25 March 2003

Ms Margaret Arblaster
General Manager – Transport and Prices Oversight
Australian Competition and Consumer Commission
Level 35 / 360 Elizabeth St
MELBOURNE VIC 3000

Dear Ms Arblaster

Notification of Changes to Reply Paid Prices and Conditions.

The purpose of this letter is to formally notify the ACCC of proposed prices and conditions for reserved letter services (Reply Paid) in accordance with the Prices Surveillance Act, 1983.

The proposed prices and conditions in this notification are proposed to take effect from 1 July 2003. The changes are:

- a 9c increase (51c to 60c) to the price charged for Reply Paid Small Letters that are not correctly formatted or barcoded,
- an increase in the per item administration fee from 2c to 10c for Large Letters and Parcels,
- the introduction of an annual fee ($60) per Reply Paid permit number,
- change to the terms and conditions to require that all Reply Paid permit holders must operate an Australia Post Business Charge Account.

While the Prices Surveillance Act, 1983 does not require Post to notify of price reductions, the following price reduction is an integral part of the proposed changes to the Reply Paid service.

- a 6 cent reduction (46c to 40c) to the price charged for Reply Paid Small Letters that are correctly formatted and barcoded.

It is Post's understanding that in evaluating this notification, the ACCC will consider the combined impact of price increases (which are subject to notification) and price decreases (which are not subject to notification).

Post's formal notification is provided at Attachment 1. Supporting information to the notification is included in Attachment 2.

Overall, the proposed prices result in a revenue neutral outcome for the Reply Paid service.

The objectives of the proposed price changes are to:

- Encourage customers to barcode and correctly format small letter sized items;
- Reward and encourage high volume users;
- Ensure that fees for Reply Paid items requiring a greater amount of manual handling are better aligned to the costs of providing the service;
- Recover the costs of administering the Reply Paid service – through the introduction of an annual fee; and
- Ensure that Reply Paid accounts are appropriately and effectively managed.

While it is planned to introduce all of these changes from 1 July 2003, implementation will be dependent upon the successful deployment of a new Reply Paid computer management system.

Post wishes to assist the ACCC in its consideration of this notification and toward prompt resolution of any issues that may arise.

Please do not hesitate to contact me to discuss any issue regarding this notification.

Yours sincerely

Gary Lee
Group Manager Letters

Attachment 1

NOTIFICATION AND DETAILS OF CHARGES PROPOSED BY THE AUSTRALIAN POSTAL CORPORATION

Prices Surveillance Act 1983

Notification of prices pursuant to section 22(2)(a)

Australian Postal Corporation
(Name of Declared Person)

whose address is: 321 Exhibition Street, MELBOURNE VIC 3000
(Postal address: GPO Box 1777, MELBOURNE VIC 3001)

hereby gives notice that it proposes to supply the goods or services described below at the prices terms and conditions indicated, effective from 1 July 2003.

Description	Locality, Proposed Prices, Terms and Conditions

The service which is the subject of this notification provides for the carriage by post within Australia of Small and Large Letters under the Reply Paid Service, at proposed prices as detailed in table 1 displayed in Schedule 1.

Reasons for the Proposed Prices

Encourage customers to barcode and correctly format small letter sized items.

Reward and encourage high volume users.

Ensure that fees for Reply Paid items requiring a greater amount of manual handling are better aligned to the costs of providing the service.

Recover the costs of administering the Reply Paid service – through the introduction of an annual fee.

Consideration Having Regard to section 17(3)

Australia Post believes that the proposed prices would not result in revenues in excess of revenues based on efficient costs and a reasonable rate of return. Australia Post considers that the proposed prices are consistent with the requirements of section 17(3) of the PS Act.

Date: **25 March 2003** **Signature:** **G Lee**
Group Manager Letters

Attachment 1

Details of Proposed Prices (Prices include GST)

Table 1: Proposed Prices - Price Increases

Size/Condition	Current Price	Proposed Price	Variation %
Small Letters [1]			
• Non-barcoded [3]	$0.51	$0.60	17.6%
Large Letters [4]			
• Up to 125g	$1.02	$1.10	7.8%
• Over 125 up to 250g	$1.47	$1.55	5.4%
• Over 250 up to 500g	$2.47	$2.55	3.2%
Annual Fee [5]	-	$60.00	-

Table 2: Proposed Prices – Price Decreases

Size/Condition	Current Price	Proposed Price	Variation %
Small Letters [1]			
• Barcoded [2]	$0.46	$0.40	(13.0)%

Notes:

1 In this notification "Small Letters" refers to small letter sized Reply Paid letters.

2 Barcoded means Reply Paid Small Letters that are barcoded and correctly formatted in accordance with Australia Post's requirements.

