Consumer Futures Unit

The Postcode Penalty: Delivering Solutions

citizens advice scotland

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The Postcode Penalty: Delivering Solutions

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* Explanatory note: The word “remote” is sometimes used in this report to describe areas of Scotland that are often asked to pay extra for delivery. The Consumer Futures Unit is aware that many of these areas are much less “remote” than places in rural England and Wales where extra charges do not apply. However, we have used the word to reflect that the parcel companies and online retailers responsible for setting the different levels of charges often justify these by referring to places as “remote”, and often set charges in relation to the distance between delivery addresses and their distribution centres in the English midlands.

1. Executive summary

1.1. Residential and business consumers in some parts of Scotland are often asked to pay additional charges to have goods delivered. The map below demonstrates the areas where consumers are most likely to be asked to pay additional fees. Attempts to address the problem have had limited impact.

1.2. The issue affects anyone ordering goods to be delivered north of the central belt, including those in Perthshire, Aberdeenshire, Argyll and Bute, the North-West Highlands, and the Scottish Islands. We have referred to this area as "Highlands and Islands" for concision, although it includes some areas that may be considered outwith that region. The test residential addresses we used in our research are marked.

1.3. In 2016/17, the Consumer Futures Unit at Citizens Advice Scotland commissioned research to help us sustainably address this issue, following on from our earlier work[1].

1.4. Our primary recommendation from this research is that parcel companies should consider collaborating with each other and with the public sector to reduce their operating costs in the Highlands and Islands, driving down the prices charged to all consumers.

1.5. We have begun to secure commitment from key industry and public sector representatives to work together on this, and hope to hold discussions in early 2018 to agree which solutions could be worth trialling.

1.6. We found that charges for parcel delivery are at least 30% higher on average for the "Highlands and Islands" addresses marked above, than for other areas of mainland Great Britain. Those living on the Scottish islands are asked to pay over 50% more.

1.7. We found that the issue is not really a *rural* one in Scotland, as it affected central Inverness and even Aberdeen, as well as the rural north, but not other rural areas in southern Scotland, or in the rest of mainland Great Britain.

1.8. The residential consumers that we surveyed overwhelmingly told us that they feel the surcharges are unfair.

1.9. Parcel companies told us they see merit in exploring whether it would be feasible to set up networks of pick up and drop off locations in collaboration with the public sector, in an effort to reduce costs.

Figure 1

Test addresses used in CFU research.

At least one of the operators that Ofcom asked charges a higher price for delivery of a bulk parcel.

None of the operators that Ofcom asked charge a higher price for a bulk parcel.

Ofcom (30 November 2016) Annual monitoring update on the postal market, financial year 2015-16

1 See Annex for previous research carried out in this area by the CFU and CAS.

2. Background

2.1. The Consumer Futures Unit (CFU), part of Citizens Advice Scotland, uses 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. The UK ecommerce market has led the world, with consumers in the UK shopping online more than in any other country [2]. However consumers living in some areas of Scotland and those living off the Great Britain mainland – including Northern Ireland – often have to pay more for home delivery when shopping online[3]. As ecommerce has grown, this issue has become more pressing. Citizens Advice Scotland (CAS) has worked over a number of years to understand the issue better, after it was first raised and researched by citizens advice bureaux in the Scottish Highlands and Islands.

2.3. As our previous work[4] (The Postcode Penalty: The Business Burden) noted, this affects small businesses, not just individual domestic consumers, with substantial knock on effects for the economy in some areas.

2.4. The Consumer Futures Unit (CFU) of CAS has co-ordinated our work on this issue with other organisations, in particular colleagues at Citizens Advice in England and Wales, and the Consumer Council for Northern Ireland, as well as Ofcom, and the Trading Standards team at Highland Council. More recently, we have also worked with the Competition and Markets Authority as part of the UK-wide Consumer Protection Partnership.

2.5. A number of actions have been taken by the UK and Scottish Parliaments. In 2013 the Scottish Government published the Statement of Principles on parcel deliveries[5], a voluntary set of principles for retailers selling online for home delivery. This was adopted by the UK Government shortly after[6]. For MPs and MSPs whose constituents are affected by delivery surcharges, it has remained a significant issue, and over recent years there have been a number of debates and motions in both parliaments. In 2016, following a roundtable discussion, the Department for Business, Industry and Skills published guidance on delivery practice for online retailers[7].

