

28 July 2004

Ms Margaret Arblaster
General Manager – Transport and Prices Oversight
Australian Competition and Consumer Commission
Level 35 / 360 Elizabeth St
MELBOURNE VIC 3000

Dear Ms Arblaster

Draft Notification of Introduction of a new service – Impact Mail.

The purpose of this letter is to provide a draft notification to the ACCC of the proposed introduction of a new reserved letter service (Impact Mail) in accordance with the Prices Surveillance Act 1983.

Impact Mail is a new service that Post is proposing to introduce for the carriage of non-rectangular letters. The current terms and conditions for Australia Post's letter services (eg. PreSort, Clean Mail, Ordinary, etc.) require all letters to be rectangular in shape.

The prices in this notification are proposed to take effect from 4 October 2004.

The prices proposed by Post are provided in Attachment 1 and a detailed explanation is included in Attachment 2.

Impact Mail is niche product that will be targeted at those advertisers who desire an increased level of creativity for a particular promotion. It is not expected (at least initially) to generate significant letter volumes/revenues. It is, however, viewed as an important part of Post's strategic push to promote mail as a marketing medium. In this sense, Impact Mail provides Post's customers with the capability to mail "odd shaped" items that we currently don't accept.

Post wishes to assist the ACCC in its consideration of this draft notification and to promptly resolve any issues that may arise.

Please do not hesitate to contact me to discuss any issue regarding this draft notification.

Yours sincerely

Gary Lee
Group Manager Letters

Details of Proposed Prices (Prices include GST)

Size/Category	Proposed Prices	
	Same State	Other State
Small Size ⁽¹⁾		
• Postcode Area Tray ⁽²⁾	\$0.55	\$0.56
• Area Tray ⁽³⁾	\$0.59	\$0.60
• Residue ⁽⁴⁾	\$0.66	\$0.67
Small Plus Size ⁽⁵⁾		
• Postcode Area Tray ⁽²⁾	\$0.80	\$0.81
• Area Tray ⁽³⁾	\$0.85	\$0.86
• Residue ⁽⁴⁾	\$0.95	\$0.96

Notes:

- 1 “Small” refers to Impact Mail letters that comply with the size criteria described in Attachment 2.
- 2 Postcode Area Tray is a tray of at least 200 Impact Mail letters of the one size category all addressed to the one postcode.
- 3 Area Tray is a tray of at least 200 Impact Mail letters of the one size category that are presented in trays in ascending postcode sequence and are all addressed to a group of Postcodes as defined by the Impact Mail Sort Plan.
- 4 Residue are those Impact Mail items that have not been presented in accordance with the requirements of the Postcode Area Tray or Area Tray. Residue items must be presented in trays in ascending postcode sequence. Where there are more than 1,000 items presented as Residue, the articles must be separated by State and Territory and presented in accordance with Australia Post’s requirements.
- 5 “Small Plus” refers to Impact Mail letters that comply with the size criteria described in Attachment 2.



Draft Notification of New Letter
Service.
– Impact Mail –

Detailed Explanation

28th July 2004

Reasons For Introduction

1. Introduction

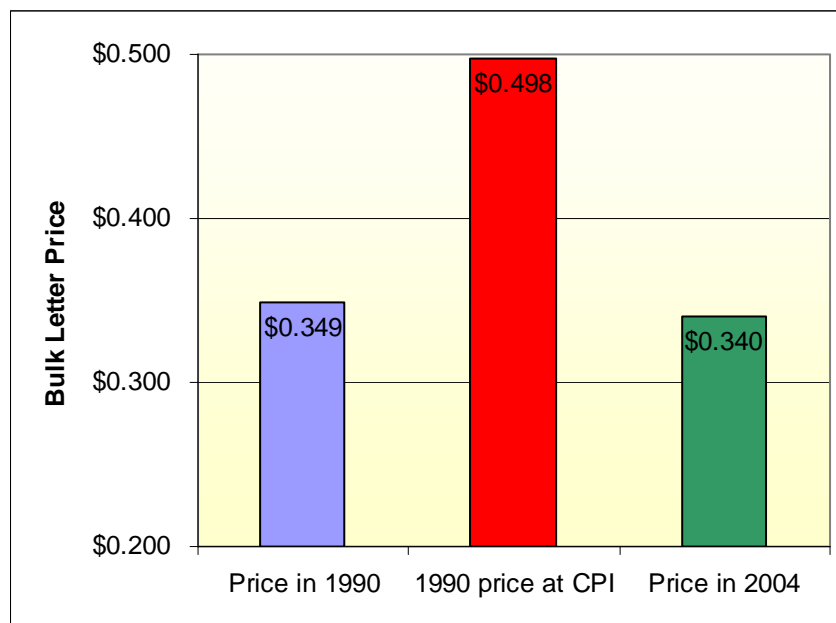
This attachment provides a detailed explanation of the reasons for the proposed introduction of Impact Mail at the prices set out in Attachment 1.

