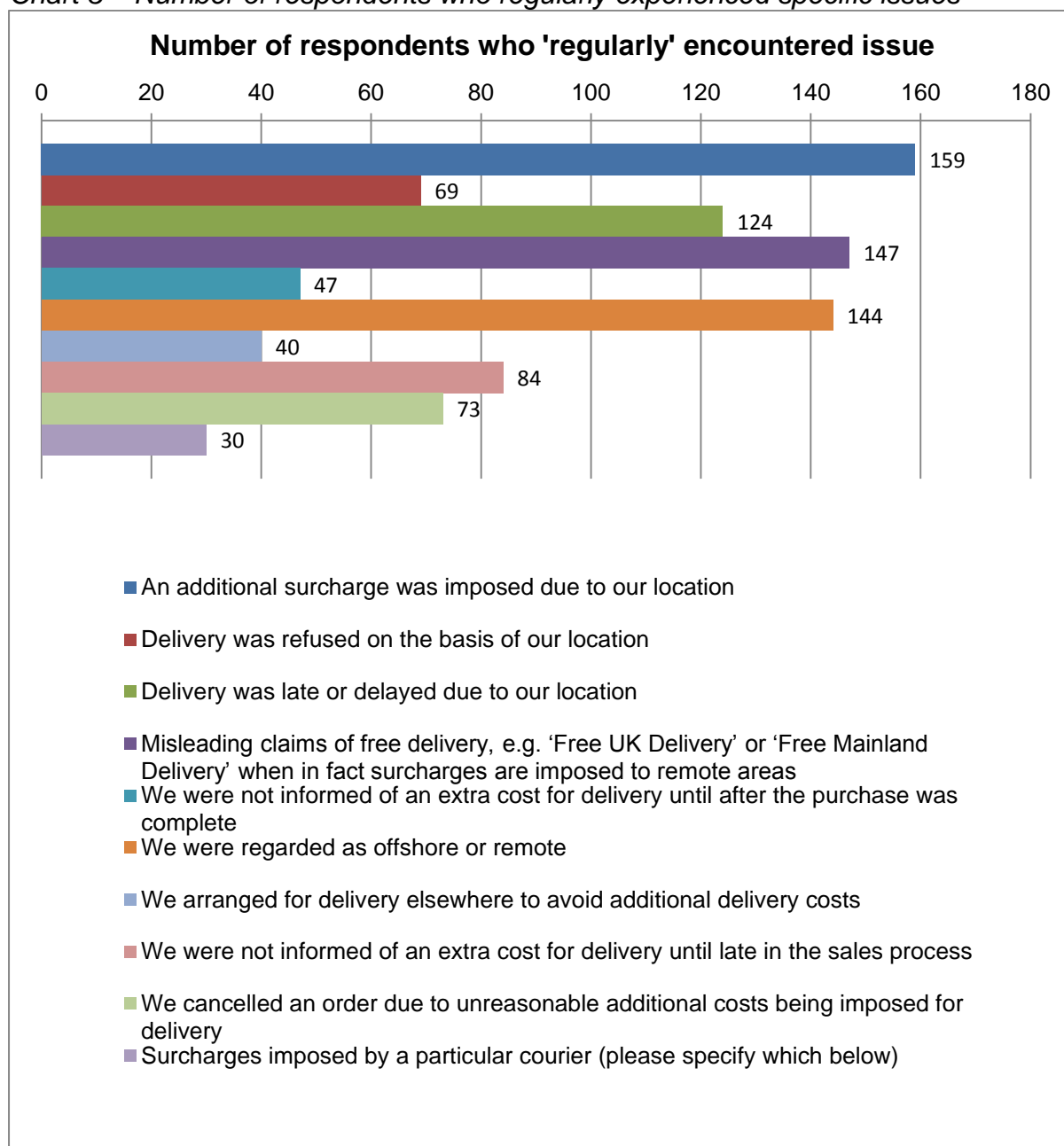
The 'Postcode Penalty' report established the issues faced by the 3,191 individual consumers who responded to our survey.⁹ Using them as the basis of a question to respondents to this survey, we aimed to establish the key issues for business who regularly order items for business use online. The results are displayed in Table 5 and Chart 3 below.

Table 5 – Issues for businesses receiving deliveries

<i>When ordering items for business use online, please tell us if you have ever encountered any of the following issues, and if so how frequently?</i>				
Option	Never	Occasionally	Regularly	n =
An additional surcharge was imposed due to our location	0%	13.6%	86.4%	184
Delivery was refused on the basis of our location	13.3%	48.6%	38.1%	181
Delivery was late or delayed due to our location	1.7%	29.8%	68.5%	181
Misleading claims of free delivery, e.g. 'Free UK Delivery' or 'Free Mainland Delivery' when in fact surcharges are imposed to remote areas	0.5%	19.1%	80.3%	183
We were not informed of an extra cost for delivery until after the purchase was complete	13.8%	60.2%	26%	181
We were regarded as offshore or remote	2.2%	19.1%	78.7%	183
We arranged for delivery elsewhere to avoid additional delivery costs	34.8%	43.1%	22.1%	181
We were not informed of an extra cost for delivery until late in the sales process	5.6%	47.8%	46.7%	180
We cancelled an order due to unreasonable additional costs being imposed for delivery	6.7%	52.5%	40.8%	179
Surcharges imposed by a particular courier (please specify which below)	42.4%	33.6%	24%	125

⁹ 'The Postcode Penalty' p. 6

Chart 3 – Number of respondents who regularly experienced specific issues



The biggest problem identified, as it was for individual consumers in 'the Postcode Penalty', was respondents being charged extra due to their location. Almost nine out of every ten businesses who responded reported that they regularly faced an additional surcharge imposed due to their geographic location. Every single one of the respondents had encountered this issue.

- *“Lots of my suppliers have contracts with couriers and are unwilling to take parcels to a Post Office. Some companies are good at shopping around but others won’t. 10 years ago our annual freight spend was £400.00 now it is about £2000.00 and that is with lots of time spent negotiating, trips south to pick up and orders cancelled because it is too expensive”*

Catering business, Shetland

- *“We live on an island which we understand has additional costs but the couriers just seem to make up a figure for delivery.”*

Construction business, Isle of Arran

More than 80% of respondents had regularly encountered misleading claims of free delivery for an item ordered online, only to find later in the process that an additional surcharge had been applied. Businesses reported that this process was frustrating and considered to be a waste of valuable time.

- *“It wastes a lot of time often having to go through the whole ordering process, only to find out that the delivery costs are ridiculous, or that they won't deliver to the Highlands and Islands, then you have to try another company who will. I'm really fed up of this!”*

Tourism business, Caithness

More than three-quarters of respondents were regularly classed as ‘offshore’ or ‘remote’ when ordering items online. This included businesses who did not consider their location to be particularly remote, and those whose premises were on the Scottish mainland, but were told by the seller that they were on an island based on postcode generalisation.

- *“I have placed many orders online with sellers on eBay and Groupon. They tell me sometimes a week later and after I have paid that the order cannot be completed as they can't find a courier who will deliver to the islands. After telling them that I live and work on the Scottish mainland, they would either say that I am lying or winding them up.”*

Service business, Caithness

- *“Our postcode is on the Scottish Mainland with a public road straight to the door. Many deliveries come via depots in Glasgow. For comparison, we are two hours drive from Glasgow, but Stranraer is 3 hours. Couriers will deliver to Stranraer, but not here.”*

Management consultancy business, Argyll

Regularly encountering delays in items arriving was another common problem, with 68.5% of respondents having to contend with this issue. This is despite some businesses querying quoted delivery times with sellers and being assured that items would arrive, only for the order to arrive late.

- *“Suppliers often insist that they will provide a 24 hour service even when we tell them that in our case it will be 48 or 72 hours. They don’t believe us.”*

Arts business, Caithness

Whilst some respondents were not aware of particular couriers who charged for delivery, others named companies who appeared to be responsible for applying surcharges to their order. With 16 different courier companies mentioned this appears to be a fairly widespread issue. Others commented that “most of them” or “nearly all” appear to levy an additional charge.

