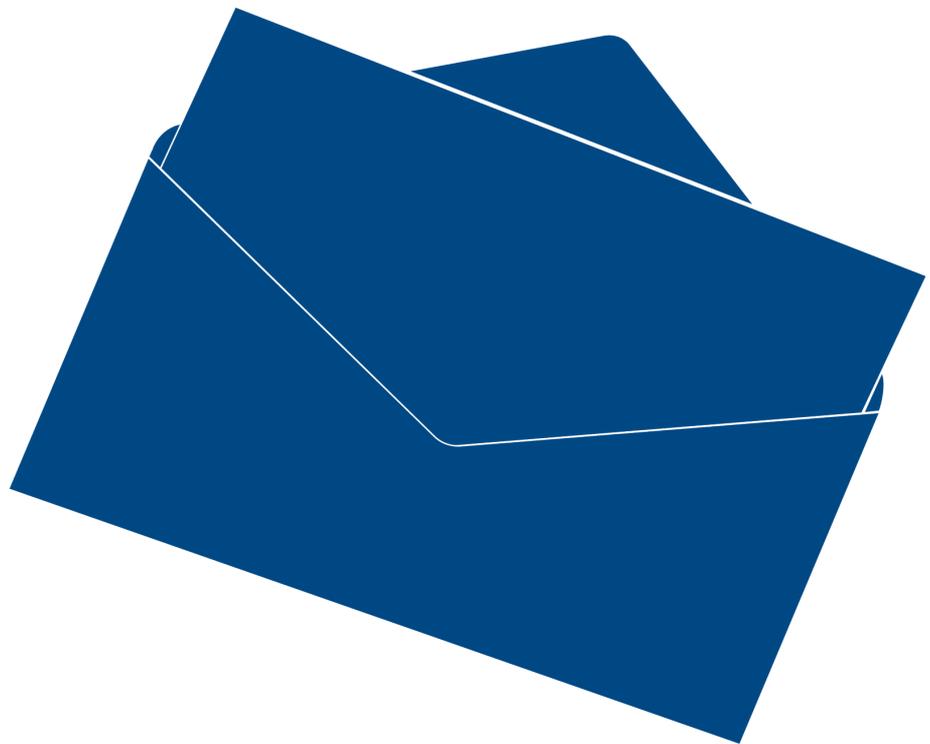


Transformation health check

An operator perspective
on how new post office
models are affecting
consumers



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Summary

The post office network is undergoing the biggest restructuring programme in its history, with the aim of maintaining its size and financial viability. The majority of the UK's 11,500 branches are being converted to new models alongside other retail facilities.

As the consumer champion for post, Citizens Advice is undertaking a comprehensive research programme to understand how this change is affecting consumer access to mail services. We have conducted mystery shopping, consumer polling and mapping research, and our initial evidence suggests that the transformation programme has been successful in preserving the number of post offices and extending opening hours.

This report provides one interim health check of the transformation programme. All findings are based on interviews with post office operators, who have a unique perspective and understanding of how the transformation programme could affect consumers. None of the findings relate to Crown Post Offices.

Operators report that many consumers like the convenience of being able to access Post Office and other retail services at the same time. Customers are enjoying refurbished open plan premises with more space, improved physical accessibility and better communication with staff.

Many smaller post offices have achieved efficiency savings and longer opening hours by converting to PO Locals, combining with other retail services such as newsagents and petrol stations. Operators report that many customers like the longer opening hours and that the model is working well in those branches that are either large and busy or small and quiet.

But some operators of mid-sized PO Locals report facing longer waiting times as customers queue for both retail and post services at the same time. Some operators are themselves not happy with the customer queues but cannot find an economically feasible way to pay an additional member of staff to run another counter.

Some operators have concerns that not all retail staff have sufficient knowledge, experience or training to provide the required range of Post Office services. Others report that the reduced range of services in PO Locals can be inconvenient for customers.

Our research also highlights potential future issues that could affect consumer access to mail services. For example, some Post Office Mains (the conversion for

larger branches) could face problems when their income guarantees - which run for 3 years following transformation - expire. Other operators have broader concerns linked to what they see as falling pay for Post Office transactions and competition in post and retail services. These concerns are raised despite a broader picture of fairly flat total operational revenues for Post Office Ltd. They reflect uncertainties about the level of future earnings following the transformation programme.

It is important to take these findings in the context of the network's biggest ever transformation. Both operators and consumers are still adjusting to the working of new models. Some operators still view the Post Office as the primary offer within their business, and are having to adapt to a new approach to retail. And some customers are getting used to accessing postal services alongside other products and in new environments.

We recommend that Post Office Limited should:

1. **Ensure staff can conduct Post Office transactions confidently.** It could improve its training and support for operators, and should consider simplifying Post Office transactions particularly to help staff in PO Locals.
2. **Consider adding greater flexibility to branch model types.** More flexibility around opening hours and product range would help branches respond better to local demand. This could build on the success of the Post Office Local Plus model.
3. **Continue monitoring the medium term financial viability of new models.** This should include comparing POL's own financial records with operator experiences, with particular focus on the futures of branches with multiple operators and PO Mains after their 3 year parachute payments cease.

Background

About Citizens Advice

The Citizens Advice service is the statutory watchdog for post offices and postal consumers in Great Britain. In accordance with Section 16 of the Consumer, Estate Agents and Redress Act, we investigate matters relating to the number and location of public post offices.