3 Non-barcoded means Reply Paid Small Letters that are not barcoded or correctly formatted in accordance with Australia Post's requirements.

4 In this notification "Large Letters" refers to large letter sized Reply Paid letters. Prices shown for Large Letters indicates the total cost (postage plus fees). Large Letters are currently charged the advertised postage price plus a 2 cent per item administration fee. The proposed structure is to charge customers the advertised postage price plus a 10 cent per item administration fee.

5 Annual fees are not currently charged to Reply Permit holders. This draft notification proposes to introduce an annual fee.

Attachment 2

Supporting Information to the Proposed Price Changes

1. Introduction

This attachment provides information on the reasons for the proposed changes to prices for reserved letter services as set out in Attachment 1.

Increases to prices of reserved letters, carried under the Reply Paid service, are notifiable to the Australian Competition and Consumer Commission (ACCC) under section 22 of the Prices Surveillance Act 1983 (PS Act). Letter services reserved to Post under Division 2 of Part 3 of the Australian Postal Corporation Act 1989 (APC Act) are declared services under section 21 of the PS Act.

This notification is in relation to price increases for Small and Large Letters carried under the conditions of the Reply Paid service and are proposed to apply from 1 July 2003.

The changes are:

- for non-barcoded small letters, an increase of 9 cents to 60c per letter;
- for large letters an increase of 8 cents in the per item administration fee from 2 cents per item to 10 cents per item;
- the introduction of an annual fee of $60 for each Reply Paid Permit Number; and
- the requirement that all Reply Paid customers hold a current Australia Post Business Charge Account.

While Post is not required to notify the ACCC of price decreases the following price reduction is an integral part of the proposed changes to the Reply Paid letter service:

- for barcoded small letters, a decrease of 6 cents to 40c per letter;

The current Reply Paid small letter prices were introduced in October 1999 and subsequently adjusted in July 2000 with the introduction of the GST. The per item administration fee, which applies to Large Letters carried under the Reply Paid service, has remained unchanged since October 1978.

The changes to letter prices that were implemented on 13 January 2003 did not increase:

- any of the small letter Reply Paid charges; or
- the Large Letter per item administration fee.

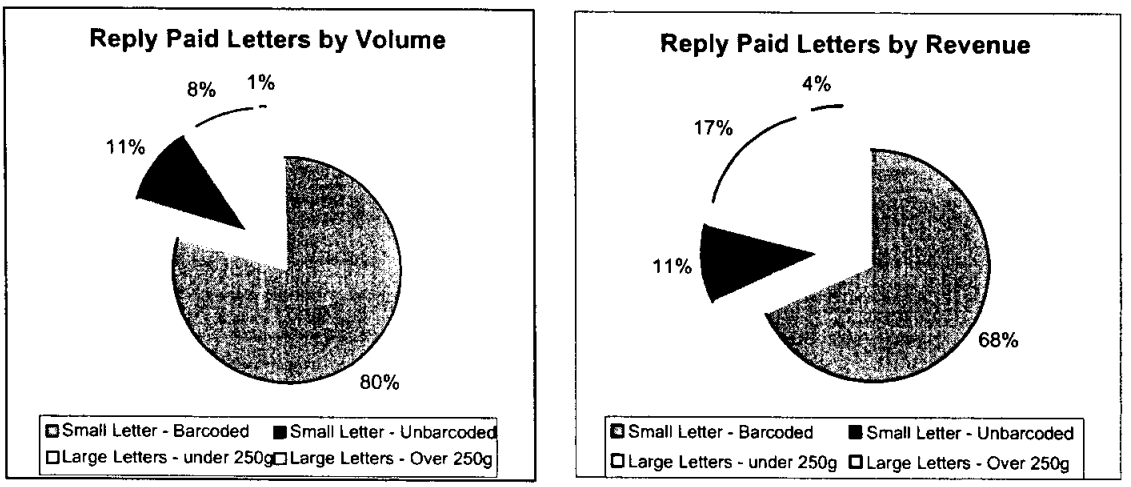
The proposed price changes are designed to be revenue neutral and position the Reply Paid service as a commercially viable response service.

