Ms Rachel Reeves MP  
Chair, Business, Energy & Industrial Strategy Committee  
House of Commons  
London  
SW1A 0AA

Rt Hon Frank Field MP  
Chair, Work & Pensions Committee  
House of Commons  
London  
SW1A 0AA

5 October 2017

BY EMAIL TO: shawc@parliament.uk, mcenhill@parliament.uk

Dear Mr Fields MP and Ms Reeves MP

RE: PAYMENTS FOR COURIER DELIVERIES

Carole Walker (née Woodhead) CEO of Hermes Parcelnet Ltd (‘Hermes’) has asked me to reply to your letter of 25 September 2017. This letter follows an exchange of emails and phone calls between Hermes' acting Head of Government Relations, Dominick Moxon-Tritsch and Ben Sneddon, Second Clerk, Business, Energy and Industrial Strategy Committee and Libby McEnthill, Specialist, Work and Pensions Committee.

In the context of the press release issued by the Committee on 26 September 2017, Hermes is glad to have been provided with an opportunity to explain the facts of the situation to Members of both Select Committees.

For the ease of reference the numbered answers set out in this letter refer to the questions as set out in your letter of 25 September 2017.

1. **Detail out what those “stringent processes” are**

Three years ago Hermes created a dedicated team to lead investigations into corporate client labelling considering the possibility that parcels could be mislabelled by clients either on a routine basis or anomalously. The rationale for this was twofold. In the first instance clients labelling parcels as weighing less than they in fact do causes Hermes a meaningful commercial detriment. Second there was a recognition that this detriment would also be passed on to couriers which Hermes was determined to avoid.

As a result of this team’s work decisive steps are now taken to identify when this is happening and to stop it. Parcel weights are routinely audited in our hubs and depots, with intervention made when a client is found to be mislabelling their parcels.

These audits are performed on a risk-based basis. The risk assessment criteria as informed by review of three years’ of parcel weight mislabelling data are as follows:
# HERMES RISK ASSESSMENT CRITERIA FOR PARCEL WEIGHT AUDITING

<table>
<thead>
<tr>
<th>Volume</th>
<th>New Client?</th>
<th>Rate Differential</th>
<th>Recent Audit?</th>
<th>Previous Result</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Nature</strong></td>
<td>Slow change, continuous range 1-5</td>
<td>Slow change, boolean 0/5</td>
<td>Slow change, continuous range 1-5</td>
<td>Fast change, continuous range up to 100</td>
</tr>
<tr>
<td><strong>Weighting</strong></td>
<td>2</td>
<td>1</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td><strong>Owner</strong></td>
<td>Finance</td>
<td>Finance</td>
<td>Finance</td>
<td>Hub officers (temp), automated once reporting is bedded in</td>
</tr>
<tr>
<td><strong>Rules</strong></td>
<td>Divide into 5 equal rankings: 1: smallest 2: ... 3: ... 4: ... 5: largest</td>
<td>&lt; 1 year</td>
<td>Difference between packet and parcel rates according to negotiated rate</td>
<td>Where ( T = \text{`turnover' score:} ) ( 1: 500^*V^+ \text{ in last 2 weeks} ) ( 2: 500^*V^+ \text{ in last 6 weeks} ) ( 3: 500^*V^+ \text{ in last 12 weeks} ) ( 5: 500^*V \text{ in last 26 weeks} ) ( 10: &lt;500^*V \text{ in last 26 weeks} ) ( 100: &lt;500^*V \text{ in last 52 weeks} )</td>
</tr>
</tbody>
</table>
This table demonstrates for example that Hermes applies a risk weighting to new clients to ensure that they are labelling parcels at the correct weight. Following a similar logic we scrutinise for accuracy far more closely clients which ship the largest number of parcels.

A higher risk weighting is applied if a client has a history of mislabelling issues or if a particular client is generating courier complaints. Regard is also had to clients' potential to gain from parcel mislabelling. The ‘Rate Differential’ column shows an enhanced risk weighting where a client has negotiated with Hermes a significantly lower rate for lighter parcels where greater benefit would occur from mislabelling.

An audit would involve checking the stated parcel weight of a representative sample an HGV trailer load of parcels – typically around 5,000 parcels but could potentially be two or three times this number. Typically this would take up to 5 hours to undertake. Both the weight and dimensions of each of the parcels would be verified. Where parcels are too big to go through our automated scales manual checks are carried out, measuring and weighing them individually. Where a lower risk weighting is applied a lower frequency of audit it undertaken.

We are presently further investing to incorporate automated weighing machines in our Warrington and Rugby hubs so that we will have the ability to check the weight of all parcels from any particular client at any time. The cost of this investment is £1.8m.

