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

Tuesday, 11 June 2002

Introduction

On the 10th May 2002, we received the Issues Paper – Australia Post Ltd Draft Pricing Notification from the ACCC. We would like to take this opportunity to respond to the ACCC with a submission that outlines the impact and the likely action that Magnamail Pty Ltd will undertake in order to maintain feasibility and profitability of future operations.

Magnamail Pty Ltd is a privately owned mail order company that distributes catalogues nationally throughout Australia and New Zealand. Magnamail had been in operation since 1979 and currently lodge 1,980 000 million catalogue and 360,000 parcels per annum with Australia Post. Australia Post Ltd is our largest creditor, representing 40% of total creditors other than stock.

Whilst the Draft Notification lodged by Australia Post covers change in letters pricing, this price increase will not only impact us but it will also affect all our major suppliers including Australia Post.

In a typical situation, when a major supplier substantially increases prices, Magnamail would approach other suppliers in the market place to ensure that we receive the most economical price. In this situation, given that there in no viable tested alternative to using Australia Post, we believe that ACCC needs to take a very firm approach to ensure that Australia post does not undertake monopolistic behaviour.

Whilst the ACCC has already permitted Australia Post to remove AD Post in Jan 2003, the impact of the 2.2c increase of the pre sort rates makes the overall increase in prices unsustainable. I.e. the removal of AD Post results in an increase of 19.4% (given the pre sort mix) in our prices. However with the further 2.2c per article increase, our prices will have effectively increased by 26.27% in the space of 6 months. The scale of these increases in total has forced Magnamail Pty Ltd to seriously consider the effectiveness of how we are carrying on our business. As a result Magnamail will need to consider reducing the number of campaigns we do per year, and also the reduction in the actual mailings per campaign. We are also considering taking the printing of our catalogue offshore to reduce costs to offset the increase in postage prices. These actions will have serious flow on effects to our major suppliers including Australia Post.

Summary of Major Changes Introduced by Australia Post Since October 1999

October 1999
The Barcode Pre-sort service was introduced citing future productivity gains and costs reduction to all those who implement it. The minimum proportion of barcoded letters per lodgement was 75%.

April 2000
Australia Post withdrew the AD Post reply paid discount of 6.5%.

July 2000
The minimum proportion of barcoded letters per lodgement was increased from 75%.to 80%

Magnamail Pty Limited A.C.N. 001 229 376
Unit G, 134-140 Old Pittwater Road Brookvale NSW 2100
P.O. Box 453, Brookvale NSW 2100 Australia
Ph: (02) 8978 1100 Fax: (02) 9907 4362

July 2001
The minimum proportion of barcoded letters per lodgement was increased from 80%.to 90%

July 2002
1st stage of the AD Post withdrawal resulting in a 10% increase to AD Post Pricing

Jan 2003
Complete withdrawal of AD Post resulting in a further 10% increase in Pre Sort pricing.

Each time Australia Post has made changes in particular from October 1999 to June 2002, the effect to Magnamail has been increase in costs in order to comply with the changes.

Withdrawal of the 90/10 Rule and the Introduction of the "Clean Mail"

Australia Post sold the concept of DPID barcoded mail to users citing that it will lead to increased productivity due to automation, thus leading to significant reductions in the cost of processing mail. This cost savings, it was argued, could be passed on to consumers. In addition it was also argued that the flexibility of envelope artwork would increase.

Since the introduction of Bar-coding, prices have increased and envelope artwork flexibility has been tightened.