Proposed prices for reserved letters are notifiable to the Australian Competition and Consumer Commission (ACCC) under section 22 of the Prices Surveillance Act 1983 (PS Act). Letter services reserved to Post under Division 2 of Part 3 of the Australian Postal Corporation Act 1989 (APC Act) are declared services under section 21 of the PS Act.

This notification is in relation to proposed prices for Small and Small Plus sized items carried under Impact Mail (a new service) that are proposed to apply from 4 October 2004.

As with Posts in other developed countries, Post has pursued a strategy that encourages senders to produce high quality machineable letters. The key requirement for a machineable letter is that it is rectangular in shape.

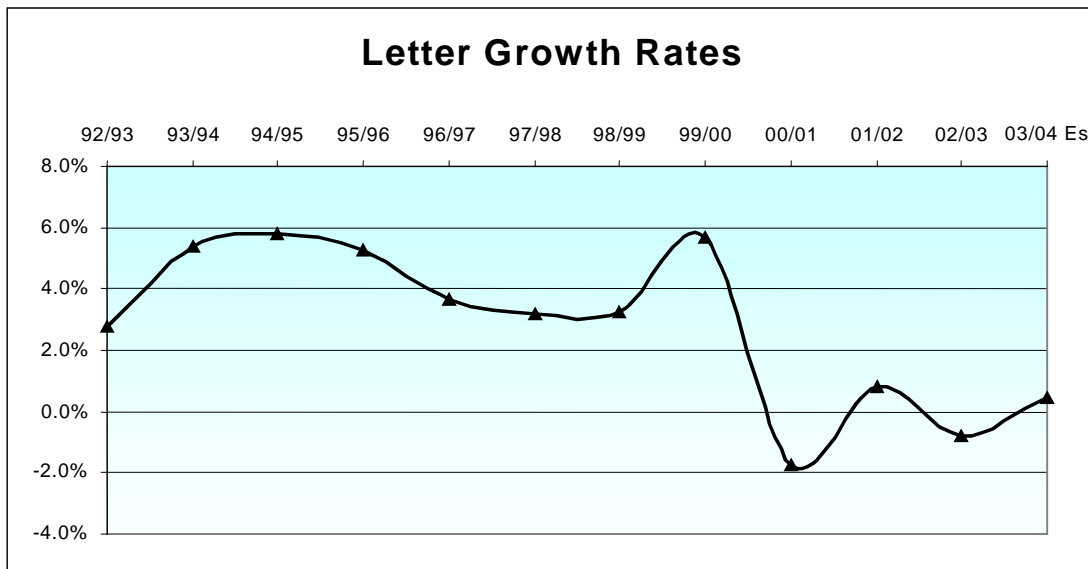
This strategy has provided a basis for strong productivity gains, increased asset utilisation and has enabled Post to keep bulk letter prices at their 1990's level.



Note: Bulk Letter price is:

- In 1990, Small Letter, Postcode Direct Bag, Regular Delivery,
- 1990 price increased by CPI
- In 2004, Small Letter, Barcode Direct Tray, Same State, Regular Delivery (GST Exclusive)

While this strategy has been successful, Posts are now facing a challenge to maintain or grow their volumes in face of pressure from substitutive technologies (eg. e-mail, Internet, et al). The following graph illustrates flat reserved letter volume growth since 2000.



