

major mail users

SUBMISSION
IN RESPONSE TO THE
ACCC ISSUES PAPER
of February 2008

**Australia Post's
Draft Notification
POSTAL PRICING INCREASES**

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Ms Margaret Arblaster
General manager – Transport and Prices Oversight
Australian Competition and Consumer Commission
GPO Box 520
MELBOURNE VIC 3001

Dear Ms Arblaster:

Introductory remarks

As our name implies, members of Major Mail Users of Australia Limited (MMUA) are companies who are large volume users of Australia Post's (AP) network services and, as well, companies who are suppliers of goods and services to the Australian Mail Industry as a whole.

As such our members are focussed, for the purpose of this matter, on the Bulk PreSort Mail product and not upon the Domestic Letter product.

Because the discounting of Bulk PreSort Mail is based on work done from the database through to actual lodgement by the user, thus providing a product that can be dropped directly from the tray into the conveyor belt of the AP mail centres without further ado, our members are acutely conscious of the mail's processing elements and are uniquely placed to comment on the claim made by AP that future productivity gains are limited and therefore a price increase should be approved.

Over the past 5-years our Mailing House members in particular have worked with AP to develop an accreditation program – the Bulk Mail Partner Program (BMP) – which has produced extensive productivity gains in the lodgement, processing and delivery areas of the Bulk PreSort Mail product.

Before that we worked extensively with them on the Barcode Project which preceded the 2002 postage price increase application.

We believe that there are still (insofar as Bulk PreSort Mail is concerned) unrealised productivity gains to be had from the Barcode Project that led up to the 2002 price increase in the Domestic Letter product and, additionally, there have been proposals put to AP by MMUA for improvements in the BMP processes that will provide excellent productivity gains over the next four or five years.

Until both of those elements are implemented there should be no increase in the price of the Bulk PreSort Mail product nor in such associated products as Charity Mail and Offset Mail that, for preparatory, lodgement and processing purposes, are the same as Bulk PreSort Mail itself.

The real economic cost of an increase in the Bulk PreSort Mail postage price is not simply a larger postage account within a customer company but the compounding effect of driving [paper-based] mail users into

e.alternative means of non-paper communication with the cascading economic impact on a variety of industries that that will have.

Membership of Major Mail Users of Australia Limited

There are four basic sub-groups within our membership ranks with an interest in Australia Post's proposed Bulk PreSort Letter pricing increases, viz:

- Generators of mail;
- "Accredited" or Bulk Mail Partner (BMP) Program Mailing Houses (BMP-MH) that take either a finished mail product and/or the raw data from the Generator, run it through a series of sophisticated, technology-driven processes, follow procedures set down by AP for the BMP Program (with particular emphasis on the so-called PIP or Process Improvement Program element of the BMP accreditation process) and lodge it directly with AP;
- Mailing Houses that have opted not to take the formal "accreditation" pathway of BMP but nonetheless use the PIP program processes and, as for the BMP-MHs, take either a finished mail product and/or the raw data from the Generator, run it through a series of sophisticated, technology-driven processes, follow procedures set down by AP for the so-called PIP or Process Improvement Program and lodge it directly with AP;
- Supply Partners – eg, machinery manufacturers and/or suppliers, software developers and/or suppliers, paper and envelope suppliers – for whom any change in mailing matters (and particular postage pricing) have a flow-on effect on their respective business enterprises.

In our estimation, 80+ percent of the Bulk PreSort Letter product of AP is processed through our BMP-MH and non-BMP-MH members.

Advanced Network Integration and its "Real Time" Electronic PreLodgement Advice

As explained later in this document, mailing houses with accredited BMP status are obligated to:

- Provide forecast information assist with scheduling;
- Work with AP on balancing lodgements during the day;
- Co-operate with AP on continuous improvements

and in that respect our BMP MH members put proposals to Australia Post on 1 March 2007 for our proposed *Advanced Network Integration* (ANI) system – with its real-time *Electronic PreLodgement Advice* (ePLA) system allowing AP access to the MH's forward planning and actual production run information. ANI is available for very early introduction.

Those proposals have:

- not been discussed by AP with MMUA at an operation level (that is to say, by the two Divisions (Commercial and M&ND) stated by AP at page 39 of their Draft Notification as being responsible for operations) and
- instead have been shunted to one side by the *portcullis* divisions (Letters and Revenue Collection) in favour of AP's own Process Improvement Project Phase II

a project which is years from fruition and without any White Paper available (as was the case in the Barcode Project's developing years) to assist AP's customers in their future planning.

MMUA's ANI proposals of March 2007 (and the ePLA system which was already operative in Print Post at that time) are the business partnership opportunities for a further progression on the massive productivity gains achieved through the Barcode Program and the Bulk Mail Partner Program.

It is our contention that a price increase in the Bulk PreSort Mail product should not be considered until such time as either our own ANI/ePLA proposals are dealt with properly – at "operational interface" levels within AP – or those for AP's own PIP2 proposals are properly dealt with.

The consultative process with Australia Post

In the opinion of the members of our Working Party that dealt with these matters, AP paid lip service only to the processes set out in the 2001 AP-MMUA Consultative Protocol in marked contrast to the way AP had handled earlier AP-MMUA discussions (AdPost matter in 2001 and the Postal Price Increase matter in 2002).

Our Working Party members felt that that change of approach which included the deliberate delaying of release of the Meyrick and Diversified Specific reports until after the pre-arranged first meeting, showed that there was no sense on AP's part of a business partnership in the way that Australian business does business today, and they therefore decided that it was not worth the effort to continue with the process preferring to do their own work in preparation for this submission and further elaboration in due course as the opportunity presents itself.

Dealing with AP the monopoly is so much different to doing business in the normal Australia market setting!

Preparation of this submission

This submission has been prepared for and on behalf of the Major Mail Users of Australia Limited by the Postal Price Increase Working Party, a group of volunteer members from our Generators Chapter, our Mailing

House Chapter and our Supply Partners Chapter who stepped forward in answer to a general invitation extended to all members, to assist in meeting with AP, examine the Draft Notification and other documentation, including the ACCC's Issues Paper and attended meetings of the Working Group and assisted through their ListServe.

**FOR AND ON BEHALF OF
MAJOR MAIL USERS OF AUSTRALIA LIMITED**

John Gillroy
Chief executive officer

SECTION 1

BASIC POINTS IN THIS SUBMISSION

Since the mid-1990s, for a decade and a half, our members have worked assiduously with Australia Post to on projects such as the Barcode Project which lead up to the last price increase notification in 2001 and since that time, over the period of the Five Year Freeze, in the development of the Bulk Mail Partner Program (with its three pillars of Process Improvement Program, Customer Barcode Quality Assurance and Electronic Lodgement Management System).

No other organisation has within its membership ranks and councils the depth and breadth of knowledge and commercial experience at all levels of the day-to-day operations and their operational interface of the *database to mailbox* processes attached to Bulk PreSort Mail – that especially important creator of jobs, jobs, jobs.

No other organisation has worked in such depth and breadth of reviewing and improving the day-to-day operations and their interface between Generators of mail, Mailing House processors of mail product, Supply Partners of goods and services (such as paper, envelopes, data software, plant and equipment etc) and Australia Post as the monopoly deliverer of mail.

No other organisation has facilitated to the extent that we have amongst Bulk PreSort Mail Generators, Mailing Houses and Suppliers of allied goods and services the improvements in systems and product presentation – nor provided for such an extended period of time the many experts for Focus Groups, Working Groups and Workshops that have produced the productivity gains for Australia Post over the past decade-and-a-half as has Major Mail Users.

No other organisation knowing, as we do the intricacies of the production run, can categorically state, as we can, that there are still many more productivity gains for the taking – and cost-saving changes to be introduced – within the daily lodgement and processing of Bulk PreSort Mail: many have been presented to but not taken up by Australia Post.

It is on that basis therefore that **we are opposed** to any increase in the price for **Bulk PreSort Letters**: there are still many improvements and changes that can readily be made to save costs, increase productivity and improve the mail service of this nation but Australia Post's current organisational structures are preventing that from happening.

It is not enough, as some have done, to offer Australia Post a sympathy vote for a Bulk PreSort Mail price increase on the simplistic grounds that they have not had one since 1992.

So? Is the impact on its customers of marketplace efficiencies, the challenge of the e.technology, the societal and generational changes related to communication methodologies to be ignored and Australia's largest government business enterprise excused from all of that simply because "it's a long time since they got an increase"?

Is that the new criterion for Bulk PreSort Mail price setting?

In the price package that makes up a mailpiece why should the *postage* cost not be subjected to normal pressures of ensuring that all cost savings possible are taken into account?

- The printing industry should be so lucky!
- The trade union movement should be so lucky!
- Australia Post's customers – Generators and MHs alike – should be so lucky as to be able to get a price increase on a similar sympathy vote!
- Trade suppliers of goods and services should be so lucky to have the double gift of not only a monopoly on their goods but a compassion from their customers commensurate with the time between increases!

The fact is that our members have provided the means of massive cost-cutting and based on their commercial experience and knowledge of mail generation, production and processing they know that Australia Post can make yet further cost-savings in their monopoly-protected business but have chosen not to do so: AP should not be granted a price increase for the Bulk PreSort Mail product whilst the full potential of cost-savings remains to be realised.

On the other hand, **we have no objection to offer** to the proposed change of the **Domestic Mail** rate from 0.50 cents to 0.55 cents other than to say that a price increase in this area should not be seen as triggering an automatic flow-on to Bulk PreSort Mail pricing arrangements. Domestic Mail is neither our area of interest nor expertise and we hold to the view that this area of AP's monopoly mandate is one for government policy decision.

That opposition comes from the fact that during the period of the Five Year Freeze the development of the Process Improvement Program and the Bulk Mail Partner Program – a joint effort on the part of Australia Post and MMUA – there were many improvements – and productivity gains for Australia Post – in all areas of their mail lodgement, mail processing and mail delivery areas, none of which have been passed on to industry participants and no recognition of has been made by Australia Post in its Draft Notification.

