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20 June 2002

Ms Margaret Arblaster  
General Manager - Transport & Prices Oversight  
Australian Competition and Consumer Commission  
GPO Box 5203 Melbourne Victoria 3001

Dear Ms. Arblaster,

**Re: Draft Notification Of Change in Letter Pricing  
– Basic Postage Rate And Associated Services**

Thank you for the opportunity to comment on the draft notification. From the outset we oppose the proposed changes that have a negative impact on the users of the Bulk Mail services of Australia Post.

**Reader's Digest**

Reader's Digest is a pre-eminent global publisher and direct marketer. The Reader's Digest magazine is the world's most widely read magazine. It is published monthly in 19 languages and 48 editions for 100 million readers in virtually every country in the world. Here in Australia it is one of the top selling monthly magazines.

As one of the world's largest direct mail marketer's, Reader's Digest annually sells more than 20 million General Books in 33 countries and 14 languages. In addition more than 16 million Condensed Book volumes of recent fiction and non-fiction, and about 8 million series books, are sold. As well as our books, we sell more than 10 million CD and cassette music collections, and 5 million video cassettes.

On the local front we are a major player in the direct marketing industry. Our information shows that in the last two years, around 40 per cent of Australian homes purchased a Reader's Digest product.

More than 95 per cent of our business is obtained through using the written word and visual images, to communicate directly through the mail on a one-to-one basis with our customers or prospective customers. This particular business practice is called Direct Mail, one of the mediums of Direct Marketing.

## **Direct Marketing**

Direct Marketing is still the fastest growing sector of retail trade, and an important part of businesses selling to individual consumers and other businesses. Successful direct marketer's recognise that respect for the customer is both a commercial and moral imperative. Unlike store generated retail trading, direct marketing is able to measure consumer satisfaction.

Direct marketing is a relatively new term to describe an old practice of pin-pointing potential customers on the basis of knowledge about their tastes, needs and circumstances, then selectively reaching out to them to offer appropriate goods or services or information.

Direct marketing practice has created new supporting industries. At their centre are the specialist suppliers - direct marketing agencies, list brokers, database operators, letter shops - drawing on support from printers, computer bureaux, stationery manufacturers, postal services, etc. The ripple effect on employment is incalculable, but substantial since it spreads into organisations that use and rely on direct marketing, such as banks, insurance firms, airlines, publishers, etc.

Today there are many fields of activity which are difficult to imagine outside the direct marketing context: book clubs, the selling of magazine subscriptions and newsletters, the promotion of home study and in-home entertainment, consumer magazines, and the promotion of causes. All these different branches of the tree of knowledge would wither without the sustaining energy of direct marketing and the use of mailing lists.

Perhaps the greatest contribution of direct marketing lies in attracting innovators who derive their inspiration from listening to consumers and tailoring their approach to them. Direct marketing is not therefore just a beneficial economic activity but a spur to innovation, change and progress. It penetrates into activities that have traditionally not been distinguished by personal marketing: financial services, fashion, real estate, travel, the automotive industry, consciousness-raising.

Political and charitable fundraising has changed out of all recognition in the hands of marketer's who have performed a service to democratisation by balancing the power of the big donors with the recruitment of large numbers of smaller contributors. Direct marketing is for all these reasons of major importance in the domestic and international marketplace.

It is not too much to claim that direct marketing, in the modern world, performs a key role both in its own right and by priming the pump that irrigates large areas of the economy.

Direct Marketing is especially important for consumers who do not live in the immediate vicinity of major metropolitan areas, the aged or those who may have physical or health disabilities which make shopping and travel difficult. There are also many people in today's society who find that time constraints restrict their ability to shop personally.

## General Issues

### *Impact on Users*

? *The effect on demand for letter services*

Direct Marketing is a results driven activity, therefore direct marketers are able to measure all aspects of their business and the effects of pricing, volume and customer feedback. The first contact with a prospective customer is an address driven communication via the postal system. The proposed increases along with previously approved increases, not yet applied add a considerable cost to this activity.