We promote the consumer interest with regard to the number, location and quality of post offices, and aim to promote a sustainable, accessible service that is capable of responding to changing consumer needs. We have particular regard for the needs of vulnerable consumers and consumers living in rural areas.

The post office network

The post office network is a crucial access point to the universal postal service - the public postal service providing collections and deliveries of mail at a uniform affordable price.¹ The network also plays a vital role in delivering other essential services to the public, including banking services, access to benefits, bill payment and licensing.

There are around 11,600 post offices, used by approximately 17 million people each week.² But the network has been loss-making since 2000 due to decreased customer visits, falling revenue from government services, the loss of key contracts and increased competition from other providers.

Network Transformation Programme

Since 2012 the Network Transformation Programme has been restructuring the post office network in order to maintain its size and financial viability. This programme involves the conversion of traditional sub post offices to new post office models: Post Office Local (PO Local), Post Office Local Plus (PO Local Plus) and Post Office Main (PO Main).

¹ Royal Mail, [Universal Service Obligation](#)

² Post Office Ltd, [Annual Report](#), 2014/15

Citizens Advice supports the objectives of the Network Transformation Programme, which is designed to allow the post office network to be maintained.

Post office models

Busier branches convert to PO Mains providing a wider range of services at a dedicated Post Office counter operating during the core business hours of 9am to 5pm. PO Mains often also offer a smaller range of Post Office services at general retail tills.

Smaller post offices are integrated into retail premises. These PO Locals generally operate for longer hours than a traditional sub post office, but with a slightly reduced range of services. Post Office Limited has introduced Local Plus models to provide a slightly wider range of services than a PO Local, and Citizens Advice welcomes this move to reflect the needs of local consumers.

The new models have new remuneration systems. Postmasters running traditional branches were paid a fixed element (the 'core tier payment') as well as commission payments from transactions. Operators of the new post office models only receive commission payments based on transactions. The intention is that any shortfall from the Post Office side of the business is compensated for by increased retail sales and operational efficiencies.

It is anticipated that by April 2018, when the programme ends, most of the post office network will be operating under these new models.

Operating concept

The PO Local and PO Mains operate under the following concept:

- Longer opening hours mean customer visits are spread throughout a longer day and new customers are attracted
- Change in customer behaviour is an opportunity to achieve staff savings as staff can work simultaneously across Post Office and retail
- Staff savings and increase in retail sales enables a lower cost operating model

Each aspect of the operating concept needs to work in order for the others to succeed. If aspects do not align, the model will struggle to function. Consumers have some trade-offs in this process. On one hand they benefit from longer

opening hours and a service that should be more financially sustainable for both Post Office Ltd (POL) and operators. But on the other they may have access to a more limited product range (in PO Locals) and the service may be provided by non-specialist staff.

Research objectives

The purpose of this report is to understand the impact on consumers of the Post Office Network Transformation Programme as a result of how it is being implemented.

This research is designed to gauge the views of operators of the new post office models that have been developed under the programme. How the new post office models are introduced and operated will determine how the Post Office restructuring works and the consumer experience of the new models.

Research approach

The new post office models need to work for consumers, operators and POL - a 'triple win'. Whilst Citizens Advice is a consumer organisation, in this research study we talk specifically to the Post Office operators. Operators have a unique perspective on the consumer experience of the new models, as they see and live it day in and day out. Operators know the financial situation underpinning their specific post offices, which is a key factor influencing consumer access to the service in the short and longer-term.

Citizens Advice recognises that the operator perspective is only one part of the picture, but it is a crucial part. This report complements our other research which assesses consumer experience data and service data.

This research study assesses the introduction of the new post office models, and their key aspects, against concept. It is designed as a health check to identify what has been delivered against what was planned. We look to see if any features are working differently, and whether these are for better or worse.

The intention is to identify factors which we, and other stakeholders, could use to assess and monitor customer impacts in the later stages of the programme and beyond. In addition, the research may suggest ideas that could be considered in order to boost consumer outcomes from the programme.

Research method

Call for evidence

The research design was informed by a prior call for evidence. We used an online form to ask post office operators for their views and experience of the operation of the new post office models and how this affects customer experience. The form was promoted on Twitter and through operator networks and was available between 11 January 2016 and 1 February 2016. We received 121 responses and used the findings to develop the questionnaire and discussion guide.

Research

We used a number of different methods to reach all relevant parts of the network and to gain a full understanding of operators' experience of the new post office models.

In all parts of the research we examine the new post office models against a range of measures, asking how the operation of the Network Transformation Programme is affecting customers. For each measure, we look at what the model was intended to do and ask operators about how it is working.

Individual operator interviews and focus groups

Citizens Advice commissioned Accent, an experienced market research agency, to undertake telephone interviews with individual post office operators. Accent undertook 65 semi-structured telephone interviews, in a spread of locations.

Multiple retailer and umbrella organisation interviews

Citizens Advice undertook face to face interviews with major multiple retailers and umbrella organisations representing post office operators. We held these between January and June 2016.

We provide full details of these interviews and focus groups in appendix A.

1. Opening hours

The provision of Post Office services for longer hours throughout the week is a central feature of the Network Transformation Programme. The new post office models offer extended opening times and are intended to smooth customer visits throughout the hours the business is open. In addition, the longer opening hours are intended to increase the number of customers visiting the post office.

