



POAAL

POST OFFICE AGENTS ASSOCIATION LIMITED

Ref. 050/043/6/02/02082



10 June 2002.

MA 13/6

Australian Competition and Consumer Commission
GPO Box 520,
MELBOURNE VIC 3001

Attention: Ms Margaret Arblaster
General Manager – Transport & Prices Oversight

FILE No.
ENTITY
DMAN <i>D02/33262</i>

Dear Ms Arblaster,

RE: AUSTRALIA POST APPLICATION FOR AN INCREASE IN POSTAGE

Thank you for the opportunity to respond to the draft price notification of Australia Post pursuant to s22 of the Prices Surveillance Act 1983. Our detailed response to the Commissions Issue Paper is attached.

The Post Office Agents Association Limited (POAAL) is the representative body for the small business operators that own and manage the nearly 3,000 Licensed Post Offices across Australia. There are nearly 10,000 people employed in this area of Australia Post's retail operations. In addition our organisation has many members in the nearly 6,000 Mail & Parcel Contractors involved in delivery operations for Australia Post.

As made clear in the Australia Post submission it has had a good history of price restraint and productivity. Licensees and Mail Contractors have made substantial contributions initiatives over many years. The income from an LPO is based around the volume of business processed and obviously the basic domestic rate of postage is a crucial element in the commissions paid. Mail Contractors are paid on volume of mail and/or number of delivery points. As result, Licensees and Mail Contractors have a vital interest in the outcome of the ACCC deliberations and for reasons made clear in the attached fully support the application by Australia Post.

In addition to the comments attached, POAAL is available to participate in further deliberations or investigations by the Commission as this review proceeds.

A Profile of the Association and other information is available on our website at www.poaal.com.au.

Yours faithfully,

Marie McGrath-Kerr

Marie McGrath-Kerr
Chairman

**Submission to the
Australian Competition and Consumer Commission
by the
Post Office Agents Association Limited
10 June 2002**

Overview Comments

1. As the Australia Post submission makes plain, its application for a price increase is based around the proposition that it has held standard postage constant over ten years and effected significant productivity gains which have been substantially shared with its customers and the government shareholder.
2. A price increase is now necessary to position the letters business for on-going profitability, to meet APs Community Service Obligations and to generate mandated returns on assets (using the WACC).
3. You will also note that in addition to real price decreases over the last ten years business volumes have also decreased in the discretionary mail sector especially from private consumers. This has been accelerated as substitutes are found in the use of mobile telephony, electronic mail and the like.
4. With real decreases in both price and volume, especially in consumer mail, the Corporation's profitability has only been achieved through productivity gains.
5. This burden has fallen particularly heavily on the licensed retail operations of Australia Post. It is this group that primarily services the private consumer and small business sectors.
6. Well over 60% of Australia Posts letters revenue and all of its revenue from agency services is achieved through its retail network. Licensees represent nearly 80% of that network and a material amount of the total retail business. The major reward for Licensees is based around the volume of business they generate and process together with the standard rate of postage.
7. With real decreases in both volume and price it is Licensees that have had to generate significant productivity gains to maintain a reasonable standard of living and to maintain a viable business. Without this retail network Australia Post would be unable to meet its statutory requirement of providing reasonable access to postal services for all Australians in the manner demanded of it by government and the community.

8. Much of the productivity gains achieved by Australia Post have occurred through the substitution of its own labour by capital investment, ie the introduction of technology to all facets of the business. This has been assisted by the conversion of a material volume of labour costs to contract services. All of which are sensible and responsible economic strategies.
9. However, most of the productivity gains have not assisted the operation of LPOs or Contractors. Gains have primarily been retained within the organisation through efficiencies in up stream processing or outsourcing. These are not reflected in improvements in efficiencies associated with the "first or last mile" of customer servicing in relation to the letters business. It's at this end of the customer cycle that Licensees still have to deal with customer enquiries and demands. Indeed Australia Post customer service programs have heightened demand and expectations from customers on the quality and effectiveness of the service interface. Again this burden has fallen to Licensees.
10. It is fair to say that some productivity gains have been effected through the use of computerised point of sale systems. These were introduced in the early 1990's and any gains have been absorbed in the period of price restraint that has existed since. Any productivity gains that have been made in this area have been offset, at least in part, by a reduction in price (cost to AP) for the service offered through electronically equipped offices.
11. On the other hand Australia Post has introduced a host of measures to aid its own up-stream mail processing completed within their operations but which need to be undertaken by its retail operation. This includes pre-sorting of mail, the application of rigorous quality standards, and the acceptance of a number of new differentiated services such as expedited mail etc. These have only occurred through the unrewarded additional effort of Licensees, effectively transferring all of the gains into the hands of Australia Post.
12. Unlike Australia Post the scale of licensee operations does not enable them to readily make productivity gains through the use of capital or the contracting out of operations or real savings through the changes to systems with each office. The only change that has had to occur is a reduction in livelihood of the individuals involved and/or a change in the mix of business offered from each outlet.
13. In effect Licensees have borne the brunt of real decreases in the price and volume of the letters business in the customer sectors they serve. They have contributed to productivity gains through new procedures that require additional action (cost) in their post office to achieve gains elsewhere and they have limited opportunity to achieve productivity gains in the same manner as Australia Post.