The impact of substitution is predominantly directed towards transactional mail (over 80% of volumes)(mailings by businesses and private consumers that include accounts, statements, cheques, receipts, orders and other general correspondence that arise from transactions between consumers and suppliers). Promotional mail is not expected to be adversely impacted by substitution, but instead is widely recognised as an opportunity for volume growth.

To maximise the opportunity for growth in promotional mail, Post must adopt strategies and initiatives that support and grow promotional mail; which has historically competed against other media for a share in advertising spend.

While Post's current letter services provide an efficient and low cost solution, they do not fully meet the needs of Advertisers (promotional mailers) whose greater demand for flexibility and creativity in a mail piece design may result in a non-rectangular item.

Impact Mail is intended to satisfy this requirement by permitting non-rectangular shapes (eg. circles, stars, triangles etc.).

The price structure for Impact Mail is set above those that apply for rectangular mail pieces, but provide for discounts when items are presorted to bypass manual processing steps.

The United States Postal Service (USPS) introduced a service similar to Impact Mail ("Customised Letter Service") in May 2003, which permitted the lodgement of unique and irregular shaped articles for delivery through their letter network.

2. Summary of Proposal

2.1 Product Overview

Introduction

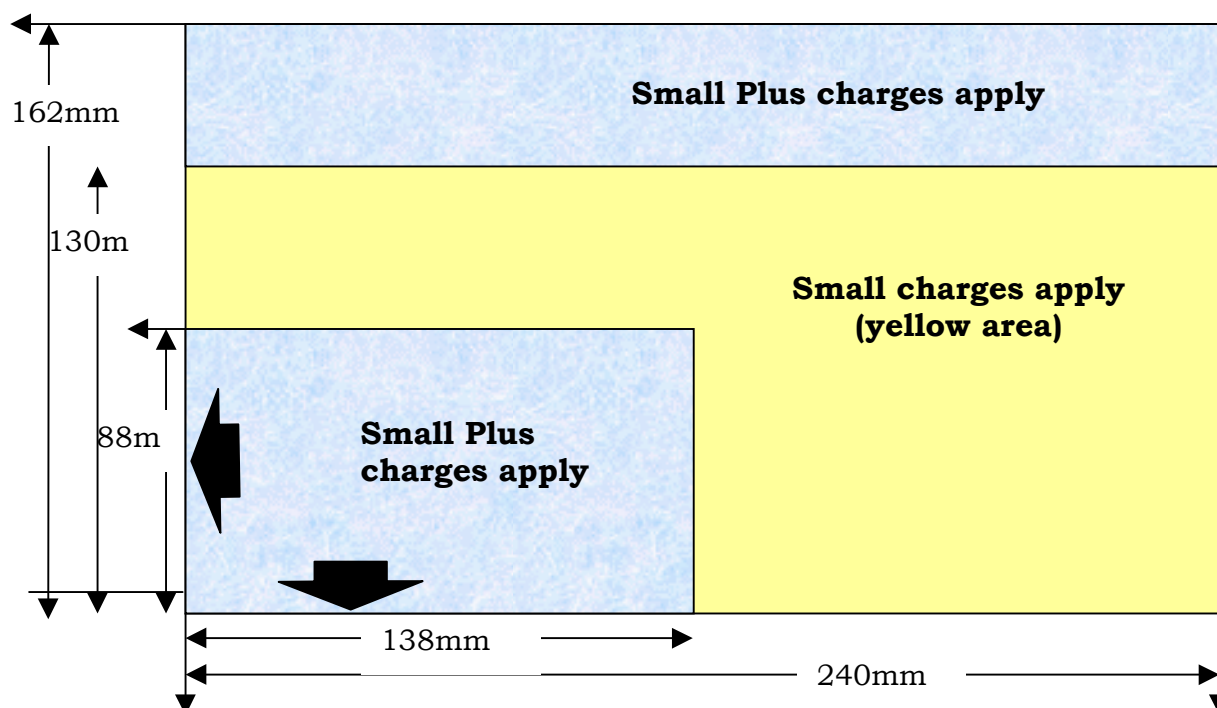
Impact Mail has been developed to provided advertisers with an increased level of creativity in mail piece design. Impact Mail items can be sent with or without an envelope; allowing the advertiser to push their creative limits and deliver a unique marketing communication to attract customer attention and improve response rates.