Customer use of extended hours

Operators report that in some locations, customers like the longer hours and numbers of customers use the extended opening hours. For example the National Federation of Retail Newsagents says that the extended hours service tends to be used more in commuter areas. Separate research for Citizens Advice finds the most common reason for visiting a post office outside traditional opening hours is a visit before or after work. One in four (25%) consumers visiting a post office during extended hours said they went before or after work.³

'The new hours are great for customers. I get a lot of positive feedback.'

PO Local, urban

However, the vast majority of operators interviewed say that customer demand during extended opening hours tends to be focused only directly either side of the core 9am-5pm opening hours.

Many operators say there is little customer demand on Sundays, with 1 PO Local operator telling us 'Sundays are dead'. Some operators state that Saturday afternoons, when many traditional post offices were closed, are also quiet. There is a strong consensus amongst multiple retailers that post offices are used very little after around 8pm. A number of operators say they would like to be allowed to tailor their hours to local need.

Evidence from one multiple retailer suggests that longer hours are being used in their PO Locals, with as many as 20% of their Post Office customers visiting outside core opening hours. However, this is less common in their PO Mains, with only 2.5%-3% visiting outside core hours.

³ Accent, Customer Experience of New Post Office Models, March 2015 (unpublished)

'Customers do use services outside core hours, but after 8pm there is very little usage. Custom is still concentrated during traditional opening hours.'

Multiple retailer

'My hours are 7am-10pm, no one comes in before 8 or 8.30am.'

PO Local Plus, rural

Impact on customer numbers

Operators have mixed views as to whether the extended opening hours are bringing in more customers. Many are not reporting an increase in the total customer numbers specifically using Post Office services due to longer opening times.

Some PO Local operators say they have seen an increase in customer numbers in their overall business since starting to operate under the new model. This applies equally in cases where the post office has converted to a new model in the same premises as the original post office, and where Post Office services have been introduced into new premises. Extended opening hours is given as one reason for this increase, although not the main reason.

For PO Main operators who previously ran a traditional post office it was more common to report not having seen a change in the number of customers visiting the branch as a result of longer opening hours. Only a minority of the individual PO Main operators report an increase.

'Overall Post Office footfall has slightly increased due to longer opening hours. But in many cases there has been no increase in footfall following the extension of opening hours.'

Multiple retailer

Impact on operator costs

Increased staffing costs due to longer opening hours is reported as a major concern by many multiple and individual operators. Some are very concerned that longer opening hours are increasing their staffing costs and are not providing an increased income to pay for this.

Increased costs can arise if Post Office Ltd has said that the retailer has to extend their outlet's opening hours because they now have a PO Local or a PO

Main. They can also arise simply because operators are increasing the number of staff, in order to provide Post Office services. Operator evidence indicates the reasons for these extra costs can include more hidden costs such as training and overheads.

'I'm not happy about Saturday timings because we open the whole day and there's hardly any customers in the afternoon. I'm paying the overheads, I'm paying the wages and there's no return for it.'
PO Main, urban

'Where post offices are open 5.30pm-8pm, and there are no or few customers, this results in costs for the retailer.'
Multiple retailer

2. Customer experience

In the new models, retail staff provide Post Office services at combined retail-Post Office (combi) counters in a retail business. Waiting times for customers are intended to be shorter.

Interplay with retail

Many operators find that offering Post Office and retail services together in the same outlet works well, providing a one-stop shop for customers. The services on offer are seen to complement each other. Operators say customers like the convenience of being able to access postal and other retail services at the same time. Some operators comment that customers have increased reasons to visit.

'I get a lot of customers who come to use the Post Office services, and then buy something from the store; or they come to buy something from the store, and then use the post office. They help each other.'

PO Main, rural

'Generally the relationship between the retail and Post Office side is good. Some sites work like a dream.'

Multiple retailer

However, a number of operators report that some customers who just want to use Post Office services resent the fact that there is a shop there at all, feeling that Post Office transactions should take priority. Conversely, customers find that they are unable to pay for retail purchases at the Post Office counter, leading to dissatisfaction.

'Some of the Post Office customers begrudge the need for the shop, mainly those who just want to use the Post Office. They feel the retail side of the business interferes.'

PO Main, rural

Refurbished premises

Operators report that customers like the refurbished, bright environments. Some say the modernised premises with more space and improved accessibility meet customer needs better.

'It's a nice environment after the refurbishment, it's more up-to-date. We also have a lot more space now than we had.'
PO Main, rural

'Biggest positive has been refurbishment, stores are modern and look better compared to before. Good feedback on this from customers and staff.'
Multiple retailer

Interaction with staff and privacy

Operators generally consider the open plan design and the removal of glass screens aid closer contact with customers and helps communication.

'Advantages are that it's more open plan. Before I was in a glass case. Now it's open counter which is better.'
PO Local Plus, urban

'The style is more open now, which I think is appreciated by our customers.'
PO Local, urban

However, a number of operators say they and their customers have some concerns about privacy in the new model post offices. This is a particular concern for customers undertaking more sensitive transactions, such as banking or benefits. Previous research also highlights this as a significant issue.⁴

'Combi counters can lead to privacy issues. Customers, perhaps especially older people, do not like to stand in a queue where people can overhear what they are saying, for example when undertaking financial transactions.'
Multiple retailer

Queues

Operators say customers often experience long queues at combined retail-Post Office counters. This should be seen in the context of our other evidence. For example, our mystery shopping research has found that 60% of customers in

⁴ Citizens Advice, [Fixing the Foundations](#), September 2015
The Consumer Council, [The Postal Consumer Experience](#), October 2016

Post Office Locals are served without having to queue.⁵ Some operators think queues in their branches have increased partly because customer visits are not being spread throughout the longer opening hours. Operators also tell us that simply combining retail and Post Office services at the same counter can result in long queues.