In discussion with a number of people in the direct marketing industry the feeling towards the already approved increases and the proposed increase will be detrimental to volume growth in what was the AdPost product. A number are reviewing their mailing activity for the next fiscal year and indications are that mailing quantities will decline. Within Reader's Digest we are reviewing our mailing activity that will result in a 15% decrease in volumes. The decision on mail volumes is calculated by regression analysis formula that in simple terms decides how far you mail down to in a database based on historical data as to reactivity, frequency and affinity to the product(s) being offered. The effect is that you tend not to take as much risk in mailing to people who sit on the edge of the formula and those who may be new prospects with no prior purchase history. The end result is that a number of associated mailings that are driven by the AdPost style mailing go into decline.

? *Whether the price changes will result in people switching to other communications services, such as email or telephone;*

Postal contact with consumers has always been the most effective means of communication for selling a wide range of products. It allows people to make an informed choice on a purchase decision by being able to read, see and understand the terms of the offer being made to them.

Today there are a growing number of communication channels open to companies to approach consumers such as direct response TV and Radio, telemarketing, unaddressed letterbox advertising and the internet. The ones most suitable for our product range are direct radio and internet. We have recently created a marketing position to increase our penetration via the internet. The growth of direct marketing through the internet is not yet a tried and proven method, given the increase in postage costs the internet approach will receive added impediments.

A recent study in the US conducted by the integrated marketing company Vertis found that "in 2001, 38% of people responded to direct mail from financial services, insurance companies and non-profits by visiting the Web. This year, it's 30%."

? *the effect of increased postage charges on business users*

Reader's Digest is a large user of a number of Australia Post's Reserved and Non-Reserved services. As a user of these services we see them as reliant on one another whether they fall within the Reserved or Non-Reserved we will outline our concerns of the proposed changes as they relate to the Reserved services and will also explain there linkage to some Non-Reserved services.

As an overview of the Reader's Digest approach to direct marketing activity and the links between postal product please refer to Attachment 1. *(This attachment is commercially sensitive as it contains information of response rates and some contract pricing of non-reserved services.)*

Attachment 1 – Sheet 1 (by Volume) illustrates how a typical mailing program works. At the top are the two initial mailings that are lodged currently as AdPost. The column at the right shows the interaction that consumers have with Reader's Digest. The column at the left is the mail and product that is generated by Reader's Digest following the initial mailing. A Bulk mailing is lodged approximately every two weeks to various segments of our database.

Attachment 1 – Sheet 2 (by Dollar Values) indicates the revenue generated for Australia Post for each activity shown in Sheet 1. All revenue figures shown are at existing rates. (June 02)

Attachment 1 – Sheet 3 is an overview of the three areas that make up the total revenue to Australia Post. That is, the Bulk Presorted mail (AdPost) Full Rate mail from customers and additional mail and parcel traffic from Reader's Digest.

The increases to AdPost that are already approved by the ACCC will add considerable financial burden on companies such as Reader's Digest and the many who use AdPost as a means of lead generation. The changes in rates are shown in Table 1 below.

Table 1

Base: Small AdPost Letter OffPeak, 84% Barcoded plus 90:10 and Clean Mail.

Barcoding data extracted from 6 months of actual lodgements. % Increases shown are against Current Rate (Base). All prices are GST Exclusive.

	Current	*July 02	*Jan 03	Proposed Jan 03
Ave. Rate	\$0.280	\$0.315	\$0.347	\$0.365
% Increase	Base	12.5%	23.9%	30.4%

\*Already approved by the ACCC

Using the rates from Table 1 and applying the volumes from Attachment 1 – Sheet 1 the following revenue per mailing are generated.

Chart 1.

	Current	Jul 02	Jan 03	Jan 03 Proposed
AdPost Mailing	\$284,000	\$315,000	\$347,000	\$365,000
Customer Activity	\$151,000	\$151,000	\$164,000	\$164,000
RD Additional Activity	\$260,000	\$260,000	\$260,000	\$260,000
Revenue to Australia Post	\$695,000	\$740,000	\$771,000	\$789,000

If companies were to keep to their existing budgets for their AdPost mailings then the following results would be achieved.

Chart 2.

	Existing Budget
AdPost Mailing	\$285,000
Customer Activity	\$128,000
RD Additional Activity	\$203,000
Revenue to Australia Post	\$616,000

It could easily be said that many companies have not yet felt the effect on their budgets as the true impact of the AdPost costs have not yet been realised on their business. The true cost increases based on actual mailings as shown in Table 1 are very different from those put forward by Australia Post in their previous notification, being 10% followed by 9%.