Product Description

Impact Mail will be offered in two size categories; Small and Small Plus.

- Small sized items must be:
 - No larger than 130mm x 240mm
 - No smaller than 88mm x 138mm
 - No thicker than 5mm
 - No heavier than 125 grams
- Small Plus sized items must be:
 - No larger than 162mm x 240mm
 - No thicker than 5mm
 - No heavier than 125 grams
 - Not Small size

The size of the item will be determined by placing the item in a “box” with the item touching the bottom and left hand side of the “box”. The size limits are detailed in the following picture (note, not to scale):



These sizes are based on the existing Small and Small Plus size categories that apply to the PreSort and Clean Mail letter services.

Key Product Features

The key product features for Impact Mail are:

- Virtually no restriction on shape or content;
- Items are not required to be enveloped;
- Lower prices provided for presorting
- Items are delivered with other addressed mail: the odd shaped dimensions of an Impact Mail item will facilitate the mail piece to stand out.

Delivery Standards

Impact Mail will offer a delivery standard consistent with road transport. This will result in Impact Mail having the same delivery standard as Print Post.

Minimum Lodgement Quantities

The minimum lodgement quantity required to access Impact Mail is 300 articles of the same size category. This is the same minimum that applies to PreSort and Clean Mail.

Other Criteria

- *Mandatory Inscriptions*

A Postage Paid Imprint (or postage meter impression) and a return address are the only mandatory inscriptions.

- *Lodgement*

Impact Mail items may be lodged at any Australia Post office where bulk mail lodgements are accepted. A mailing statement detailing customer details, the size and number of articles for each sort category and payment details (eg. charge account number).

- *Paper quality.*

Recommended requirements for minimum paper stock (if paper is used) are as follows:

- | | |
|---------------------------------|--------|
| - Density | 140gsm |
| - Thickness | 0.18mm |
| - Stiffness – machine direction | 30 mN |
| - Stiffness – cross direction | 14 mN |
| - Tearing resistance | 350 mN |

- *Design considerations*
 - Post recommends that consideration be given to the restrictions of a letterbox aperture
 - Items must not be made of material likely to cause injury to people, damage other postal articles or equipment. It is requested that items constructed of material other than card stock (paper) be submitted to Post for approval prior to lodgement.
 - The design of the shape should ensure that a suitable surface area is provided to affix redirection or return-to-sender stickers.

2.2 Prices

Details of all proposed prices and a comparison of the new and current prices are provided in **Attachment 1**.

A comparison between some Impact Mail Prices and other Letter prices for Small and Small Plus items are shown in Table 1 below.

Table 1 – Comparison With Other Letter Prices.

Size/Sort Category	Small	Small Plus
Impact Mail		
Postcode Area Tray (Same State)	55.0c	80.0c
Area Tray (Same State)	59.0c	85.0c
Residue (Same State)	66.0c	95.0c
Ordinary Letters *	50.0c	\$1.00
Clean Mail	45.0c	70.0c
PreSort Letters (Regular)		
Barcode Direct Tray (Same State)	37.4c	47.3c
Barcode Residue	42.4c	57.2c

Note: * Price shown for Ordinary Letter in the Small Plus column is for an Ordinary Large Letter (260 x360x20mm and 125g in weight)

The weighted average price is detailed in Table 2 below.

Table 2 – Average Price for Impact Mail.

	% by Volume	Average Price
Small	90%	57.9c
Small Plus	10%	83.7c

2.3 Estimated Volumes/Revenues

Estimated volumes and revenue for Impact Mail are shown in the Table 3.

Table 3 – Estimated Impact Mail Volumes – 2004/05 to 2006/07.