The price structure aims to achieve this by:

- Rewarding and encouraging high volume users;
- Recognising the lower processing costs of barcoded small letter items;
- Ensuring that fees for handling non barcoded small letters and large letters are better aligned to the costs of providing the service;
- Recovering part of the costs of administrating the Reply Paid service – through the introduction of an annual fee; and
- Position Reply Paid as a cost competitive response service when viewed against competing mediums.

It should be noted that for consistency, this attachment incorporates prices for Reply Paid letters weighing more than 250 grams, even though these letter services are not reserved/notifiable services. Prices for these services are provided for information only.

Figure 1: Volume/Revenue mix of Reply Paid products



As shown in Figure 1 above, revenues from non-notifiable services represent a small proportion of the total revenues of the Reply Paid Service ie. in the order of 4%. Approximately 1% of total Reply Paid volumes are attributable to such services.

2. Summary of Proposal

2.1 Background

Introduction

The Reply Paid service allows businesses to receive responses from their customers without the sender paying the cost of the postage. All postage charges are paid by the addressee – the Reply Paid permit holder.

Businesses use Reply Paid to encourage responses for a number of purposes, which include:

- Receiving sales orders and responses:
- Receiving queries and updates to information: and
- Receiving warranty cards

A business's use of Reply Paid will reflect their strategy for managing their customer communication channel. A business communication strategy will generally involve a range of communication mechanisms which might include mail, phone, fax and email. High volume use reflects a strategy where Reply Paid is an important means of facilitating communications with customers, whereas low volume use reflects a business strategy to rely less upon Reply Paid as a communication channel.

Product Description

Reply Paid items can be lodged in a Street Post Box or over the counter at an Australia Post office. When Reply Paid items are received at the Delivery Office they are extracted from other mail items, sorted by Permit Number, counted and the daily volumes for each Permit Number recorded. After this has been completed, the items are returned to the postie and delivered with other mail. At the end of each month the daily volumes are totalled and a monthly account for each Permit Holder is prepared and distributed.

Product History and Future Direction

In October 1999, Post introduced a new addressing format for Reply Paid, which included a unique barcode for each Reply Paid permit number. Correctly barcoded small letters were priced at 42c and non barcoded small letters were priced at 47c. These prices were subsequently increased to 46c and 51c respectively with the introduction of GST in July 2000. To assist and encourage customers to adopt the new barcode format, Post provides artwork (at no charge) for the production of correctly formatted envelopes.

Prior to the barcode formats being introduced, Post offered a range of incentives for Reply Paid mail that was distributed in conjunction with direct mail postings. These incentives ranged from the waiving of the 2c administration fee (ie. only postage was charged) to a reduction off the advertised postage rate for Reply Paid items generated from AdPost mailings (a 15% discount off 45c was offered, ie. the price charged was 38.25c). While this price structure provided some impetus for the use of Reply Paid, it did not ensure or encourage mail pieces that were efficient to process.

The introduction of the barcode format allowed Post to efficiently process Reply Paid items within the new Future Post network enabling them to be separately presented to Delivery Centres.

Non-barcoded small letter and large letter Reply Paid items require a greater level of manual processing and are not separately presented to Delivery Centres. Instead, each Delivery Centre is required to manually extract these Reply Paid items so that the volumes can be recorded and charges can be raised. As the extraction process is entirely manual there is a moderate level of risk that some items will not be detected and therefore not charged.

In the future, Post intends to develop an automated billing system for barcoded items. Information in the barcode will be captured during the processing and will be used to generate billing details.

Product Competitiveness.

While the majority of Reply Paid letters are reserved to Australia Post, Reply Paid as a response mechanism competes in an open market place against other options. Other options business may consider include 1800 and 13 phone and facsimile numbers, SMS Messaging, email and Internet based responses.