In the previous notification to the ACCC on AdPost pricing in June 2001 Australia Post stated in their “*Reasons For The Proposed Prices*” that “*the service has incurred substantial losses for many years and is now only marginally profitable;*” If as Australia Post stated in their June 01 Notification that AdPost is now marginally profitable then the already approved increases should improve the profitability without adding an extra burden on companies that use the mail as a prospecting medium for their business activity. This is why we, and many others in the direct marketing industry feel that this further increase in the current Notification is opportunistic.

Like many others who engage in the business activity of direct marketing we find the assumption of increasing rates due to a decline in volume an error of judgment on Australia Posts part, if not a lack of understanding on how the direct marketing sector works. It is the only stream of mail that they predict growth in their Table 3 yet they are doing nothing to promote its use and increase the price beyond what is reasonable. With the elimination of AdPost as a product they will have no way of monitoring what is in the envelope to measure its growth or decline.

The following charts show the impact on Medium and Large Letters with the resultant % increases.

Table 2

Medium AdPost Letter. Base as Small Letter in Table 1. All prices are GST Exclusive.

	Current	*July 02	*Jan 03	Proposed Jan 03
Ave. Rate	\$0.419	\$0.483	\$0.538	\$0.531
% Increase	Base	15.3%	28.4%	26.7%

\*Already approved by the ACCC

Table 3

Large AdPost Letter. Base as Small Letter in Table 1. All prices are GST Exclusive.

	Current	*July 02	*Jan 03	Proposed Jan 03
Ave. Rate	\$0.549	\$0.604	\$0.746	\$0.736
% Increase	Base	10%	35.9%	34.1%

\*Already approved by the ACCC

The next three Tables show the average pricing history for the three letter sizes. The base rates for the 1994 – 1998 period have been static at the 98 rate.

Table 4

Small AdPost Letters. Prices are GST Exclusive.

	Jul 98	Jul 99	<sup>B</sup> Oct 99	Jul 00	Jul 01	*Jul 02	*Jan 03	Jan 03
Ave. Rate	\$0.279	\$0.279	\$0.284	\$0.280	\$0.280	\$0.315	\$0.347	\$0.365
% Inc. Year on Year		0%	1.8%	-1.4%	0%	12.5%	10.2%	15.9%
% Inc. on Base Year	Base	0%	1.8%	.01%	.01%	12.9%	24.4%	30.8%

<sup>B</sup>Barcoding Introduced

\*Already approved by ACCC

Table 5

Medium AdPost Letters existing 20mm in thickness. Prices are GST Exclusive.

	Jul 98	Jul 99	<sup>B</sup> Oct 99	Jul 00	Jul 01	*Jul 02	*Jan 03	Jan 03
Ave. Rate	\$0.355	\$0.355	\$0.384	\$0.400	\$0.409	\$0.483	\$0.538	\$0.531
% Inc. Year on Year		0%	8.2%	4.2%	2.3%	18.1%	11.4%	9.9%
% Inc. on Base Year	Base	0%	8.2%	12.7%	15.2%	36.1%	51.5%	49.6%

<sup>B</sup>Barcoding Introduced

\*Already approved by ACCC

Table 6

Large AdPost Letters Prices Are GST Exclusive.

	Jul 98	Jul 99	<sup>b</sup> Oct 99	Jul 00	Jul 01	*Jul 02	*Jan 03	Jan 03
Ave. Rate	\$0.580	\$0.580	\$0.580	\$0.549	\$0.549	\$0.604	\$0.746	\$0.736
% Inc. Year on Year		0%	0%	-5.7%	0%	9.8%	23.5%	21.8%
% Inc. on Base Year	Base	0%	0%	-5.7%	-5.7%	4.1%	28.6%	26.9%

<sup>b</sup>Barcoding Introduced

\*Already approved by ACCC

The following table shows the history of Non-Adpost mail. This is the only Australia Post product that we have achieved any real AUR savings. Overall our usage is low compared to AdPost mailing. Investing in barcode technology has made these savings. The invest made to prepare our database and develop our own software was just under \$1 million dollars. This investment was made on avoiding costs in the AdPost product and some real savings in Bulk Presorted. To date we have not returned our investment.