Year	Volume (m)	Revenue (\$m)
2004/05 (from Oct)	0.6m	\$0.3
2005/06	1.5m	\$0.8
2006/07	2.0m	\$1.1

These estimated volumes are based on some preliminary market research on the market potential of Impact Mail. Overall, the volumes are not significant and will account for around 0.2% to 0.3% of total estimated promotional mail volumes over the same period.

While in the context of Post's total letters business the additional revenue generated by Impact Mail is fairly minor (less than 0.1%), Impact Mail's introduction is viewed as an important part of Post's Mail Marketing Strategy by providing the capability to deliver virtually any promotional mail message. In this context its introduction is expected to also have a positive impact on promotional mail demand.

2.4 Customer Impact of Price Changes

As non-rectangular items are currently not accepted under Australia Post's letter service there is no comparison in price. However, where a non-rectangular item has been carried by Post, the Ordinary Large Letter prices (eg. \$1.00) has been used as a proxy; in this context Impact Mail prices provide a lower price.

2.5 Consultation

Australia Post has undertaken stakeholder consultation in relation to the introduction of Impact Mail.

Consultations were undertaken with both the Major Mail Users of Australia (MMUA) and the Australian Direct Marketing Association (ADMA) in accordance with agreed consultation protocols. Additionally, a briefing was also provided to the Printing Industry Association of Australia.

To commence the consultations a briefing paper of the proposed changes was provided to the MMUA and ADMA in June 2004. This was followed with open discussions in a forum to clarify and discuss any issues that were identified.

Both the MMUA and ADMA have provided support for the changes.

A copy of the responses from MMUA and ADMA will be forwarded separately.

2.6 Comparison with USPS “Customized Market Mail”

The USPS launched Customized Market Mail (CMM) in 2003. In the first three months, the USPS estimate that between 0.5m to 1.0m items had been lodged. This represents around 0.004% of total mail volumes. Some testimonials from users of CMM are shown in Attachment 3.

The following table provides an indication of the price relativity between Impact Mail and the USPS’ “Customized Market Mail”

Service/ Category	Australia Post		USPS	
	Price (A\$)	% Surcharge for Impact Mail	Price (US\$)	% Surcharge for Impact Mail
Impact Mail (2)	\$0.550	NA	\$0.574 ⁽¹⁾	NA
Basic Postage Rate	\$0.500	10%	\$0.370	55%
Bulk Rate	\$0.374c ⁽³⁾ NA	47% NA%	\$0.275 ⁽⁴⁾ \$0.139 ⁽⁵⁾	109% 313%

Note:

- 1 The USPS require CMM to be lodged at the “Destination Delivery Unit” (which is a facility close to the final destination of delivery). To reach this destination the mailer will use their own transport or the USPS’s first class or express mail services. In addition to postage and any transportation costs, the mailer also needs to pay an annual fee of US\$150.
- 2 Impact Mail price shown for Australia is for a small item. In the USPS CMM items can be up to 305mm high and 381mm long.
- 3 Price is for Small Letter, PreSort Regular, Barcode Direct Tray, Same State.
- 4 Price is for 1st class Bulk Mail, for Carrier Route up to 1oz (28g).
- 5 Price is for Regular Standard Mail, Enhanced Carrier Route, Automation Basic weighing less than 3.3oz (94g) and lodged at the Destination Delivery Unit. Content requirements apply to Standard Mail.

3. Regulatory Approach

PS Act Requirements

In assessing a notification of proposed prices submitted under section 22 of the PS Act, the ACCC is to apply the criteria set out in section 17(3) of the Act. Those criteria relate to:

- the need to maintain investment and employment;
- the need to discourage persons in positions of market power from taking advantage of that power in setting prices; and
- the need discourage cost increases arising from wage increases.