- *“One seller refused [to deliver] completely due to the nature of their contract with the courier which specified that ALL deliveries "Including those to the highlands and islands (which may incur additional surcharges, see your account manager for details)" had to go through the courier and NEVER through Royal Mail. Any use of Royal Mail would be considered a breach of contract by the courier.”*

Retail business, Shetland

Overall, businesses in rural areas of Scotland face somewhat of a lottery in ordering items online. Experiencing increased charges to deliver to their location – including when free delivery is advertised, orders arriving late, and being informed of extra costs late in the buying process or even having their orders flatly refused has moved from an occasional inconvenience to being the norm.

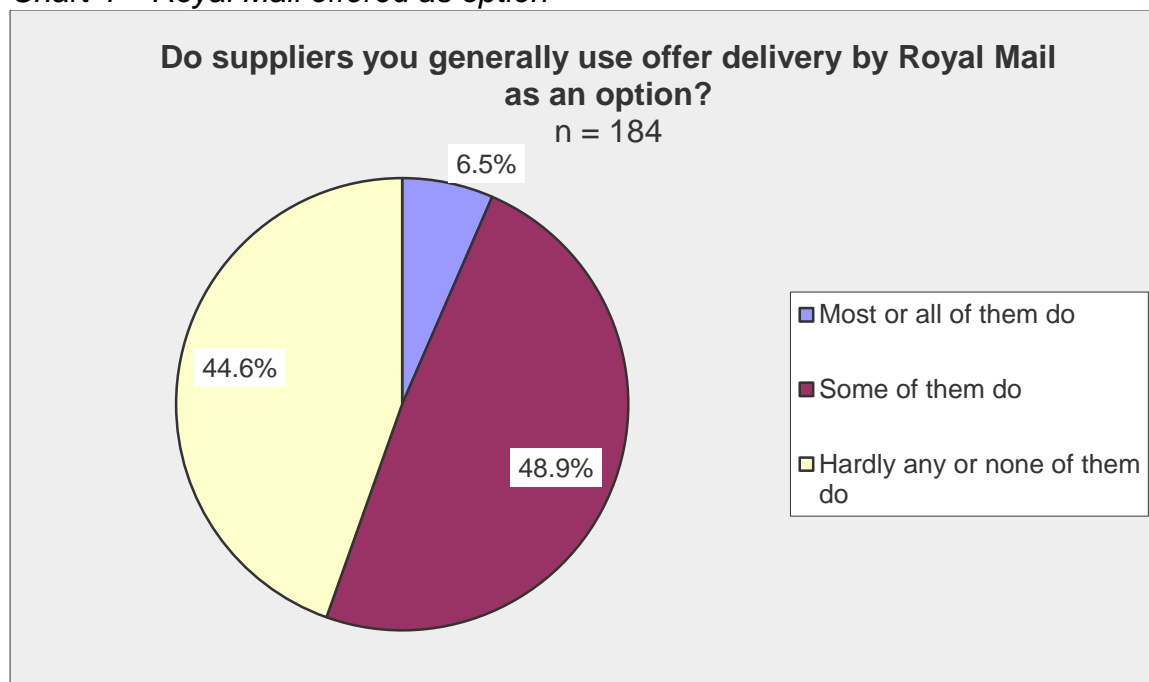
As we will explore later in this report, as well as causing frustration these issues cause considerable barriers to doing business in large parts of Scotland, and even threaten their viability.

Possible alternatives to high delivery charges

Use of Royal Mail

Under the Universal Service Obligation (USO), Royal Mail is obliged to offer an affordable, uniform tariff for deliveries weighing 20kg or less across the UK. Given that this theoretically is a clear alternative to high remote area surcharges being imposed, we explored whether Royal Mail had been offered as an option for delivery to the business respondents, as shown in Chart 4.

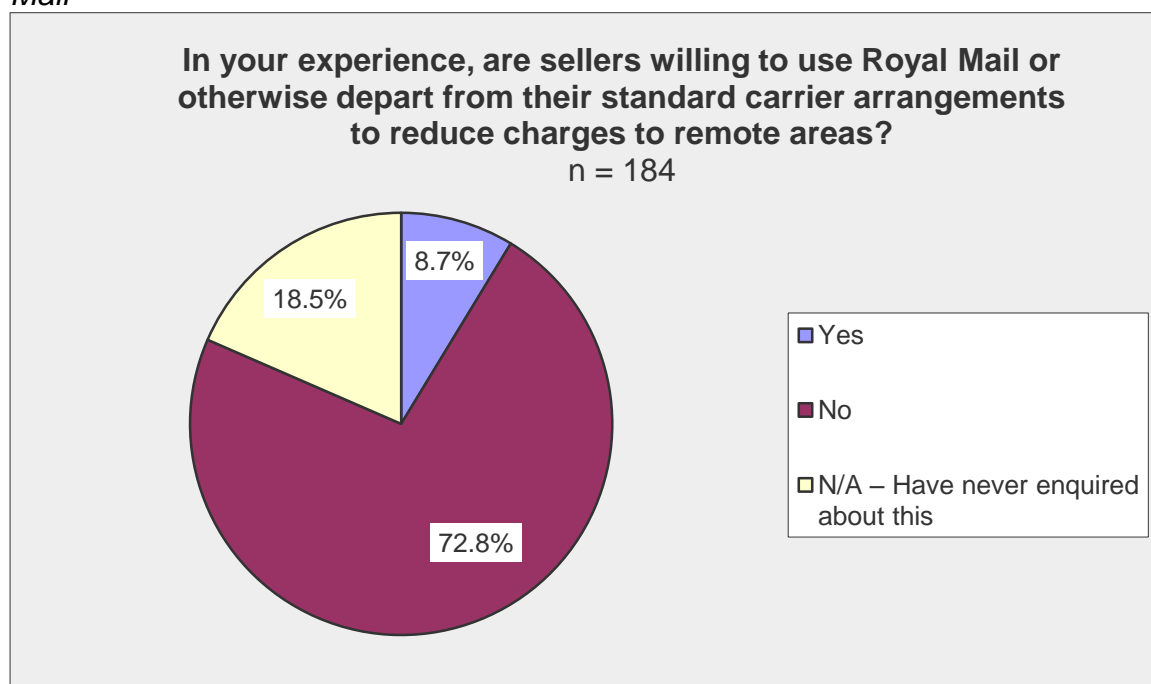
Chart 4 – Royal Mail offered as option



With just under 45% of respondents reporting that hardly any or none of their suppliers offer Royal Mail as an option, and a further 49% reporting that only some of them do, it appears that the majority of deliveries are carried out by other firms, and that therefore the Universal Service Obligation does not apply to a significant number of the items that rural businesses order online.

We asked respondents whether sellers they used were willing to depart from their standard arrangements to use Royal Mail for deliveries to remote areas to avoid high delivery charges being incurred. More than 80% of our business respondents had enquired about this, but as Chart 5 illustrates, often not with a positive outcome.

Chart 5 – Experiences of sellers departing from standard arrangements to use Royal Mail



In the vast majority of instances – almost three-quarters – businesses report that sellers were unwilling to use Royal Mail or to use an alternative carrier than they would normally do to reduce delivery charges to the customer.

To further explore this, we asked respondents to describe the experiences they had had with sellers departing from their standard arrangements or being unwilling to do so. Table 6 below summarises the reasons given by sellers as described by our business respondents (note that the percentages do not sum to 100 as a number of respondents identified more than one of these issues).