Operators report that long queues can be particularly difficult for some customers, such as a lack of seating for older customers. In addition, some say queues can clog up the store making it difficult for customers to access other parts of the shop.

Queuing in post offices where there are not enough customers for 2 tills and too many for 1 till is highlighted as a particular concern by many of the multiple retailers and umbrella organisations. They state problems tend to occur in mid-sized post offices, and give varying ranges of between 500 and 950 Post Office customers per week as difficult to manage.

Operators report that, on average, Post Office transactions take longer than retail transactions, according to operators. Operators say retail customers, for example in convenience stores, do not tend to expect long waits to make their purchases. Some multiple retailers and umbrella organisations report that operators lose customers, especially retail customers, because of long queues. The Rural Shops Alliance says some of its members have resigned their Post Office because of the impact of queues on shop business.

As a result of concerns about queue lengths some multiple retailers and individual operators say that they no longer operate combined queues.

‘Customers expect to queue in a post office, but never in a convenience store. So [name of retailer] cannot afford queues which can lose customers.’

Multiple retailer

‘Dodging between Post Office and retail transactions can be a problem. If there is one queue and a customer is undertaking a long Post Office transaction, retail customers will leave.’

Rural Shops Alliance

⁵ Citizens Advice, [Fixing the Foundations](#), September 2015 (p.39-40) - whilst the queue times in PO Locals remain broadly good (60% of shoppers served immediately) for shoppers that have had to queue, the queue times have increased substantially over 4 waves of research, from 45 seconds in 2012 to 2 minutes 21 seconds in 2015.

Delays in completing transactions

Some operators say customers can experience delays in completing transactions at Post Office counters. This can be because of training issues with part-time staff and the complexity of many Post Office transactions.

'In Locals, staff undertaking transactions can be slower than the more experienced staff (in traditional offices and Mains) and can exacerbate any queuing issues - if staff don't do certain transactions frequently, they forget how to do them.'

Multiple retailer

Operators claim the Post Office helpline, which offers advice and information to Post Office operators and their staff, is frequently slow in answering their queries, which can also cause delays. Although many of the individual PO Local operators interviewed report positive experiences of the helpline, others express concerns. Post Office Limited has informed us that it has made changes to the helpline service since our research was undertaken.

Some say they are often either unable to get through to the telephone helpline or else to obtain a sufficient answer while the customer is present. Others make specific complaints about the phone not being answered immediately and the time taken to resolve anything other than basic queries.

'Sometimes waiting time is a bit long when you ring them...lately it's taking ages, which means we are forced to make the customer wait.'

PO Local, urban

Range of services

Post Office services are slightly reduced in PO Locals and outside core hours in PO Mains, but still offer around 95% of the range of Post Office services.⁶ This is a trade-off enabling service to be provided for longer hours and maintaining the number of outlets. The concept underlying the PO Local model and the extended hours service in the PO Mains is that with a simpler range of products, the service can be delivered by retail staff rather than by Post Office specialists.

⁶ For example, PO Locals do not offer the Passport Check & Send service, paper-based bill payments and larger international parcel services.

Some operators who offer fewer products following transformation to a new post office model observe demand for a fuller product range, particularly in PO Locals. Many PO Local operators state that this is a concern in their ability to meet customer needs. Operators say there are customer complaints about suspended products and services and report that customers are particularly unimpressed about being referred elsewhere or online for services that were previously available. Customers are unhappy, for example, when they find that DVLA, passport, bill payment services and certain banking transactions are no longer available at the post office or that they cannot post international parcels weighing over 2kg.

Operators explain the restricted range can mean customers have to travel to a nearby town to access services or go to a full-service post office. However, a small number of PO Local operators are more sanguine about the limitations, saying that customers just come in to undertake fairly simple transactions.

'It's worse than because there are things that we can't do at this post office that we could before and people are at the counter looking for bonds, driving licences, and passport forms.'
PO Local, urban

'Because we've gone from traditional to Local we have restrictions on transactions we can do. That is an inconvenience [to] the public because we're the only post office in the village.'
PO Local, rural

'I think the customers are happy they have access to postal services in their local area. We have had no issues with services we don't offer.'
PO Local, rural

Operators report some problems for customers requesting less common services at PO Locals. Operators report that sometimes less frequently requested services can result in customers being asked to return when a more experienced member of staff is available, long waits whilst the staff member seeks help, a compromise in service standards or a referral to another post office. As a result, some of the multiple retailers and umbrella organisations say they would prefer to offer a more restricted range of products in PO Locals.

'Services that are uncommon frequently cause problems for staff. For example if the customer wants 500 Canadian dollars, the

operator is in the flat upstairs and the operator has to come down to assist with the transaction.'

Rural Shops Alliance

Whilst Post Office Ltd has developed a product range based on its understanding of operator constraints, what we've actually seen is a some operators wanting more services and others fewer.

- A wider range of services may better meet customer demand. The additional burden of operating these services, for some operators outweighs the risk of discouraging customers who are confused about the restricted product range.
- A smaller range of products and services for staff to learn how to transact. This is raised particularly by multiple operators and umbrella groups. They say transactions for many Post Office services are complex to undertake and there can be difficulties in training staff to provide a good service to customers as a result.