There are still productivity gains to be made from, firstly, the Barcode Project (which lead into the 2001 Pricing Review) and, secondly, from the Bulk Mail Partner Program (which has been of benefit to Australia Post in reducing costs and increasing productivity) and until both are addressed

and implemented no price increase should be approved for Bulk PreSort Mail

We are opposed to any move to introduce an annual change of postage pricing and/or to take it out of the ACCC notification and review regime that currently exists.

Australia Post is not a customer-friendly organisation when it comes to dealing with suggestions for improvements through the use of modern technology, nor does it allow for discussion of such suggestions at “operational interface” level with the industry and, consequently, suggestions that have been made over the past 12-months have fallen on fallow ground.

We hold to our position of previous years that special pricing should be provided to encourage industries related to those that took advantage of the former AdPost product by the restitution of that category.

SECTION 2**ANSWERING THE ACCC'S POINTS OF ISSUE**

Definitions: at various points in the AP Draft Notification and in the ACCC Issues Paper there are references to "domestic reserved services" as distinct to the nomenclature which we, as consumers in the main of the Bulk PreSort reserved services use of (i) Domestic or Ordinary Mail meaning non-bulk presort and (ii) Bulk PreSort Mail. The expertise of our members lies in the latter and except for the understanding that the price of the basic postage rate (BPR) is used as the commencement point for the discounts available for Bulk PreSort Mail we have no comments to make concerning the pricing of that BPR *per se*, our focus being upon the Bulk PreSort Mail, its pricing structures and all matters pertaining thereto.

1. DURATION OF AUSTRALIA POST'S PRICING PROPOSAL

Box at page 7

We are opposed to any proposal that Reserved Services pricing changes should be outside of the processes of ACCC-related review that apply today.

There surely has to be special conditions applying to any monopoly to prevent it from imposing price increases without the implied minute scrutiny and public debate that is attached to those of the postal monopoly today.

AP has reverted over the past few years to its former monopoly mentality approach to in its working with Bulk PreSort Mail business – our experience in particular in respect to the BMP Project and the ANI proposal stand out - and it would be a most regrettable move to add yet another negative influence into the Bulk PreSort Mail industry by providing AP with a less rigid regimen for pricing than presently exists.

In this current round of review AP has seen fit not only to walk away from the detail of the agreed consultative protocols of 2001, designed to lead in to lodgement of the draft notification with the ACCC, but also to run the consultative process during the month of January, Australia's long established annual holiday season and to provide only part of the documentation in time for the face-to-face meeting that was held.

That indifference and dismissive approach to the spirit and letter of the agreement reached in a previous era of the spirit of good customer relationship that grew out of an even earlier ignoring of the consultation provisions of the 1999 AP-MMUA Code of Business Practice has shown that

the concept of a business partnership is far removed from the monopoly-driven approach to doing business with Generators and Mailing Houses who are themselves operating in a far different business environment driven by marketplace realities. From the experiences of the past two years in particular, we do not trust Australia Post to set prices outside the regimen that exists today. The postal industry generates many jobs, over a wide area of economic interest, and AP is but one element and we hold that the business community as a whole needs protection through the filtering of an independent umpire from the monopoly and its desire to be free of pricing control mechanisms.

As mentioned above, the 2008 process of so-called "consultation" stands in stark contrast to the customer-friendly manner in which it conducted consultations in 2001 and again in 2002. If Australia Post were to be allowed to move away from the current review mechanism and follow the process it proposes in its Draft Notification it would be to the detriment of those who produce and those who process Bulk PreSort Mail and add further to the marketplace isolation that the monopoly provides to AP.

1.1 The period over which the reasonableness of Australia Post's proposed prices should be considered by the ACCC:

We consider that a 3-year period for price stability is a reasonable approach provided that:

- proper advance advice and minimum consultation period and consultative process is a pre-requisite,
- along with a commencement date that falls within one of the months that are traditionally of lesser volume (our preference is for March or September) and
- that at least 18-months elapses between the time of the decision on such higher pricing is announced and the actual commencement of the new pricing regime,

and provided also that:

- if new arrangements are to be made then the ACCC – not Australia Post itself – should liaise with all appropriate stakeholders such as MMUA and the trade union movement before any decision is taken and
- set the terms and conditions that are to be observed.

1.2 The implications of more frequent price notifications for cost efficiency

In its proposals on this matter, AP has simply assumed the inevitability of "small, manageable price adjustments **without** (our emphasis) the need for frequent full reviews and speaks of a "competitive" (their word) market.

For the purposes of its monopoly-protected mail delivery business AP for its Domestic Letter and its Bulk PreSort Letter does not – not by any stretch of the imagination – operate in a “competitive” market.

Indeed even for its Print Post product it does not operate in a true “competitive” marketplace, protected as it is by the 1989 Act definition of a “letter” which provides a *de facto* monopoly crust of protectionism: it is sheer *chutzpah* for AP to use, without shame apparently, the example of Print Post annual price increase practice to support its proposal to move out of the public scrutiny for Reserved Services increases.

From the time that AP introduced the annual increases in the Print Post product it has referred to at page 8 of its Draft Notification there has not been one single improvement in Print Post services, nor any effort made to address promises made. Additionally, when requests were made to it to consider ways and means in which a format variable mailpack approach to this product be considered they were brushed aside and when suggestions were made to have a joint AP-MMUA approach to government to seek changes in legislation to enable a 21st Century approach to replace the 1989 legislation boundaries, they too fell on the fallow ground that the portcullis protection has created.

If Print Post is the example to be followed, in this proposal, it is a poor, pale imitation of what a true business partnership approach to pricing is like in the *Realkommerce* of the Australian marketplace, those areas, that is, that do not have the protection of a monopoly to fall back on.

Given, too, that there are still productivity gains to be had from the Barcode Project, unrealised from the 1990s projections of what would be possible, and given that there are productivity gains available from MMUA’s own ANI (Advanced Network Integration) proposals of March 2007 that have been brushed to one side by AP and not dealt with in a commercially responsible manner, to say the least we would be appalled at the ACCC agreeing to a future system of frequent “small, manageable” (whatever those undefined, vague words might mean when applied to a business that has no option but to use AP’s monopoly-protected mail delivery system) price increases that has dropped the protection of – as AP so aptly phrases it – a “full review”.

In our opinion, making it easier for Australia Post to introduce annual increases in postage costs will not be an inducement for, nor will it bring, any improvement in service, nor any marketplace pressure applied to bring about changes to meet the commercial and technological challenges of the day.

The Corporation’s inertia in Print Post reform is clearly the indicator of what the Australian mail industry could expect in Reserved Services mail.

Australia Post should be compelled to operate in a climate of constant improvement: that will not come from its proposed easy way of obtaining price increases.

There is too in the Print Post example chosen by AP an interesting point to be made and that is the lack of competition (delivered to AP through the benefit of the "letter" definition) has ensured that AP has not introduced the processes attached to the DPID, nor chased productivity gains – no barcode required, no ability to apply the "flats" and plastic wrapped technologies for sorting etc but the Print Post product is priced cheaper than PreSort Large Letters even though the latter is less costly for it to process and deliver. The thought that reserved services Letters might fall into the same black hole of non-accountable regular price increases is of no small concern.

1.3 The impact of future price increases on customers' planning (including the impact on the investment decisions of customers):

In our view there are three basic customer groupings in this question: the first is the generator of the mail, the second is the [Mailing House] processor who, under contract to the Generator, prepares the actual mailpiece and lodges it with AP and the third are the Charities who use the special price structure available.

We appreciate that the question of who actually pays the postage account, Generator or Mailing House, can tend to cloud AP's legalistic approach to "who is the customer?" but for the purpose of looking at this issue of "impact" we believe there are two *RealKommerce* customer groups to be considered:

1.3.1 - Generators

Individual Generators have their own approach but there seems from our soundings of our members to be the following basic intentions:

- For those with limited ability to increase their postage budget allocation, the postage spend will be fairly much the same but with a lesser of mailings to ensure the bottom line figure remains as budgeted;
- All members indicated that another price increase in the costings of a mailpiece, whether justified or overdue or simply granted – the reason for the increase is irrelevant, only the fact of higher price is – will hurry the search for e.alternative means of communicating, marketing, collecting payments, with a lessening of paper-based mailings;
- One member commented that if the price of postage increases by \$x million, then the intention is to seek a budget increase of that amount but allocate it to research and development of e.alternatives to Bulk PreSort Mail.

There is another potential price factor that Generators are discussing within their Generators Round Table and that is the emergence of the new Salmat Businessforce organisation – with its two-thirds plus share of the Bulk PreSort mailing house market – following the ACCC's approval of the Salmat purchase of HPA. At the very top of the high volume ladder, for

those companies with national mailouts required, there is now a much more limited ability to counter one quotation against another there now being only one MH company in the marketplace operating in all States and Territories.

Generators are aware of the work done by the BMP MHs to produce the ANI/ePLA proposals that have not been dealt with by AP, as they are aware of the proposed PIP2 advancement of the barcode project. However, unlike the practice followed in the Barcode Project, AP has not produced any statement and/or technical working papers for consideration of the industry.

1.3.2 - Mailing Houses

The starting point on this element is to go back to the pre-barcode times and work forward through the introduction of the many changes that became necessary for the individual MH to introduce in order to stay in the market for Bulk PreSort Mail under the barcode regime.

The barcode can be said to be the visible tip of the cost iceberg – beneath the surface there lurks the heavy investment in ensuring that the database – and this applies to Generators as well as MHs – was cleaned up to match with the requirements of the NAF-PAF-AMAS elements (National Address File; Postal Address File and Address Matching Approval System). An example of the complexity faced by many of the major generators was that of one our banking members where each division of the bank ran its own database which was then linked into a central or hub database – some eleven separate databases in all, each with addresses needing to have DPIDs attached to 8 of the 67-bars within the barcode, sorted into the Bulk PreSort Sort Plan system (6-monthly changes) and readied for forwarding to the mailing house of its contracted choice which, in turn, may or may not have incurred additional AMAS-related fees depending on the level of AMAS services required by its generator customers in order to retain or obtain their business.