Table 6 – Details of sellers being willing/unwilling to depart from standard arrangements

Please give any details of any experience you have had with sellers departing from their standard arrangements, or being unwilling to do so. <i>n</i> = 88	
Outcome and reason given	% of respondents
Unwilling – Contract or exclusive arrangement with a courier prevents it	17%
Unwilling – Issue with couriers (did not specify a contractual/exclusive arrangement)	14.8%
Unwilling – Unable to deviate from standard arrangements/against company policy	8%
Unwilling – Refused to give a reason	8%
Unwilling – Refused to deliver	4.5%
Unwilling – Refused to believe that respondent was not based on an island/in the Highlands	3.4%
Unwilling – Told that they could make their own arrangements to collect if they were unhappy with the delivery costs	3.4%
Unwilling – Respondent believed that seller was to blame rather than a courier (e.g. using Royal Mail and still surcharging)	3.4%
Unwilling – Miscellaneous or other reason given	13.6%
The delivery was unsuitable for Royal Mail (i.e. a large/heavy item)	4.5%
Respondent arranged their own delivery or collected the item from the seller instead	4.5%
Willing – Some sellers would (respondent chose flexible ones)	9.1%
Willing – The seller agreed to use Royal Mail	8%
Willing – The seller shopped around and found the best deal	1.1%
Other – The terms on the website were unclear	2.3%
Other/general comments	8%

The most common issues identified were arrangements with couriers preventing a cheaper option, or that the seller was unable to deviate from their standard arrangements. Accounting for almost 40% of the total, this appears to be at the root of the problem for many deliveries to rural areas. These arrangements seemed to prevent many sellers from using Royal Mail for items which would have qualified for the USO, and from using options which would have been cheaper for both seller and business customer.

- *“Most companies use a dedicated courier and are unwilling to use Royal Mail even when we explain that the cost will be much less and the goods will be delivered more quickly.”*

Computer/IT business, Orkney

These examples far outweighed those of sellers levying an extra charge, even whilst using Royal Mail, or those which could be described as generally poor customer service. Whilst there were examples of sellers agreeing to use Royal Mail, or an alternative carrier when it was shown to be cheaper, this appears to be far from the norm and can involve a fairly time-consuming process for the business customer.

From elsewhere in the survey it appears that many different couriers are known to have levied surcharges. This can make it difficult for business customers to shop around for a better deal, and make a significant surcharge a high probability for purchasing from a seller with an exclusive arrangement with a courier.

Alternative Delivery Options

A number of alternative delivery options have begun to become available in recent years, and delivery to alternative points such as a local Post Office, secured lock box, an alternative address, or a local shop such as a newsagent have been previously advocated by Consumer Focus Scotland and others.¹⁰

We explored survey respondents' views of these options – whether they had used these options, or would consider using them if it would reduce the costs of delivery. Table 7 below shows the usage of alternative points amongst the businesses who responded.

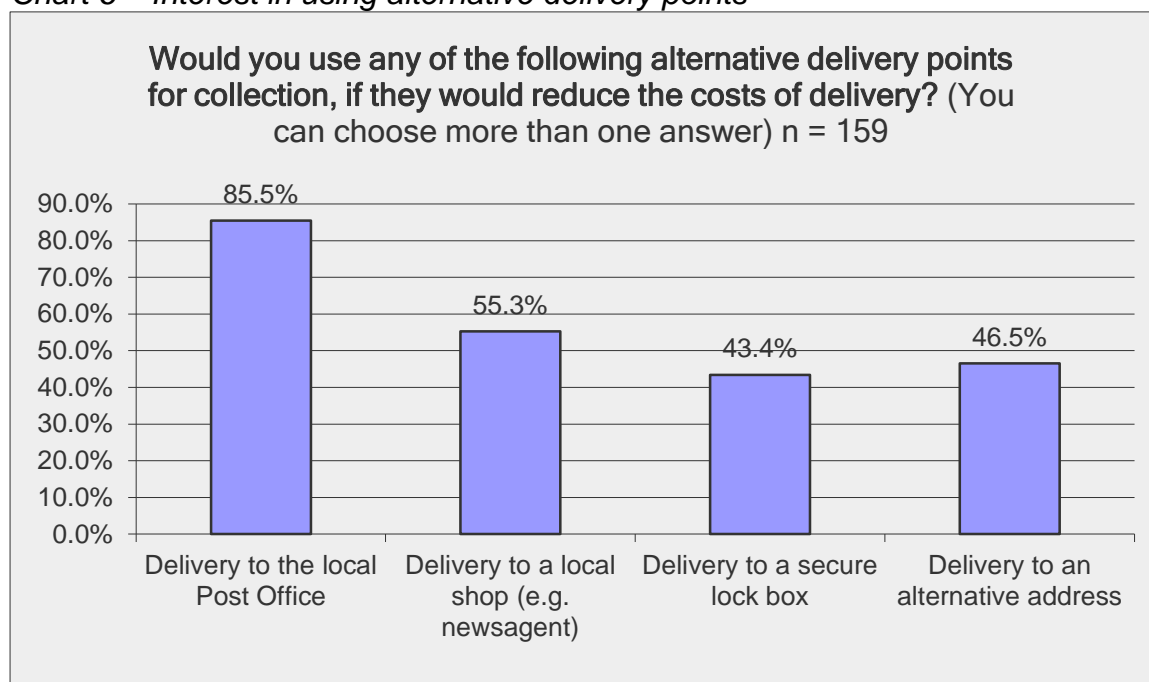
Table 7 – Usage of alternative delivery options

Have you ever received a delivery to any of the following alternative delivery points for collection? Would you use any of these options if they were available, and would reduce the costs of delivery? (n = 182)			
Answer Option	Have used (no.)	Never used (no.)	Would use if available (no.)
Delivery to the local Post Office	22	97	80
Delivery to a local shop (e.g. newsagent)	21	111	53
Delivery to a secure lock box	9	126	46
Delivery to an alternative address	83	78	25

The most commonly used option was 'delivery to an alternative address', which almost 46% of respondents had availed themselves of. Far fewer respondents had used any of the other three presented options, although there appeared to be interest in using the options if they were available, particularly in delivery to the local Post Office. We went on to explore this interest in using the options to reduce the costs of delivery, as illustrated by Chart 6.

¹⁰ 'Price and choice in remote communities – Call for Evidence' p. 105 – Office of Fair Trading, June 2012.

Chart 6 – Interest in using alternative delivery points



A significant majority of respondents would be prepared to collect items from their local Post Office if the costs of delivery would be reduced. A majority would be content for delivery to a local shop, such as a newsagent, with a significant minority displaying interest in the potential options of an alternative address or a secure lock box.

Given this willingness to consider alternative delivery points, CAS would recommend that sellers and carriers offer alternative points as options for delivery, working in conjunction with the Post Office and local community hubs such as shops to facilitate this. However, there are some constraints on these options in some areas, as one business respondent commented in the survey.

- *“It is delivery to “Shetland” that attracts the premium. Simply delivering to a PO or another address won't solve that. In fact it will lead to additional costs, as we would have to send someone to pick it up, and many of our parcels are of a substantial size.”*

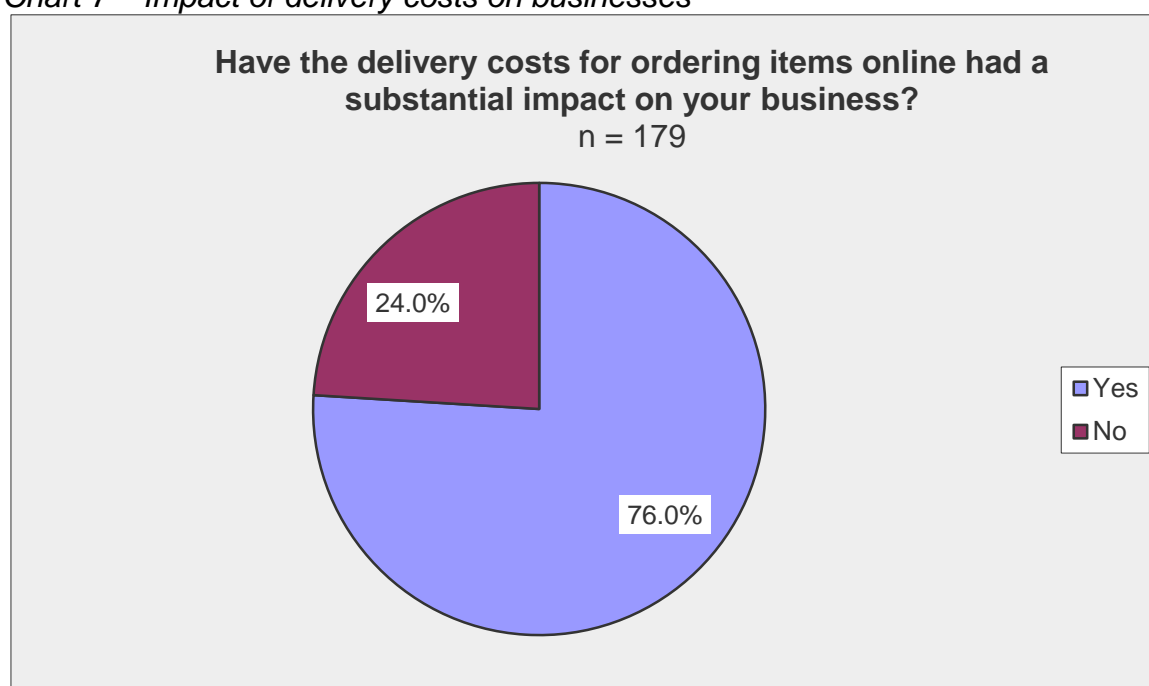
Service business, Shetland

What impact do delivery charges have on rural businesses?