These two superficially contradictory views could be overcome by addressing other issues in the model. For example, operators suggest that a simplification of product transactions could make it much easier for generalist retail staff to provide a wider range of Post Office services. Operators point out that in their opinion similar types of transactions carried out through other systems are easier for staff to undertake.

'If Horizon [the Post Office IT system] was as good as PayPoint, a wider range of transactions could be offered without staff training problems. The PayPoint system is built around prompts for the human operator.'

Rural Shops Alliance

3. Quality of service

Recent research finds consumers rate quality of service as the most important characteristic of a post office branch.⁷ In our study, operators indicate that customers do not always receive high service standards, particularly at PO Locals where they are served by retail staff. Our previous research shows a mixed picture with quality of service in some PO Locals a concern, although upcoming Citizens Advice shows improvements in some areas.⁸

Staff knowledge

Knowledge and understanding of the Post Office product and service range is key to provide a good service to customers. But many individual PO Local operators do not feel that all their staff working on Post Office transactions have a full understanding.

The evidence from operators suggests that where the new model post office has inherited experienced staff from a traditional post office, knowledge is much better. But when experienced staff leave, operators often face serious challenges which affect customers in the form of poor quality service, as we found in previous research.⁹

'If the branch has inherited staff from closed branches, it generally runs well. If there are new staff in, it is tough for the branch.'

Multiple retailer

Multiple retailers and convenience store operators cite high retail staff turnover as a challenge in ensuring staff have good knowledge of transactions. Some operators also say that it is difficult for staff working short hours only to maintain knowledge of Post Office transactions and the IT system, Horizon. The problem is particularly acute in the case of staff who only work shifts when there are few Post Office customers, such as in the evenings.

'It takes 6-12 months to learn Post Office products properly. Many staff are students, working for six months and then leaving. This leads to training problems.'

Multiple retailer

⁷ YouGov & London Economics, [The Social Value of the Post Office Network](#), November 2016

⁸ Citizens Advice, [Fixing the Foundations](#), September 2015. Our next wave of mystery shopping research, which shows improvements in some areas, will be published shortly.

⁹ Citizens Advice, [Fixing the Foundations](#), September 2015

Initial staff training

Staff training is crucial to quality of service for customers. Individual operators present very mixed reports on the quantity of training provided by POL, with PO Mains operators more positive than PO Locals operators.

The majority of PO Main operators feel they received sufficient initial training to deal with Post Office procedures and offer a good service to customers. Those who previously ran a traditional post office in particular say they already know enough and some have passed their skills on to their staff. Some PO Local operators say they received sufficient initial training.

Several multiple retailers felt that POL training is insufficient, and relatively little compared with other service providers. Some multiple retailers claim the amount of Post Office training available has reduced and report that PO Mains receive more training than PO Locals. One multiple retailer reports that it now provides 2 weeks in-house Post Office training for its PO Local staff.

‘Go live training is 7 to 8 days in total, which equates to half a day per member of staff. This is not much compared with, for example, Subway which has 3 weeks training. However, Post Office transactions are more complex.’

Multiple retailer

Again there are mixed reports about the quality of initial training provided by POL. The majority of PO Main operators and a significant minority of PO Local operators are unhappy with the quality.

A key concern is the content of the training. A number of operators feel that the training is not relevant to their day-to-day jobs. Some PO Main operators consider the training to be too sales focused and would have preferred to gain more general knowledge about products and services.

‘The trainers were very professional and made sure you understood a transaction before they moved on. We were encouraged to ask questions and we all felt confident of using the system when we came back.’

PO Local, rural

'It wasn't very good. Half of the stuff is irrelevant and they over-complicate things. Someone without experience would be quite confused.'

PO Main, urban

Ongoing training and support

Ongoing training, help and support is important both to help existing staff keep up to date on product or service changes and to ensure new staff are trained appropriately.

Again, views about the sufficiency of ongoing help and support are very mixed. PO Main operators are fairly positive about general contact from POL, although some find it difficult to make contact and are confused over the different sources of help available. Some PO Main operators highly value their Post Office area sales managers or network managers. But generally they would like more face to face visits from Post Office area managers.

Many PO Local operators say they have enough ongoing help and support. However, some feel they need more support and others state they have had no ongoing support at all. Some feel they don't have a specific person they can contact and would like more personal support.

'We have recently got a new network manager. She comes in regularly and spends time here. She gives us advice and tips...and makes sure we have the right information.'

PO Main, rural

'The ongoing support has been non-existent, it is impossible to get hold of anyone.'

PO Main, rural

Operators report significant difficulties and high costs associated with ensuring their staff can access the training they need. These include the cost of sending staff away on training and covering their absence.

The location and hours of training can be a particular challenge given the demographic of many retail staff. They often work limited hours, sometimes weekends or evenings only. Staff frequently have other commitments, such as family or study, outside their working hours. They may not have access to private transport that is required to travel to training centres.

Some operators also say in traditional post offices, fewer people staffed the Post Office counter, and therefore fewer members of staff needed to be trained. However, in a PO Local, in theory all retail staff may serve Post Office customers. As a result, operators say that training challenges for operators with new model post offices are greater.

'Training is offered in core hours, so this does not work for staff who only work out of core hours.'