In interpreting those provisions, the ACCC directs its attention to:

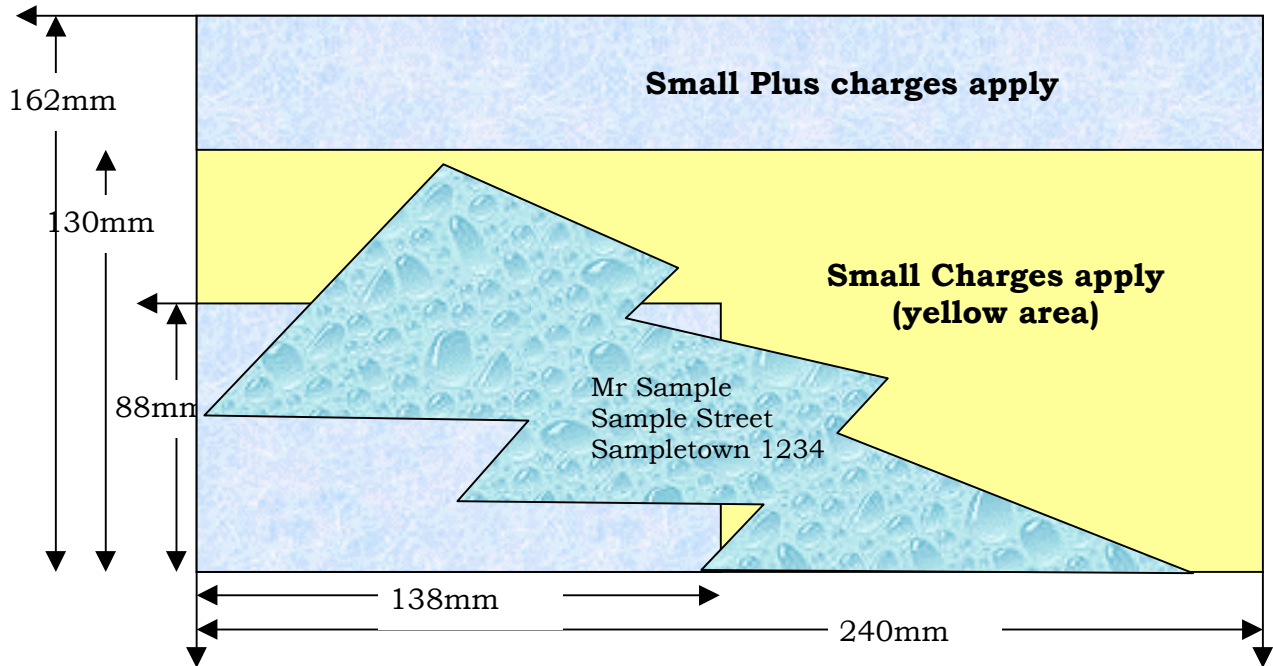
- the efficiency of the cost base that the declared company is working from to earn a return; and
- the reasonableness of the rate of return that the declared company is seeking.

These interpretative rules are from the ACCC's Draft Statement of Regulatory Approach to Price Notifications.

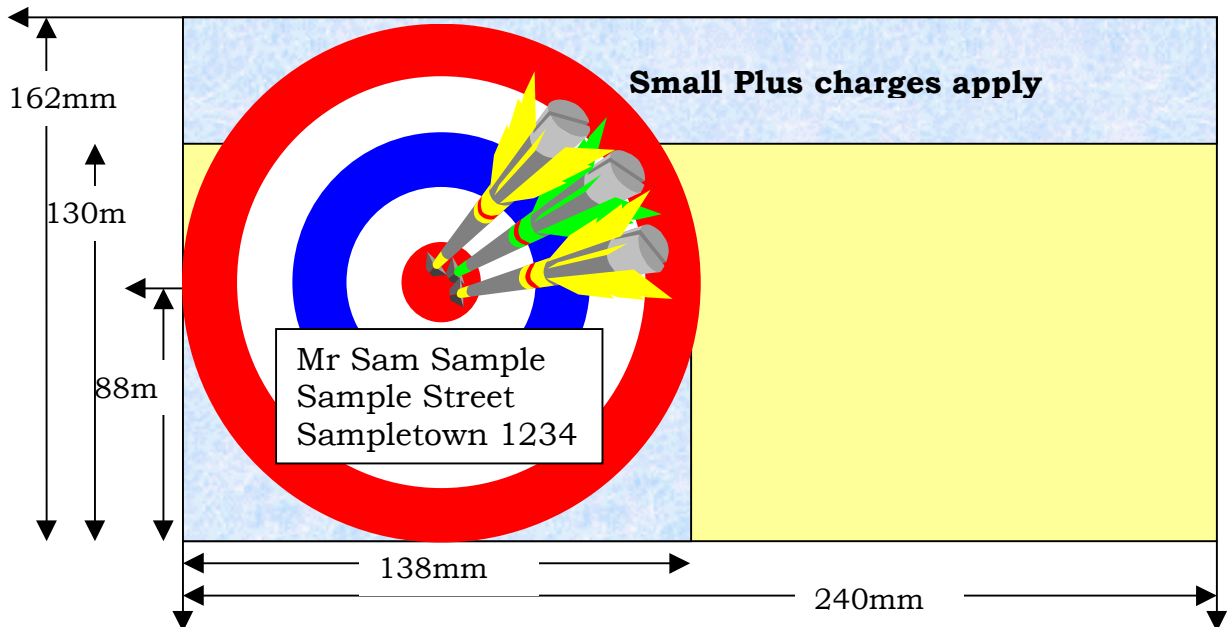
As noted in section 2.3 above, as the revenue impact from the introduction of Impact Mail is minimal, it is unlikely to result in a material variation to Post's rate of return.