As we have already seen, business respondents to our survey based in rural areas have experienced a number of issues when ordering items online, in particular being charged extra for delivery based on their location, which they felt to be excessive. To attempt to quantify the impact of delivery charges, we asked respondents if they had a substantial impact on their business, and if so to briefly describe the impact.

More than three-quarters of respondents (76%) felt that the costs of ordering items online had a substantial impact on their business, as illustrated by Chart 7 below.

Chart 7 – Impact of delivery costs on businesses



Given the number of businesses based in remote rural Scotland, this would indicate that the delivery costs for ordering items online could have a substantial impact on over 15,000 businesses. This is an indication of the importance of this issue in developing and maintaining thriving local economies.

When asked to describe this impact, respondents were of the opinion that the impact was negative and as shown by Table 8 below, forced many into a choice between a substantial effect on their profit margin, or making themselves less competitive as a result of passing on the increased costs to their customers. It should be noted that more than one of these issues were identified by some respondents, so the total number of issues is higher than the number answering the question.

Table 8 – Description of impact of delivery charges on business

Have the delivery costs for ordering items online had a substantial impact on your business? If yes, please briefly describe the impact on your business. (n = 122)	
Issue identified	Number
Increased costs to the business	49
Increased prices to customers	21
Reduced business' profitability	18
A lot of wasted time trying to find less costly options	18
Business is less competitive as a result	17
Have to order larger quantities of items than required to spread the cost of delivery	8
Significantly limits options of suppliers	7
Work was held up due to slow deliveries	6
Slow delivery caused a delayed service to our customers	3
Had to turn down work due to the costs for required items to be delivered being too high	3
Ran out of items because couldn't afford to re-order due to delivery costs	2
Had to change nature of business due to delivery costs for particular items being too high	2
Had to close the business as a result of high delivery costs	1
Received fewer trade discounts due to limited options	1
Harder to control costs due to unpredictability of delivery costs	1
Considered moving business location as a result	1
Had to stop buying online due to delivery costs	1
Misc./general comments	12

From the responses of the businesses it appears clear that remote area delivery surcharges have a significant impact and can cause difficulties in establishing a viable business in rural Scotland. For many, costs for receiving deliveries are much more than a minor irritation, but a real barrier to running a successful business – some respondents suggested that delivery charges account for as much as 30% of their total costs.

Business respondents appear to face an unenviable choice of absorbing these costs and cutting into their profitability, or passing on the cost to their customers and leaving themselves at a considerable disadvantage against competitors elsewhere.

- *“Struggle to keep a reasonable profit margin with higher purchase costs. Cannot raise the retail price beyond a certain level as that would encourage more folk to shop online.”*

Retail business, Orkney

- *“Pay the highest costs in the UK yet takes the longest times to receive. It feels like the business is subsidising competitors using the same courier for less cost and much faster service. How can we compete against that?”*

Manufacturing business, Caithness

Also notable was the number of respondents who commented on the amount of time spent looking for a supplier whose delivery costs were affordable. These businesses considered the unnecessary drain on their time to be having a significant impact on the running of their business. A number of businesses also pointed out that to make their orders economical they were often forced to order supplies in larger quantities than they needed, in some cases wasting materials.

Whilst not specifically related to the financial costs, some respondents commented on problems caused by deliveries taking longer than advertised, with business having to put work on hold until items arrive, or a knock-on delay on their own customers' orders being fulfilled.

In a small number of cases, high delivery costs have forced rural businesses to make radical alterations to the services they offer, or even to cease operations entirely. At the time of taking the survey, one respondent was considering moving their business elsewhere, in an attempt to escape crippling delivery costs. These changes can have a significant impact on small communities and on Scotland's rural economy, with the costs of doing business brought about by online deliveries simply being too much for some to manage.

- *“I had to close business last month as I couldn't make a big enough profit to pay myself. The delivery charges are to blame.”*

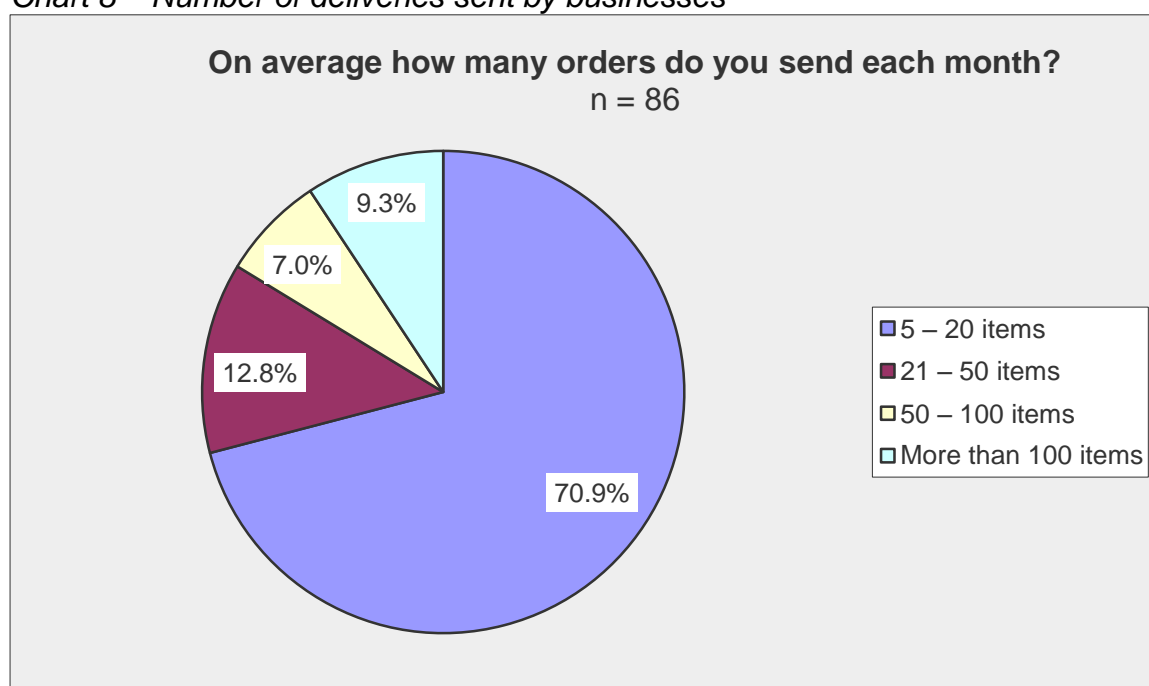
Service business, Caithness

Experiences of rural businesses sending orders

A smaller, but significant number of businesses taking part in our survey sent items to customers as part of their business. We explored whether the issues experienced with high costs to receive deliveries to rural locations in Scotland, were also barriers to doing business for respondents.