The results for AP?

Perhaps the citations below from the 2003 World Mail (Customer Service) Award and that of the 2004 World Mail (Transformation) Award say it best. Incidentally, the reference at page 14 of AP's Draft Notification to the annual World Mail Awards is misleading, provides only part of the citation, and gives a wrong impression – here is the full text in both instances:

- In 2003 – with MMUA as a referee – AP won the *Customer Service* section and the citation read (in full): "*Australia Post, for its customer barcoding. Australia Post has introduced a program that provides real value to customers through lower mailing costs, greater service quality and simplified mailing procedures. Building on the best practices of other Posts, involving mail users and additional groups, they have delivered exceptional and industry leading customer service*".
- In 2004 – again with MMUA as a referee – AP won the *Transformation*

section and the citation read, in full as *"Australia Post for its transformation of the post. Australia Post has successfully transformed themselves from an old-fashioned slow moving bureaucracy (their words) to an organisation that has achieved excellent results across the full range of key measures. They have done this on a sustained basis for over a decade, in service quality, prices and financial results"*.

Note: The words in red were deleted from the citation as quoted by AP in its Draft Notification but are relevant, in our opinion, in view of the reversion to the portcullis policy we have referred to elsewhere in this submission.

In 2008 – AP having reverted insofar as dealing with MMUA to the 1990s' "old-fashioned, slow-moving bureaucracy" (as AP described itself in its 2004 submission to the World Mail Awards) has failed to act as it did in the days when we were happy to support its well-justified claims for both Customer Service and Transformation. Contrary to the way it handled the matters covered in the 2003 and 2004 World Mail Awards, it has not taken up our proposals for ANI/ePLA made in March 2007 that would have given yet further productivity gains.

But we digress, returning to the work done in the Barcoding Project and then following its August 2004 launch, the BMP Program, with the publication of the March 2008 Quarter's Bulk Mail Monitor statistics, one of our more cynical Mailing House members commented: *"...Now let me understand this: BMP MHs expend funds to invest in software and equipment that enables Australia Post to deliver Bulk Mail On Time about 3.5% better than the Domestic Services' non-PreSorted mail and thus it is that this better On Time delivery percentage justifies Australia Post in requesting a 10% increase in the postage rate due to the better service. Have I got the wrong end of the cart here?"*. Perhaps: but the reality is that MHs have spend millions of dollars on software and equipment, staff training and the like and there is no financial recognition.

Indeed when we repeatedly asked AP last year to provide the details of how we might make a formal approach to the appropriate persons within AP to begin the process of seeking a financial benefit based on mailing house improvements in mail processing that would add to AP's productivity, the keepers of the portcullis policy constantly did not and still have not done so for reasons best known to themselves and not revealed to MMUA.

AP cannot on the one hand claim that it has an interest in productivity gains and yet apply the portcullis policy to MMUA's BMP MH members when they seek to assist.

We believe it would be a mistake for the ACCC to view future increases of postage in isolation from other elements of the postal network that are in the pipeline for change when it comes to dealing with this issue (ie, The impact of future price increases on customers' planning (including the impact on the investment decisions of customers)).

AP's work on the PIP2 Project – which will bring costs to Generators and MHs alike – but with no public details as yet – should be seen in contrast

with the work of the Barcoding Project. AP's own words in its submission to the judging panel for the abovementioned 2003 World Mail [Customer Service] Award say it appropriately, viz: "... *Post initiated a comprehensive marketing and education campaign starting in 1997, although letter barcoding was not scheduled to begin until Oct 1999. The lead-time given to customers allowed them time to understand what was involved and make plans to accommodate barcoding when it arrived. Post provided free consultancy to help companies design their databases and plan the integration of their systems. Post also demonstrated the savings to be made through barcoding by conducting data and business analysis with individual customers – a one-to-one free service*".

The point to be made, of course, is that before the portcullis policy came into play, AP found it beneficial to work openly, constructively and positively with its customers (whether Generators or MHs!) and out of that came excellent productivity gains and any application for this current postage price increase needs to be considered against the experience of previous times.

The AP-MMUA PAF Users Focus Group (*) held 12 meetings (at first 3-monthly and then 6-monthly) between 2000 and 2005 and worked through all of the issues affecting AP, Generators and Mailing Houses to see the concept of NAF-PAF-AMAS become the reality: from PAF Version 1 in 2000 with its 8,841,344 DPIDs to today's PAF Version 2008.2 with its 11,875,423 DPIDs

(*) members – Australia Post, Australian Tax Office, Centrelink, Health Insurance Commission, Commonwealth Bank, Reader's Digest, Salmat, HPA, QM Technologies, SecurityMail

Moving on from the IT starting point: other elements that were in the changeovers required for the Barcode Project included:

- Changes needed to laser printers to ensure that they were equipped with valid fonts – that is fonts able to print DPIDs to meet AP's *customer barcode quality assurance* requirements;
- Devices installed on each inserter machine to print AP's required tray labels;
- Larger work spaces became essential to cover the new processing requirements (machines spaced further apart and different functionalities built into the working space for each machine).

1.3.3 – Charities and Charity Mail

Charities are mail generators in their own right with a special price category of their own that separates them from the Generators referred to in 1.3.1 above. The charity category came into being as part of the restructuring in 2001 following the removal of the AdPost category.

The proposal to increase the price of Charity Mail by 10 percent – with it being higher than the less costly to provide Acquisition Mail – is an

interesting approach by AP. We submit that AP should be asked to provide detailed costings for each product to justify the pricing differentials.

The reaction of charities canvassed is that the 10 percent price increase for Charity Mail, linked with the proposed 5 percent increase in Reply Paid Mail will result in a reduction in the use of paper-based mail. The largest fixed cost in a direct marketing package of a charity is postage and for most the postage account is larger than the print account.

There are some basic points to be made about charities in the context of this submission's focus:

- Charities perform great service to the community that would otherwise be the lot of government to cover – is it not reasonable therefore to ask that a Government Business Enterprise such as AP should have special regard, and a special formula separate from its normal commercial approach to pricing increases, to charities, and that such a formula be set up by the ACCC?
- There is too an argument to be mounted for price regulated industries – health insurance funds for example – that have to follow government or statutory pathways to increase their own charges, to have a special category for their mail. This is a question of principle related to how the postage price should be structured but nevertheless we raise it in this context of a loose definition of “charity” as being a community service organisation with a wider definition of that than the more usual social cum community service “helping hand”;
- Paper-based mail is by far the singularly most important medium used by charities for fundraising and any increase in postage costs will have a major impact on such useage;
- Paper-based mail is the main channel for charities for keeping the individual donor up-to-date: any increase in the postage budget item will drive the charity to seek e.alternative ways of countering the cost increase incurred;
- Charities are probably the best two-way user of the mail with all donations acknowledged by return: again any increase in the postage budget item will drive the charity to seek e.alternative ways to acknowledge donations in order to counter the cost increase incurred;
- AP has not revisited the Charity Mail product in this exercise with a view to providing a better service, it has simply proposed a price increase and yet Charity Mail is processed through BMP MHs and MHs using the PIP Program, both developed over the past 5 years.

2. AUSTRALIA POST'S FORECASTS OF FUTURE MAIL VOLUMES.

Box at page 8

2.1 – the factors identified by AP that influence letter volumes

2.2 – the underlying assumptions in AP’s forecasts of future volumes regarding consolidation, rationalisation and substitutions

2.3 – the impact of price increases in AP’s reserved services profitability in the context of forecast declining letter volumes

It seems to our members that the general approach taken in the forecasts and assumptions are reasonable. Individual member companies have different approaches to the future use of paper-based mail but all of them emphasize that a price increase will cause reflection on e.alternatives as a budgetary exercise.

As to the issue of reserved services profitability, our contention is that the concept of “profitability” being the main force in a government monopoly is wrong in principle. Our essential positions are:

- The Community Service Obligations surrounding the Domestic Letter should be a Federal Budget line item and the issue “profitability” be
- Bulk PreSort Mail should be deregulated.

3. SENSITIVITY OF MAIL VOLUMES TO PRICE CHANGES

Box at page 8

3.1 – the impact that the proposed price changes will have on volumes for each of the products for which AP is intending to increase its prices

3.2 – the extent to which the level and timing of price changes has an impact on mail volumes

The comments we have made throughout this document answer these points. In essence our belief is that any increase in postal price will hasten the move to seek e.alternatives to paper-based mail.

4. THE PRINCIPLES OF COST ALLOCATION APPLIED BY AP AND, IN PARTICULAR, THE KEY DRIVERS OF THE COSTS OF COLLECTION, SORTING AND DELIVERY SERVICES PROVIDED BY AP, AND HOW THOSE DRIVERS COULD BE USED TO INFORM AN ASSESSMENT OF THE ALLOCATION OF COSTS BETWEEN THE DIFFERENT LETTER SERVICES PROVIDED BY AP.

Box at page 9

The basic principles that we feel should be considered are:

- There should be true transparency of the costing methodologies followed and all stakeholders should have the opportunity to comment on same – this is not the case at the moment;
- that reserved services should not be used to cross-subsidise non-reserved services - in that respect we are satisfied (a) with the negotiated arrangements over the past years which have resulted in the Commission having powers under the *Postal Services Legislation*

Amendment Act 2004 to set the record keeping rules for AP and, allied with that, to monitor annually the question of cross-subsidisation and (b) the annual reports which have been issued by the Commission under those powers;

- that reserved services should be seen as having two distinct and separate elements: Domestic Letter Mail and Bulk PreSort Mail – the first requiring a great deal more work by AP (from street box collection onwards) than that of the latter where the work done by Generators and Mailing Houses prior to lodgement makes for great cost savings in comparison to the former – from that separation of the two elements flows a need for cost factor definitions (and transparency thereof) currently missing from the Notification process;
- that the difference in costs for AP between Domestic Letter Mail and Bulk PreSort Mail should be clearly defined, subjected to the record keeping rules and monitored annually – this is not done currently and thus the immense pre-lodgement work done by Generators and Mailing Houses to remove from AP the need for many of the processes is not recognised as cost factors in the costing arrangements and thus in the pricing proposals in any way that can be commented upon by us other than to point out that deficiency in the system.

