



**Printing Industries
Association of Australia**

**Submission to the ACCC's
Australia Post's 2010
Price Notification
Issues Paper**

30 April 2010



Association and industry background

The Printing Industries Association of Australia (*Printing Industries*) is the peak advocate and support organisation for companies operating in the print, packaging and visual communication industry in Australia.

The Association is an independent member based organisation, representing large, medium and small businesses. The Association has a diverse membership representing some 2000 companies and includes printers, desktop publishers, graphic designers, prepress houses, publishers, mail houses, software and hardware manufacturers and distributors, paper and paper board manufacturers, paper merchants, ink manufacturers, manufacturers and suppliers of printing equipment and consumables, packaging and flexible packaging, paper converting, binding and finishing, communication and media services.

Interest in review

Printing Industries welcomes the opportunity afforded by the Trade Practices Act 1974 to provide feedback on the proposed price increases by Australia Post to its reserved letter services. The interest of *Printing Industries* in this review stems from the fact that the proposed price increases will directly impact on part of its membership providing mail house services as well as indirectly on its core membership which comprises of printing organisations who manufacture items of printed matter such as magazines and other items that are subsequently distributed through the post channel.

Views concerning Australia Post's 2010 price notification

Being an active promoter of paper based communication media, *Printing Industries* as a matter of principle is concerned about any proposed price increases that will have the effect of making the paper based communication medium relatively more expensive to end users.

The price increases being sought by Australia Post to take effect from 28 June 2010 are identical to the one that was rejected by the ACCC in early December 2009.

In objecting to Australia Post's 2009 price notification the ACCC noted that the price notification did not demonstrate that the former had fully exhausted cost-based responses to its expectation of declining letter volumes.

It has now been several months since the ACCC decision and *Printing Industries* does not believe that Australia-Post has fully exhausted its efforts at cost reduction. Australia Post's admission that it was now ramping up its efforts in cost reduction to address further declines in letter volumes demonstrates clearly that it has opted for the easier option of requesting price increases to prop up revenue rather than implementing the required cost savings and pursuing the associated efficiency gains.



Australia Post has also indicated that it is currently undertaking a fundamental review of its business model to ensure it remains a sustainable business. *Printing Industries* is of the view that until this review process is completed and the outcomes are made public, then the ACCC should defer from making any decisions vis-à-vis the 2010 Australia Post price notification.

Companies represented by *Printing Industries* have been operating in an ultra competitive marketplace for decades. The response to this ultra competitive trading environment has been a drive and commitment to reduce operating costs which are largely achieved by investment in new technology and ongoing improvements to both processes and labour productivity. This approach should also be actively pursued by Australia Post.

Proposed price increases are excessive

Australia Post's proposed price increases for mid-2010 remain excessive given the current as well as short term projected economic environment.

The proposal to increase the basic postage rate by 5 cents translates into a 9.1 per cent price increase, seasonal greeting cards mail is proposed to increase by 10.0 per cent; clean mail by 6.7 per cent; the proposed price increases for prepaid envelopes range from 7.7 per cent to 10.3 per cent; for reply paid mail they range from 2.4 per cent to 8.8 per cent; for pre-sort letters they range from 2.6 per cent to 16.9 per cent; and for impact mail they range from 5.0 per cent to 6.7 per cent.

Also, the Bulk Mail Houses have already seen their pre-sort letter service rise from 38 cents to 39.9 cents (5 per cent) and 40 cents to 41 cents for interstate mail, as a consequence of the last price rise.

The current annual rate of inflation as measured by the Consumer Price Index is a modest 2.9 per cent in comparison. Based on Reserve Bank of Australia forecasts, inflation is projected to be around 2.5 per cent for 2010 with further monetary policy tightening.

Printing Industries believes given the modest inflation outlook and the contemporary ultra competitive economic situation faced by upstream industries serviced by Australia Post, the ACCC should reject the excessive price increases submitted by Australia Post for mid 2010.

Any increases approved by the ACCC will prove detrimental to the paper-printing-mail house value chain and the compounding effect will result in product substitution with mail users switching to non-mail alternatives such as e-communications at the expense of paper based communication mediums. Under such circumstances employment losses will eventuate amongst the paper-printing-mail house value chain.