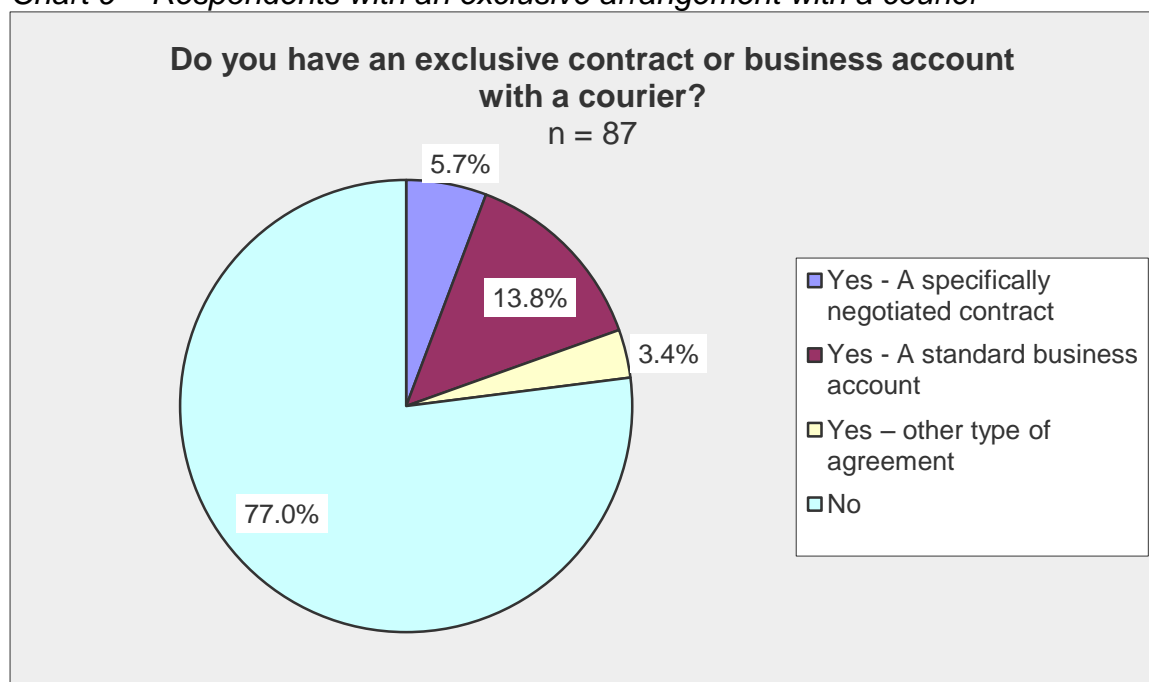
Most businesses who sent deliveries did so between 5 and 20 items each month, as illustrated by Chart 8 below, but some sent a considerable volume, with 9% of respondents sending more than 100 items by post each month.

Chart 8 – Number of deliveries sent by businesses



Given the reported problems that appeared to be caused by suppliers being unable to use an alternative to their contracted carrier, we asked respondents whether they had a contract or exclusive arrangement with a particular courier. The results are shown in Chart 9 below.

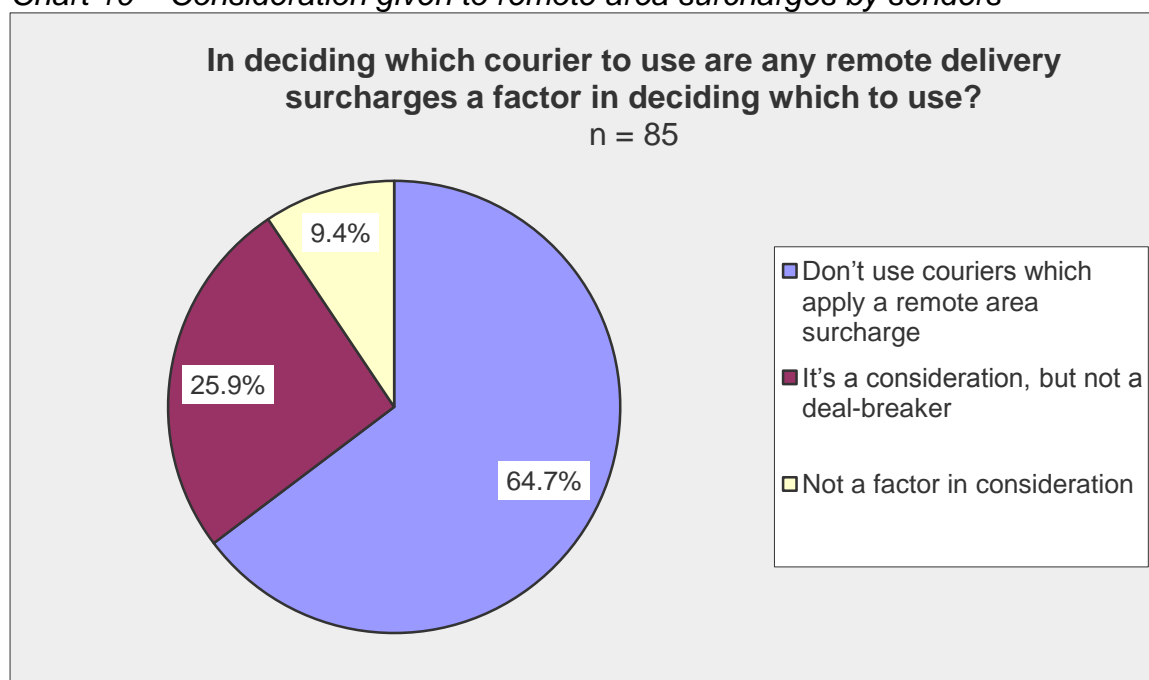
Chart 9 – Respondents with an exclusive arrangement with a courier



More than three-quarters of businesses responding had no form of contract or business account with a courier, apparently preferring to make arrangements on a case-by-case basis when arranging deliveries. Of those that did have a contract, account or agreement, there was no one dominant partner, with 16 respondents specifying 12 different courier companies who they had an arrangement with.

To explore the approach taken by sellers to remote area surcharges, we asked respondents whether the charges were a factor in deciding which courier to use for deliveries. The outcome is shown in Chart 10 below.

Chart 10 – Consideration given to remote area surcharges by senders



For the businesses that responded to our survey, remote area delivery surcharges were something to be avoided. Almost two-thirds of respondents stated that they do not use couriers who apply remote area surcharges, with a further 26% taking it into account when deciding which courier to use. Just 9% did not consider whether a surcharge was likely to be applied to deliveries to be a relevant factor in deciding which company to go with.

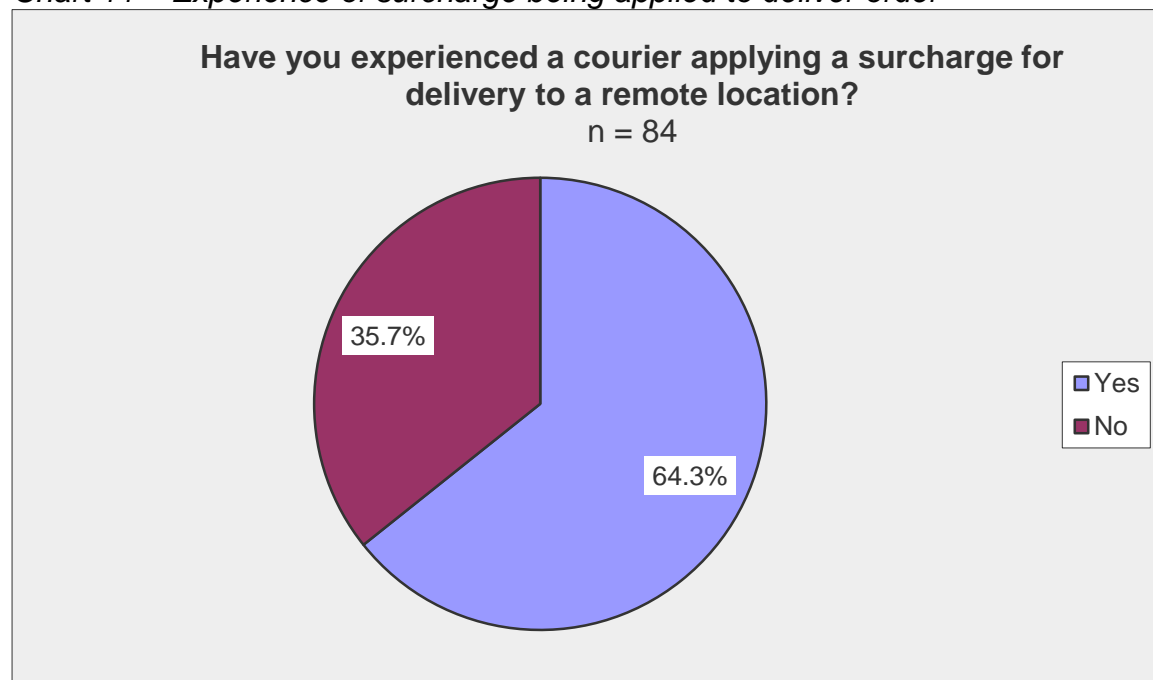
This awareness and willingness to avoid customers in rural areas being charged extra for deliveries is encouraging and welcome. However, this may seem slightly at odds with the scale of the problem as is apparent from responses to other questions in the survey. An explanation for this may lie in the fact that the vast majority of businesses responding were themselves based in rural locations. As a consequence it could be argued that they were significantly more likely to know that deliveries to certain areas attract a surcharge and be prepared to avoid them, compared with businesses based in other parts of the UK.