Hermes carried out 17 full trailer audits from 26 Jan 2016 to 3rd Oct 2017. These were instigated primarily as a result of courier complaints or client team requests. In financial year 2016 Hermes weighed 1.25m corporate client parcels across 127 clients. Hermes asserts that this represents a very real engagement with couriers’ concerns with regard to this issue.

Where an audit identifies that mislabelling has taken place actions taken in response vary depending on the severity of the issue. At the lower end we work with the client to address an IT or process issue and monitor thereafter. For the more severe issues Hermes might revoke the client’s packet rate so the couriers are paid the parcel rate for all of their volume.

In the case of parcels that are over the courier network limits of size or weight, the courier is entitled to refuse to take the item and the parcel would be rerouted for delivery by van. In these cases the client is charged a premium plus an administration fee, automatically creating a financial incentive for the client to improve their labelling accuracy.

2. **Clarify whether (a) the client, (b) the depot operator, (c) Hermes or (d) the courier is responsible for (i) the initial labelling of the items and (ii) checking that the labelling is correct**

The client is responsible for the initial labelling. Responsibility for checking is a shared responsibility. Hermes couriers are self-employed ergo they are responsible for checking the accuracy of their own self billed invoices which in turn should conform to the parcels that they have in fact delivered.

In circumstances where a courier raises concerns about parcel mislabelling and informs the relevant Field Manager, in line with Hermes’ Code of Conduct, a responsibility then arises for Hermes to investigate the situation. Hermes’ Code of Conduct requires that everyone involved with the business, including couriers, be treated with dignity and respect. Hermes
would expect Field Managers to proactively engage with couriers’ concerns about mislabelling.

In response to a complaint of systematic mislabelling of parcels the Hermes Revenue Protection team will determine the appropriate level of audit. In the event that a courier is dissatisfied with the response of Hermes to their request to be paid a higher rate because of alleged mislabelling, per the Code of Conduct a courier would be entitled to make a complaint to the Service Provider Complaints Panel.

On 26 July 2017 Hermes wrote in detail to Rt Hon Frank Field MP in his capacity as Chair of the Work and Pensions Committee setting out specifics about how Hermes’ social compliance model works, the operation of the Service Providers’ Complaints Panel, numbers and nature of complaints received from couriers among other issues. Rather than repeat here these issues, a copy of Hermes letter is enclosed with this letter. Hermes can confirm that to date no complaint has been made by a courier to the Service Provider Complaints Panel regarding this issue.

Congruent with the offer made by Carole Woodhead (as she was then) in Hermes letter of 26 July 2017 I am authorised to make a similar offer in respect of parcel mislabelling. If any Hermes courier past or present who is providing their account to the Select Committees wants to raise (or indeed re-raise) questions of mislabelling of parcels I would be glad to arrange for the Service Providers Complaints Panel to examine their concerns, or look afresh at them. I am authorised to provide the Select Committee Chairs with an assurance that if any courier wished to raise any such issue they would not be subject to any retaliatory action.

It should be noted that following Ms Woodhead’s letter to the Chair of the Work and Pensions Committee in July offering to arrange for the resolution of any courier’s outstanding grievance or grievances, no such request from any courier has been received.

With regard to the responsibilities of Hermes’ clients these are set out in the Services Agreement executed between the two parties. All of Hermes’ Services Agreements with its clients provide for a responsibility on clients to accurately pre-advise Hermes of the weights and dimensions of parcels when they are provided to Hermes for delivery. In the event that either a courier or Hermes has reason to believe that there has been a breach of these contractual provisions a macro level audit of the clients’ parcels would be undertaken as set out in section 1 of this letter. Where Hermes has a situation in which a client is repeatedly found to be in breach of contractual weighing and measuring requirements Hermes reserves all of its rights in law, including termination of the Services Agreement with that client.

3. Set out the processes Hermes has in place to monitor the accurate labelling of packets and parcels by each (a) client, (b) depot operator, and (c) Hermes manager as appropriate

See answers given to questions 1 and 2 above.

4. Provide examples of action Hermes has taken when the labelling standards of clients, depot operators or Hermes managers has fallen short of expectations

Hermes takes decisive steps when it discovers that, for whatever reason, a client is found to be mislabelling parcels. We give 4 examples of such steps below:

Client A
Client A was previously accurate in the labelling of parcels, but an IT change caused them to start mislabelling as they had begun declaring by number of kilograms rather than grams. This was identified in a routine audit and was immediately corrected by the client.

Client B

Client B had always previously been accurate but suddenly began mislabelling as they were enclosing promotional brochures without adding this weight to their calculations. At first the client B found it hard to believe that there was an issue so we invited them to the hub where we opened up some packages together, discovering the cause. Client B immediately corrected the labelling of the relevant parcels.