1800 phone and facsimile numbers are the major competitor to the offering of free responses. Typically 1800 phone numbers will charge:

- An installation fee (around $100).
- Monthly fees of around $30 (with a 12 month minimum charge normally applying).
- Per call fees that are normally based on a rate per minute, which when compared to local calls may result in a higher call charge.

Impact on Reply Paid Prices of January 2003 Letter changes

There was no increase to Reply Paid fees (including the small letter charges) when the Basic Postage Rate and other letter prices were increased on 13 January 2003.

Product	**Before 13 Jan 2003**	**From 13 Jan 2003**
Ordinary Small Letter (BPR)	$0.45	$0.50
Reply Paid Small Letters:		
• Barcoded	$0.46	$0.46
• Non barcoded	$0.51	$0.51

The only impact to Reply Paid customers was that arising from the rounding of Ordinary Large Letter prices to 5c multiples, ie. Large Letter prices up to 125g were increased by 2 cents and Large Letter prices Over 125g up to 250g were reduced by 2c.

Summary

The pricing in this draft notification has been developed to achieve a revenue neutral result. Thus the proposal, if implemented, will not alter the rate of return on the reserved letter service, maintaining a return in line with the ACCC's decision in October 2002.

2.2 Price Changes

Proposed price changes to the Reply Paid service to take effect from 1 July 2003 are:

- for barcoded small letters, a decrease of 6 cents to 40c per letter;
- for non-barcoded small letters, an increase of 9 cents to 60c per letter;
- for large letters an increase of 8 cents in the per item administration fee from 2 cents per item to 10 cents per item;
- the introduction of an annual fee of $60 for each Reply Paid Permit Number; and
- the requirement that all Reply Paid customers hold a current Australia Post Business Charge Account.

Details of all proposed prices and a comparison of the new and current prices are provided in **Attachment 1.**

The weighted average change in price is detailed in Table 1 and 2 below.

Table 1 illustrates the weighted average change in price without any volume impact from the proposed prices.

Table 2 illustrates the weighted average change in price with a volume impact that Post estimates is likely to occur as a result of the proposed changes.

Table 1. Change in Unit Prices – Reply Paid Prices
No Volume Movement Assumptions.

Letter Service	% Volume	Current Price	Proposed Price	% Increase
Small Letters				
Barcoded	80%	$0.46	$0.40	(13.0)%
Non barcoded	11%	$0.51	$0.60	17.6%
Total Small Letters (weighted average)	91%	$0.47	$0.43	(8.8)%
Large Letters	9%	$1.26	$1.34	6.4%
Total Reply Paid Letters Fees	100%	$0.54	$0.51	(5.6)%
Total Annual Fee	NA	$0	$60.00	NA
Total Reply Paid		**$0.54**	**$0.54**	**(0.3)%**

Table 2. Change in Unit Prices – Reply Paid Prices
With Volume Movement Assumptions.

Letter Service	% Volume	Current Price	Proposed Price	% Increase
Small Letters				
Barcoded	81%	$0.46	$0.40	(13.0)%
Non barcoded	9%	$0.51	$0.60	17.6%
Total Small Letters (weighted average)	91%	$0.47	$0.43	(9.5)%
Large Letters	9%	$1.26	$1.34	6.4%
Total Reply Paid Letters Fees	100%	$0.54	$0.50	(6.2)%
Total Annual Fee	NA	$0	$60.00	NA
Total Reply Paid		**$0.54**	**$0.53**	**(1.4)%**

Table 2 Movement Assumptions:

1. 20% of non barcoded small letters will move to the barcode price.

2. 10% of current permit holders, representing very low usage, will discontinue their use of the service.

Source: Australia Post, Prices are GST Inclusive

Overall the price changes are expected to be revenue neutral. As shown in Table 1 above, unadjusted for any volume impact, the proposed price changes are estimated to result in a slight revenue decrease of approx $0.1m (-0.3%).

Allowing for behavioural changes (estimated by Post) Table 2 illustrates the expected impact of the proposed prices will result in a modest revenue decline of around $0.5m (-1.4%).

The usage changes estimated in Table 2 are based upon:

- The trend of uptake of the barcoded small letters is continuing to an expected maximum of 90%. In January 2001 the volume of barcoded small letters was around 70%, by June 2002 this had risen to around 87.5% of total Reply Paid small letters.

- Currently, a significant proportion of Reply Paid permit holders generate very low volumes. Of approximately 28,000 permit holders, around 8,900 average less than 3 letters per month. It is estimated that 10% of these customers will cease using the service.

2.3 Customer Impact of Price Changes.

Table 3 below provides an estimate of the breakdown of customers by annual dollar spend.

Table 3: Summary of Customer Annual Reply Paid Spend.

Annual Reply Paid Spend	Number of permits	Proportion of total %	Average Annual Spend	Revenue by Annual Spend
		%	$	$m
Up to $60.00	8,875	31.6%	$17.21	$0.2m
Over $60 up to $200	5,094	18.1%	$89.86	$0.5m
Over $200 up to $500	3,305	11.8%	$227.19	$0.8m
Over $500	10,883	37.1%	$2524.75	$27.3m
Total	**28,107**	**100.0%**	**$1021.55**	**$28.7m**

Table 4 below indicates the impact on barcoded small letter customers from the introduction of the Annual Fee.

Table 4: Impact on Barcoded Small Letter customers

Number of Reply Paid Responses Received		Current Pricing Cost to Customer	New Pricing Cost to Customer
Per Week	**Per Annum**	**Per Annum**	**Per Annum**
3	130	$60	$112
8	435	$200	$234
20	**1,000**	**$460**	**$460**
21	1,087	$500	$495
192	10,000	$4,600	$4,060.00

The impact on individual customers will vary, as shown in Table 4 above, with those customers who receive more than 20 barcoded small letters a week (1,000 per annum) experiencing lower costs. Lower volume customers will experience cost increases as a result of the introduction of the $60 annual fee.

The annual fee is expected to have an influence on the behaviour of some customers, and may result in them electing to discontinue their Reply Paid Permit Number.

Reply Paid is used by business to allow and encourage customers to contact them, with queries or sales orders, without the customer incurring a "contact cost". Business use of Reply Paid will therefore be governed by the degree by which they "push" their customers into contacting them via this communication channel.

Reply Permits do not have expiry dates (ie. Post keeps a Reply Paid account open until a business elects to close it). There is currently no impetus for a business to cancel a Reply Paid permit number. The annual fee will result in the cancellation of a number of non-active permits.

The increase in the price for non-barcoded small letters will encourage further movement to the barcoded service.

Post estimates that about 20% of the current volume of non-barcoded small letters will adopt the barcode format. The remaining volumes, up to 10% of small letter volumes, will not be able to access the barcode price as the permit holder is not always able or willing to provide a response envelope/card. For example, some customers provide a reply paid number in magazine advertisements, requiring the respondent to address an envelope.

2.4 Consultation.

Australia Post has undertaken stakeholder consultation in relation to the proposed changes to the Reply Paid service. Consultations were undertaken with both the Major Mail Users of Australia (MMUA) and the Australian Direct Marketing Association (ADMA) in accordance with agreed consultation protocols.

To commence the consultations a briefing paper of the proposed changes was provided the stakeholders in September 2002. This was followed with the option of open discussions in a forum to clarify and discuss any issues that were identified.

Both the MMUA and ADMA have provided support for the changes. The MMUA support noted an observation from an MMUA member that the increase in the non-barcoded small letter price to 60c may have a negative impact upon the demand for Reply Paid. A copy of the responses from MMUA and ADMA will be forwarded separately.

2.5 International Comparison

The following table provides an indication of Reply Paid charges in several overseas countries.

Country	Structure	Per Piece Charge	Permit or Application Fee	Accounting Fee	Basic Postage Rate
Australia*	Barcoded Non-Barcoded	$0.40 $0.60	$60 pa	N/A	$0.50
USA	Barcoded Non-Barcoded	$0.43 $0.97	$150 pa $150 pa	$475 pa N/A	$0.37
UK	Barcoded Non-Barcoded	£0.27 £0.275	£63 £63	N/A	£0.27
New Zealand	Approved Non-Approved	$0.35 $0.40	N/A	N/A	$0.40
Canada	Barcoded Non-Barcoded	$0.60 $1.45	$465	N/A	$0.48

** Proposed prices.*

3. Regulatory Approach

PS Act Requirements

In assessing a notification of proposed prices submitted under section 22 of the PS Act, the ACCC is to apply the criteria set out in section 17(3) of the Act. Those criteria relate to:

- the need to maintain investment and employment;
- the need to discourage persons in positions of market power from taking advantage of that power in setting prices; and
- the need discourage cost increases arising from wage increases.

In interpreting those provisions, the ACCC directs its attention to:

- the efficiency of the cost base that the declared company is working from to earn a return; and
- the reasonableness of the rate of return that the declared company is seeking.

These interpretative rules are from the ACCC's Draft Statement of Regulatory Approach to Price Notifications.

As noted in section 2.1 above, as the revenue impact from the proposed changes is neutral they will not result in Post exceeding the reasonable rate of return determined by the ACCC in response to Post's letter notification in October 2002.

4. Objectives of Price Changes

4.1 Introduction

The proposed price changes are designed to provide a commercially viable Reply Paid service that encourages responses via hard copy mail. As Reply Paid is predominantly used in association with promotional mailings (direct mail), these changes will support Post's overall strategy to encourage and grow direct mail in an environment where transactional mail growth is forecast to decline.

Pricing Strategy
In this context the objectives underpinning the proposed structure are as follows:

- To reward customers who adopt the small letter barcoded format:
- To reward and encourage high volumes:
- To ensure fees charged are better aligned to the costs of providing the service:
- To recover the costs of administering the service through the introduction of an annual fee: and
- To ensure that revenue generated/incurred by the service is properly accounted for and collected.

4.2 Explanation of Individual Price Changes

4.2.1 A 6 cent reduction for Barcoded Reply Paid small letters.

A. Background

- The price category for barcoded small letters was introduced in October 1999. At that time the price was set at 42 cents: 3 cents below the BPR. The price for non-barcoded small letters was set at 47 cents.
- When GST was introduced in July 2000 the price for barcoded small letters was increased to 46 cents: 1 cent over the BPR.
- The price for these letters reflects the efficiencies obtained in the processing of them in the new Future Post network.
- The barcode and correct address format ensures almost 100% automation, allowing these letters to be efficiently processed, and importantly enabling the items to be separately presented to Delivery Centres as Reply Paid items. Thereby ensuring that the items are easily identified and charged.
- Australia Post provides artwork at no cost for the production of these items. Artwork can be requested for all major envelope sizes. Any business providing a Reply Paid small letter sized item for its customers is able to access this price.

B. The Market/Volumes – Price Rationale

- Barcoded small letters represent around 80% of total Reply Paid volumes.
- The lower price is consistent with other Australia Post strategies to increase the proportion of machine efficient mail and in doing so share these benefits with customers.
    - In January 2001 only around 70% of small letter volumes were barcoded. In January 2002 this had grown to around 83% and reached 87% by June 2002
- The lower price results in an appropriate rate of return.
    - The processing quality of these items is similar to Barcode PreSort Letters, with some additional "front end costs" (collection and facing).

C. Customer Impact

- This price decrease (of 13%) provides a significant benefit to customers and will encourage the continued use of Reply Paid.

4.2.2 A 9 cent increase for Non-barcoded Reply Paid Small Letters.

A. Background

- Prior to the January 2003 increase to the BPR, the price for non-barcoded small letters was effectively set at the BPR plus 6c.
- When the BPR was increased in January 2003 the price for non-barcoded small letters was not increased: reducing the premium on the BPR to 1 cent.

B. The Market/Volumes – Price Rationale

- Non-barcoded small letters represent around 11% of total Reply Paid volumes and around 13% of small letter volumes.
- The level of non-barcoded small letters has continued to decrease since the category was introduced in October 1999.
- The proposed price reflects the additional costs incurred in handling these items.
  - The processing of these items incurs a mix of manual and automated processes.
  - They can not be separately identified (as Reply Paid) in our processing networks and must be manually identified and extracted at the Delivery Centre
- This results in:
  - additional costs to sort, identify and extract the items, and
  - a higher level of revenue risk as items may not be detected, and therefore not charged.
- The higher price reflects these additional costs and higher levels of risk.

C. Customer Impact

- The impact of the price increase for these items will vary by Permit holder and will depend upon:
  - The mix between barcoded and non barcoded envelopes; and
  - Where the customer provides a response envelope, the customer's decision to prepare compliant envelopes – Post provides free artwork in all standard small letter sizes for envelopes to be prepared.

- Post estimates that up to 10% of the volumes of small letters may not be able to be barcoded as the customer either elects or is unable to provide a response envelope/card.

4.2.3 An increase in the per item administration fee for Reply Paid Large Letters from 2 cents per item to 10 cents per item.

A. Background

- Prior to October 1999, a 2c per item fee applied to all general Reply Paid letters (small and large), in some instances this fee was waived for Reply Paid items that were generated from Promotional Mailings.
- In this context, the 2 cent fee has applied to Reply Paid Large Letters since 1978.
- When the revised structure for Reply Paid small letter items was introduced in October 1999 the 2 cent fee for Large Letters was left unchanged.

B. The Market/Volumes – Price Rationale

- Large Letter Reply Paid items comprise around 9% of total Reply Paid items.
- The 2c per item fee is considered inappropriate in covering the costs of Reply Paid Large Letters.
- Reply Paid Large Letters have limited degrees of automated processing and it is not possible to separately identifying Reply Paid items as part of their processing.
- Similarly for non-barcoded small letters, Large Letter Reply Paid items must be manually detected at the Delivery Centre.
- The 10 cent fee is considered appropriate to cover the costs incurred in manually detecting, sorting and counting these items for each Reply Paid permit holder.
- The fee also reflects the higher level of risk involved in ensuring these items are detected.

C. Customer Impact

- At around 6%, the impact of the price increase is not expected to have a material impact upon the use of this service.
- The impact of the price increase will vary by Permit holder and will depend upon what price reductions the permit holder receives from the use of barcoded and correctly addressed small letters.

4.2.4 Introduction of a $60 Annual Fee.

A. Background

- Currently no annual fees are charged for each Reply Paid permit. Reply Paid permits remain valid until the holder advises Post that they wish to cancel it.

B. The Market/Volumes – Price Rationale

- The introduction of an annual fee is not expected to have an impact on the overall use of Reply Paid or mail as a response mechanism.
- The fee will cover part of the costs of administrating the Reply Paid permit.
- At $60, the fee is considerably lower than that charged for competitive options, such as Freecall numbers.

C. Customer Impact

- For customers who receive as little as 20 barcoded small letters, a week the cost of the Annual fee will be offset by the reduction in the barcoded small letter price.
- The impact from the introduction of the annual fee is expected to result in customers who no longer actively use Reply Paid discontinuing their permits.
- These customers would typically be small users of the service and reflect a customer communication strategy that did not rely upon Reply Paid mail.
- Post has estimated this to be 10% of permits issued.

4.2.5 Requirement that all Reply Paid permit holders maintain an active Australia Post Corporate Charge Account.

A. Background

- Reply Paid items are normally delivered daily, with the Permit holder receiving an account monthly.
- Approximately 20,000 of these accounts are currently billed directly to Australia Post Corporate charge accounts. This is an Account system that is effectively and appropriately managed in line with standard credit procedures.
- The remaining permits (around 10,000) are not managed centrally, but at the local Retail Australia Post outlet.

B. The Market/Volumes – Rationale

- More than half of Australia Post's letters business is transacted under Australia Post charge accounts. There are around 60,000 charge accounts issued.
- The requirement that all Reply Permit holders operate a central charge account ensures that the credit risk is appropriately and consistently managed.
- Retail outlets who currently administer "local" accounts are not skilled at operating and managing credit accounts and have a higher incidence of bad debts.
- This has been reflected in a change in national credit policy whereby all credit accounts are to be administered by our central Credit Management Department.

C. Customer Impact

- Each Reply Paid customer will be offered the opportunity to apply for an Australia Post charge account.
- This will transfer their local account to a centralised system.
- Barring unacceptable credit risks, no current (or future) customer would be denied access to the centralised credit management system.
- Minimum transaction or monthly trading amounts that normally apply to centrally managed accounts would not apply to accounts that were operated for the purpose of billing Reply Paid prices and fees.