4. Examples of Impact Mail Items and Objectives of Service

4.1 Small Size



- **Small Plus Size Item**



5. Communication Plan

5.1 Timetable

Action Point	Estimated Timings
ACCC release of Preliminary View	Late August 2004
Post lodges formal notification	September 2004
ACCC final decision on formal notification	End Sept 2004
Launch of Impact Mail. Including promotional campaign.	4 October 2004

5.2 Target Market

Upon finalisation of the ACCC process, Post will undertake a promotional and communication campaign to key target audiences

The key target audiences and the main objectives of the communication are as follows:

- DM Users:
 - Large DM generators and large advertisers,
 - To generate awareness of the product and encourage them to identify possibilities for their product/services.
- Key Influencers:
 - Advertising Agencies,
 - Desire to promote and integrate the product into client's creative strategy.
 - Printers/Die-cutters,
 - Desire to promote/sell the product: encourage involvement in developing cost effective solutions (ie. offer pre-fabricated dies for free/leased use).
 - Mail houses,
 - Understand how the service will assist to increase/maintain volumes. Comprehension of the preparation and lodgement requirements.

The overall objectives of the campaign are to:

- Generate 50% brand awareness and comprehension amongst the target audience of Influencers by the end of the campaign period.
- Obtain a product trial by 5 – 10% of targeted agencies and 3 - 5% of targeted generators.

6. Concluding Comment

The proposed introduction of Impact Mail is to:

- Provide greater flexibility to Advertisers;
- Promote and encourage innovative mail piece design; and
- Enhance the value of paper based communications

Following are some testimonials from USPS customers on the use of Customized MarketMail™

The Krispy Kreme Doughnut Company

On August 10th, 2003, Great Circle Family Foods, a Krispy Kreme Doughnut Company franchisee in the Los Angeles area, conducted a 10,000 piece Customized MarketMail test mailing in Orange County, CA. The test mailing achieved an 11% response rate. The pieces were sent to prospective customers living within 3 miles of 3 Krispy Kreme retail outlets. The front of the Krispy Kreme Customized MarketMail mail piece consisted of a replica of a dozen of the company's famous Original Glazed doughnuts, while the back of the mail piece contained a special "Give us Ten. We'll Give You Twelve" offer, which provided customers with a second dozen Original Glazed doughnuts for 10 cents at designated Krispy Kreme retail outlets. The mailing achieved significantly higher response and coupon redemption rates than Great Circle Family Foods has achieved in the past. "When we send a typical direct mail piece to an unsolicited party, we generally get a response rate of 2 to 3 percent," said Lisa Ducore, Vice President of Marketing for Great Circle Family Foods. "For a mailing to prospective Krispy Kreme customers, this was an extremely successful campaign. The unique look and shape of this mailing definitely caught the attention of prospective customers." According to Great Circle Family Foods Marketing Manager Amy Inabinet, "This was a fun, new offer that we hadn't done before. We believe that the irregular shape of the Krispy Kreme Customized MarketMail direct mail piece, coupled with the high quality image of our Original Glazed doughnuts, made for very excited customers and employees, and led to the very high response rates that we witnessed with this test mailing."