Experiences of courier applying surcharge for delivery to a remote location

For businesses who send a large number of items by post, the issue of delivering orders to areas designated as remote is of importance, and gives an insight into the choices facing small businesses in this situation. We asked survey respondents who sent items whether a courier had applied a surcharge for delivering orders to a remote location.

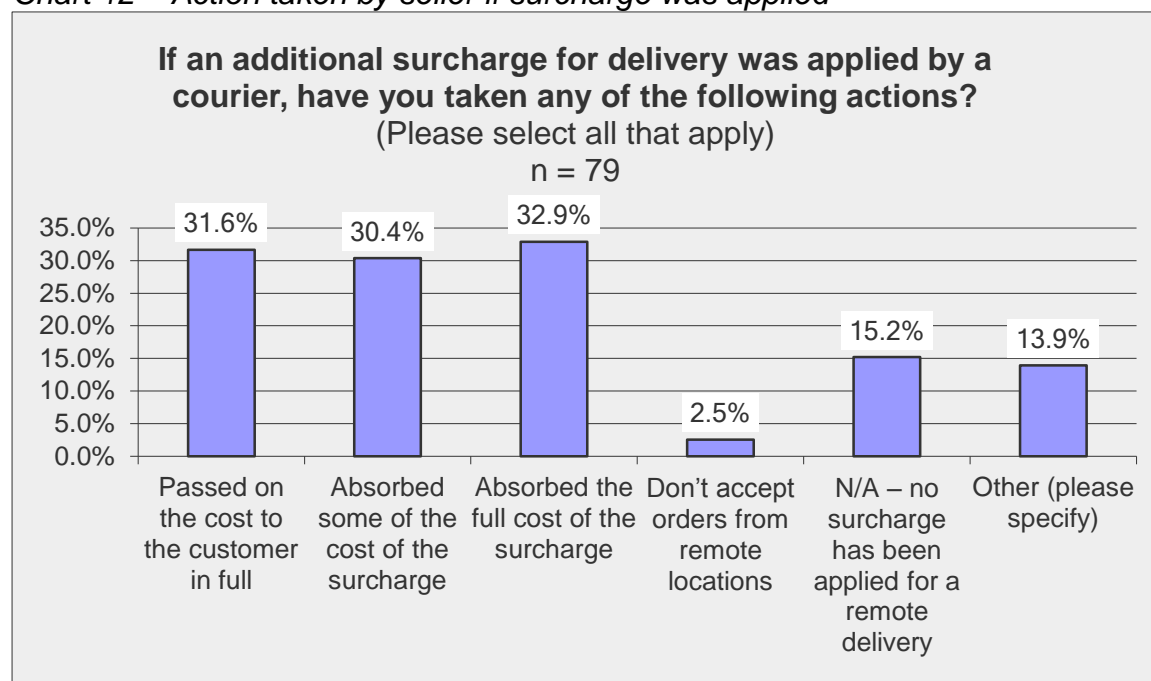
As shown by Chart 11 below, the majority of respondents who sent five or more items by post had experienced a courier applying a remote delivery surcharge.

Chart 11 – Experience of surcharge being applied to deliver order



We asked respondents who had been in this situation whether they absorbed the cost of the delivery (thus affecting their profitability) or passed the cost onto the customer (affecting their competitiveness and causing additional charges to the consumer). The results are shown in Chart 12 below.

Chart 12 – Action taken by seller if surcharge was applied

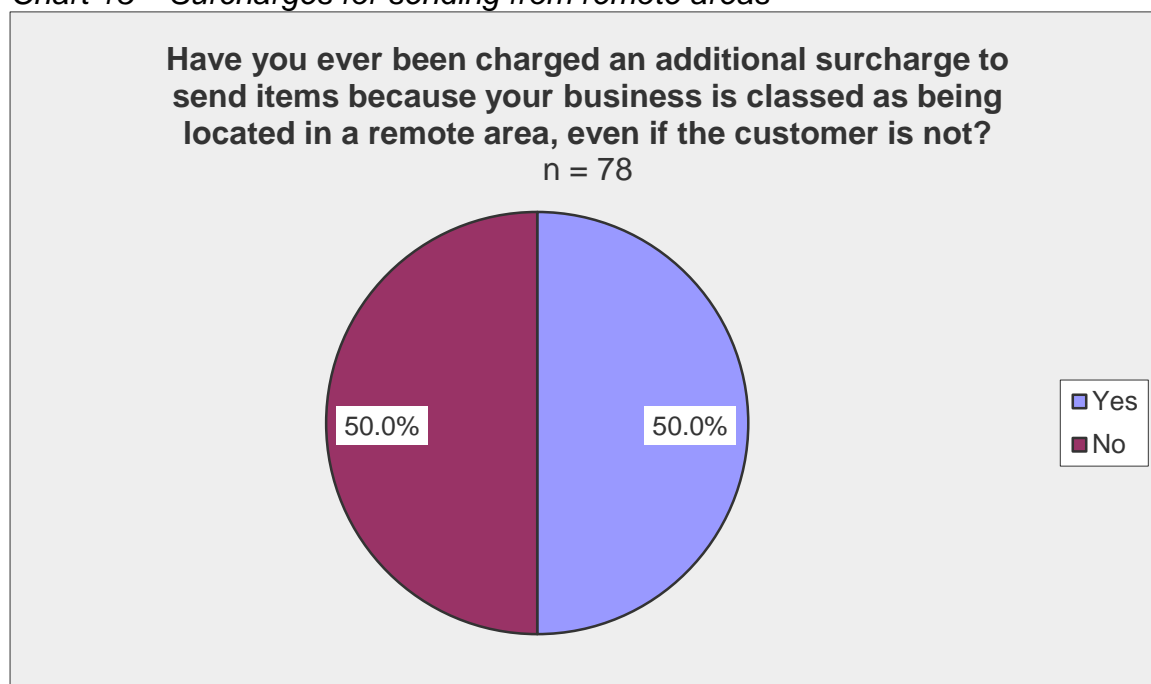


Respondents were relatively evenly split between businesses who opted to pass the full cost on to the customer, those who absorbed the full cost themselves, and those who applied a combination of these actions. Of those who selected 'other', most of the respondents indicated that they always used Royal Mail, or that they never sent deliveries by courier.

This presents a fascinating glimpse into the dilemma faced by businesses who are informed that sending orders to a particular location will incur an additional delivery cost. Due to the relatively small sample size and the fact that the respondents were chiefly businesses who were based in rural locations themselves, it is not possible to say with any certainty whether this even split would be replicated amongst businesses based elsewhere in the UK. Nonetheless it does show that responsibility for additional charges for delivery to remote locations cannot be entirely laid at the door of sellers.

Given that our business respondents were largely based in areas classed as remote, we asked them whether an additional delivery surcharge had been added because of the location they were sending from, regardless of whether or not their customer was also based in a remote location.