2.6. Proposed responses to the issue vary. It has been proposed that all online retailers should be required to offer delivery by Royal Mail, so that consumers always have access to universal service prices[8]. Others have suggested that there is nothing wrong with retailers surcharging some locations, as they are merely reflecting the extra costs delivery operators charge them[9]. For their part, parcel companies point to the increased costs involved in serving "remote" areas as justification for their higher charges to retailers.

2.7. However, most importantly, our research shows that consumers remain dissatisfied with the current delivery surcharging approach and believe it to be unfair and discriminatory.

2 The UK Cards Association (2017), *Online Card Spending 2014-2016*, available at: http://www.theukcardsassociation.org.uk/news/onlinecardspending2016.asp [accessed 06/14/2017]

3 While this report focuses on online shopping, other forms of non-traditional retail, such as mail order, are also relevant.

4 Citizens Advice Scotland (2014) *The Postcode Penalty: The Business Burden* https://www.cas.org.uk/system/files/publications/the_postcode_penalty-the_business_burden_0.pdf

5 http://www.gov.scot/Topics/Business-Industry/Parcel%20DeliveryinRemoteandRuralAreas

6 https://www.gov.uk/government/publications/parcel-deliveries-best-practice-guide

7 https://www.businesscompanion.info/en/news-and-updates/government-guidance-on-online-delivery

8 http://www.highland-news.co.uk/News/Amazon-is-Prime-target-in-Inverness-deliveries-anger-02102015.htm

9 Triangle (2017), *Parcel Delivery Operators' Views on Rural Parcel Delivery in Scotland*

3. Our research

3.1. Our most recent research took a holistic approach and focused on solutions. We asked parcel companies how they thought costs to consumers could be reduced, and found persuasive evidence that reducing or eliminating the issue would benefit not just consumers, but also online retailers and delivery companies through increased business.

3.2. Our three research strands, set out below, look at the issue from three angles – the level and prevalence of delivery charges to different addresses, how parcel companies understand the issue, and the views of individual consumers themselves.

3.3. Prevalence of surcharging by online retailers

Objectives:
The CFU sought to understand how often certain kinds of addresses were asked to pay additional charges, which areas of the UK were most affected by this, and how much more consumers were asked to pay if they were outside "standard" delivery areas.

What we did:
We worked with Apex Insight to develop an approach that mimicked the way individual consumers shop online. The methodology, described in more detail in the methodological report produced by Apex,[10] relied on web searches for products that proportionately represented the range of goods consumers buy online. For each retailer we recorded all the delivery options available to each of 12 addresses representing a range of areas of the UK – urban and rural, mainland and island. In this report we have used the 'standard/economy' delivery option to calculate average prices, as all retailers had a delivery option in this category.

3.4. The industry view point

Objectives:
We set out to gather information on why consumers in certain areas are charged more for delivery. We did this by interviewing parcel companies, both smaller regional operators and the large national companies, and involved them in thinking about possible remedies.

What we did:
We commissioned Triangle Management Services[11] to conduct interviews with 20 parcel delivery operators. Operators were asked about their stance towards the market in the Highlands and Islands, the economics of operating in that area, and their views on what could be done to improve parcel delivery in the areas they perceive as "remote".

3.5. Consumers' views

Objectives:
This research sought to understand the attitudes of those individual consumers in Scotland affected by delivery surcharges, and how consumers responded when they encounter surcharges. We wanted to know how widespread dissatisfaction with delivery surcharging was; the extent to which the impact of surcharges was financial; whether it reduces choice; and whether it put consumers off ecommerce altogether.

What we did:
We commissioned Progressive Partnership[12] to survey 753 residential consumers who live in areas affected by surcharging. The survey was preceded by focus groups to test the survey questions, and to gather initial impressions of what consumers thought about delivery surcharges and their responses. Survey participants were asked a range of questions about their online shopping habits, attitudes to paying extra for delivery, and what they do when faced with delivery surcharges.

10 Apex Insight (2017), *Parcel Delivery Surcharging Study: Report on methodology*

11 Triangle (2017) *Parcel Delivery Operators Views on Rural Parcel Delivery in Scotland*

12 Progressive Partnership (2017): *Scottish rural consumers' experience of parcel delivery for online shopping*

4. Findings

4.1. In Scotland, we found that parcel delivery surcharging was not a rural issue, but a "Highlands and Islands"[13] issue, because the rural south of Scotland did not seem to be affected, but urban Inverness was. Beyond Scotland, none of the mainland Great Britain test addresses experienced delivery surcharging, but test addresses on the Isle of Wight and in Belfast showed similar levels of surcharging to the Highlands and Islands addresses. The Consumer Council for Northern Ireland has previously highlighted the barriers that consumers in Northern Ireland face when shopping on line [14].

