



Print & Visual Communication Association

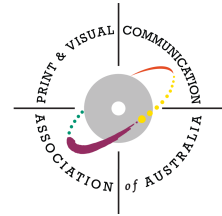
Submission to the ACCC regarding Australia Post's proposed price increases

13 September 2019



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Introduction

The *Print & Visual Communication Association* represents businesses in the Print, Packaging, and Visual Communications sector. It is a Registered Organisation regulated under the Regulated Organisations Act and is the industrial association and peak body of industry.

Many of the businesses in the print sector rely on commercial and bulk mail as a core of their operations and of their value offering. Some of these printers specialise in mail, and are known as “Mail Houses”.

PVCA submits to the ACCC that the largest customer of Australia Post, the private sector Mail Industry (aka “mail houses”), has been excluded from any meaningful consultation with the monopoly service provider since approximately 2015 (when the last BPR increase was endorsed by the ACCC), despite unabated volume decline.

Is it sound competitive policy that a monopoly such as Australia Post be permitted to arbitrarily use price as a lever for their own short-term sustainability, at the cost of private sector entrepreneurs and employers in their supply chain?

The businesses represented by the PVCA operate in rural centres as well as Australian capital cities, and range from SMEs to listed and international companies. Collectively they are the largest manufacturing employer in Australia, and fundamental to the promotion and delivery of commercial transactions across our economy.

Basic Postal Rate is the pricing reference point

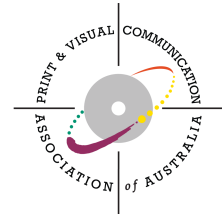
Australia Post is misleading in saying that there has been “no mail price increase” for four years.

The Basic Postal Rate is in fact the reference point from which all postal prices are set, not just standard mail. The vast majority of mail generated in Australia does not attract the Basic Postal Rate, because the mail falls within one of the various bulk, pre-sort, charity or unaddressed categories.

The majority of the volume of mail in Australia is commercial. These categories of mail are priced below standard mail (the Basic Postal Rate) to reflect the fact that most of the handling, and all of the sorting, is done by the printers (private sector Mail Houses). The mail is delivered to Australia Post pre-sorted, bundled by delivery code, ready for distribution.

The only service that Australia Post provides in this process is delivery. Everything prior to this is done by the private sector Mail Houses. This is an evolution of the mail business enabled by the private sector investment in print and sorting technology, which has taken the sorting work away from Australia Post.

Further, the competition and resulting innovation in the private sector value chain of print has delivered efficiencies in mail handling and is the sole reason for any improvement in productivity in the mail sector.



Australia Post has relied on its monopoly position to arbitrarily increase commercial mail prices, only constrained by the Basic Postal Rate. They have made no inroads in operational cost reduction, head count reduction, efficiency of operation, speed of delivery, product service offerings or productivity increase.

It is only standard letters that attract the Basic Postal Rate, and standard letters represent a tiny fraction of all mail volume.

Linked to the last hike of the Basis Postal Rate was a public commitment from Australia Post to find efficiency, and improve productivity.

Instead, Australia Post have used their monopoly position to gouge efficiency gains from their competitive and innovative private sector supply chain. The private sector has invested in technology and processes that lower their own labour costs as the only way to offset Australia Post's relentless price increases.

At the same time, Australia Post have lowered service standards. Standard mail delivery within Capital cities used to be 24 hours. That delivery timeline is no longer guaranteed even with Australia Post premium mail pricing.

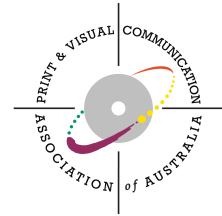
Business depends on business mail

Many Australian businesses depend on mail for promotion, for transaction, and for delivery. Physical mail is a direct contributor to Australia's retail economy. There is a direct correlation between Australia Post mail price hikes and a decline in mail volume, which is a negative impact on commerce.