Printing Industries agrees with the ACCC view that Australia Post should not be implementing regular price increases to fund the maintenance of its existing cost

structure. As has been previously stated by *Printing Industries* mail volumes are price sensitive. For an industry that faces competition from “other” mediums such as electronic mail, *Printing Industries* believes that the price elasticity of mail items will only increase over time and regular price increases will culminate in reduced volumes.

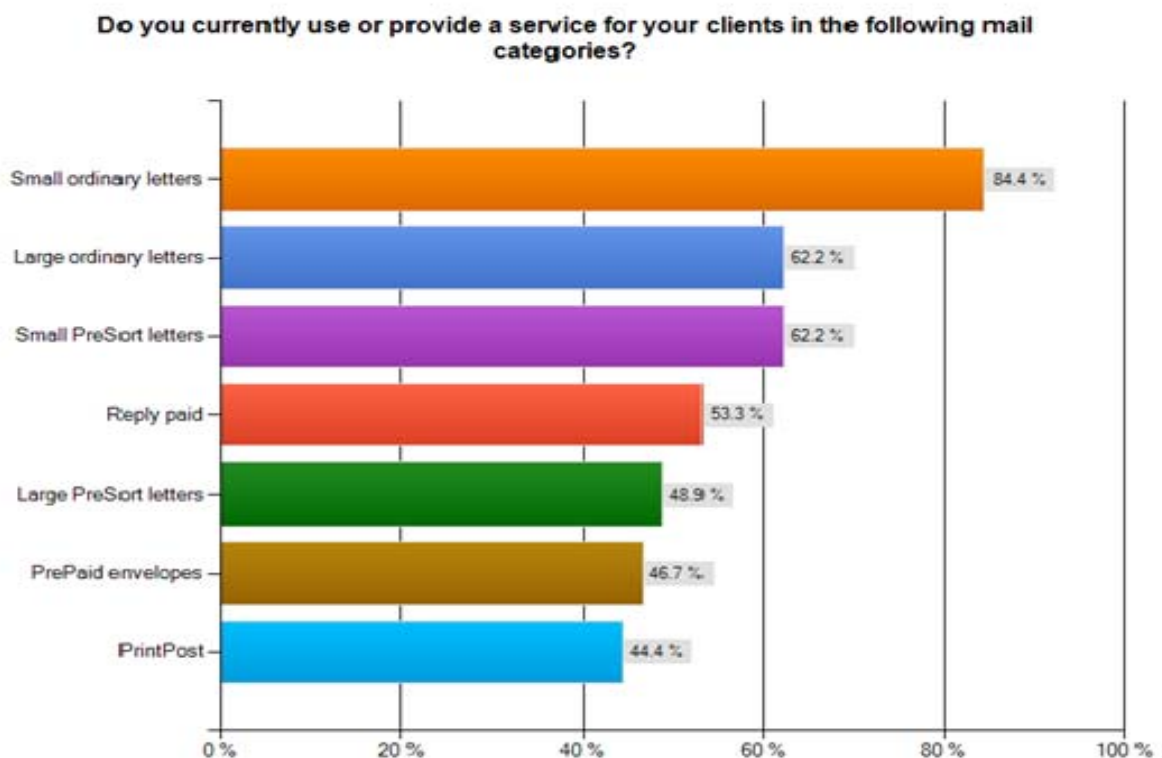
Printing Industries survey results

The Association decided to survey members to get their feedback on Australia Post’s 2010 price notification and use the feedback as part its response to the price notification. The results of the survey are summarised below.

Industry exposed to mail services

Digital printing, commercial offset printing and mailing services were the top three sectors chosen by survey respondents with mailing services being selected by 46.2 per cent of the respondents. A further 23.1 per cent nominated transactional/transpromotional printing (direct marketing). The high proportion who selected mailing services gives us confidence in the quality of the overall industry feedback.

In terms of mail categories, 84.4 per cent indicated that they provide small ordinary letters as a service followed by large ordinary letters and small presort letters each with responses of 62.2 per cent. The range of responses for the mail categories are outlined below.