4.2. Table 1 shows that the highest average delivery prices were associated with the addresses representing the Scottish Highlands and Islands (whether urban or not), Northern Irish consumers, and other islanders. The basic average delivery price of around £2.36 applied to the urban and rural addresses in England, Wales and Southern Scotland. In comparison, those in the central Highlands saw an average delivery price that was 30% higher at £3.07. Island addresses in England and Scotland all were asked to pay more – 42% more for Isle of Wight and 51% more on Mull. Northern Ireland was also asked to pay 41% more on average. Surprisingly there was very little difference between Inverness and the rural Highlands – both being asked to pay more than 40% extra on average (Inverness 42%, Rural highlands 43%).

4.3. Further disparity emerged when we examined the data in more detail, split by parcel weight. Focusing on the Scottish issue, we grouped the values for the H&I addresses (Inverness, Mull, Lairg) and compared this with urban addresses, and with rural and island addresses elsewhere in GB (South west Scotland, Northumbria, Wales, IoW). (See Table 2).

13 Roughly, but not exactly, the area north of the Highland boundary faultline as shown in the map in Figure 1

14 The General Consumer Council for Northern Ireland, (2015), *The Online Parcel Premium*, available at: http://www.consumercouncil.org.uk/filestore/documents/Online_Parcel_Premium_(FINAL).pdf [accessed 06/11/2017]

Table 1 – Average standard delivery price for the 12 test addresses

Location	Average delivery price
Rural – SW Scotland	£2.35
Rural – Wales	£2.35
City – England	£2.37
Rural – England	£2.38
City – Wales	£2.38
City – Scotland	£2.38
Rural – Central Scotland	£3.07
Island - England	£3.36
City – Highlands	£3.37
Rural – Highlands	£3.39
Northern Ireland	£3.53
Island - Scotland	£3.56

Table 2 – Delivery charges by area and parcel weight

	All H+I	All urban	Other rural + island
Letterbox	**£2.28**	**£2.02**	**£2.08**
1–20kg	**£2.77**	**£2.25**	**£2.31**
20–30kg	**£9.73**	**£4.13**	**£5.22**
30–50kg	**£17.13**	**£4.28**	**£7.76**

4.4. For the smaller parcels, consumers in the Highlands and Islands saw 13% higher delivery prices than urban consumers in the rest of GB and 10% more than rural and island addresses in the rest of GB (the difference is due to the inclusion of the Isle of Wight in the latter, which also experiences surcharges). This lower level of average surcharge in the smallest parcel size category may be related to Royal Mail's flat pricing for items up to 20kg. Royal Mail's universal service products are competitively priced for smaller parcel sizes, and cost the same for all addresses in the UK, so retailers may be more likely to choose Royal Mail for these items.

4.5. However, for larger parcel sizes the impact of surcharges was far greater. In the 1-20kg category the average delivery cost for Highland and Islands consumers was 23% higher than for urban consumers. In the 20-30kg category, it was significantly more than double the cost. For the heaviest items we found the average delivery cost to be four times as much for consumers in the Highlands and Islands compared to those in urban areas.

4.6. This suggests that surcharges are a greater issue when shopping for certain types of products. Our research used a range of items chosen to represent those commonly bought online by UK consumers. Examples of items in the higher weight categories include:

1-20kg	clothes, shoes, smaller electricals, tools.
20-30kg	shredder, baby buggy, golf clubs, office chair, DIY tools.
30-50kg	white goods, TVs, bicycles, garden items.

4.7. Our research also recorded cases where the retailer excluded certain regions from delivery altogether. Although the prevalence of this appears to have decreased in recent years, the issue has not disappeared. The address representing the Scottish Islands was the most commonly excluded area, with 32 out of 500 test purchases being unavailable for delivery to that address.

4.8. See Table 3 overleaf.

4.9. Our interviews with parcel companies revealed how delivery works differently in certain areas of the country. Often national parcel companies use smaller regional delivery firms to complete deliveries in areas outside of their primary operation. The big parcel companies hand over the parcels to a regional operator's depot, where the regional company then delivers the parcels to consumers under their own brand.