The adverse use of monopoly power by Australia Post domestically is exacerbated by their failure to manage the contribution they make to foreign mail services effectively "dumping" into the Australian mail market. The agreements that Australia Post has with foreign mail services to take responsibility for domestic delivery of all mail landed in Australia results in the Australian consumer, retailer, and Mail House subsidising foreign commercial operations. The same item posted in Australia versus posted from foreign origins (e.g. China) will cost significantly more from an Australian retailer solely due to the mail cost imposed by Australia Post.

Australia Post has also failed to consult with the private sector regarding previous price increases, simply announcing increases as they choose to. Often in too short a time frame for SME businesses to renegotiate with their customers, who are the generators of mail. The consequence is an immediate decline in mail volume.

The PVCA does not believe that Australia Post is justified in increasing the Basic Postal Rate, and should instead be encouraged to rapidly seek the often promised but never delivered operating efficiencies in both its domestic delivery operations and also to seek equity in its operating arrangements with foreign postal services.



Impact on Mail houses

Depressed volumes of print

Previous Price increases in BPR

1 Sept 2008 – 50c to 55c

28 June 2010 – 55c to 60c

31 March 2014 – 60c to 70c

4 January 2016 – 70c to \$1

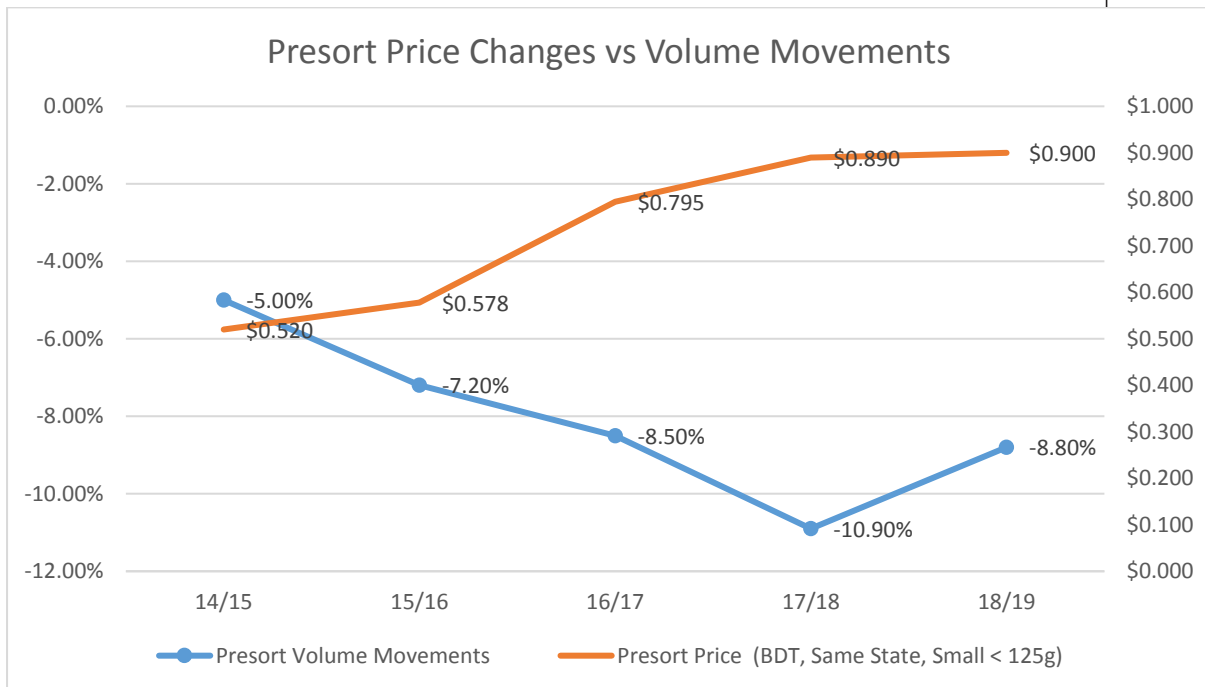
There is a clear correlation in price increase and subsequent declines in mail volumes.