Lack of information on *Cost v. Margins* hampers comment

Our members have felt hampered in their examination of the proposed pricing structures because the information provided is insufficient to enable the usual type of contract pricing discussions that exist in the Australian marketplace between a supplier and customer.

There remains no transparency on the part of AP in relation to the cost and margins associated with the various categories of the reserved services. How can any price increase be justified, particularly where varying percentage levels are concerned, without reference to the real cost of delivering that particular category of the service?

The overwhelming majority of Bulk PreSort Mail produced by Mailing Houses, for high volume generators, is primarily an automated process inclusive of formatting, sorting, printing, folding, enveloping and lodgement. This is not to say the MHs do all the work for AP, but they do reduce, significantly, the processes required for the mail to reach its destination, in particular, the labour intensive manual handling.

It is worthy of note that these MHs also offer more labour intensive services, to Generators, where required. Many large Generators require the production of mailpacks – as distinct to a simple letter only - that require a high level of manual intervention.

One member organisation gave the example of being required to provide its customers with a range of some 250 various products and some 400 associated information products. The process for providing these products, apart from the printing of the covering letter, is entirely manual. It is a highly intensive pick and pack process where the range of forms

and information products are matched with the covering letter and inserted manually into the envelope, checked and sealed. This is a process that is extremely costly, somewhere in the range of 10 times the cost of a fully automated process.

In basic terms, the contract between the Generator concerned and its MH – for the sending of “letters” – requires a 14-page pricelist from the contracted MH, covering all the differing types of mailpack relevant to its business. It needs to be that comprehensive based on the process and resources required to produce the end product.

Following such a practice themselves, our Generator and MH members have made the following observations when they turned their attention to the information provided by AP for price rise justification. The process described below relates to the Generator quoted above:

- **Bulk PreSort Mail** - the Mailing House barcodes the mail, sorts it into direct trays based on AP's sort plans, labels it, packs it into Universal Loading Devices (ULDs) and prepares the lodgement paperwork according to AP's requirements. Mail is addressed and barcoded according to AP's addressing standards to ensure the mail can be mechanically processed. The ULDs are collected by AP by transport capable of carrying a large number of these cages which equates to a large volume of mail, on one vehicle. These are then delivered to one of the large mail centres, bearing in mind Bulk PreSort Mail is almost exclusively lodged in the State capitals. PreSort trays for interstate destinations, in particular, can be loaded straight onto transport without being processed at the city of lodgement. Sorting is done mechanically with little manual process required until the mail reaches the relevant delivery post office. And for all of that, the proposed price = \$0.399 (let's say 40 cents)
- **Domestic Mail** - Letter is dropped into a roadside, or similar, mailbox. These mailboxes, as part of the community obligation, are required to be cleared at least 5 times a week, regardless of the volume of letters lodged. Letters are delivered to the relevant mail centre, however, this can require a number of transportation transfers dependent on the location the letter is dropped into a mailbox and its destination. Every single letter must then have its destination identified by Australia Post through processing at the relevant Mail Centre and whilst this is done mechanically, manual intervention is regularly required as the large majority of domestic mail is hand addressed and handwritten postcodes are not always able to be deciphered by machines. Add to this the percentage of hand-addressed mail that contain incorrect postcodes and spelling and that further increases the labour intensity. These letters are barcoded by AP during the identification and sorting process. Letters then require placement into trays manually for transport to the relevant destination. Letters then need to be sorted at the delivery Post Office and whilst presort requires roundsorting as well, presort have addresses printed rather than hand written. This roundsorting could be done for Bulk PreSort Mail at the database level of the customer. And for all of that, the proposed price = \$0.55.

This hardly seems equitable given the level of labour involved in enabling the opposing mail categories to reach their destination. There is also no reference within the Draft Notification to the varying degrees of process and resources required to deliver even within the single category.

This could be taken further in a number of areas including the comparison in cost of delivering mail to a P.O. Box as opposed to delivering mail to a street or building location. In real terms there would be a significant difference in the actual cost of providing these services.

With the technology AP now claims to possess, why are they not able to cost letter delivery, in real terms, based on the end-to-end process and state such information within their request for a price increase: this is the way of the Australian market, why is a monopoly shielded from it thus avoiding detailed examination of its claim by its customers.

5. THE KEY DRIVERS OF PAST AND FUTURE PRODUCTIVITY GAINS IDENTIFIED BY AP IN THE DRAFT NOTIFICATION AND IN THE MEYRICK AND ASSOCIATES REPORT

Box at page 10

5.1 – Meyrick Report comments – the forecast growth in outputs and inputs for the Reserved and Non-reserved Services

5.2 – the reasonableness of the trend growth rate for the period 2002-2007 and for the forecast period 2007-11

5.3 – the use of the consumer price index (CPI) as a price deflator for individual input and output price indexes

5.4 – the assumption of constant returns to scale for AP’s aggregate business

General comment

We find it impossible to accept the basic premise of AP’s approach to the issue of future productivity that the scope for it to realise future productivity gains are limited, and the associated claim that it “vigorously pursues” opportunities for productivity gains.

As previously stated, AP withheld release of the Meyrick Report from MMUA until after the pre-arranged consultation on 22 January 2008, thus avoiding a face-to-face discussion of these matters. Our working party therefore decided to take the approach outlined in Section Three of this submission to deals with the above questions of the Issues Paper.

6. THE ECONOMIC EFFICIENCY OF THE OPERATING COSTS OUTLINED BY AP.

Box at page 11

6.1 – the economic efficiency of AP’s operating costs (including labour costs, contractor costs, accommodation and depreciation)

6.2 – changes in AP’s costs structures over time

General comment

Our approach to these matters is as set out in our answer to Issue 4 above.

7. BISHOP AND OFFICER REPORT COMMENTS.

Box at page 11

7.1 – the conceptual framework applied in the B&O Report for determining capital at risk

7.2 – whether current assets such as working capital and cash in the field should be incorporated into the asset base

General comment

As previously stated, AP withheld release of the Bishop & Officer Report from MMUA until after the pre-arranged consultation on 22 January 2008, thus avoiding a face-to-face discussion of these matters. Our working party in subsequent consideration of the Report decided that informed comment on these matters lay outside the areas of expertise held by those present and we have decided not to comment on them.

8. PROPOSED ASSET BASE AND CAPITAL EXPENDITURE

Box at page 12

8.1 – the level of composition of proposed capital expenditure for the domestic Reserved Letter Service

8.2 – AP's approach to incorporating forecast capital expenditure into its pricing asset base

General comment

As we have not had access to the plans as they apply to the Bulk PreSort Mail product and that is our principal area of interest we do not feel able to comment on this Issue other than to make the point, again, that we believe the reserved services should be treated as having two separate and distinct elements – Domestic Letter Mail and Bulk PreSort Mail – and changes to meet the future demands should differentiate between the two at all times.

9. PARAMETERS OF AP'S PROPOSED WACC.

Box at page 13

9.1 – whether the statutory tax rate or an estimate of AP's effective tax rate should be incorporated into the WACC

9.2 – whether the equity beta of 0.66 is reflective of the operating and financial risk of AP's returns relative to the market

General comment

This is considered by our members to be outside their area of interest and expertise.

10. STRUCTURE OF AUSTRALIA POST'S PROPOSED PRICE INCREASES

Box at page 13

10.1 – whether the difference between the pre-sort letter service rates is appropriate

We do not agree with there being any price increase in the Bulk PreSort Mail rates for reasons which are covered in this submission principally because AP has achieved great productivity gains through the work of Generators and MHs throughout the 5-Year Freeze period and our BMP MHs has shown the way forward with ANI/ePLA for yet further gains, a proposal which AP has chosen not to treat seriously to date.

Because the points made in our response to Issue 4 above regarding costing methodology differences between Domestic Letter Mail and Bulk PreSort Mail have not been dealt with, until such time as such methodologies are put into place we do not consider that it can be said that the differences referred to in this sub-Issue are either appropriate or inappropriate.

10.2 – whether the Acquisition Mail service has been priced appropriately in comparison with other mail services***10.3 – the likely impact of the introduction of the new Acquisition Mail service on the other types of promotional mail***

Our members cannot see the value of the Acquisition Mail service in the context of their focus on Bulk PreSort Mail and have declined to offer any comments.

SECTION 3

THE BULK MAIL PARTNER PROGRAM

**Partnership produces productivity gains:
So why abandon the promise of future gains?**

Just as the Barcode Project produced good productivity gains for AP in the lead-up period to the 2002 price increase, the Bulk Mail Partner Program (BMP) did the same in the period of the 5-Year Freeze for the Bulk PreSort Mail product. Over the past two years, from September 2006 onwards, it has become clear that AP has lost the drive and thrust of working through the BMP to achieve yet further productivity gains.

Refining the process

The August 2004 joint statement by Australia Post and Major Mail Users

“Bulk Mail Partner is an accreditation scheme designed by Australia Post in conjunction with Major Mail Users to recognise Mailing Houses who have invested in processes to make Mail Lodgement more efficient and more effective.

“The scheme has its roots in the ‘total quality culture’ concepts enshrined in the AP-MMUA Code of Practice, 1999.”

Background

In the mid-1990s our Mailing House Chapter members put to AP a proposal for a quality assurance accreditation program. AP rejected it but later, with a change of personnel and during their period of working constructively with MMUA for the development of the Barcode Project they returned to the idea, embraced it, renamed it the Quality Mail Partner Project (which subsequently became the “Bulk Mail Partner” (BMP) Project) and began the joint AP-MMUA development at the WildWorks Introduction and Planning Session in Sydney on 23 September 2003.