Table 7.

	Jul 98	Jul 99	<sup>b</sup> Oct 99	Jul 00	Jul 01	Jul 02	Jan 03
Bulk Presorted Offpeak	\$0.402	\$0.402	\$0.380	\$0.360	\$0.360	\$0.360	\$0.381
Full Rate	\$0.450	\$0.450	\$0.450	\$0.450	\$0.409	\$0.409	\$0.455

### *Postage as a Cost*

Postage as a cost in an AdPost package compared to the other elements of Print, Personalisation and lettershop has been on the increase compared to the other elements. Costs have been decreasing due to technology and improvements in productivity and equipment. Some of these have been the introduction of Computer to Plate (CTP) technology, intelligent inserting the use of lighter weight papers to name a few. With the proposed increases postage as a percentage of costs will be as follows;

Small            31%  
Medium         38%  
Large            44%

Postage now makes up a significant proportion of the costs.

## ***Service Quality***

? *The ACCC is seeking comments on Australia Post's performance in providing letter services.*

Reader's Digest carries out its own monitoring of Australia Post performance through a seeded name program and random samples of both outbound mail, parcels and printpost products. We also monitor inbound full rate mail from our customers.

The seeded name program is where we contact people and invite them to receive a free subscription to our magazine and a product such as a book, video or music product on a regular basis. We also mail them a promotion pack (AdPost) every couple of weeks. In return they supply us with the date that they receive any of the items mailed to them.

Chart 3. following gives an indication of where our customers are located by State and then split into Metropolitan and Country areas.

Chart 3. - Customer Base

	% In State	% Metro	% Country
NSW/ACT	34	56	44
VIC	20	68	32
QLD	22	46	54
SA	9	62	38
WA	11	66	34
TAS	3	70	30
NT	1	80	20

Given the landmass of Australia and spread of our customer base we rate the delivery performance of Australia Post as average compared to other overseas markets we monitor as a global organization. There has been a slight improvement due to the work carried out for barcoded mail, which should be expected. With return mail from our customers we have seen a slight decline in service level.

## ***Impact on Competition***

? The ACCC invites comments on the impact that the proposed price changes may have on competitors and potential competitors to Australia Post in the markets for non-reserved services.

Reader's Digest has not availed itself of the services of the companies able to provide aggregation services due to the nature of our mailings. We have however followed their progress with interest. We support the concerns and issues expressed by the MMUA and ADMA on the subject of aggregation.



We do not believe the proposed price changes will affect parcel delivery or magazine delivery as there is no effective competition to Australia Post with the ability to delivery to residential addresses within Australia. The ability of Australia Post to carry reserved and non-reserved service postal items throughout their national system therefore marginalizing the cost base to operate the network prohibits competition in being able to set up an alternative structure and operation to deliver to residential addresses in metropolitan, rural and remote locations.

### ***Information and consultation***

- ? *the appropriateness and level of detail of the information provided by Australia Post; and*
- ? *Australia Post's consultation process with stakeholders.*

Australia Post has held meetings with the two key industry bodies being MMUA and ADMA. These two organizations have then relayed the information presented to their respective members. The consultation process consisted of presentations by Australia Post of the proposed rates and the proposed new services. Adjustments were made by Australia Post to some of the terms and conditions of the proposed new services. They do not see the process as a negotiation of their proposed rates.

The material presented was sufficient to measure the impacts on a business such as ours.

Having been involved with the consultation process by virtue of my position as President of the MMUA and Chairperson of the ADMA Postal Issues Committee I have assumed that Australia Post did not make any presentations to Reader's Digest as a key customer and stakeholder due to that involvement. I have no other information that Australia Post has spoken to other key stakeholders.

### **Technical Issues**

#### ***Price Structure***

- ? *introducing a new pre-sort medium letter category to align with Post's small letter processing capabilities.*

The introduction of the new pre-sort medium letter category is a positive move by Australia Post that will appeal to some current AdPost users and certainly benefit many bulk pre-sort users. The size is compatible with an A4 sheet of paper folded in half. As a result of the consultation process Australia Post recognized the need to continue with the larger size medium and the extra thickness (20mm). This was due to a large number of AdPost mailings that exceed the 5mm thickness of the proposed new medium.