Chart 13 – Surcharges for sending from remote areas



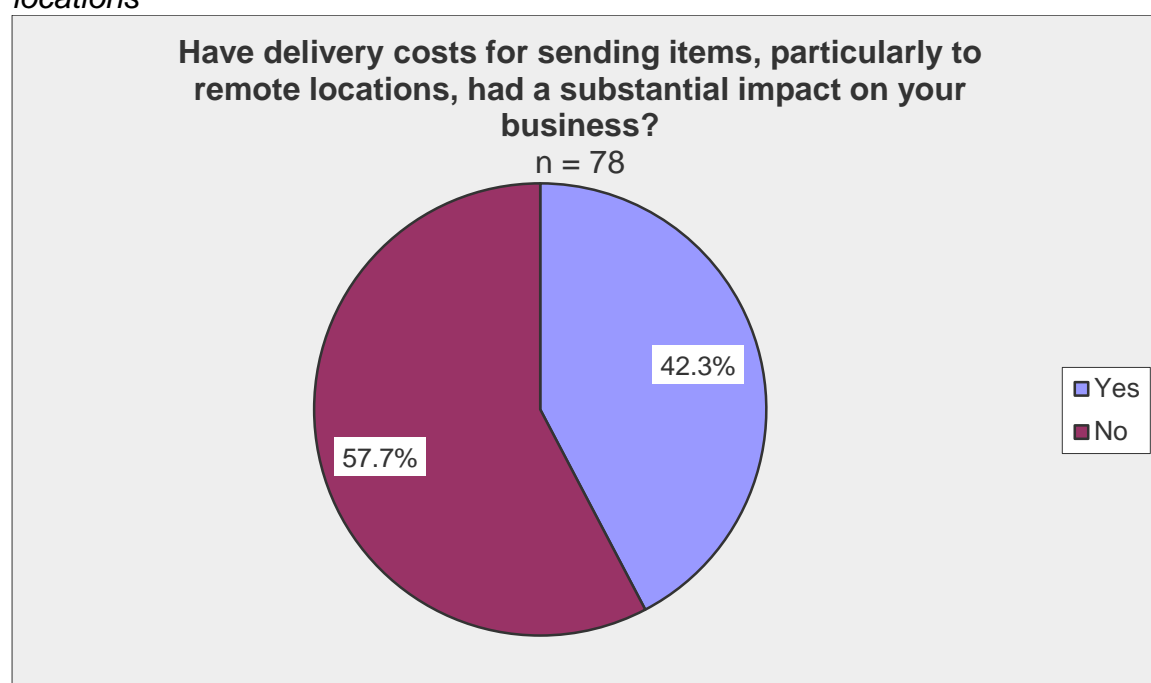
As Chart 13 above shows, exactly half of respondents had been charged for sending items because of ***their*** location – even if the customer was based in an urban area in another part of the UK. This illustrates a further postal penalty for businesses in rural Scotland – their location can act as a barrier to sending orders as part of their business.

What impact do additional charges for sending deliveries have on rural businesses?

Despite the lower number of respondents who had experienced surcharges for sending items ordered by their customers, we attempted to quantify the impact of them on the businesses who sent orders by post.

42% of respondents reported that delivery costs for sending items to remote locations had a substantial impact on their business, as shown in Chart 14 below. Whilst this is fewer than the 76% who reported a substantial impact caused by the cost of ordering items for business use, far fewer respondents to our survey had experienced surcharges for sending items.

Chart 14 – Impact on business of delivery costs for sending items to remote locations



When asked to describe the impact on their business however, there was a striking similarity between the reported impacts of being charged additional costs for receiving items and for sending orders. Table 9 below summarises the descriptions of the impact on their business identified by respondents who felt the delivery costs for sending items had a substantial effect. As in the corresponding table for those impacted by delivery costs for ordering items, it should be noted that more than one of these issues were identified by some respondents, so the total number of issues is higher than the number answering the question.

Table 9 – Description of impact of delivery charges for sending items on business

Have delivery costs for sending items, particularly to remote locations, had a substantial impact on your business? If yes, please briefly describe the impact on your business. (n = 28)	
Issue identified	Number
Increased costs to the business	7
Reduced business' profitability	5
Business is less competitive as a result	5
Use Royal Mail instead	4
Increased prices/passed on costs to customers	3
Slow delivery caused a delayed service to our customers	1
Had to turn down work due to costs of sending items making it unprofitable	1
Additional costs a barrier to accepting non-local orders	1
Costs meant business was unable to hire additional staff	1
Have had to use 'informal' methods of distribution instead	1
Had to restrict the size of items business sends	1
Misc./general comments	3

- *“Each month we're having to take the hit on extra costs to send deliveries to remote locations. The costs quadruple when we send a parcel to the highlands & Islands.”*

Brewery business, Edinburgh

- *“We no longer post items by courier and only use Royal Mail. Our business has had to restrict the type and weight of items we can post.”*

Tourism business, Western Isles

Conclusion and Next Steps

This report provides a snapshot of the impact high delivery costs can have on small businesses operating in Scotland's remote, rural and island communities. These costs are not merely an annoyance, but a real threat to their competitiveness, profitability, and ultimately viability as a going concern.

Like the individual consumers whose views CAS has previously presented, for those who run businesses in rural areas, it can be very difficult to find an alternative to high delivery costs. Businesses, in common with individuals in the Highlands and Islands, in the main accept that additional costs and time may be involved in receiving and sending items ordered online, but are deeply unhappy at being told that delivery is free to everywhere apart from where they are based – including areas where longer journeys would be involved – whilst they are forced to pay a 'postcode penalty' by the vast majority of sellers.

This report contains a number of recommendations for retailers, carriers, policy-makers and enforcement bodies, building on the valuable work that has already started in this area since the publication of 'The Postcode Penalty', such as the development of a best-practice 'Statement of Principles for Parcel Deliveries'. These recommendations are detailed in the following section and we would urge decision-makers to give them their closest consideration.

Additionally, this report adds to the mounting body of compelling evidence that rural Scotland is being disadvantaged by unfair charges for receiving items online that bear no relation to the actual costs involved in getting a parcel to and from their location. Over the months ahead Citizens Advice Scotland will work with partners to seek a satisfactory resolution for individual and business consumers receiving deliveries.

As of April 2014, Citizens Advice Scotland is taking on the legal responsibility for championing consumers across the post, water and energy industries. Bringing the policy and research expertise of Consumer Futures – which advocates on people's behalf across the post, energy and water industries – together with the frontline advice delivery, evidence base, advocacy and campaigning experience of Citizens Advice Scotland will make us an even stronger champion for consumers. These responsibilities will enable us to do even more to end rip-offs across the postal industry – including issues such as rural delivery costs.

Recommendations

- Where one courier firm does not deliver to certain areas, retailers should shop around for alternative couriers who do.
- Wherever possible, retailers should offer delivery by Royal Mail.
- If delivery by Royal Mail is not possible, retailers should give customers a clear reason why this is the case.
- Sellers and carriers should offer alternative points as options for delivery, working in conjunction with the Post Office and local community hubs such as shops to facilitate this.
- Retailers should give full details of how long delivery will take as early in the shopping process as possible. Statements such as “free next day delivery” should not be used to promote the site if next day delivery is not available to certain UK consumers.
- The universal service obligation which ensures that delivery of packages up to 20kg costs the same across the UK must be protected.
- Delivery prices should not be based on arbitrary post codes and they should be explained simply and displayed clearly by retailers on their websites.
- Enforcement bodies such as Trading Standards services and the Competition and Markets Authority (CMA) should ensure that retailers across the UK are aware of and complying with the Consumer Protection (Distance Selling) Regulations 2000.
- Retailers and carriers should work with the CMA to ensure that options for delivery do not disadvantage consumers in remote areas.
- The Statement of Principles for Parcel Deliveries produced by the parcel deliveries working group led by Consumer Futures and the Scottish Government, should be promoted to retailers as best practice in this area.
- Retailers should refer to the Statement of Principles when considering their policies and practice for delivery to rural, remote and island areas.
- Enforcement bodies should work with business groups such as the Federation of Small Businesses, Chambers of Commerce and Highlands and Islands Enterprise to ensure that business to business internet sales are conducted in such a way that Scottish businesses are not disadvantaged.