Multiple retailer

'They don't work with our opening times and distances. When you look at the list of where they are, it is hard to get there through public transport as some of my staff don't have cars.'

PO Local, urban

'Previously under the traditional post office model, in each store Post Office compliance training was undertaken by 2 people... Under the PO Local each store may have around 12 people who need this training - this is a financial problem.'

Multiple retailer

Complexity of transactions

Many operators say they have adapted to offering different types of transactions. Some retailers contrast the ease with which retail transactions can be undertaken with the complexity of Post Office transactions. Many multiple retailers and umbrella organisations stress the complexity of undertaking Post Office transactions means that extensive training is necessary to ensure that staff are providing an accurate and speedy service.

'In general [retail] staff do not want to do Post Office transactions because they are complex.'

Multiple retailer

'Retail products are simple to sell with barcode scan and till prompts. However, Post Office products are not always consistent and need an element of knowledge of the different products.'

Multiple retailer

Several of the multiple retailers and umbrella groups comment that in their impression, other (non-Post Office) service providers have systems that are easier for staff to operate and provide a quicker service to customers. Some of

these retailers believe that the Post Office's Horizon system and transactions are not as user friendly as many other similar systems such as PayPoint and many of the parcel shop operators.

A key part of the concept of the new post office models is that operators make savings as ordinary retail staff are providing the Post Office service. But multiple and individual operators report that the complexity of Post Office transactions can leave them with difficulties recruiting and retaining staff. This is particularly the case when staff are just looking for retail jobs, and are being paid at the same rate as ordinary retail staff without any additional Post Office responsibilities.

Operators told us of the challenge of needing staff who can deliver exceptional customer service, are financially competent and can understand and sell the Post Office's wide range of products and services - all at a minimum wage.

'How am I supposed to compete when a chip shop pays £7.20 per hour, and the Post Office needs you to sell home, life and travel insurance to customers, handle money and speak with the elderly for minimum wage? I can't.'

PO Main, urban

'We have a recruitment challenge with Locals as staff apply for jobs primarily in retail and do not want to undertake Post Office transactions.'

Multiple retailer

Because of the complexity of undertaking Post Office transactions, the umbrella organisations say many operators do not allow all their retail staff to provide Post Office services to customers. In some cases, only the operator and their spouse will undertake Post Office transactions. This can limit the availability of Post Office services to customers, as in these cases services will not be accessible if, for example, the operator themselves is not present.

Outside core opening hours

Operator evidence suggests customers are less likely to receive consistent service standards outside core opening hours. This fits with findings from previous research.¹⁰ Operators say it is particularly difficult to provide staff with good knowledge outside core opening hours and service standards may drop as

¹⁰ See, for example, pages 19 and 42, Citizens Advice, [Fixing the Foundations](#), September 2015.

there may not be anyone with strong Post Office experience available for staff to consult.

'The problem is staffing, recruiting people who are willing to work these hours, and then getting them sufficiently trained and confident that they can be here on their own.'

PO Local Plus, urban

Operators report that out of hours customers, particularly those wanting to access the less common services, may experience delays whilst less experienced staff ring the Post Office helpline or try to contact the operator. Some report that this can result in customers being given inaccurate advice or, in some cases, turned away, and asked to return later or to visit another post office.

Umbrella organisations report that as a result of these difficulties, some PO Locals ignore POL contracted hours and simply do not offer Post Office services, for example during early mornings or Sundays. These findings corroborate evidence from Citizens Advice mystery shopping research that indicates some PO Locals do not always open when scheduled, particularly during extended opening hours.¹¹ A number of multiple retailers and umbrella groups say they would prefer to provide customers with a more consistent service over shorter hours.

'For example if a store is open 6am-10pm, the public may expect to be able to come in at 9.30pm on a Sunday night with parcels to mail to Poland... We receive reports of a steady stream of reported instances of customers being unable to receive certain services outside of core hours.'

National Federation of SubPostmasters

'Opening hours are difficult to manage and we would prefer to be able to offer a reliable and predictable service, rather than a service that is less reliable but open all hours.'

Multiple retailer

¹¹ Citizens Advice, [Fixing the Foundations](#), September 2015

4. What this means for the future

A key objective of the Post Office restructuring programme is to ensure that post offices are financially sustainable for POL and its operators, and thus able to remain open and providing services to consumers at 11,500 locations.

Where we are now?

Customer numbers

Self-reported operator evidence indicates that although in some cases post offices are attracting more customers, a significant proportion of post offices have not seen the additional customer visits they expected. Footfall has increased according to many of the PO Local operators interviewed - they attribute this to the retail offer, post office location and extended opening hours. However, few PO Main operators report an increase in footfall.

Most of the multiple retailers say that in their view, the additional number of customers brought into their stores due to the presence of Post Office services is minimal. However, some multiple retailers emphasise that the effect of having Post Office services on total store footfall varies from shop to shop. Some say that the footfall benefits from offering Post Office services are less than they have been historically.

'The Post Office has been useful over the years in bringing in footfall. But the footfall benefits are not seen so much now. If it is the only retailer in the village the presence of a Post Office does not make much difference to footfall.'

Multiple retailer

'The impact on footfall is different depending on the store in question. In many newsagents the Post Office footfall is needed to make the business viable.'