BMP was launched on 11 August 2004 by AP’s then acting managing director, Bob Finch, during the course of MMUA’s annual convention.

A great deal of work was done between September 2003 and the launch in August 2004 as individual member companies worked through a variety of issues in a series of joint AP-MMUA focus groups and working parties.

Between the August 2004 launch and today there have been massive gains for AP in its productivity which have been achieved through the processes attached to the BMP Project.

BMP volumes and postal revenues

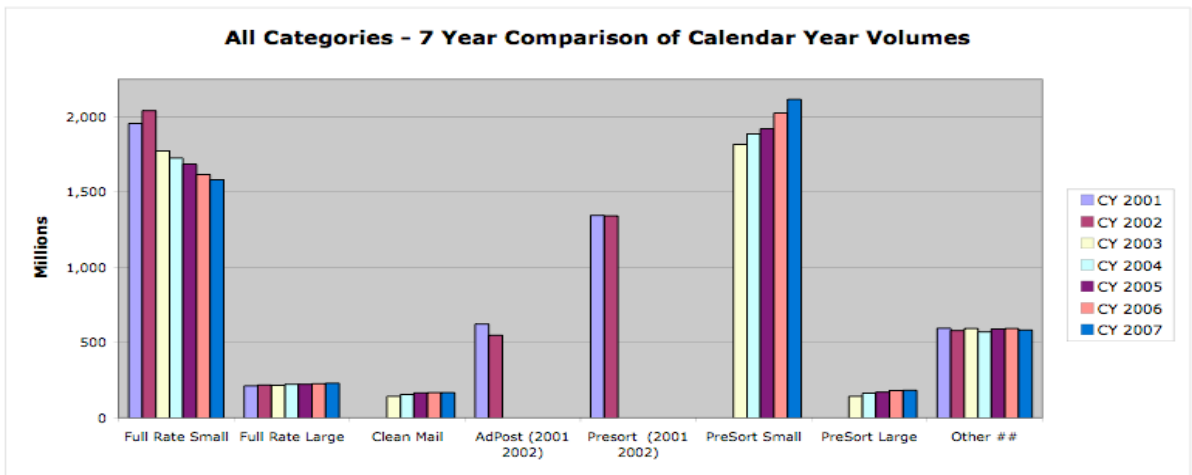
According to AP’s *Post Journal*, Issue 327, April 2008, “Bulk Mail Services generate more than 65 percent of our domestic letter revenue”. According to the figures supplied by AP to MMUA from January 2001 onwards, the volumes in the various categories are as follows:

MAIL ARTICLES POST IN AUSTRALIA

Calendar Years - 2001 - 2002 - 2003 - 2004 - 2005 - 2006 - 2007

	CY 2001	CY 2002	CY 2003	CY 2004	CY 2005	CY 2006	CY 2007
Full Rate Small	1,955,957	2,041,442	1,772,717	1,726,322	1,686,145	1,617,195	1,582,522
Full Rate Large	211,841	217,159	215,811	222,555	222,271	225,644	228,992
Clean Mail			142,752	154,448	165,497	166,187	166,493
AdPost (2001 2002)	622,422	547,364					
PreSort (2001 2002)	1,345,604	1,340,903					
PreSort Small			1,815,996	1,887,054	1,920,653	2,025,252	2,115,676
PreSort Large			142,737	163,039	170,822	181,501	182,343
Other ##	594,623	579,635	594,075	571,409	589,212	593,421	583,259
Total	4,730,447	4,726,493	4,684,087	4,724,827	4,754,600	4,809,201	4,859,284

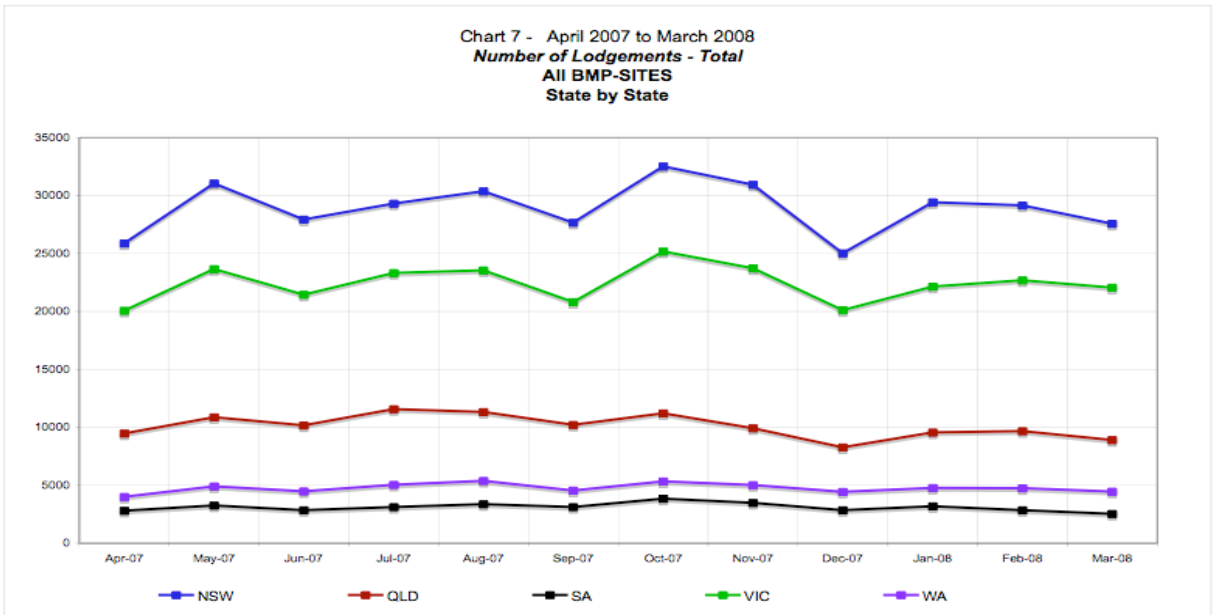
OTHER
Includes Print Post, Parcels
and International mail etc



The supply of monthly mail volumes was agreed upon during discussions in the enlightenment period of AP-MMUA customer relationship, flowing from the early days after the signing of the 1999 AP-MMUA Code of Practice that set up the “total quality culture” approach to doing business with each other. As part of its reversion to the portcullis approach to such matters, AP reneged on the 2001 arrangements in 2007, thus the gaps in FY.2001 and FY.2002 figures for PreSort Small and PreSort Large and total absence of Print Post as a separate set of figures, supplied up to last year’s policy change but no longer made available under the portcullis policy.

Returning, however, to the point of the importance of BMP MH lodgements in the mail process, the following diagram shows the number of lodgements state-by-state over the past 12-months:

MAJOR MAIL USERS OF AUSTRALIA LIMITED
 MMUA Analysis of LQS Monthly BMP-SITE Performance Reports - Refer to page 9 for Data Table



Attachment to STATS ER 74, Friday 4 April 2008 - also stored on the Members' Only page on our website

Page 8 of 9

with each lodgement separately assessed against the Issues Severity Weighting system in a quality assurance process.

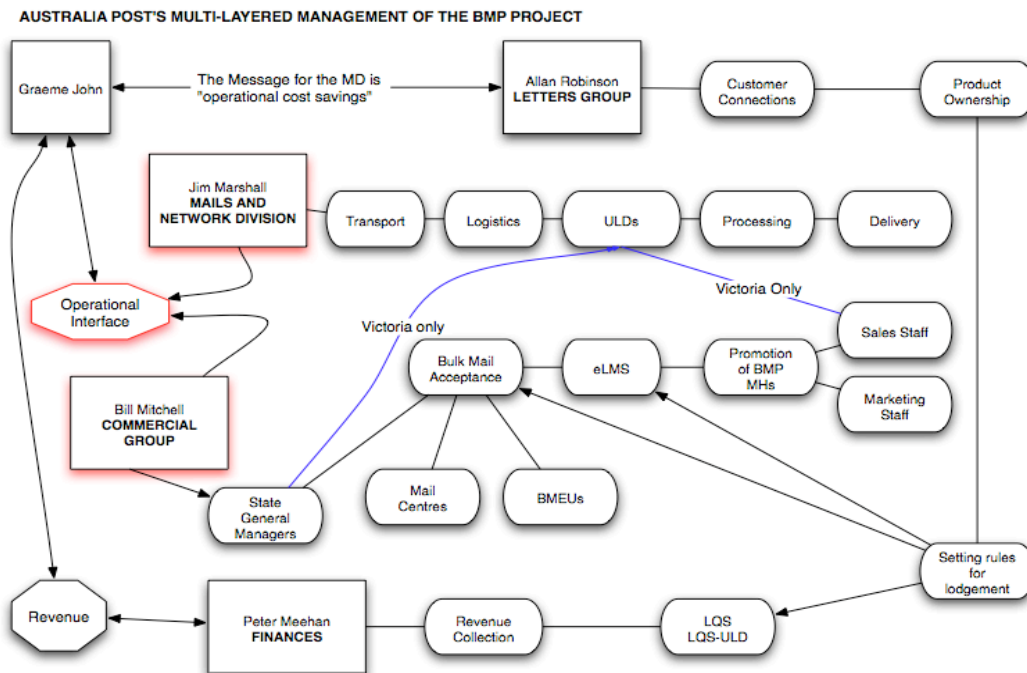
AP's non-uniform, non-national approach to business dealings with its customers

The Figure 8 (*Mail Value Chain*) shown at page 24 of AP's Draft Notification does not present a true picture.

When it comes to BMP matters there is a much more complex approach as seen in the following diagram which has been prepared by MMUA in consultation with AP to show the operations of AP for a BMP Mailing House on a day-to-day basis. Superimposed on the simplified 4-sector approach of Figure 8 are two other AP departments, Letters and Revenue Collection.