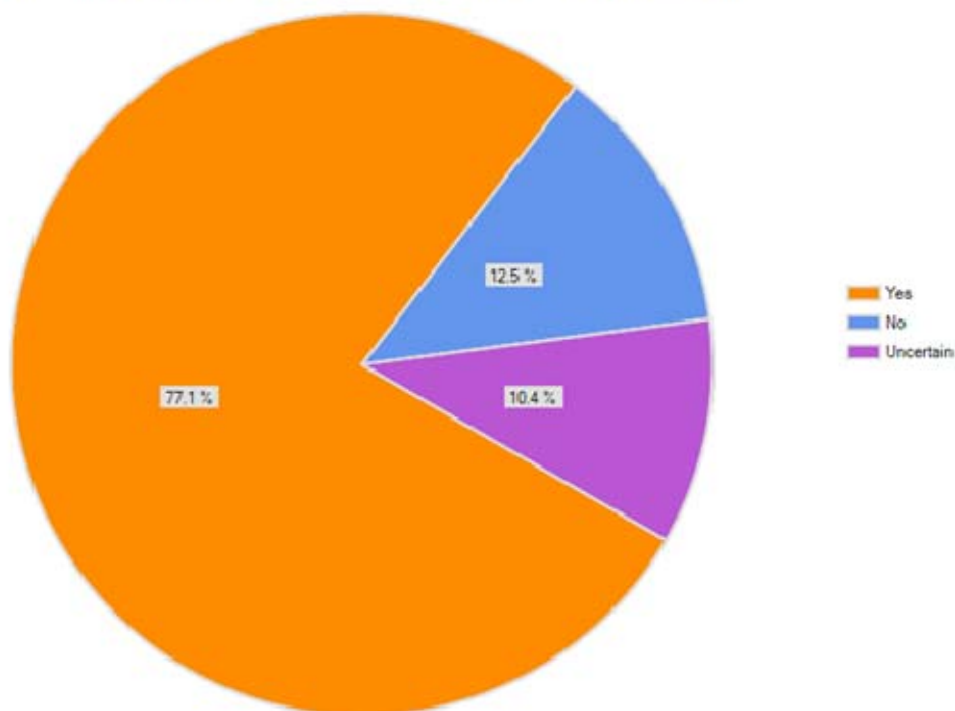
The chart above shows that the survey respondents are highly exposed to the mail categories that are subject to the 2010 price notification. This means if the ACCC approves the price notification then the subsequent impact on the printing and mailing industry will be significant.

Price elasticity of mail

On the issue of price elasticity of demand for mail services *Printing Industries* holds a contrary view to that of Australia Post. We believe that mail items are price sensitive and the sensitivity is likely to increase over time as alternative distribution channels become available.

More than 77 per cent of the survey respondents indicated that the proposed price increases by Australia Post would drive their clients to alternative marketing channels compared to fewer than 13 per cent who indicated no such impact.

Do you think the proposed price increases by Australia Post would make your clients consider alternative marketing channels such as electronic marketing?