Average Pre-Sort (commercial mail) volume movements

- FY14 vs FY15 – 5%
- FY15 vs FY16 – 7.2%
- FY16 vs FY 17 – 8.5%
- FY17 vs FY18 – 10.9%
- FY18 vs FY19 – 8.8%

Average decline in addresses mail volumes by financial year since 2008/09

- 2008/9 – 4.1%
- 2009/10 – 5.5%
- 2010/11 – 3.7%
- 2011/12 – 4.9 %
- 2012/13 – 6.3%
- 2013/14 – 4.0%
- 2014/15 – 7.0%
- 2015/16 – 9.7%
- 2016/17 – 11.8%
- 2017/18 – 10.0%
- 2018/19 – 10.1%



Price Sensitivity

Whilst there are multiple postage rates, the two main rates that are key to member feedback are the **Basic Postal Rate** (the cost of a postage stamp) and the **Barcode & Pre-sort letter rate**.

Price sensitivity on the Barcode & Pre-sort letter rate is *inelastic*. Increases in this rate immediately depress the volume of print across the sector.

The Barcode and Pre-sort letter rate is directly linked to the BPR.

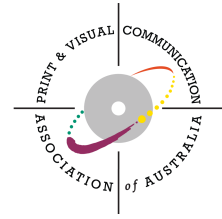
It is the pre-sort rate that is applied to bulk mailing, and used primarily by mail houses and printers for bulk delivery of printed and mailed items and letters.

Increases to the **Pre-sort** rate are not reviewed by the ACCC, and there is no compulsory external review or oversight mechanism vis a vis Australia Post changing the pre-sort rate. Changes are perceived by the private sector mail industry to be arbitrary. Feedback indicates that the current pre-sort rate allows for very slim margins on the work for printers and mail houses of around 1%.

Business letter services are intrinsically pegged to the Basic Postal Rate (BPR). Consequently business rates are guaranteed to rise following BPR increase.

The case for the BPR to rise therefore has a direct impact to business services and related industries. So, whilst Post talks about the impact to consumers being low, the reality is that the impact to industry is profound.

Australia Post has failed to recognise the symbiotic reliance Australia Post has on private sector mail industry to produce and sort mail and therefore what Australian Post needs to sustain itself.



Australia Post, if allowed to inflate the BPR, has the ability to leverage the disingenuous construct of the BPR price change to subsequently ratchet business prices with absolutely no stakeholder engagement in price setting or strategic considerations towards reinventing and therefore enlivening mail.

PVCA considers this to be a breach of Australia Post's CSO.

Australia Post, most likely due to monopoly complacency, has utterly failed in any market response or appetite to compete with or offset online marketing (electronic substitutes) has not in any material way grasped the (USPS proven) digitally enriched letters product opportunities.

The postal letters service provided by Australia Post has been intentionally slowed by Australia Post with the deliberate downgrading of the Standard service to "Regular" (previously referenced as diminishing delivery expectations).

The Australian Post mail service has otherwise remained virtually unchanged in every way thereby contributing to cumulative decay in mail value (and volume) during a time when mail "reform" should not just be about productivity and pure economies, but also market contestability of the medium. When we look to the US market, and the innovation of the USPS we see that Australia Post has failed to innovate. Australia Post's inaction has been a contributing factor to the decline in product consumption.

PVCA opposed to increase

According to the governing Act (for Australia Post), as covered in the issues paper, Australia Post must reasonably "...perform its functions in a manner consistent with sound commercial practice, earn a reasonable rate of return and pay a reasonable dividend to the Australian Government".

PVCA argues that sound commercial practice leading to dividends would include product evolution in line with market forces. Australia Post has clearly been laggardly in any product evolution.

PVCA is opposed to any increase in the BPR.