Whereas in the post-WildWorks (September 2003) to BMP Launch (August 2004) and in the immediate months thereafter there was a constructive, positive approach to mutually beneficial gains, our BMP members no longer see that attitude coming from AP which appears to us to have reverted to the 1990s "old-fashioned slow moving bureaucracy" (to quote AP's own words in describing itself in the application for the 2004 World Mail Awards) and in doing so has made achieving "operational interface" efficiencies and improvements, which lead to productivity gains, something that AP appears no longer interested in achieving through the type of joint effort that saw the Barcode Project and the BMP Project achieve such excellent results.

With that in mind, to claim that AP's productivity gain potential has been exhausted and therefore a [Bulk PreSort] postage price increase is reasonable is, with all due respect, simply not correct.



This is what BMP looks like – not the 4-sector Figure 8 diagram at all. There are some major differences between the two that we submit prevent proper discussion let alone realisation of future productivity gains, viz:

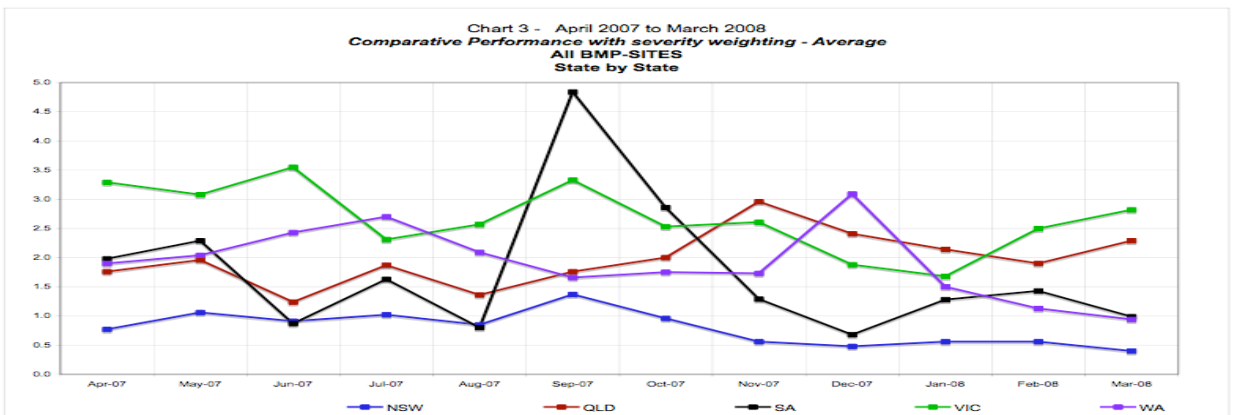
- The portcullis – two non-operational areas of AP (Letters and Revenue Collection) stop all contact with “operational interface” areas direct. During the development days of the Barcode and BMP Projects those two areas served as – to continue the analogy – a drawbridge access across the moat, welcoming ideas, welcoming suggestions for changes and facilitating working through them: today our members see the drawbridge blocked – access to operational personnel denied - with the return to the red tape of the “old-fashioned slow moving bureaucracy” – making it hard to work within the concept set out at the BMP Launch of “co-operating with AP on continuous improvements”
- ULDs – these wire cages are used for all Bulk PreSort lodgements. AP from time to time runs into difficulties in matching demand with supply. Victoria is the state where there are more shortage problems than others and as can be seen above, it is the only state where the ordering and supply is through the Sales staff rather than through staff with operational interface responsibilities.

Measuring achievements and steady performance

The BMP Program has a system known as the *Issues Severity Weighting* scoring. A problem encountered by AP with a lodgement is known as an "issue" and a weighting scale has been agreed upon between AP and MMUA to produce a monthly score. A score of up to 5 percent is acceptable, over 5 percent brings "counselling" and possible removal from the BMP accreditation.

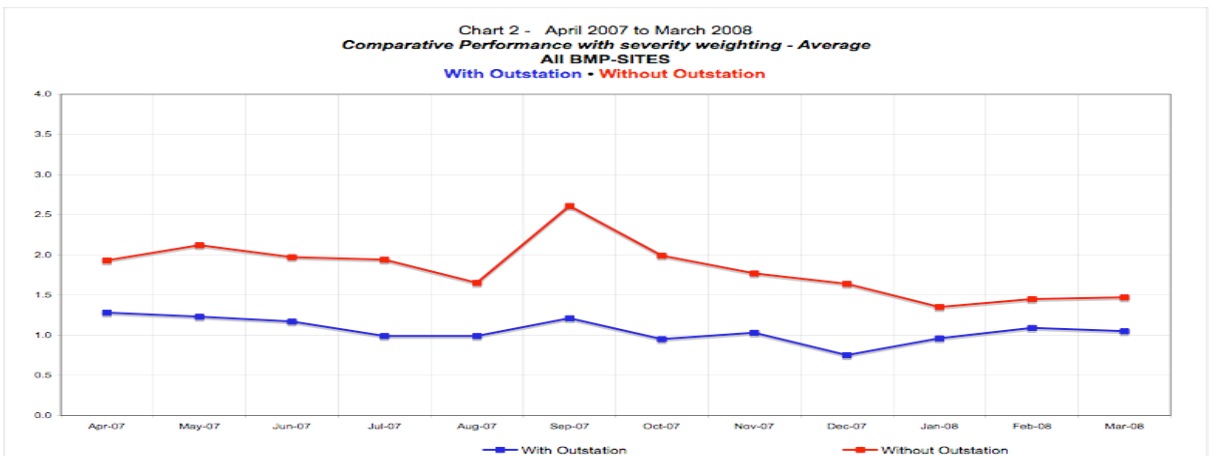
The following diagram shows the scoring for the past 12-months on a state-by-state base. Consistently NSW MHs score at a lower rate than those operating in other states and consistently MHs with an AP outstation on site score a lower rating than those without (see diagram following)

MAJOR MAIL USERS OF AUSTRALIA LIMITED
MMUA Analysis of LQS Monthly BMP-SITE Performance Reports - Refer to page 9 for Data Table



Attachment to STATS ER 74, Friday 4 April 2008 - also stored on the Members' Only page on our website

MAJOR MAIL USERS OF AUSTRALIA LIMITED
MMUA Analysis of LQS Monthly BMP-SITE Performance Reports - Refer to page 9 for Data Table

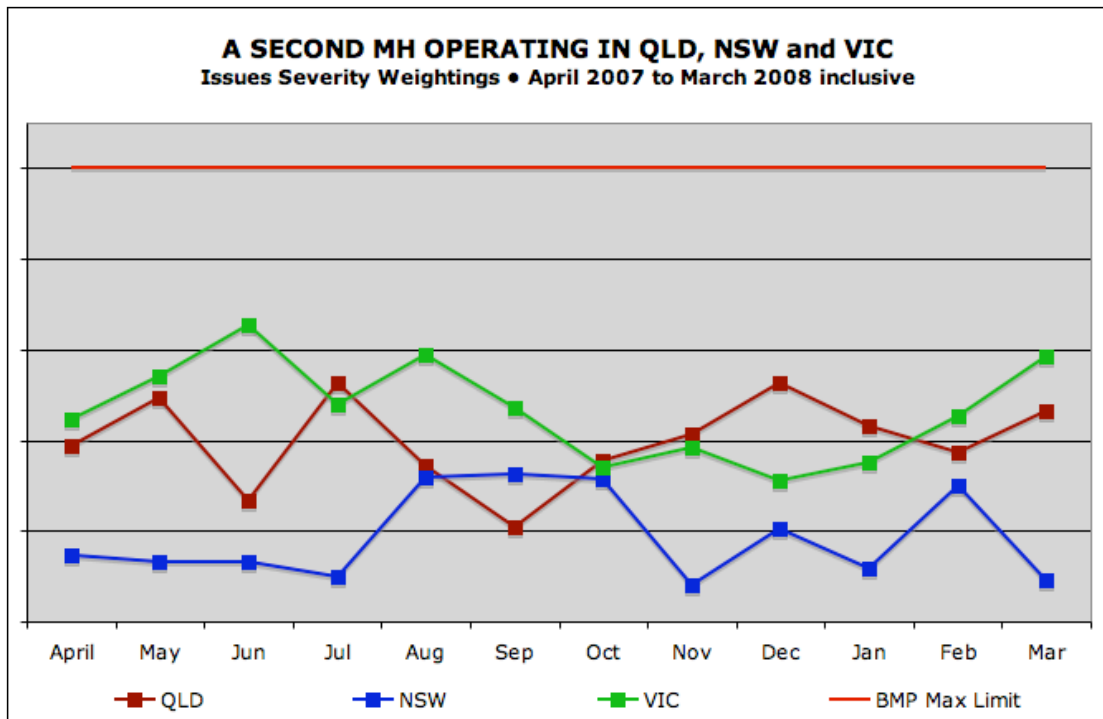
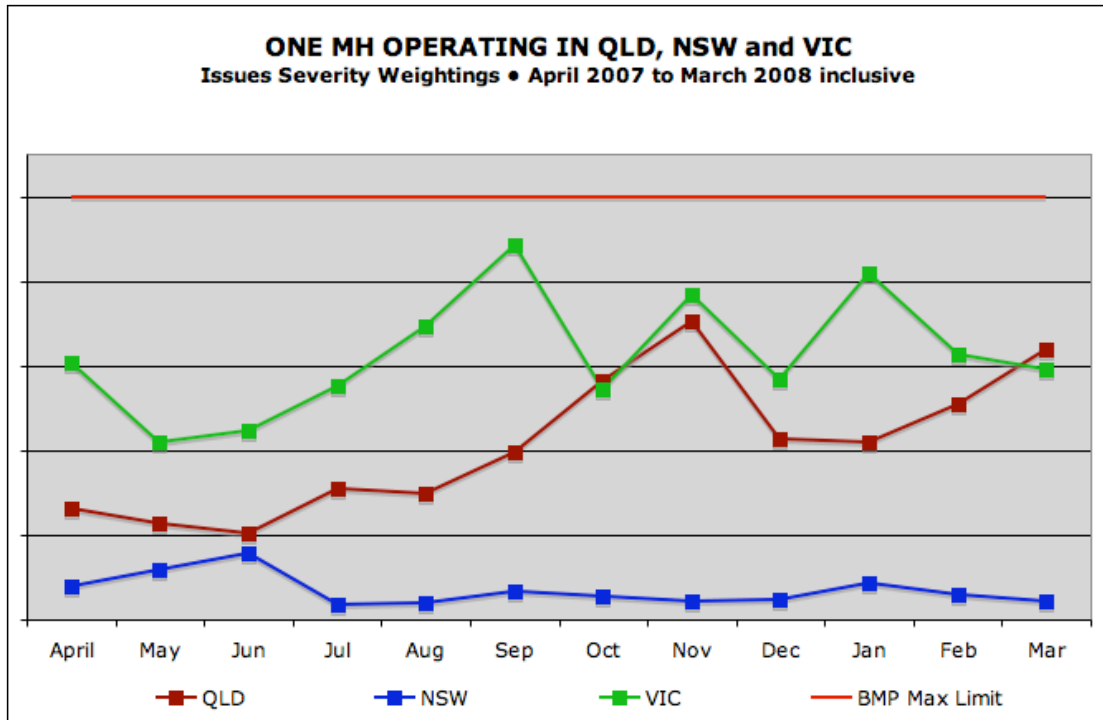