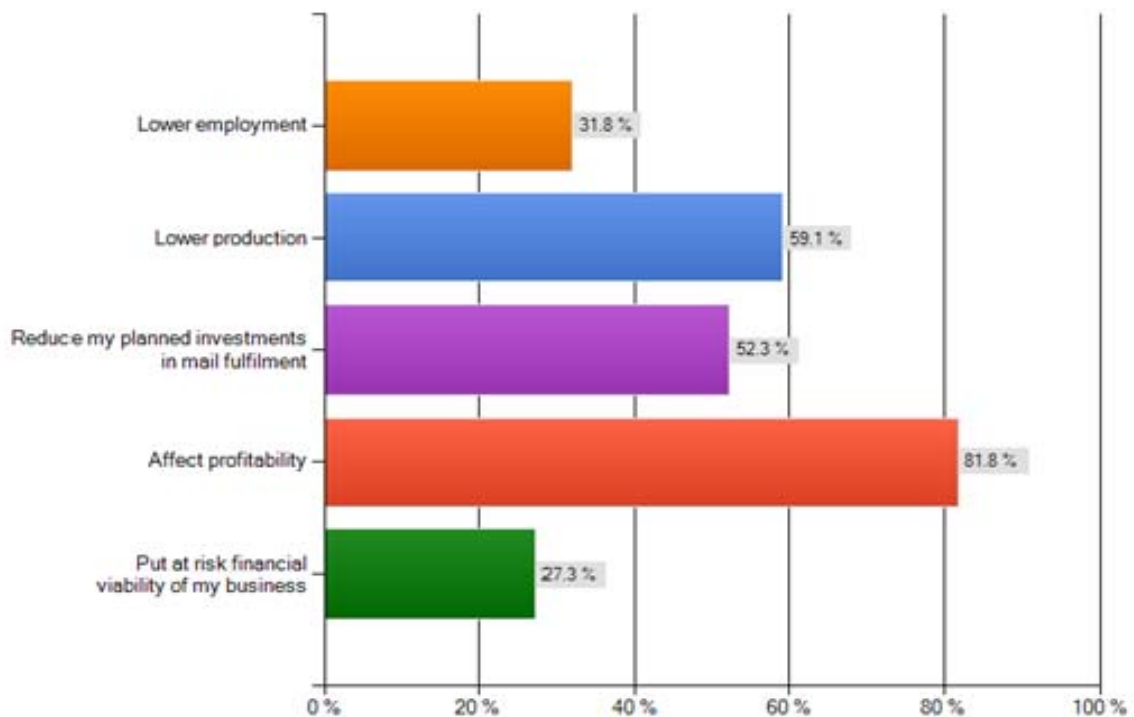
Projected industry impact

When considering the merits of the 2010 price notification by Australia Post, an important consideration is the likely impact on upstream activities such as print and mailing house services provided by member companies.

The most frequent cited impact flowing from increased postage prices was the impact on profitability which was chosen by almost 82 per cent of the survey

respondents; this was followed by lower production (59.1 per cent); and reduced investments in mail fulfilment (52.3 per cent). Other answers included lower employment selected by almost 32 per cent of survey respondents and the financial viability of the business being placed at risk which was selected by more than 27 per cent of the survey respondents.

If the ACCC approves Australia Post's price increases what impact will that have on your business?



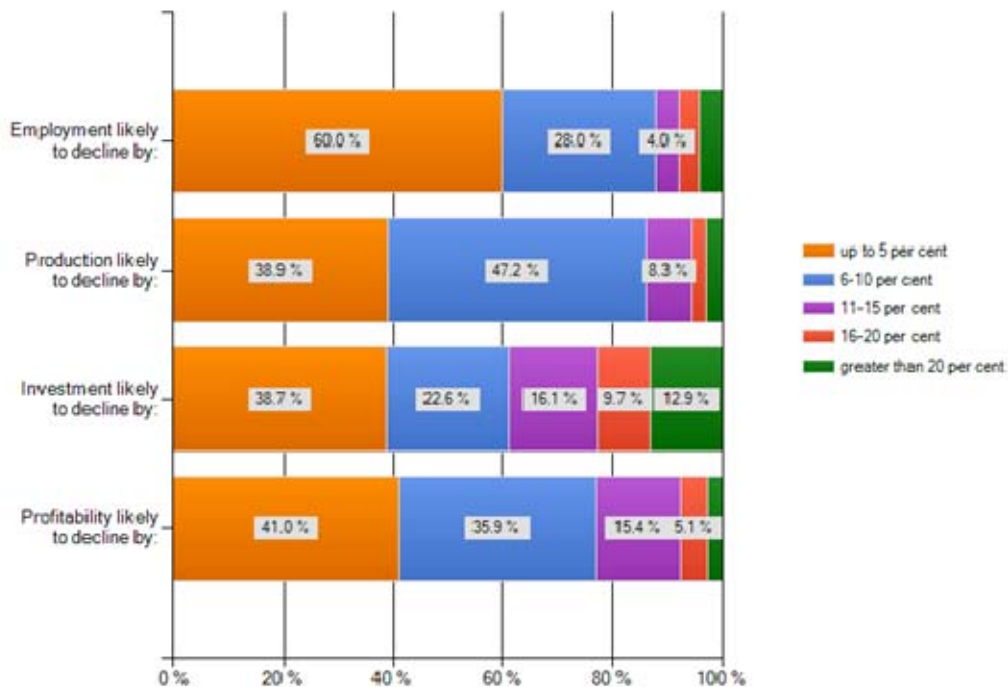
Other responses given by the respondents included increased scrutiny of postage activity and loss of trust from clients; acceleration of the downward trend of letter volumes; and reductions in direct mail marketing and promotion.