Rosenfield Raymon Pielech PC

On October 21, 2003, Rosenfield Raymon Pielech, a public accounting firm based in New Bedford, MA, conducted a 1,010 piece business-to-business Customized MarketMail test mailing in southeast Massachusetts. The test mailing achieved a 20% response rate. The pieces, which were sent as part of a four-stage customer acquisition mailing, were sent to prospective clients in the region with annual revenues ranging from \$1-20 Million. Rather than mail a flashy 4-color piece, Rosenfield Raymon Pielech decided to test a simple black and white monochrome mailpiece in the shape of a circle. The mailpiece lacked graphics and images, and text was limited to the firm's name, the names of the firm's partners, and contact information for prospective clients to contact for further information on Rosenfield Raymon Pielech's services. The Customized MarketMail test generated approximately 200 requests by companies for meetings with Rosenfield Raymon Pielech. According to Erik Dorsey, Director of Marketing at Rosenfield Raymon Pielech, the campaign has "generated leads so quickly that the firm has had to schedule meetings two to three weeks in advance to meet customer demand. This is our best direct mail campaign ever. We credit the Postal Service's Customized MarketMail offering with providing us with the ability to break through the clutter and get our message across to prospective clients." Rosenfield Raymon Pielech spent approximately \$.80 per piece, including postage, for a total cost of approximately \$1,500. To date the firm has booked new business with eight clients, which is likely to result in nearly \$120,000 in new business. According to Mr. Dorsey "As a small firm, you are always looking for innovative ways to generate business on a shoe string marketing budget. We have been pleasantly shocked by the impressive results we have achieved to date, and look forward to increasing the size of our future Customized MarketMail client acquisition campaigns."

ShipShapes

Starting on October 2, 2003, ShipShapes™ of Park Forest, Illinois, conducted a 46,527 piece business-to-business Customized MarketMail test mailing throughout the United States. The test achieved a 4.85% response rate. ShipShapes is a manufacturer of Customized MarketMail pieces, and decided to utilize Customized MarketMail to highlight their Customized MarketMail capabilities to prospective customers. The pieces were sent as part of a three-flight customer acquisition mailing. ShipShapes pieces were constructed of durable 4-color plastic that does not crease when flexed into the mailbox. The test consisted of three different designs, with each campaign recipient receiving one of each piece over the course of several weeks. The provocative mail pieces were cut outs of several images from renowned photographer Lois Greenfields' "Breaking Bounds" portfolio. The pieces had the tag lines "Bare your imagination", "If you've got it, flaunt it" and "Don't cover your concepts, let the whole world see what you've got." The Customized MarketMail test generated approximately 2,250 requests by companies for additional information on ShipShapes' Customized MarketMail offerings. According to Tom Becker, President & CEO of ShipShapes, the test mailing "Created immense buzz for our Customized MarketMail capabilities. Our mailing helped to highlight to our targeted audience the main benefit of Customized MarketMail: the ability to design and mail high impact shapes and images of a company's products, services or brand to their customers without the need for an envelope." As a result of this test, ShipShapes is expecting to book a significant amount of new business with leading advertisers over the next year. According to Mr. Becker "Mail boxes are full of competing offers from marketers. Our mailing helps to prove what should be intuitive to direct marketers; namely, that irregularly shaped Customized MarketMail pieces can help to ensure your "out of the envelope" offer is read and acted upon first by your targeted customers."

Direct Marketing Association

"Customized MarketMail (CMM) is a really exciting new development in an industry that welcomes innovation...The consumer is interested in new creative applications of mail, and the industry is going to welcome this new technique. There is no doubt that CMM is the shape of things to come."

--Bob Weitzen, President & CEO