Attachment to STATS ER 74, Friday 4 April 2008 - also stored on the Members' Only page on our website

The question has to be asked – in the context of the claim by AP that there are limited opportunities for future productivity gains – why have the "portcullis" departments who block contact with the "operational interface" departments for MMUA and its members not addressed either externally or internally the obvious point of day-to-day working results

that the above charts have shown consistently throughout the BMP Program since it began?

Similarly, when the concept of comparing a single BMP-MH's operations in the three eastern seaboard states, there is a variation in Issues Severity Weighting monthly results which fits into the picture painted by the above two diagrams, viz:



If the Bulk PreSort Mail service is "uniform and national" – which we contend it is not due to AP's lack of control cum supervision cum internal education cum organisational/functional structuring – then why are there

such disparities of results in the states? And why is one state, NSW, performing so much better than the others as shown by the four diagrams immediately above?

Is it not feasible that productivity could be improved in the states other than NSW to bring them to NSW levels and, if so, can it not be argued that there are indeed still some important productivity gains to be had from the BMP Program or, at least, by AP lifting its own operational game to provide a uniform and national approach?

Future developments for BMP

It was agreed in the development of BMP that, inter alia, the following obligations were laid upon accredited BMP sites:

- Provide forecast information to assist with scheduling;
- Work with AP on balancing lodgements during the day;
- Co-operate with AP on continuous improvements

As we wrapped up the AP-MMUA working parties at the time of the launch (August 2004) it was agreed that there would need to be a settling-down period and then we would seek out further improvements cum changes. A workshop was held in September 2006, marking the completion of two years of BMP operation, and it was felt by those attending from MMMUA (the principal contact person for each BMP MH company – our BMP Principal Contact Persons Peer Group) that AP seemed to have no future vision for what might next be achieved operationally in the joint AP-MMUA partnership of the BMP Program. With that in mind, and conscious of the abovementioned three objectives, our members devised what they consider to be the next logical step in moving the AP-MMUA BMP MH partnership forward – Advanced Network Integration (ANI).

ANI was presented to AP on 1 March 2007 along with a proposal for working differently with certain Generators and BMP MHs to better “balance lodgements during the day” pursuant to the second dotpoint above. As at this date, AP has not dealt with either ANI or the second proposal in ways that we consider a normal market-driven business enterprise would run with a suggestion from a customer on mutually beneficial operational interface methodologies that would lead to streamlining of processes and productivity gains. The portcullis policy is in play and the potential productivity gains and efficiencies of operation remain there for the taking.

Our ANI and “balanced lodgements” proposals are dealt with in the next section.

SECTION 4

**THE MYTH OF THERE BEING NO FURTHER
PRODUCTIVITY GAINS POSSIBLE**

We contend that productivity is currently less than would be found in a competitive environment due to Australia Post not adequately addressing the quality of production inputs.

This relates to technologies and other best practices currently available but not yet adopted by Australia Post.

"MAKE POST LISTEN"

We apologise to the CEPU for taking its slogan — *make Post listen* —to our embrace: the union must be dealing with the same people as us when it comes to putting forward ideas to streamline processes only to have them put to one side: the portcullis practice mentioned above.

Our *Advanced Network Integration* (ANI) proposals – with its real time web-based *Electronic PreLodgement Advice* (ePLA) system – put to AP on 1 March 2007 - provides for production and commercial benefits to benefit Generators, Mailing Houses and Australia Post but has been ignored by AP senior management in the preparation of AP's Draft Notification and shunted off to one side through bureaucratic indifference and road blocking.

Make Post Listen, indeed: but how do you get a message of innovation and advanced use of available technology when there is no one with in the actual operational interface areas of AP available for discussion?

We contend that AP's productivity is currently less than would be found in a competitive environment due to AP not adequately addressing the quality of production inputs. This relates to technologies and other best practices currently available but not yet adopted by Australia Post. The buffer between the marketplace practitioners represented by MMUA and those within AP who filter our suggestions into areas of "operational interface" is such that suggestions for operational interface improvements are no longer dealt with in a true business partnership fashion, hence our contention that granting an increase in the Bulk PreSort Mail product is a totally unwarranted cost imposition in the light of AP's own unwillingness to work in a commercially appropriate manner with its own "partners".

Australia Post has stated (page 37) that it has reached the stage in its development where material productivity gains are becoming increasingly difficult to orchestrate and obtain, and that in the Reserved Services, the combination of CSOs, absence of volume stimulus to productivity, and reduced gains from technology change, are expected to constrain future total factor productivity growth. As previously stated, the chutzpah of such a statement in the light of what has been happened since 2002 is staggering. It ignores:

- The fact that elements of the 1996 forecasting of what was achievable in the (as it was being referred to then) *Barcoding and Roundsorting* Project have not yet been taken up;
- The offers made by MMUA members to work with AP to tighten the Issues Severity Weighting System in return for financial benefits to those who reach and maintain their scoring in the new regime – not taken up in meaningful discussion by AP;
- The organisational and governance elements built into the internal running of its business with special regard to how that impacts on BMP MHs. This includes a site-by-site approach to operational interface between AP and the individual BMP sites (instead of a single, uniform and national system applying to all 57 sites) as well as the variations between States on ordering and supply for the all-important ULD;
- The failure to address over the years of BMP’s operations the variance of results between BMP sites with Outstations and those without;
- The unwillingness to address seriously the desire of certain high volume Generators and their Mailing Houses for a changed approach to the scheduling of mail lodgements to provide commercial cost-saving advantages for all three parties;
- The change in attitude and practice over the past two years in dealing with MMUA and its members.

Productivity is a measure of technical or engineering efficiency within a process or business and refers to output produced per unit of input. (It is distinct from profitability which addresses the difference between revenues obtained from the output and the expenses associated with the consumption of the inputs.)

Total productivity considers both the quantity and quality of inputs and outputs in determining productivity measures. (Jorgenson & Griliches, 1967)

$$\frac{\text{PRODUCTIVITY} = \text{OUTPUT QUANTITY} + \text{QUALITY}}{\text{INPUT QUANTITY} + \text{QUALITY}}$$

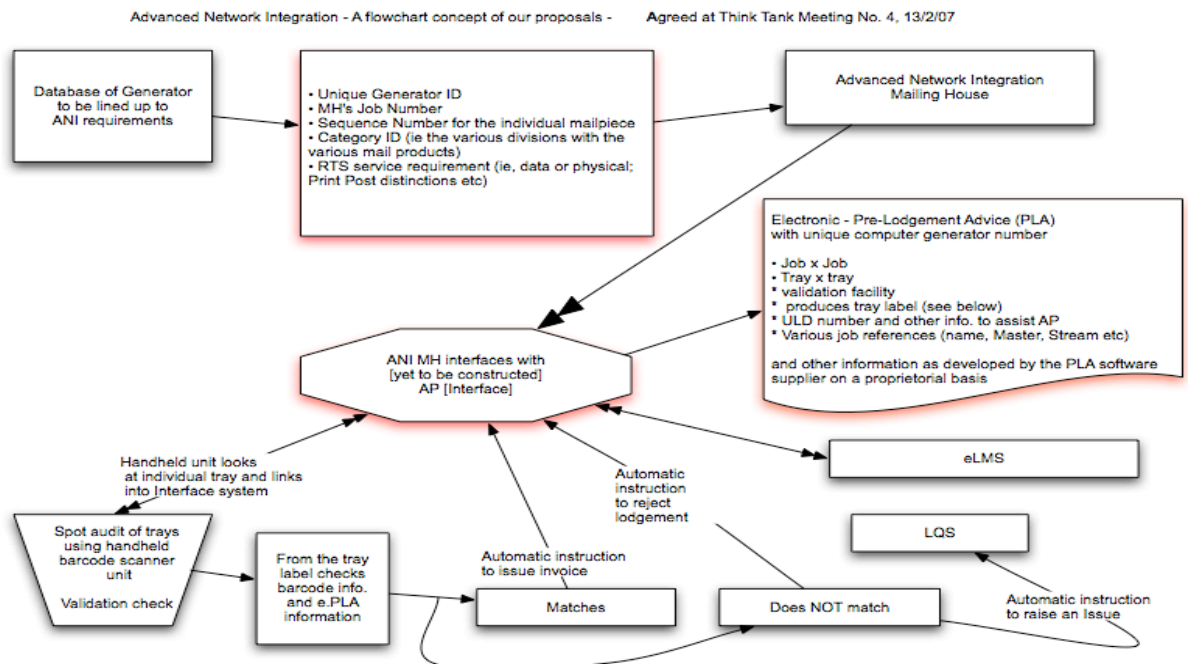
In a competitive environment we would expect market competition to drive increases in the *quality of inputs* through the adoption of technologies and best practice as a means to improve productivity.