Client C

Client C was found to be mislabelling and due to process/system constraints they were struggling to take effective corrective action. We gave them an ultimatum date then, when this passed without the required improvement, we revoked their packet rate and we are now paying the couriers the parcel rate on all of their volume.

Client D

An audit was carried out earlier in the year to investigate courier complaints around oversized parcels Client D. The audit findings substantiated this and the data was sent to the client who corrected their systems for the offending items. A further audit in September found that out of 2,500 parcels only three were incorrect. Further audits are planned to capture a wider product range.

Hermes keeps this issue under continual review. As a case in point, please see below the text of a ‘Packet and Parcel communication’ sent to all Hermes couriers in November 2016:

RE: Packet / Parcel bandings

Dear Courier

I said I would try to provide some clarity around some queries on packet/parcel bandings to reassure you that we are taking this seriously. Based on feedback from the Courier Forum and the Helpdesk the main queries / issues reported are inaccuracy in declared parcel types and the overall percentage of packets based on the current rules.

Firstly I think it is important to explain that Hermes only pays couriers the packet price when this is what we receive from the client. Over the past few years the Packet market has become very competitive and this is driving down the price clients/customers are willing to pay for packet deliveries. Therefore it is vital that we ensure our packet rules remain competitive.

As you are aware our clients have various different agreements in place which allow them and us to operate competitively in the marketplace. The key points are:

- Where clients cannot identify packets or they have no agreement in place, we process all their traffic as parcels.
- The 1.3kgs packet limit overrides all client agreements.
- Couriers have a process in place to report packets over this limit and are entitled to receive a band change to ensure pay is fair.

**Short term actions**

a) Clients agreements

Our analysis shows:

- 98% of your packet volume is under 1.3kgs.
- 2% of your packet volume is over 1.3kgs.
- Meanwhile between 10-15% of the parcel volume you receive is actually under 1.3kgs, but is paid as a parcel and not a packet.
- In addition myHermes C2C is different; you will be paid packets for small items under 2kg only, but paid as a parcel for all medium items (even if under 1.3kg). Of the 2% of packets that are over 1.3kg we have identified that over half comes from 4 key clients. We have addressed this and the good news so far is:
  - In Period 9 we have seen a 5% reduction in packets across these clients
  - Approximately 20,000 fewer packets compared to the last week of Period 8

b) Non-compliant clients

There are unfortunately some clients which for one reason or another label parcels as a packet. To help Hermes and your business we have implemented a Revenue Protection team to investigate and work with clients to correct these mistakes. They will continue with their audits, directed by your feedback on the Forum/Helpdesk to ensure we are focusing our efforts in the right places. Remember we have a common interest here as neither Hermes or the courier gets paid correctly for these items.

**Mid term actions**

I fully understand that packet growth is not ideal for couriers and I think we would all prefer to grow parcels instead. However, all growth is important as it provides us all with many more business opportunities. It creates more efficient rounds with better volume and allows us all to grow services such as, HSIG, ETA and Collections.

Market conditions mean that packets are currently growing quicker than parcels. It is therefore important to me that we address this where we can to ensure that you, the courier, feel you get paid fairly based on the different sizes and effort taken to deliver that item.

To do this I will be launching a project early next year to fully review our data, systems, packet/parcel agreements and dimensions going forward to ensure these are fair and to allow both Hermes and your business to grow.
I wish you all the best over the coming weeks and would like to thank you again for all your hard work and commitment. Hopefully you will feel the results of the short-term initiatives we are working on and I look forward to updating you further on the longer-term project.

As always please do not hesitate to feedback, but rest assured I am committed to listening and acting on your concerns.

Kind Regards

Carl Lyon

Head of Delivery and Ops Development

In May 2017, a further Parcel and Packet Communication was sent to couriers. It is reproduced below:
Packet and Parcel banding communication – May 2017

Dear Courier,

In November, I advised that I would be launching a project to fully review our data, systems, packet/parcel agreements and dimensions to ensure these are fair. By now you should have seen the postcard letting you know about the launch of our Delivery Transformation project which will seek to address these issues. However regarding the specific issues around packet identification and accuracy, which effect both Hermes and Couriers, we have continued to focus on the inaccuracies so I wanted to give an update on what we have been doing in the meantime.

In my last update I was able to announce that 4 key clients had been identified via the Forum and Helpdesk and that our Revenue Protection team had worked with the clients to improve accuracy. We have continued this work and are happy to confirm that these clients saw a 9% reduction in packets being manifested to couriers from Period 9 – Period 12 of 2016.