4.10. Research carried out by Ofcom, and published in their November 2016 Annual monitoring update on the postal market, asked five of the largest national parcel operators[15] what postcode districts they use a third party to deliver to. Ofcom found that all operators other than Royal Mail use third party operators in the Scottish Highlands and Islands. Some operators also use third parties in parts of Wales, the Isle of Wight, the Scilly Isles and some areas of London, Essex and Bedfordshire. Ofcom also asked the operators what postcode districts they applied delivery surcharges to. **Despite the wide use of third party operators across the UK, the only areas to be surcharged were Northern Scotland and Northern Ireland[16].**

15 DPD, Hermes, Royal Mail, Parcelforce and Yodel

16 Ofcom annual monitoring report on the postal market (2015 -16): https://www.ofcom.org.uk/__data/assets/pdf_file/0029/94961/2015-16-Annual-Report.pdf

4.11. The extra link in the chain may be responsible for further consumer issues – for example it may be unclear who should be contacted or held responsible if a parcel is lost in transit – but neither our, nor Ofcom's, research covered this.

4.12. However, Ofcom's follow-up work (included in their postal market report 2016-17[17]) concluded that "the surcharge applied by the parcel operator is greater than the cost incurred by the operator in relation to third party delivery".

4.13. Our survey found that consumers affected really cared about this issue, and did not think it was fair. It would appear that these consumers are not benefiting from the opportunities of ecommerce as much as those in other areas of the country are able to.

4.14. Consumers responded to surcharges in a mixture of ways. Most people at least sometimes:

- did without the item
- paid the surcharge
- got it from a shop instead, or
- found the item elsewhere online.

The latter was the most common response, with 59% saying they often or always found the item elsewhere online, thus saving the consumer money but costing them time. This should be of note to online retailers and delivery companies, as it suggests that the main effect of delivery surcharges is to drive customers to competitors.

4.15. While a majority of consumers often managed to avoid surcharges, not all consumers are equally able to shop around. Those who shop online less frequently were less likely to say they find the item elsewhere online, and older people were more likely to go offline in response.

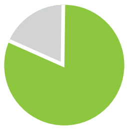
4.16. We did not find any evidence that higher prices are the result of systematic profiteering, but it is not fully accurate to say that prices merely represent higher costs incurred. Rather, the price difference is the result of national delivery operators deciding to cross-subsidise costs over some areas, but not others.

4.17. The use of 'pick up/drop off' (PUDO) locations – normally shops or lockers where parcels can be collected or sent from – can reduce the costs involved in making deliveries, as operators can deliver a number of parcels in one trip, saving staff time and fuel costs.

17 Ofcom annual monitoring report on the postal market (2016-17): https://www.ofcom.org.uk/__data/assets/pdf_file/0019/108082/postal-annual-monitoring-report-2016-2017.pdf

Table 3 – Delivery refusal

Location	No delivery
City – Wales	1
City – England	1
Rural – England	2
City – Scotland	2
Rural – Wales	4
Rural – SW Scotland	5
Rural – Central Scotland	8
City – Highlands	9
Northern Ireland	17
Island – England	19
Rural – Highlands	19
Island – Scotland	32

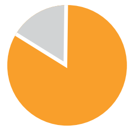


81%

disagreed with the statement “I think it is fair that people living in remote areas should pay extra for delivery”

More than half of consumers surveyed said extra delivery charges put them off shopping on-line frequently or always

Nearly half of those surveyed told us that they encounter delivery surcharges at least half the time



83%

said that if there were no delivery surcharges they would buy more things online

There are issues using this model in the Highlands and Islands – such as greater distances involved, and pressures on the convenience stores that often serve as PUDOs.

4.18. The parcel companies we interviewed told us that some specific local PUDO solutions are being developed, for example in island locations where one local shop may be a hub for the whole community. There was interest in this approach, where solutions are designed around the particular local setting, but the smaller local operators involved told us that they needed support with some of the technical and legal aspects of setting these up.

4.19. Most of the operators that took part in the research were positive about the idea of a collaborative PUDO network supported by, for example, local authorities. A number of ideas were put forward by delivery operators as to how such schemes could work, with possible PUDO locations including ferry offices, retail premises that receive regular business deliveries (e.g. pharmacies), farms in remote areas, schools and hospitals, and existing mobile services such as shops, libraries and banks.

4.20. One advantage of a public/private collaborative PUDO network would be its carrier neutrality, which was seen by some of the regional parcel companies as preferable to joining a network run by one of the larger national companies.

4.21. It was also noted that the publicly owned Post Office network has a unique reach in local areas, but is currently only open to Royal Mail and Parcel Force as a PUDO location.

Every single parcel across the UK costs a different amount to deliver, depending on the location and nature of the recipient address; the location and nature of the dispatch point; the parcel size and weight; and the number of other parcels being delivered at the same time to the same or nearby address (drop-density). However, prices are set at single rates across some geographical regions and not others.