The respondents were also asked to quantify the likely impacts of the proposed postage price increases on their businesses. The feedback shows that investment and profitability were the two areas respondents believe would be the most highly affected.

Any decline in planned investments by mail houses or printing businesses with mailing services would also prove detrimental for Australia Post as it would impact on the latter's use of automation processes.

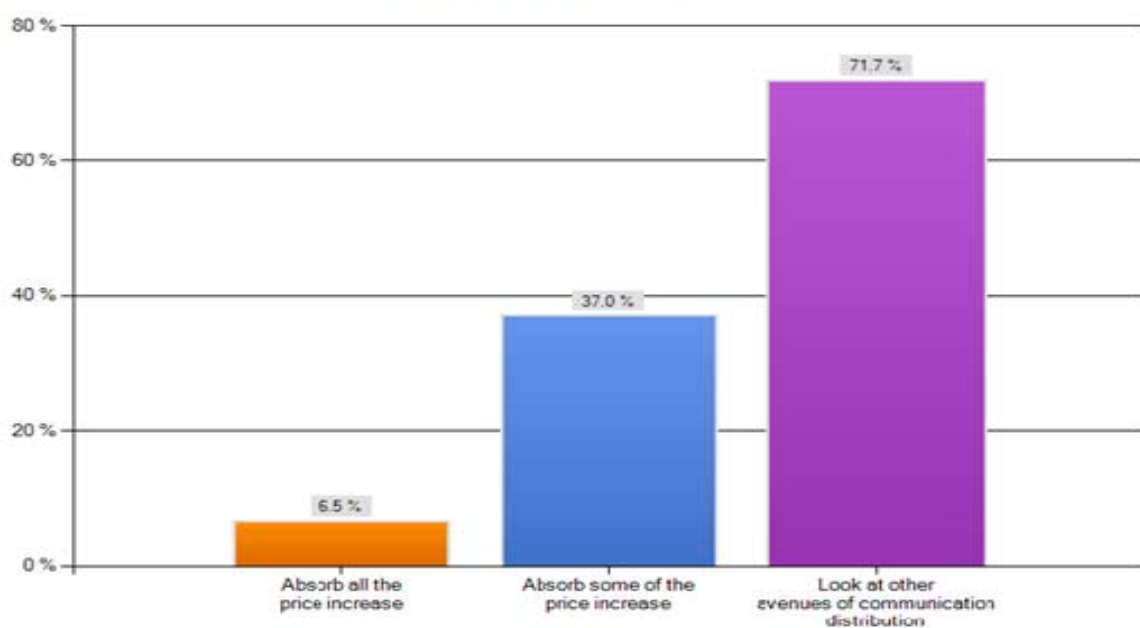
The accompanying chart outlines the full spectrum of likely industry impacts flowing from the proposed postage price increases.

Please quantify the likely impact of the proposed increases in postage prices on your business



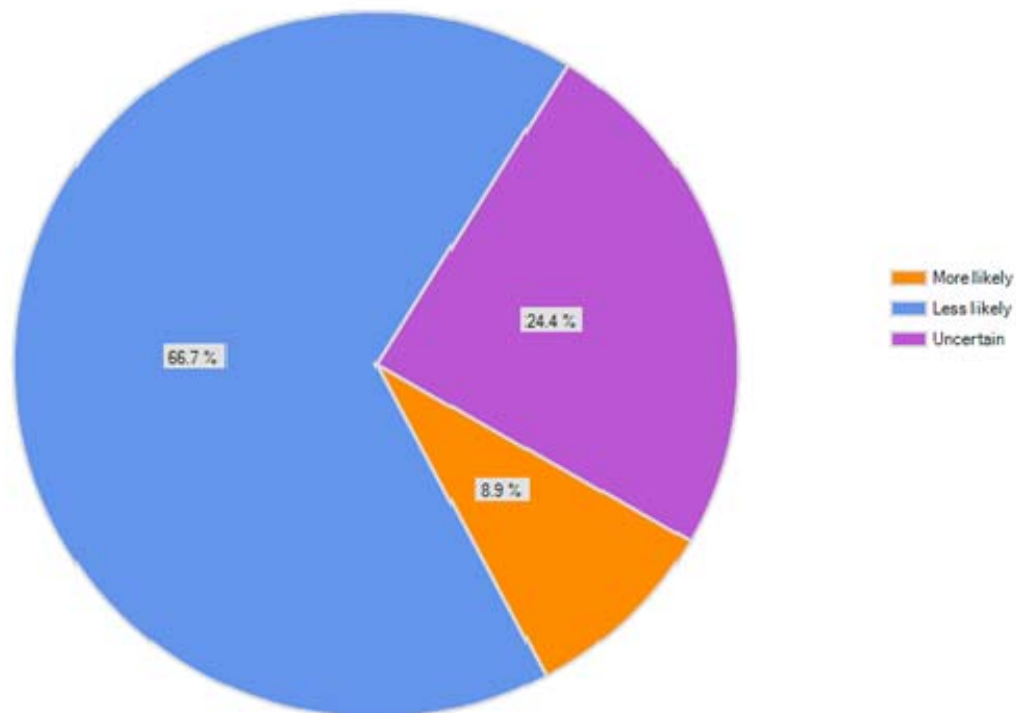
The reason why the estimated impact on profitability of printing and mail house businesses is so significant is due to the way they are likely to respond to a price rise. Whilst almost 72 per cent indicated that they will explore other communication distribution channels, almost 44 per cent indicated that they will either be fully absorbing the proposed price increase or absorb some of the increase.