The following Charts show the Average Unit Rate (AUR) of the proposed new medium if posted with the OffPeak service compared to the existing Medium (20mm) Chart 4. and a Medium mailed using the Regular delivery method Chart 5.

Chart 4.

Base: Medium AdPost Letter OffPeak, 81% Barcoded plus 90:10 and Unbarcoded  
 Barcoding data extracted from 6 months of actual lodgements.  
 Prices Are GST Exclusive.

Envelope Size	Current	*Jul 02	*Jan 03	Jan 03
260mm x 180mm x 20mm	\$0.409	\$0.483	\$0.538	\$0.531
240mm x 165mm x 5mm				\$0.469

\*Already approved by ACCC

Chart 5.

Base: Medium Letter Regular, 81% Barcoded plus 90:10 and Unbarcoded  
 Barcoding data extracted from 6 months of actual lodgements.  
 Prices Are GST Exclusive.

Envelope Size	Current	Jul 02	Jan 03	
260mm x 180mm x 20mm	\$0.571	\$0.571	\$0.573	
240mm x 165mm x 5mm			\$0.490	

- ✍ *combining the existing 0-50g and 50-125g weight categories into a single 0-125g category for pre-sort medium and large letters; and*
- ✍ *removal of the '90/10' barcoding rule and its replacement with specific residue rates for letters that cannot be barcoded through the Address Matching Approval System (AMAS) process*

Charts 6 and 7 show the comparisons between the existing 0 – 50g, 50 – 125g and the proposed combined 0 – 125g it also incorporates the removal of the 90:10 and its replacement with the specific residue rate for non-barcoded. Through the combining of weight breaks users of the Up to 50g will incur an increase of 25% using Regular delivery and a 23% increase for OffPeak delivery. Large letter increases are 5% and 6% respectively.

Chart 6.

Medium Letter (20mm)  
 Prices Are GST Exclusive.

	Regular	OffPeak
Up to 50g	\$0.459	\$0.431
50 – 125g	\$0.562	\$0.510
Combined 0 – 125g	\$0.573	\$0.531

Chart 7.  
 Large Letter  
 Prices Are GST Exclusive.

	Regular	OffPeak
Up to 50g	\$0.717	\$0.691
50 – 125g	\$0.764	\$0.744
Combined 0 – 125g	\$0.754	\$0.736

### ***Clean Mail***

The introduction of Clean Mail goes some way in addressing the issue of the removal of the 90:10 rule. There has been much concern and discussion amongst the mailing industry for some time as to achieving 100% match rates against the Postal Address File (PAF). Industry match rates currently stand anywhere between 77% and 90%. This is due to several factors, such as a company's inhouse/external data hygiene capability and sometimes the cost of correcting databases. There is also concern in the industry about the PAF file itself such as accuracy and completeness.

The Clean Mail also aligns with the pricing of the non-barcoded portion of a barcoded lodgment.

Clean Mail does have specific addressing and envelope conditions to be able to be lodged with the Clean Mail service. This is to ensure that the mail can be handled through specific equipment at the Australia Post facilities. We do not think Clean Mail should be viewed as a discounted rate of full rate due to its specific lodgment criteria. It is a new service offered by Australia Post.

### ***Efficiency of Australia Post's operations***

Reader's Digest does not believe that Australia Post has yet reached its full potential for productivity improvement. We feel that the comments made in the Major Mail Users (MMUA) Submission on this issue cover this subject adequately and we fully support those views.

### ***Forecast Volume Growth***

In addition as to what was stated in the earlier paragraphs addressing issues such as, the effect on demand for letter services and whether the price changes will result in people switching to other communications services, such as email or telephone. We again support the views expressed in the MMUA Submission.

It is also of interest that Australia Post has the ability to influence volumes of mail either through the traditional letter or through electronic substitution. Electronic substitution is where individual can elect to have bills such as Power, Telephone or any other that they wish to sign on to. Australia Posts presents the nominated bill(s) to the consumer via the internet and then the consumer can choose the payment method for that account.

Whilst we congratulate Australia Post on their ability to offer choice to the bill presenter and consumer the question should be asked are these proposed increases paying for these alternative services?

If you would like any of the points made in this submission expanded on or reuirw more information from our postal database as to real costs please feel free to contact the writer.

Yours sincerely,

Christopher Smith