Acknowledgements

We would like to acknowledge the help and support of Highland Trading Standards, particularly David Mackenzie and Gordon Robb, the Society of Chief Officers of Trading Standards in Scotland, David Richardson at the Federation of Small Businesses and Consumer Futures in developing the survey. We would also like to thank Scottish Business in the Community, Chambers of Commerce across Scotland, and elected MPs and MSPs representing rural areas for their assistance in promoting the survey and ensuring a wide range of businesses were able to take part.

Finally, we would like to thank the 247 businesses who took the time to take part in the survey and share their views. We hope that these will prove to be thought-provoking, and a driver of change.

Appendix A – Survey Questions

Remote Delivery Costs Survey Questions for Businesses

For the past three years the Scottish CAB Service has been campaigning against unfair delivery charges for online deliveries. [Citizens Advice Scotland's report 'The Postcode Penalty'](#) analysed over 3,000 customer complaints and over 500 online companies, uncovering a 'postcode penalty' that sees some Scots having to pay an average of nearly £19 extra when buying goods online. The problem does not just affect remote rural and island areas, but postcodes right across Scotland.

The report also found evidence that remote delivery surcharges disadvantaged businesses as well as families. CAS heard from a number of small businesses based in Scotland who had been hit by the 'postcode penalty' when receiving goods. We also heard feedback from several businesses who felt that they were unfairly blamed for surcharges by customers and were wanting to give their side of the story.

Citizens Advice Scotland is keen to hear the views and experiences of small businesses who have encountered surcharges for deliveries based on location.

- Are you based in a remote area and the cost of receiving supplies hits your bottom line?
- Does the cost of sending items put you at a disadvantage?
- Have you been unfairly blamed by customers for excessive delivery charges which were beyond your control?

We are particularly interested to hear views from small businesses based in rural Scotland, though evidence from businesses of all sizes from any location is also welcome. The survey will take more than 5 – 10 minutes of your time to complete. It is anonymous and no views expressed will be attributed to your business. The purpose is to further inform Citizens Advice Scotland's work on this issue by giving us a clearer picture of the cause and impact of excessive delivery surcharges.

The closing date for all responses is **Friday 14 March 2014**. If you have any queries regarding this survey, or Citizens Advice Scotland's work on this issue, please contact info@cas.org.uk. Thank you in advance for your participation.

ABOUT YOUR BUSINESS

1. How many employees does your business have?

- None – I am the sole proprietor
- 1 – 9
- 10 – 49
- 50 or more

2. Where is your business located? (Please insert the postcode of your main premises)

3. What is the nature of your business?

- ☐ Manufacturing
- ☐ Service
- ☐ Financial
- ☐ Engineering
- ☐ Computer/IT
- ☐ Retail
- ☐ Wholesale
- ☐ Construction
- ☐ Communications
- ☐ Education
- ☐ Tourism
- ☐ Catering
- ☐ Agriculture
- ☐ Other (please specify below)

4. Do you regularly order items online for business use (more than 5 parcels per month)?

- ☐ Yes
- ☐ No

If yes, proceed to question 5. If no, proceed to question 15.

RECEIVING ONLINE DELIVERIES FOR BUSINESS USE

5. Roughly how many items would you say your business orders online each month?

- ☐ 5 – 20 items
- ☐ 21 – 50 items
- ☐ 51 – 100 items
- ☐ More than 100 items

(Please turn over)

6. When ordering items for business use online, please tell us if you have ever encountered any of the following issues, and if so how frequently?

	Never	Occasionally	Regularly
An additional surcharge was imposed due to our location			
Delivery was refused on the basis of our location			
Misleading claims of free delivery, e.g. 'Free UK Delivery' or 'Free Mainland Delivery' when in fact surcharges are imposed to remote areas			
We were not informed of an extra cost for delivery until after the purchase was complete			
We were regarded as offshore or remote			
We arranged for delivery elsewhere to avoid additional delivery costs			
We were not informed of an extra cost for delivery until late in the sales process			
We cancelled an order due to unreasonable additional costs being imposed for delivery			
Surcharges imposed by a particular courier (please specify which below)			

7. From which country/region do you order the majority of items for business use?

- ☐ Scotland
- ☐ Other parts of UK
- ☐ Europe
- ☐ United States/Canada
- ☐ Another part of the world

Deliveries weighing 20kg or less are covered by the Royal Mail Universal Service Obligation, which requires an affordable, uniform tariff for delivery across the UK.

(Please turn over)

- 8. Do suppliers you generally use offer delivery by Royal Mail as an option?**
- Most or all of them do
 - Some of them do
 - Hardly any or none of them do
- 9. In your experience, are sellers willing to use Royal Mail or otherwise depart from their standard carrier arrangements to reduce charges to remote areas?**
- Yes
 - No
 - N/A – Have never enquired about this
- 10. Please give details of any experience you have had with sellers departing from their standard arrangements, or being unwilling to do so.**

-
- 11. Have you ever received a delivery to any of the following alternative delivery points for collection? Would you use any of these options if they were available?**

	Have used	Never used	Would use if available
Delivery to the local Post Office			
Delivery to a local shop (e.g. newsagent)			
Delivery to a secure lock box			
Delivery to an alternative address			

- 12. Would you use any of the following alternative delivery points for collection, if they would reduce the costs of delivery?**
- Delivery to the local Post Office
 - Delivery to a local shop (e.g. newsagent)
 - Delivery to a secure lock box
 - Delivery to an alternative address

(Please turn over)

13. Have the delivery costs for ordering items online had a substantial impact on your business?

- ☐ Yes
- ☐ No

If yes, please briefly describe the impact on your business

14. Do you have any other comments about deliveries you receive as a business?

SENDING PARCELS

15. Do you regularly send parcels as part of your business (more than 5 parcels per month)?

- ☐ Yes
- ☐ No

If yes, proceed to question 16. If no, proceed to question 24.

16. On average how many orders do you send each month?

- ☐ 5 – 20 items
- ☐ 21 – 50 items
- ☐ 50 – 100 items
- ☐ More than 100 items

17. Do you have an exclusive contract or business account with a courier?

- ☐ Yes - A specifically negotiated contract
- ☐ Yes - A standard business account
- ☐ Yes – other type of agreement
- ☐ No

If yes, which courier is your agreement with?

18. In deciding which courier to use are any remote delivery surcharges a factor in deciding which to use?

- ☐ Don't use couriers which apply a remote area surcharge
- ☐ It's a consideration, but not a deal-breaker
- ☐ Not a factor in consideration

19. Have you experienced a courier applying a surcharge for delivery to a remote location?

- ☐ Yes
- ☐ No

20. If an additional surcharge for delivery was applied by a courier, have you taken any of the following actions? (Please select all that apply)

- ☐ Passed on the cost to the customer in full
- ☐ Absorbed some of the cost of the surcharge
- ☐ Absorbed the full cost of the surcharge
- ☐ Don't accept orders from remote locations
- ☐ N/A – no surcharge has been applied for a remote delivery
- ☐ Other – please specify below

21. Have you ever been charged an additional surcharge to send items because your business is classed as being located in a remote area, even if the customer is not?

- ☐ Yes
- ☐ No

22. Have delivery costs for sending items, particularly to remote locations, had a substantial impact on your business?

- ☐ Yes
- ☐ No

If yes, please briefly describe the impact on your business

23. Do you have any other comments about delivery costs or remote delivery surcharges?

(Please turn over)

THANK YOU

Thank you for taking part in this survey. Your views will be helpful in informing Citizens Advice Scotland's work on delivery charges.

24. We are hoping to get some media coverage for this campaign to raise awareness of the issue. And for that we need some examples of businesses that are affected. If you would be prepared to tell your story to the media, please let us know by using the boxes below. If you tick YES to anything here, please make sure you give us your contact details below!

- ☐ Local newspaper
- ☐ National newspaper
- ☐ Radio
- ☐ Television
- ☐ Not sure – please contact me to discuss what would be involved

If you have ticked any of these boxes, please leave your:

Name:

Address:

Contact number:

Email:
