

Printing Industries
Association of Australia's
Feedback Regarding Australia Post's
Draft Price Notification
Business Letter Pricing 2011



March 2011

Background

Following a request received by Australia Post in early December 2010, the Printing Industries Association of Australia (*Printing Industries*) circulated Australia Post's proposed changes to its Pre-sort Letters Service to organisations with significant mail operations.

The feedback received forms the basis of *Printing Industries* initial response to Australia Post's proposals.

Market conditions and industry views

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Better approach

It has been suggested that a better way to incentivise the use of off-peak mail and maintain volumes is to reduce the cost of the off-peak mail service, reduce the turn around from 3 to 2 days and keep regular mail at the existing price.

Given the commercial reality that the cost of postage remains the main cost associated with mail house related jobs, any price increases will trigger adverse impacts such as further volume reductions.

Australia Post's automated equipment and/or systems are designed to handle larger volumes of envelopes but as envelope volumes continue to decrease this means that Australia Post has the ability to deliver envelopes in an even shorter time span than before. The presence of this greater capacity for regular mail also weakens the case advanced by Australia Post to shift more mail volume from regular towards off-peak.

Branding

Currently off-peak mail requires having an "Off Peak" box printed next to the "Postage Paid Australia" box. Many mail house clients feel this gives the mail piece a cheaper look to it and as a consequence avoid utilising the product/service.

By requiring an off-peak box Australia Post is effectively reducing the clients options - At time of ordering envelopes the client may choose to simply print the Postage Paid box - without the Off Peak box. This then makes it difficult and costly to take advantage of the off-peak savings - as the client would have to re-print the envelopes with the Off Peak box.

Mail houses tend to tag and date the mail trays as off-peak - the Australia Post Unit Load Devices is labelled and dated - if the trays and delivery cages are tagged as off-peak why does the individual mail piece require an Off Peak box?

Potential impacts

According to mail houses, there is a perception at the moment by mail recipients that off-peak mail implies the sender does not value the communication as much as they would if it was sent by regular mail. This implies that a move to off-peak to save money could, very possibly, mean a potential reduction on the ROI for the mailing because of the perception of mail recipients about off-peak which would, again very possibly, lead to a reduction in the volume and frequency of mailings.

A key driver behind the push to increase the use of off-peak mail is to increase the efficiencies of Australia Post's transport, logistics and delivery networks by encouraging more mail to go through the "quieter times". There is no benefit however to the mail generator for helping with the efficiency, rather there is a general penalty to all by the increased costs of the Regular and other mail services.

The range of proposed postage increases targets the large customers (i.e. utilities, government departments both local and federal, AMEX, banks, Credit Unions, superannuation funds, etc.), who have regular large bulk mail of bills, statements, etc., which ultimately will impact on those private sector companies providing mail house services.

In particular, "increases in the price differential between Same State and Other State Mail will have a detrimental impact. The current difference of 1.1c for Regular small letters is being increased to 1.6c". This represents a 45 per cent increase in a service charge, which needs detailed justification by Australia Post. Such a significant increase will also adversely affect companies who provide mail house services from attracting work from interstate especially if the letter has to be subsequently posted back over a state border.

As Australia Post has print and mail departments in all capital cities this gives it a competitive advantage over single site mail house companies.

A mid-sized print/mailing house entity estimates that with 31 per cent of its digital printing and mailing originating from interstate customers, the extra 0.5 cents charge, for those interstate customers will result in an extra \$280,000 in postal charges in a full year to have their print and mail production performed with the entity.

Delivery points

Australia Post informs us one of the biggest costs is associated with the last hand delivery by the postman. A legitimate question would be what percentage of the delivery points are post boxes which require no such cost?

Also what proportion of the increase in delivery points over the last 10 years have been post boxes?

With Australia Post in the process of testing centralised delivery boxes at new housing estates – the question has to be asked if they have factored in any of the associated savings?

Impact study

All postage price increase proposals submitted for review and comment by Australia Post should contain an economic impact study outlining the likely impact on the impacted industries and other stakeholders including local, state and national governments.

If Australia Post puts up the price of postage has it considered the impact on mail volumes? What are some of the other flow on effects including but not necessarily limited to print volumes, payroll tax, company profit taxes and other taxes, as well as unemployment benefits paid by the government?

De-regulation

Continued postage price increases must be offset by the opportunity for competition into the marketplace. If Australia Post believes it is an efficient service provider then they should welcome and encourage de-regulation and competition?

Industry consultation

The term "Industry Consultation" is not seen as genuine by industry participants – as the proposed postage price increases are commonly viewed in the context of being a presentation of "what will happen" irrespective of any feedback from the industry. This perception may be due to the fact that changes that are agreed to by Australia Post following industry consultation often tend to relate to non-price factors.

Business Mail

If the Reserved Services are a loss service for Australia Post, then by assumption business mail must be very profitable. If business mail is profitable, why does Australia Post continually increase the charges – it seems they are continually biting the hand that feeds it.

Other industry concerns

Australia Post besides providing a mail delivery service, which is monopoly in their hands, also competes with the private sector by providing a digital printing and mail house service, which is in direct competition with the print and mail house companies.

Therefore, Australia Post straddles a position of monopoly delivery provider on one hand with competitor services on the other, which ultimately could see an increase in postage costs used to subsidise operations that compete with the private sector, which can more effectively and efficiently provide the bulk mail house services.

Surely, if an organisation like Australia Post, which is providing a regulated monopoly service and competing in the same market space, and which then proposes increased charges, which ultimately give it a preferential advantage when competing with the private sector, this must be seen to be predatory or anti-competitive misuse of that market power to drive out or limit those private sector companies.

If it is Australia Post's strategy or hidden agenda to retain its regulated Mail Delivery provider position as well as expand its Print and Bulk Mail House services at the expense of the private sector, by predatory or anti-competitive means, then a move towards privatisation or opening up of this regulated mail delivery service if mail volumes continue to decline must become an option for the Federal Government to pursue.

This then raises the question of the future of a regulated market in mail delivery, if the Australian Government is already achieving 10 per cent revenue from GST on postage and with only a further profit return of 2.1 per cent in 2009/10 or an average of 4.9 per cent in the past 2 years (Australia Post Annual Report), with future predictions for further declining volumes is Australia Post trying to develop other market alternatives or will it regularly raise postage charges to survive?

When does the need for government ownership or involvement be considered?

Printing Industries has been informed by industry participants that they will not be tolerating regular postage price increases whilst Australia Post attempts to increase their market penetration into the private sector's Bulk Mail services. There is an implied threat of exploring various options to address the perceived commercial wrongdoings of Australia Post.

Industry participants also point out that all private sector Mail Houses have to have a bank guarantee or cash in place to cover 1.5 times their monthly postage account in order to operate a credit account with Australia Post. This facility does not apply to government departments and goes further than obligations associated with a Director's Guarantee.

Recommendations:

Printing Industries does not support Australia Post latest proposals concerning pre-sort letter prices which are viewed by printing and mailing house businesses as another attempt of price hikes.

If Australia Post is truly interested in encouraging the usage of the off-peak mail service, then it needs to address perceptions by users that it is an inferior service to regular mail.

The Association recommends that Australia Post improves the off-peak mail service by striving to deliver such mail items within the two day delivery window. Any price increases should be postponed by 12 months until Australia Post succeeds in reversing and overcoming the current perceptions by mail generators of the off-peak mail service.

As a means of promoting competition the proposed increase in the price differential between Same State & Other State mail should also be dropped.