In the absence of competition within the business mail market segment, it is considered reasonable to require that AP maximise productivity and deliver outcomes reasonably consistent with that delivered in a competitive environment.

As stated above, we contend that productivity is currently less than would be found in a competitive environment due to Australia Post not adequately addressing the quality of production inputs. This relates to technologies and other best practices currently available but not yet adopted by Australia Post.

Advanced Network Integration (ANI) and its attendant real time electronic PreLodgement Advice (ePLA) system

When AP was asked at the AP-MMUA BMP meeting on 14 September 2006 whether there were plans afoot to take BMP into other areas our BMP Principal Contact Persons in attendance found that there were none. They therefore decided to move themselves and on 1 March 2007 presented AP with a proposal that we have called ANI. ANI in simple conceptual terms takes all three parties – Generators, BMP MHs and AP – links the three participants and provides all three with electronic access to the various stages of production and lodgement of mail in real time.



AP countered with its own PIP2 Project (Process Improvement Project, Phase II) that it partially explained at a joint AP-MMUA meeting on 22 March 2007. Our ANI proposal meets the three agreed mutual objectives

of the August 2004 launch of the BMP Program (ie Provide forecast information to assist with scheduling; work with AP on balancing lodgements during the day and co-operate with AP on continuous improvements).

Instead of working through the proposal in the manner adopted during the development of the Barcoding Project and the BMP Project, a new generation of AP personnel has not been able or prepared to move it into the "operational interface" levels of AP. MMUA has a group of BMP MHs (providing more than two-thirds of AP's daily Bulk PreSort Mail product) wanting to see ANI commence, ready to work with AP to do so as quickly as possible, and the portcullis defence of AP is blocking the proposal with a bureaucratic, non-operational approach to dealing with it.

ANI is a proposal that has substantial opportunities for yet further productivity gains in it than those already achieved over the 2003-2008 span of the BMP program. We reject their claim, therefore, that productivity gain potential is almost exhausted.

As for AP's alternative to ANI – PIP2 – there has been no published green paper, white paper or detailed proposal similar to those that were made available for both the Barcoding Project and the BMP Project at their respective stages of development. ANI is ready for implementation. ANI will produce further productivity benefits for all three parties: Generators, BMP MHs and AP and until it is dealt with properly there should be no further postage price increase approved.

Balancing lodgements during the day

MMUA submitted a suggestion AP on 2 March 2007 that had been devised by some of our Generators and BMP MHs for a phasing of lodgements for the very high volume lodgements to co-ordinate operational procedures of Generators, MHs and AP so that [destination] States furthest from the lodgement point would be dealt with in the early time of the day's operations and so on through the day. Coupled with the proposal was the concept that lodgements later in the day could be co-ordinated (again by Generators, MHs and AP working in partnership) to take advantage of production runs into periods after the standard 6pm closure time. AP dealt with this proposal on the portcullis policy basis and it has never been dealt with by AP in discussion with MMUA by those areas of operational interface shown at page 24 of the AP Draft Notification.

Our belief is that there are productivity benefits available for all three elements of the "mail partnership – Generators, MHs and AP itself – and not being able to get the proposal discussed other than at AP Letters level with MMUA is something that would not have happened during the enlightenment era of the development of the Barcode and BMP Projects: it is indicative, in our view, of why the postage price increase should be denied because AP is no longer working with the industry as it did in the past to produce the productivity gains that co-operative, constructive liaison produced.

SECTION 5

COMMENTS ON SUNDRY MATTERS

WITHIN THE AUSTRALIA POST DRAFT NOTIFICATION PAPER

Standard Letter Price Comparison (Purchasing Power Parity)

Page 10 of the Draft Notification

At first glance this is indeed interesting and AP does indeed come out as low man on the totem pole but we question whether the list compares “apples with apples”.

It would, for example, have been interesting to have the Post Offices shown as *Monopoly, Deregulated, Partially Deregulated and On the Way to Total Deregulation* groups: the changes within the EC, for example, would make for interesting comparative comment in this section.

Similarly, it would have been interesting to have the Post Offices shown with details of their respective Bulk PreSort Mail discounts on offer for the work done by the MH before lodgement such as minimum volume before discount can be applied and, once applied, what rates of discount apply.

Here are some interesting comparisons that illustrate why we feel that AP’s Figure 1 (Standard Letter Comparison (Purchasing Power Parity) at page 10 of the Draft Notification is questionable:

Basic Postage Rate – first figure = 1oz (30g) – second figure = 2oz (60g)

	Rates in own currency		Rates in AUS currency	
Australia	0.55	0.55	0.55	0.55
Canada	0.52	0.96	0.57	1.04
USA	0.41	0.58	0.45	0.63
UK	£0.34		0.74	

Bulk Mail – by the fastest delivery (but not express) at the highest presort level: using local currencies (basic rates as shown immediately above)

	30g	Discount	60g	Discount	Pieces
Australia	0.399	27.5%	0.399	27%	300
Canada	0.480	7.7%	0.560	42%	5000
USA	0.41	24.4%	0.437	25%	500
UK	£0.24	29.4%	£0.18	47%	4000

Bulk Mail – by a slower delivery at the highest presort level: using local currencies (basic rates as shown above): Australia’s equivalent Off Peak Bulk PreSort Mail

	3 oz (90g)	Discount
Australia	0.388	29.5%
USA	0.218	62.4%

Non-Profit Bulk Mail –using local currencies and comparing discounts available

	3 oz (90g)	Discount
Australia	0.328	40.4%
USA	0.130	77.6%

Service Standards

Page 15 of the Draft Notification

Through the commendable changes that have been over the past decade, AP has been able to meet its regulatory Performance Standard of 94 percent. The Bulk Mail Monitor, a requirement of the 1999 AP-MMUA Code of Practice, has now been operating for several years. Our contention is that it should be refocused on specific product areas – the first in our opinion should be Print Post which although not a reserved service nonetheless makes use of all the processes and equipment of the reserved service. We believe that shifting the focus of the Bulk Mail Monitor from its present broad sweep approach to a defined, more narrowly focus will be of better benefit to all concerned.

Growth of other businesses within Australia Post

Page 38 of the Draft Notification

Many of the new business ventures of AP (iPrint, eLetters, Decipha etc) are in direct competition with the very industry that AP was set up to serve and use the financial stability of the monopoly's core strength in ways that are not available to the Australian mail industry and its supporting ancillary industries that AP is cannibalising.

The extent to which such cannibalised business ventures affect the daily business of the reserved services, and thus the price (and proposed price) of postage should be carefully examined and commented upon by the ACCC before a decision is taken on this price notification.

The portcullis policy: ULDs and Advance Warning Systems

Pages 39-40 of the Draft Notification

The comment at page 39 of the Draft Notification that "AP's two main operating divisions, Commercial Division and M&ND, are principally responsible for operations involving the reserved letter service" should be read in conjunction with our complaint that the portcullis of the Letter Division and the Revenue Division is blocking proper operational level consideration of our ANI and ePLA developments.

The real time options provided in ANI's ePLA are far superior for AP advance warning and logistics planning purposes than that provided in the recently announced Advanced Warning System – a process within the Lodgement Quality System process that has been developed after MMUA provided the details of its ePLA (electronic PreLodgement Advice) which itself has long been used by at least one BMP member company with Print Post lodgements for one of Australia's users of that product – used to the

benefit of Generator, BMP MH and the operational (ie, Commercial Division and M&ND) staff exposed to it.

Whilst AP continues to follow the portcullis approach to suggestions which its high volume customers have put to it that will aid in the daily flow – and bring cost savings to the table – it should be denied the request for another postage price increase.

The unfilled objectives of the original Barcode and Roundsorting Project

Page 40 of the Draft Notification – Productivity and Efficiency Programs to 2006-07
Pages 42-43 – Machine Sequencing of Small Letters

The first public detailing of (as it was then known) the *Barcoding and Roundsorting* project was given by the then Manager Operations Engineering of AP at an MMUA Members Luncheon on 29 February 1996. Based on those comments, and of our workings with AP during the lead-in period to the launch of the Barcoding Program, we hold to the statement we made in our submission to the ACCC in 2002 in connection with the AP Draft Notification for a postage price increase at that time, viz:

“Until AP can show that all the key elements within the Barcode Project included in the original plan which led to the approval of the \$500 million budget have been exhausted [claiming that there is now less scope for productivity improvement] is not an acceptable ground for a postage price increase.

“AP on the one hand has imposed requirements on its customers – *no barcode, no discount* – requirements which have been instrumental in achieving some of its own productivity gains, whilst on the other hand it has not yet achieved its own decade-long targets of cost-saving productivity benefits and now seeks to be excused itself from completing that work so that it may be allowed to substitute therefore an increase in the pricing of its monopoly products.”

We reject the cry for an increase based on the simple concept that it has been a “long time between drinks” – not one of AP’s customers is able to achieve an increase in prices based on such a premise and neither should AP.

For reserved services: profit or community service obligations?

Page 55 of the Draft Notification

We do not disagree with the general thrust of AP’s Concluding Comment at page 55 of the Draft Document except to point out that today’s position as set out in the first of the three paragraphs insofar as it applies to Bulk PreSort Mail is built upon a great amount of constructive, co-operative work of the very high volume generators of mail and their contracted mailing houses. That this should have been subjected to the portcullis approach of the past few years – especially at this time of threat from e.alternatives – is to be regretted.

As to the more political question, should AP's reserved service motivation be based on profitability pressures or simply meeting the costs of community service obligations where appropriate, we recognise that that is not an issue for this exercise but one to be kept in mind perhaps in resisting the temptation to see profitability, return on investment facilitating ongoing investment as the principal drivers in dealing with a postage price increase.

ENDS