14. In the circumstances the proposal to increase the standard rate of postage to 50cents, which will translate directly into revenue for Licensees will see some recovery of the commercial returns they must make on the application of their capital and labour. It will also contribute to the continued viability of the existing retail network in the immediate uncertain future of the next few years.
15. Longer term, no doubt, will require some further restructuring of the organisation and re-thinking of the channels and processes required to service its customer base. The timing of demands for that change is uncertain. In the interim, Licensees support the increase in basic postage to ensure the viability of the retail network.
16. The following are comments specific to your Issues Paper of 10 May 2002.

Likely Impact of the proposed changes on users.

17. POAAL offers its comments in relation to the segments serviced at LPOs and through Mail Contractors i.e. consumer and SME.
18. The proposed changes to "Clean Mail" and discounts for relatively small volume pre-sorted mail are expected to have any major damping effect on mail volumes received over the medium term because for the discounts being offered. The incentives provided by Australia Post are likely to improve the effectiveness of marketing mail. Response rates for the business customer from hard copy mail is still superior to electronic mail and the major impact on volumes will only really be affected as consumer choice for the medium of communication changes.
19. Consumer mail, especially the discretionary use of the mail, is expected to continue to decline primarily based on the ease of use of effective substitutes rather than the effect of any price increase. While the initial impact of the price increase may accelerate the search for substitutes it is not expected to have any material impact over the medium term.
20. The effect on Christmas mail is unlikely to have any material adverse impact especially by the time the price increase becomes effective.

Australia Post's Letter Service

21. Licensees are the forefront of customer reactions to poor letter delivery service. Industry experience suggests that most complaints are likely to be directed to the local representative of the organisation. As made clear from the submission by Australia Post the letter delivery performance is of world standard. With some exceptions it is the experience of Licensees that the SME and Consumer customers are very satisfied with the current service offered through the post office, especially in comparison to other "government" agencies and competitor type organisations operating in local communities.

Impact on Competitors and Potential Competitors to Australia Post

22. From the perspective of Licensees the type of competition encountered are alternative post office operations (such as MBE etc) and the alternative providers of Private Letter Box services.
23. Both these types of operators already charge substantially more than similar services offered by Australia Post and any price increases for the letter service will have minimal impact on these services.

Appropriateness of Detail and Consultation

24. No comment.

Comments on the Proposed Price Structure

25. The proposed pricing structure is considered to be relatively simple and efficient both from the perspective of the customer and the staff and Licensees serving them.

Potential for Productivity Gains by Australia Post

26. No doubt additional productivity gains may be made by Australia Post. However, within the current operations although all material gains have been harvested. POAAL might add that this has been achieved through a major program of re-structuring the cost of services while simultaneously achieving a positive impact on customer service and perceptions.
27. Additional gains within existing processes associated with the reserved services are challenging and must be made in the context of consumer and government demands. The time frame in which these gains can be achieved and the period of community and government consultation required will be extensive. A price increase to sustain the organisation in the interim is warranted.

Predicted Volume Changes & substitution assumptions

28. POAAL is not in a position to offer further comments on this aspect other than the Australia Post predictions of volume decreases reflect the anecdotal evidence of Licensees.

Appropriate pre-tax nominal WACC and AP asset Valuation

29. It should be emphasised a proper assessment of the use of capital in this industry does **not** include the investment made by Licensees and Mail Contractors. If it did, the justification for an increase in price for reserved services would be even more strongly supported.
30. POAAL believes that Australia Post compares well within an appropriate class of organisations.

Relation between CSO and Letter Prices

31. POAAL does not have any thing to add to the details in AP submission.