The data gathered during this research and by Ofcom suggested it is only the Scottish Highlands and Islands, Northern Ireland and the Isle of Wight where parcel delivery prices were varied to cover the additional costs, because national operators and online retailers have chosen to structure pricing in that way. In other words, prices are blended across regions to create uniform pricing, but (normally) not across the whole of the UK.

5. Conclusions

5.1. Parcel delivery surcharging continues to matter to consumers in the affected areas, and viewed as deeply unfair and unequal. However, for the individuals and organisations responsible for setting the surcharges – usually based outwith those areas – it is not a high priority issue. Truly tackling the higher price of delivery in those areas requires a co-operative UK wide approach. That's the reason that it has been a topic of concern for the CFU, CAS and Consumer Futures before us, and others including Ofcom, CCNI and Trading Standards.

5.2. This research highlights that finding a way to make the Highlands and Islands a less expensive place to deliver parcels is in the interest of consumers, retailers and delivery operators. Consumers value shopping online and would do it more if there were no surcharges. Retailers lose customers to competitors when they apply surcharges. Delivery operators make their money from delivering parcels so would benefit from both increased volumes and lower overheads if measures could be put in place to reduce their costs.

5.3. Operators told us that it may be possible to reduce the costs involved in delivering parcels in more remote areas through cooperation between parcel delivery operators and the public sector, and this needs to be explored. There was an encouraging level of interest from the industry in looking at this option. It may be that these sort of PUDO solutions can best be implemented locally, but there may also be a national supporting role.

6. Recommendations and next steps

6.1. The CFU's overarching recommendation is that the public and private sectors co-operate to explore reducing parcel surcharging by creating a less costly operating environment in the north and west of Scotland. We are working with the industry and other stakeholders to facilitate this.

6.2. More specifically, there was support for exploring the potential for a Pick-Up and Drop-Off network in the Scottish areas affected, making use of existing infrastructure and networks, including public and community resources.

6.3. This year (2017) we have presented our findings to parliamentarians and industry, as well as publicising the issue through broadcast, print and online media. We will take forward work with industry and public sector representatives in early 2018 to decide which solutions may be worth trialling. We have already secured agreement from key stakeholders to participate on this.

6.4. The research also suggested it was worth considering whether the existing Post Office network in the Highlands and Islands could have a role in reducing delivery costs for consumers in those areas. However, Royal Mail and Post Office Ltd.'s exclusivity agreement is in place until at least 2022 and does not allow for any other parcel companies to work with Post Offices. Therefore, we may revisit this at a more appropriate time, taking into account progress on the other recommendations in this report, and stakeholder views.

6.5. A related but distinct issue is that of the accuracy and transparency of information provided by online retailers. We recommend that the Consumer Protection Partnership co-ordinates efforts to reduce misleading language around "free" or "flat price mainland delivery", and supports enforcement action where retailers do not comply with the laws on distance selling in this area.

6.6. CFU will also work with partners, including the Consumer Council for Northern Ireland to improve consumer awareness of the regulations around online retail and delivery, and ways of shopping online without paying surcharges.

7. Consumer advice

7.1. **Check delivery terms** – Always check delivery costs before starting your order to avoid disappointment. Online retailers should make it easy for you to find information about delivery charges on their website and should tell you the cost of delivery before your purchase is complete. If they don't, report them to your local Trading Standards.

7.2. **Shop around** – If you think the cost of delivery is too high, check out other online retailers for a better deal as they may charge less to deliver your parcel.

7.3. **Consider other delivery options** – If you can't find a better deal with a different retailer, you may wish to consider other delivery options that don't attract a surcharge – like having your parcel delivered to your work or to a friend or relative in a different postcode area. Some retailers offer a 'click-and-collect' option that may be cheaper than having the parcel delivered to your door.

7.4. If you have any questions, you can contact the Citizens Advice Consumer Service helpline on 03454 04 05 06.

8. Annex – previous research

8.1. Citizens Advice Scotland (2012) The Postcode Penalty
https://www.cas.org.uk/publications/postcode-penalty

8.2. Citizens Advice Scotland (2014) The Postcode Penalty: The Business Burden
https://www.cas.org.uk/publications/postcode-penalty-business-burden

8.3. Citizens Advice Scotland (2010) The Postcode Penalty: The Distance Travelled
https://www.cas.org.uk/publications/postcode-penalty-distance-travelled

Consumer Futures Unit

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