Further to the above we have also worked with and agreed that [REDACTED] will send all items as Band 2 standard parcels. This decision has not been taken lightly as accurate weights and measurements for all items is in the interest of all parties, however both ourselves and the client felt this was the best approach in the short term to ensure couriers are compensated fairly. Previously this client had been sending through 80% packets, however, 100% of items will now be sent through as Band 2 standard parcels. We expect the changes to be fully implemented by mid-May and therefore from 27th May the Helpdesk will not be able to process upgrades for [REDACTED]

We have also worked closely with [REDACTED] and identified that a percentage of their volume coming from Groupon was being inaccurately weighed. We have therefore agreed that these items will be sent through as Band 2 standard parcels. As a result you will now see a significant reduction in packets of over 30% against

This means a significant reduction in packet volumes for these clients and an overall increase in courier pay. Items above the courier network limits of 17KG, 155CM length or 265CM overall dimensions should still be sent through our Light and Large network.

For all other clients (including [REDACTED]), the process remains in place for couriers to report items over the band limits and are entitled to receive a band change to ensure pay is fair. We are working on adding a band change template onto Couriers Online as an additional way for couriers to contact the Helpdesk for band changes.

We are of course continuing to work with our other clients and also our myHermes teams to monitor and improve packet accuracy. Our Revenue Protection team audits all clients at least twice a year. These audits as well as your feedback from the forum and Courier Helpdesk are used to identify the key clients that need our attention and focus. However, please remember this must be done on a client by client basis and so results will not always be as quick as either Hermes or Couriers would like.

Hopefully you will feel the results of the work done so far and I am committed to listening and acting on your concerns.

Carl Lyon
Director of Delivery Experience
5. **Set out how many calls Hermes’ dedicated courier support team has received in the last year regarding items labelling the wrong weight category, and how many payments were changed as a result**

In the last 12 months, Hermes received 298,709 calls into the Courier Helpdesk. Of these calls 36% related to mislabelling. In the same period Hermes has made 85,930 balancing payment totalling £51,988.99 across all clients.

6. **Describe what facilities are available to couriers to check that items are correctly labelled**

Information on parcel weight bands/dimensions are published on Couriers Online, a forum provided by Hermes for the benefit of couriers, including an anonymous and lightly moderated discussion space where couriers can share their concerns and experiences.

As explained previously as self employed service providers couriers provide their own facilities to check labelling. While there may be a small number of exceptions to this rule Hermes does not install parcel scales in the approximately 500 Sub Depots from which couriers collect parcels.

In circumstances where a courier has reason to believe that a parcel is mislabelled the courier will provide the barcode, weight and dimensions to the Courier Helpdesk. The Courier Helpdesk will check the weight and dimensions to ascertain the band the parcel should be.

The Courier Helpdesk will then check to see what band the parcel was manifested as. In the event of a discrepancy being identified a rate upgrade is made in favour of the courier.

In the event that a courier raises concerns with Hermes about mislabelling, response and rectification is undertaken on a “no questions asked” basis. Hermes couriers are not required to physically return mislabelled parcels to the originating Sub Depot. Rather, subject to the control mechanisms set out in our response to question 7 below, we prefer to trust the honesty of our couriers, many of whom we have long standing relationships with. One third of our couriers have provided services to us for 5 years or more and 12% for more than a decade.

7. **Explain what procedures, if any, Hermes has in place to ensure that the “no questions asked” approach to changing payments to couriers is not misused by couriers.**

Hermes might respond to a courier reporting a statistically significant numbers of band change requests by having all their parcels weighed and measured by the depot. If the courier in question then requests an improper band change an investigation would be undertaken to determine whether this mistake was made in good faith or as part of a systemic process of attempting to improperly receive a higher parcel rate.

In the event that bad faith were to be established we would refer you to pages 4 and 5 of Hermes’ letter to Rt Hon Frank Field MP in which we set out in detail the circumstances in which Hermes might terminate its relationship with a courier and the fair and impartial procedure governing the operation of this process.

As might be expected Hermes identifies couriers with statistically unusually numbers of mislabelling claims. In order to identify the relevant issues in such cases their claims would
be processed though their Field Manager rather than through the Courier Helpdesk as would be case for the vast majority of couriers who only rarely if ever have cause to raise mislabelling concerns.

Conclusions

We hope that the detail provided above and in enclosure evidences the seriousness with which we have taken the questions raised by the Select Committee Chairs. Hermes takes very seriously its responsibilities to its couriers. We believe that we have in place stringent processes to ensure that neither Hermes nor its couriers is disadvantaged by mislabelling of parcels by its clients.

Having recently opened our new £31m Super Hub in Rugby, we would be glad to receive members of either or both Select Committees for a visit. It would be a pleasure to show in detail life how our business works on a day to day basis and how parcels are received, sorted and trunked to our 26 Depots around the country.

Yours sincerely

Hugo Martin
Director of Legal and Public Affairs

cc Carole Walker
Dominick Moxon-Tritsch
Andrea Jenkyns MP

Enclosures Hermes Code of Conduct
Hermes letter to Rt Hon Frank Field MP of 26 July 2017