Multiple retailer

Retail sales

The new model assumes longer opening hours and an increase in retail sales to allow for a fall in remuneration on the Post Office side of the operators' businesses. As with customer numbers above, our evidence is self-reported and

should be seen in that context. Remuneration has fallen for some partly because of the loss of the fixed element of Post Office pay, but also due to decreasing pay for some individual transactions, a reducing range of transactions and dropping Post Office customer numbers. However, most individual operators say they do not see sufficient increase in retail income to offset the loss of Post Office earnings. In many cases remuneration is significantly less than expected.

Most individual PO Main operators interviewed report that retail income has either remained the same or decreased since they started running a PO Main. Some PO Local operators report no change in retail income and some say it has increased.

Where there has been an increase in income, operators believe it to be driven by positive customer experiences, the convenience of the combined offer, the location, increased footfall due to the improved appearance of the branch and the additional retail section. Any decline in income is attributed to the competition, both online and offline, although one operator put it down to decreased space available since the conversion.

A number of the multiple retailers interviewed told us they are making losses from their Post Office services, and that they are cross-subsidising the Post Office service from their retail operations. Multiple retailers say this is a very significant concern.

'A high proportion of our post office branches are loss making. Others are not making massive money.'

Multiple retailer

'For us post offices are very unprofitable. [We] have decided to keep post offices (for now) and run them at a loss to the business, because they are a great community service.'

Multiple retailer

Staff numbers

Operators report that cost savings, through reduction in the number of staff, have not happened to the extent that the new models anticipate. Under the new models, general retail staff are expected to provide Post Office services alongside retail services. Total staffing levels are expected to fall, generating financial savings for the post office. But as we have seen, operators claim there are particular issues affecting mid-sized post offices that are too busy to operate with 1 combi counter, but not busy enough to justify the cost of 2 counters.

The interviews with PO Local operators indicate that changes in staffing levels vary by PO Local branch since conversion. Some report that they have increased staffing levels, while others have reduced or kept staffing levels the same.

External factors

Pressures on high street retail and increased competition

Several multiple retailers stress that the retail parts of their business are under some pressure due to more general challenges in high street retail. Multiple retailers say that this pressure may influence whether they are willing to continue to cross-subsidise their provision of Post Office services. Individual operators also highlight concerns about competition on the high street.

'As the [retail] sector isn't making a huge profit, the pressures from the [retail] business may lead to a tipping point on [our] stance on post offices.'

Multiple retailer

Operators also told us that they are facing growing competition in Post Office services. This includes competition from parcel shop operators offering alternative high street outlets for parcel posting and collections. Increasingly consumers are using online channels for transactions that used to be undertaken at post offices, such as bill payments and licensing.

'A lot of transactions have moved to banks, people don't come in to get their pensions or pay bills any more. The government promised us these transactions.'

PO Main, rural

'Online shopping is increasing, the parcel business is growing. But the parcel market has more companies with a share of that market.'

PO Main, urban

National Living Wage

The National Living Wage is a significant external policy change which was not foreseeable when Network Transformation Programme was designed. Some operators are concerned about this impact of this on their costs - both those

who pay the legal minimum and those who pay higher rates specifically to attract staff to work on the Post Office side of the business. Both individual operators and multiple retailers told us they are concerned that the Living Wage results in higher costs without additional revenue. Operators say that whilst retail prices can be adjusted to reflect the Living Wage, Post Office prices cannot.

'The living wage will impact on my costs without impacting on revenue.'

PO Main, rural

'The recent and future National Minimum Wage rise puts pressure on business that wasn't there previously - a 25% minimum increase in payroll.'

Multiple retailer

Post Office transaction rates

Changing market conditions mean that in some cases, changes in contracts between POL and its clients (for example, government departments and agencies such as the DVLA) have led to a drop in operator transaction pay rates. This is a major concern for some operators. Now that a fixed or core tier payment is not available for new models, the impact of transaction payment rates can be more pronounced for operators.

'I think remuneration rates must improve. This is my main concern.'

PO Main, urban

'Remuneration for transactions is very low. Transaction income for many products is pennies.'

Multiple retailer

Medium to long term

Mains' transition payment

Many PO Mains are initially shielded from the loss of the fixed element of Post Office pay, the core tier payment. As part of the conversion process, operators also receive financial support to upgrade their facilities. POL provides a 3 year income guarantee to post offices that convert to a PO Main. This transition (or

'parachute') payment ensures that the Post Office income for the first 3 years after conversion is not lower than under the operator's traditional contract.

A number of multiple retailers and umbrella groups voice concerns about the impact on PO Mains once this payment runs out. This could in turn affect consumer access to PO Mains.

'Remuneration in Mains is mixed. There are quite a few Mains where the 3 year protection is very important.'

Multiple retailer

'We have concerns that there will be a shortfall for some Mains after 3 years when the parachute payment runs out, due to the loss of the core tier payment which previously made up around one third of Post Office remuneration. We could end up with Mains that are at best breaking even, or starting to make a loss. This is not what was originally expected.'

Multiple retailer

Operator profile

Our findings raise questions about whether we have the best fit of operators in all new model post offices. Some still view the Post Office as the primary offer, when the concept of the new models specify that it should be secondary to their main business. Many operators refer to wanting extra help with their retail business or express disappointment that they no longer have their original status as the 'official' or 'professional' in the community.

'This is why we've got retail right because they have forced us to have retail. Without looking at the consequences whether or not it would make me money or not make me money ...'

PO Main, urban

Some individual traditional postmasters say they plan to convert to a new model, despite not being confident they will have a sustainable business. Some postmasters operating traditional offices feel they have no choice but to stay on having invested in their business.