If the ACCC approves Australia Post's 2010 price notification what strategies would you be pursuing or implementing to retain business?



Industry respondents were specifically asked to comment on the likely impact of the proposed postage price increases on investment in software to conform to Australia Post's mail lodgement requirements. Two-thirds of respondents responded by indicating that they were less likely to invest in the software.

Given the proposed postage price rises is your business now more likely or less likely to invest in software to conform with Australia Post's lodgement requirements?



Efficiency of Australia Post's costs of providing reserved letter services

While the industry feedback to this important question was diverse, the undertone was one of criticism of Australia Post and its operations.

There is broad industry conviction that there exists large opportunities for reducing operations costs within Australia Post. Hence the suggestion that Australia Post should examine ways to make the process efficient before considering price increases.

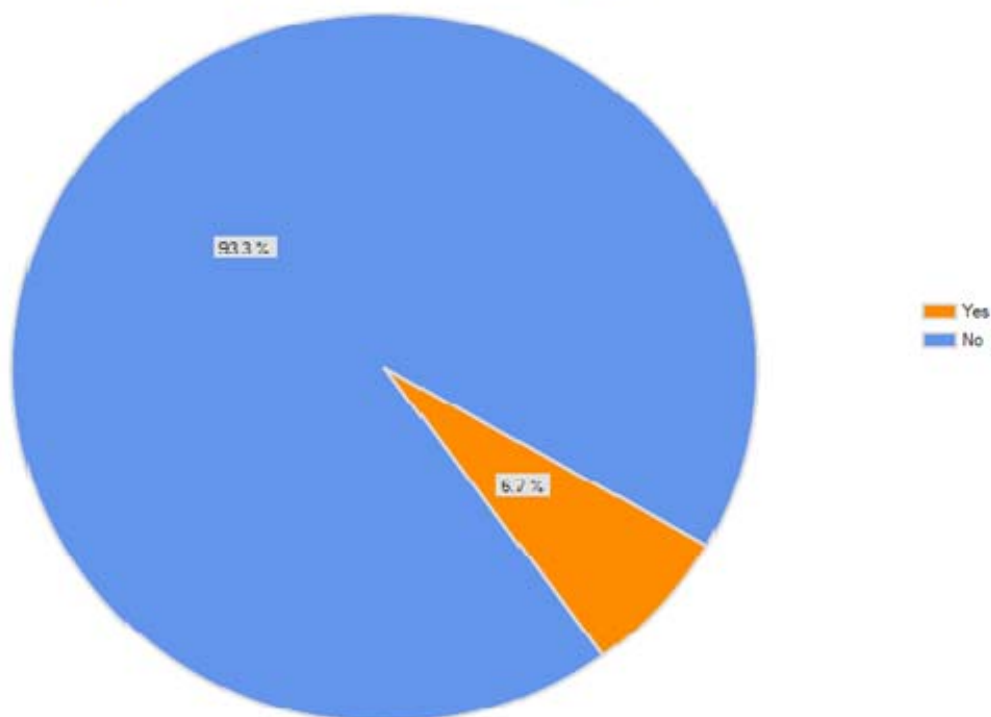
Suggestions that a large part of the drive for efficiency has been achieved by placing the costs further up the supply chain (mail houses and printing business). The dilemma now facing the industry is proposed increases in postage prices as well as increased compliance costs.