Cost of Implementing Bar-Coding and Australia Post's Commitment to PAF File

Magnamail incurred significant setup costs in order to implement DPID Bar-coding and with the removal of the 90/10 rule coupled together with the price increases, the return on investment over a 5 year period is unlikely to eventuate. See Table 1

Table 1

Initial Purchase of Software	$23,000
Purchase of Hardware to be able to use software – 15 PC @$3000 each	$45,000
Training of Staff	$5,000
Implementation Costs including Time	$10,000
TOTAL INITIAL INVESTMENT	**$83,000.00**
Yearly Licensing Fee approximately	**$7,000**
Savings required over a period of 5 years to payback investment	**$23,600 p/a**

Currently Magnamail is achieving an 89% match rate to the Australia Post PAF file. At the time of writing this submission the required match rates are 90%. Australia Post now wants to remove the 90/10 rule. The implication of this is that the required match rates will now be 100%. It is our opinion that this is unreasonable as the Australia Post PAF file will never achieve 100% of all mailable addresses in Australia.

Magnamail recognises that the introduction of "Clean Mail" has the effect of quarantining Pre sort rates from the BPR of 50c per article. By removing the 90/10 rule and introducing the "Clean Mail" service, Australia Post recognises and acknowledges that it cannot complete the process of achieving a representative PAF file of all mailable addresses in Australia. Magnamail is concerned as to the level of commitment that Australia Post will have as to continuously improve the PAF file. Especially now when it is not in their best interest to do so as companies able to append a DPID will be paying a lower price per article mailed.

The Increase of Pre Sort Rates of 2.2 cents per Article

Magnamail would like to point out to the ACCC that at the time of the Draft Submission by Australia Post of their Draft Notification dated 28 May 2002, the current prices mentioned throughout the submission refers to the prices that will only be in place at January 2003. We consider this to be misleading and intended to minimise the total effect of the price increases to the ACCC. Therefore Magnamail will be examining the total effect of the price increase and demonstrating how it will adversely affect us and lead to an adverse flow on effect to our suppliers.

Australia Post in their submission claim that the average effect of the 2.2c in Pre Sort rates will be 5%. The effect of this 2.2 cent increase actually represents an increase of 5.78% on Jan 2002 prices. (please note that this price does not include the Ad Post discount)

Table 2 demonstrates the financial impact of the removal of Ad Post, removal of the 90/10 rule, introduction of clean mail and finally the introduction of the 2.2c on pre sort rates. Please note that this table uses the Small Letters Pre Sort (up to 125g) category, as this is the category that Magnamail mails 1,980,000 catalogues per annum

Table 2

No of Catalogues	Av Cost Per Catalogue (inc GST)	Total Cost Per Campaign (inc GST)
Current Cost of Campaign Mailing – June 2002		
326,590	**$0.3229**	**$105,455**
Cost of Mailing Campaign– No Ad Post and with 90/10 rule – Jan 2003		
326,590	**$0.3855**	**$125,900**
Cost Of Mailing Campaign with 2.2 cents Increase and Clean Mail – Jan 2003		
326,590	**$0.4078**	**$133,183**

Please note, as mentioned before at the time of Australia Post's submission to the ACCC, the current small letter rate is $0.312 for a regular small letter using pre-sort <u>not</u> $0.374 as indicated by Australia Post.

From the information displayed in Table 2, it is clear that there is a 26.29% increase in Magnamail cost of mailing a catalogue from June 2002 to Jan 2003 (this includes the 2.2 cents increase of Pre-sort rates). The increase of 2.2c represents a 5.78% increase in the cost of mailing a catalogue after the removal of AD Post. Magnamail currently mails 6 catalogues per annum. Taking this into consideration, the additional expense that Magnamail will incur per annum as a result of the price increases will be $166,368. This means, Magnamail will have to earn additional revenue of [redacted] to compensate for this price increase.