'I have invested financially in that I took out a mortgage to do this, and emotionally too. The compensation they pay would not pay that back, so I am tied in.'

Traditional post office

Operators' strategic review

Operators have mixed views about the future of their post offices. Many multiple and individual retailers say financial pressures mean they need to seriously consider Post Office operations in the future. Some operators say they are 12 months from a strategic review, others are operating on slightly longer timescales.

Some operators of PO Locals and Mains are feeling positive about the future of their post office. They have seen their business growing and expect this to continue. In some cases they feel they are in a good location or may have a monopoly position with little competition from other shops or post offices. Some highlight the strong Post Office brand, their good relationship with POL and a belief in the Post Office as an institution which will always be needed. But we also spoke to other operators with a less positive outlook about the future.

'Over the next 2 to 3 years [we] will have to consider our post office strategy. We love the Post Office. We want to make it work and offer the service, but at a profitable level and are struggling to do this.'

Multiple retailer

'It is working so well so far. We have the stationery and card sales which complements our post office. The staff are happy and enthusiastic. I'd say this view is for the next 5 years or so.'

PO Local Plus, urban

Difficulties selling post offices and future uncertainty

Several umbrella organisations told us that sometimes it can be difficult for operators to sell their post office when they want to leave. The risk for consumers is that difficulties in selling on post offices can lead to closures or temporary closures.

One umbrella organisation told us that it believes there to be almost 500 post offices where the existing operator wants to leave without a clear replacement. If this were correct, it could create the risk that some consumers lose access to their local branch.

'When Locals come to market, they are taking 2 to 3 years to sell in many cases. In some cases very committed people are having to close the post office in order to sell the shop business...when the business changes hands this is the crunch point. Over the next 10 years, given the age profile of operators, a lot of post offices will change hands.'

Rural Shops Alliance

Some operators are unsure about POL's future commercial strategy and whether models will become more viable. Many are concerned about the potential that Royal Mail could compete against the Post Office in future, or that Royal Mail is collecting directly from customers at reduced prices. Operators also express fears about the current contract in Royal Mail which runs until 2022, and wonder when there will be certainty around this. Some feel unsure about POL's plans for future products and how it intends to attract the next generation of customers.

'How will the Post Office be competitive when the Royal Mail contract comes to an end? Will Royal Mail transactions continue to decline? And at what rate?'

Multiple retailer

Conclusion

This research has sought to improve our understanding of how new post office models are affecting consumers. We have gained valuable insights by speaking to operators who see the effects of transformation on a daily basis and know the finances that underlie their post offices.

Operators report many benefits for consumers, such as longer opening hours, more services in one place and modernised environments. They also report concerns around issues such as queues and the ability of staff to deliver post services confidently. These sit alongside longer term questions about external factors like changing high streets and specific post office questions such as adapting to new models and future funding.

As the transformation process nears its completion in 2018, it is important to carefully examine benefits and risks of the processes. There are clearly many 'triple wins' that benefit consumers, operators and Post Office Ltd. Where this is not the case, it is worth reviewing whether this is simply because of teething problems or more structural issues.

This report adds one perspective to the evidence base for that discussion, and must be viewed alongside other evidence including consumer experience data, service data and Post Office Ltd experience. This report is neither intended to reveal hard data about the running of the new post office models or to support detailed recommendations about Post Office Ltd operations.

However, in addition to highlighting potential areas for Citizens Advice and other stakeholders to monitor, the research suggests a number of general ideas that should be considered in order to maximise consumer outcomes from the programme. The evidence from this research suggests that:

1. **Ensure staff can conduct Post Office transactions confidently.** Some operators face particular challenges, for example multiple retailers with high staff turnover. Simplifying Post Office transactions could assist here.
2. **Consider adding greater flexibility to branch model types.** POL should examine the trade-off between offering more flexibility around model types, opening hours and product range for local circumstances with the corresponding loss of standardisation.
3. **Continue monitoring the medium term financial viability of new models.** Increasing pressure on high street retail, growing competition from alternative providers and channels and falling Post Office transaction pay rates present potentially serious challenges to operators.

Appendix A - research method

Our research includes 65 interviews.

Branch type	Total interviews
Current PO Local	20
Current PO Local Plus	13
Current PO Main	15
Traditional post office	15
Former postmasters	2

Accent also undertook two focus groups with current PO Main operators. All Accent fieldwork took place between 15 and 25 February 2016.

Multiple retailer and umbrella organisation interviews

Citizens Advice undertook face to face interviews with major multiple retailers and umbrella organisations representing post office operators. We held these between January and June 2016.

At the time of the interviews, the multiple retailers included in the research operated around 1,800 post offices in total. Evidence from the multiple retailers is reported on a non-attributed basis. We interviewed 6 multiple retailers.

Blakemore	One Stop
The Co-operative ¹²	Spar
McColls	Tesco

Citizens Advice also interviewed 4 umbrella organisations:

- National Federation of Retail Newsagents
- National Federation of SubPostmasters
- Communication Workers Union
- Rural Shops Alliance

¹² Co-operative Group, East of England Co-operative, and Lincolnshire Co-operative Group.

We help people find a way forward

Citizens Advice provides free,
confidential and independent advice
to help people overcome their problems.

We advocate for our clients and consumers
on the issues that matter to them.

We value diversity, champion equality
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