A number of respondents advocated breaking up the monopoly and introducing competition in the area of reserved letter services.

One survey respondent even went as far as declaring Australia Post as the single greatest threat to print. Stating that Australia Post had become an inefficient monopoly that is encouraging big transactional business to move from print based production to electronic distribution where the transactional information is printed at workstation level which is proving a disaster for both the environment and business.

On the question of whether Australia Post's price notification demonstrates that it has fully exhausted cost-based responses to declining letter volumes more than 93 per cent of the respondents answered no.

Do you consider that Australia Post's price notification demonstrates that it has fully exhausted cost-based responses to its expectation of declining letter volumes?



Comments provided by the respondents were generally critical of Australia Post. Some accused it of taking the easy option of raising prices; others cited the monopoly situation as the reason for the over reliance on price increases and failure to tackle cost structure; some indicated that they deal with Australia Post on a daily basis and have not seen noticeable improvements to the cost structure.

Possible that Australia Post could undertake to reduce costs and improve efficiency by which it provides reserved letter services

The industry responses which are suitable for publishing are outlined below.

- *Invest more into initiatives that make its reserved letter services more efficient rather than invest in initiatives and services that are competitive with mailing houses and similar service providers.*



- *Improve account service to help clients use post more efficiently. Reduced focus on unit costs would generate volume increases.*
- *Faster computers and robotics should provide the next generation of efficiency gains. Also if the volume declines they should be able free up some of their capital by consolidation some of their depots.*
- *Go back to sorting and delivering mail and stop trying to compete with newsagents, stationery suppliers and gift shops. Stop trying to be a retailer.*
- *Allow mail services to be sub contracted to private enterprise.*
- *Sharing the benefits of past efficiencies with the supply chain and crediting the supply chain with the work companies have already done.*
- *Sort and deliver local mail within the delivery centre.*

Pace and adequacy of technological change

Responding to the question of whether the pace of Australia Post's current level of implementation of technological change such as automated letter sequencing is adequate, most of the responses were in the no and not sure category. Some indicated that Australia Post is a lagger when it comes to technological change citing overseas examples such as the United States Postal Service.

Even those respondents who considered that the pace of technological change being implemented by Australia Post as being adequate tended to cite the impost of cost on the industry supply chain as the main burden or area of concern.

Bulk Mail Partner

Almost 29 per cent of respondents indicated that they were a bulk mail partner to Australia Post. When asked to comment whether as a Bulk Mail Partner the business gets a benefit from the investment in the partnership, almost 81.0 per cent of the respondents to the question indicated they don't.

Some were of the view that there were no benefits only the prospect that non-compliance would result in financial penalties through higher postage charges. Others indicated that the internal costs associated with becoming a Bulk Mail Partner is not offset by any credits or other benefits by Australia Post.

A view was also expressed that the price advantage was insufficient to justify the necessary investment to become a Bulk Mail Partner.

Increased industry rebates

Industry participants such as mailing houses continue to be concerned that having started the process of undertaking increased share of tasks previously performed by Australia Post has resulted in them incurring greater costs but without any offsetting compensation from Australia Post.