Due to the magnitude of these increases Magnamail now has to look at alternative to our current strategy as there is no possible way to continue this way and preserve viability. The alternatives available to Magnamail are;

1. Reduce mailing campaigns from 6 campaigns per year to 5 ie from 1,908,000 catalogues per annum to 1,650,000 catalogues per annum. Magnamail will be forced to do this as we cannot sustain our profitability with 6 campaigns because of the increased postage costs.
2. Reduce the mailings per campaign from 330,000 to 280,000. Annualised this equates to the reduction from 1,980,000 catalogues to 1,400,000 catalogues. Due to the increase costs per campaign, our break even (BE) has increased. This has the effect of raising the profitability requirements for each customer lists. Previously where Magnamail has mailed a catalogue to marginal customer list that was breaking even, that list will now be scrapped as they are unprofitable.
3. Reduce costs by printing our catalogues offshore. This is simply to reduce our costs.

Table 3 demonstrates the financial effect of Magnamail's change in strategy. Even though the removal of AD Post has been approved by the ACCC, the additional 2.2c on pre-sort rates will have a major effect on Magnamail's overall profitability causing our situation from being marginal to unprofitable. The flow on effect of these price increases will affect all our major suppliers quite substantially. Australia Post will be most affected. Magnamail in addition to mailing a catalogue with Australia Post, also receive 70% of our orders by return post (at the full basic postage rate) and we also use Australia Post to mail our parcels to our customers.

Explanation Notes for Table 3

- Column 1 represents the current situation.
- Column 2 represents the situation in January 2003 and Magnamail makes no change to our strategy.
- Column 3 represents the situation if we were to reduce our campaign mailings from 6 to 5.
- Column 4 represents the situation if we were to reduce our mailings per campaign in addition to reducing the number of campaigns per year.

Table 3 **Impact of Alternative to Magnamail's Current Strategy**

	Column 1	Column 2	Column 3	Column 4
	Jun-02	Jan-03	Jan-03	Jan-03
			Reduce Campaigns	Reduce Campaigns Reduce Mailing
No of catalogues	6	6	5	5
Qty per Catalogue	330,000	330,000	330,000	280,000
Mailing Per annum	1,980,000	1,980,000	1,650,000	1,400,000
Postage Costs				
Postage	$ 639,342	$ 807,444	$ 672,870	$ 570,920
Further Revenue to AP				
Return Postage on Orders	$ 62,370	$ 69,300	$ 57,750	$ 49,000
Parcel Postage	$ 1,081,080	$ 1,081,080	$ 900,900	$ 764,400
Total Revenue to Aust Post	**$ 1,782,792**	**$ 1,957,824**	**$ 1,631,520**	**$ 1,384,320**

The information contained in Table 3 clearly demonstrates the effect of Magnamail intended actions. Australia Post will suffer the most with the annual revenue from Magnamail decreasing by $398,472 to $1,384,320. The other industries that will suffer as a result of Magnamail new strategy would be the mailing houses, envelope manufacturers, paper suppliers, graphic designers, photographers, printers, local product suppliers and more importantly, Magnamail would be cutting back on staffing levels. In addition by having our catalogues printed offshore, the printing industry would forgo approximately $360,000 to overseas companies.

Conclusion

Magnamail believe that the impact of the 2.2c increase in pre-sort rates represents a 5.78% increase in postage prices. Whilst this increase in moderate, the increase coupled together with the removal of Ad Post is a net 26.27% increase of our postal charges. In dollar terms this represents an increase of $166,368. The overall impact of the total increase is so significant that Magnamail will be forced to adopt alternate strategies to combat the price increase.

The financial impact of our alternative strategies will have significant impacts on our suppliers including Australia Post, who will suffer the most. More importantly if we move printing offshore we will remove $356,000 worth of printing from the Australian Printing Industry. This has a major effect on our printers as we represent a steady source of revenue for them. Magnamail estimate that if we print our catalogue offshore we will be in a position of reducing our costs relatively close to current levels or at least a manageable level.

We hope that the ACCC will consider what the implications to Magnamail and the flow on effects to our suppliers will be when determining whether these increases are fair and justifiable.

Yours sincerely

Alex Waldman
General Manager
Magnamail Pty Ltd
Ph: 02 8978 1100
Fax:02 9907 4362
Email: alexw@magnamail.com.au