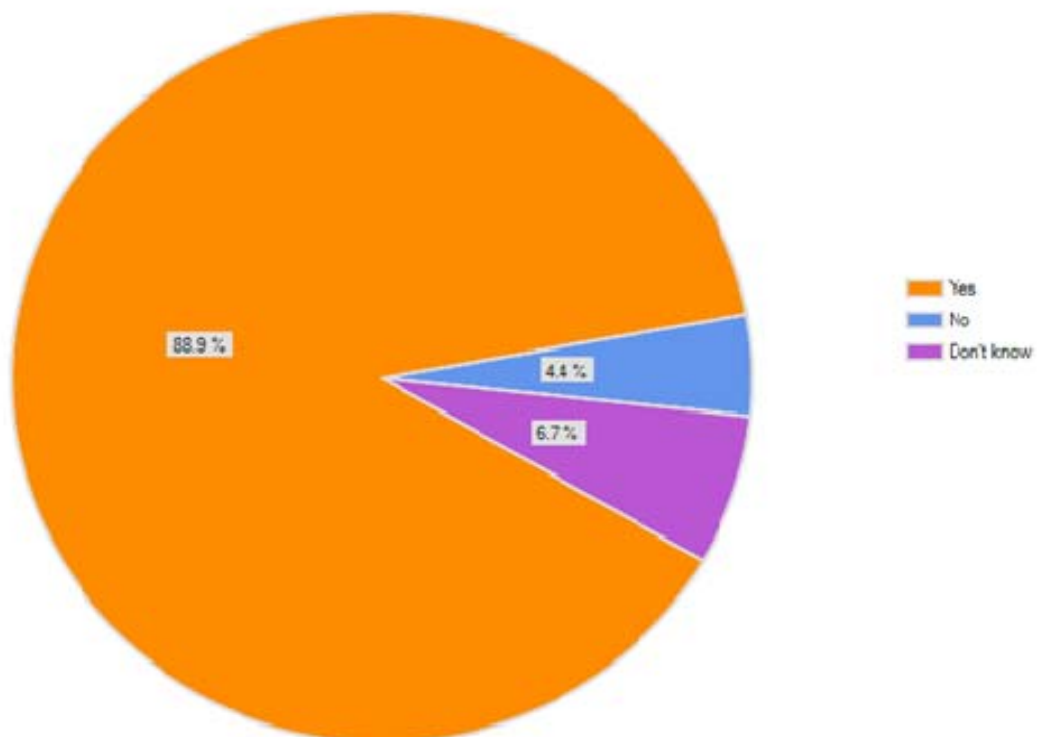
Tasks such as electronic lodgements of mail jobs and ordering of cages and trays to sort and transport the mail were all previously handled by Australia Post.

Also every Bulk Mail Partner has to invest in AMAS licensed software costing \$6,000 per annum which converts every property address (not including post office box) to a unique Delivery Point Identifier (DPID) number and barcode, which appears in the envelope window as part of the Australia Post's lodgement requirement.

These upfront and ongoing investments by printing businesses and mail houses are helping to make Australia Post more automated and efficient, but, the industry participants making these investments are not receiving any monetary compensation by Australia Post.

When this issue was included in the survey the overwhelming response was that Australia Post should be compensating such businesses as shown by the following chart.

Should businesses that invest in software and technology that subsequently help Australia Post become more automated receive monetary compensation from Australia Post?





Printing Industries has also been informed by industry participants that to have a credit account facility with Australia Post, then mail houses/printing companies must have 1.5 months of average postage charge as a pre-arranged bank guarantee or similar, which represents a cost to the mail house/printing companies. If the proposed postage price increases are granted then this cost will also increase.

To help offset the increased workload and compliance costs that are being borne by industry participants most of which are helping to make Australia Post more efficient, Australia Post should in turn consider significantly increasing the bulk rebates that it currently offers to mail house operators as well as other reciprocal measures.

Conclusion and recommendations

Printing Industries has highlighted a range of issues in this submission for consideration and action by the ACCC. As stated on a number of occasions the Association remains fundamentally opposed to the price increases being proposed by the public monopolist Australia Post.

Based on industry feedback, the Association believes that Australia Post has not yet fully exhausted its cost based responses to falling letter volumes.

The fact that Australia Post is now admitting that it is ramping up its efforts in cost reduction to address further declines in letter volumes demonstrates that it has once again opted for the easier option of requesting price increases over services it enjoys a monopoly rather than implementing cost savings and working towards efficiency gains.

Printing Industries also considers as inappropriate for the ACCC to approve the 2010 price notification until such time that Australia Post's current review of its business model has been completed and the findings have been made public for scrutiny and comment by stakeholders.

Recent years has seen businesses with mailing operations undertaking an increased share of tasks that were previously undertaken by Australia Post. *Printing Industries* recommends that Australia Post should either commence providing financial compensation or increase mail related rebates to these businesses.

Printing Industries represents an industry that continues to operate under enormous competitive and price pressures. The only similarity that the industry has with Australia Post is that they are part of the same value chain. For printing and mail houses regular price increases for their products and services have become a distant memory.