



**Submission to the
Australian Competition and Consumer Commission
On Australia Post's Draft Price Notification Issues Paper
February 2011**



1. Executive Summary

The Australian Direct Marketing Association (ADMA) welcomes the opportunity to provide comment to the Australian Competition and Consumer Commission (ACCC) on the *Australia Post's Draft Price Notification Issues Paper February 2011* (the Issues Paper).

The basic postage rate and the price and design of PreSort services, including Regular, Off Peak, Charity, Clean Mail, Acquisition, is an important input cost for direct marketers that use mail.

ADMA believes that changes proposed by Australia Post, whilst understandably driven by the forecast average annual loss of at least \$86.9 million (in real terms) over the period 2009-2010 and 2011-2012, needs to be subject to close scrutiny.

The key concerns outlined in this submission are:

- a) That ACCC scrutinise that every avenue in terms of cost reduction has been pursued and that the price increase is not being sought so as to drive volume to Australia Post products that are not reserved services
- b) Continued price increases will result in permanent and irreversible moves away from the PreSort products as many businesses will move to non-mail channels
- c) The changes to the design of the Off Peak PreSort offering have not gone far enough to meet business' needs
- d) The price incentive to move to Off Peak PreSort services are not sufficient to justify the cost of transitioning from Regular PreSort to Off Peak PreSort
- e) Australia Post should develop a pricing model that provides a discount dependant on volumes used as occurs in so many other industries



2. About the Australian Direct Marketing Association

ADMA is the peak industry body of the Australian direct marketing industry.

ADMA was formed in 1966 and has during its 44 years of operation has been involved in the formulation of law and issues that are relevant to the direct marketing industry. Predominantly our focus has been the *Privacy Act 1988*, the *Spam Act 2003*, Australia Post standards, service levels and pricing issues and the *Do Not Call Register Act 2006*.

ADMA's primary objective is to help companies achieve better marketing results through the enlightened use of direct marketing.

Direct Marketing has its foundation in direct mail and, while direct marketing has now expanded to include information based marketing across the many different channels, mail remains a significant channel for many of our members.

ADMA has over 500 member organisation including major financial institutions, telecommunications companies, energy providers, travel service companies, major charities, statutory corporations, educational institutions and specialist suppliers of direct marketing services.

Many organisations, including suppliers to large brands, rely on mail marketing. Key changes to volumes and prices for PreSort services have the potential to have a significant impact on this part of our industry.



3. Introduction

ADMA welcomes the opportunity to comment on the important issue of PreSort, Clean Mail and Reply Paid prices and the design of the Off Peak PreSort service.

Australia Post has Substantial Influence over the Market in the Way that it Sets Prices

ADMA notes that under section 95G (7) of the *Competition and Consumer Act 2010* the ACCC must have particular regard to the need to discourage a person who is in a position to substantially influence a marketer for goods and services from taking advantage of that power in setting prices.

ADMA also notes that Australia Post's parcel business is well placed to benefit from substitution from mail marketing to other channels specifically online shopping. Australia Post is a significant player in parcel delivery as it is the only industry participant that can deliver to every business and every household in the country every working day of the year.

ADMA also notes that the same level of price scrutiny is not present in the parcel delivery market as it is for reserved services.

As a result ADMA submits that the ACCC should ensure that there is no possibility that an increase in prices is being pursued to benefit Australia Post's parcel delivery service and that every avenue in terms of cost reduction has been pursued vigorously by Australia Post as an alternative to increasing the price of PreSort services.

Getting the Volume and the Price Right

ADMA has made a submission on each of the previous proposed price increases and the central theme that has run through each of our submissions is that if Australia Post increases the price of PreSort services then volumes will decrease, and that this will lead to the need to increase prices and so on and so on. This has proven to be the case.

ADMA has also previously made the point that the decreases in volumes due to the global financial crisis would be temporary and that volumes would increase. Whilst the clear and present danger of the GFC has passed it still has some lingering effect which requires marketers to be more careful with their mail spend. In addition the financial markets fluctuations that arise from shocks such as the Queensland and Victorian flooding do have a continuing depressing effect economic and marketing activity. For example at one stage during the floods 30% of all available post codes were affected and this had a significant effect on marketing activity by large Australian companies.

Notwithstanding the above it is clear however that there is a structural adjustment occurring in the economy away from mail towards other, mainly digital, channels. In this context ADMA notes Australia Post's longer term direction of providing a sustainable letter service. However it is ADMA's view that if such an objective is to be achieved then greater consideration and weight has to be given to the fact that continued price increases will result in less volumes and significantly greater substitution of alternate marketing channels such as online advertising, email, telephone and social media.

Continued price increases will reduce the return on investment of mail marketing to such a level that mail marketing will no longer be viable for them. Whilst this may not be the case for all our members it is fair to say that further price increases will result in some organisations abandoning mail as a marketing channel altogether. Many of these organisations do not want



to stop using mail as a marketing channel but continued price increases will leave them with no other choice.

As a result continued price increases will accelerate the structural change that is occurring in relation to mail and these changes will, in some cases, be irreversible.

Viewed in this light ADMA suggests that the forecast of a slight increase in volume if a price increase proceeds is optimistic. Yet we agree that a smaller price increase than may be needed in the long term is a better alternative to perhaps lowering the volume forecast and putting prices too high and unnecessarily driving further volume decreases.

Redesign of the Off Peak Service

The clear feedback that ADMA has received is that the changes to the design of the Off Peak service are not sufficient to prompt organisations to migrate from Regular to Off Peak PreSort services. In the majority respondents indicated that they would not migrate to Off Peak if the prices and standards were changed as proposed.

This view remains unchanged despite the reversion to a 6pm lodgment time and a 2 day delivery time.

In the majority respondents have indicated that they do not use the Off Peak service because it does not meet their business needs.

The main reason for Off Peak PreSort services not suiting business is that:

- a) mail and marketing processes are currently so complex that a greater change to Off Peak prices would need to be implemented to cover the costs incurred by organisations if they migrate to the new Off Peak service.
- b) The lack of certainty in delivery times is a significant issue, particularly for direct marketers where timing is crucial to the success of campaigns (especially in rural and regional Australia)
- c) Delays in incoming revenue generated by the mail pieces are not offset by the decrease in mail price.

Major marketers have advised that the most important feature of mail, especially when it is part of a complex multi-channel acquisition strategy, is having certainty around when the mail items will be delivered. Certainty around mail delivery time and day of receipt is important to marketers because:

- a) response rates vary according to the day of the week that a piece is delivered
- b) it is an essential pre-requisite to ensuring that sufficient resource is in place to receive customers orders and inquiries and issues with this can be significantly more expensive than the savings proposed
- c) it is an essential pre-requisite to co-ordinating with other communications to consumer on the same offer by other channels
- d) in some cases it is important that all customers, on a nation wide basis, receive the same offer at the same time.

The consistent view is that unless these issues can be resolved with the Off Peak PreSort service then it will not meet businesses' needs and will not be used because the price incentive is too small.



What this means is that business will continue to use Regular mail services but in lesser volumes and volume increases will not transfer to Off Peak rather they will transfer to other non-mail channels.

If Australia Post wants to make Off Peak more attractive then further amendments to its design are required including:

- a) Australia Post alter the service to give greater certainty that mail will be delivered on a specific day
- b) Reporting on delivery times for each State is introduced and issued to customers

Most importantly though the price savings that an organisation will receive if it moves to the Off Peak PreSort service need to be lower than the cost an organisation will incur if it adopts the new service. The feedback that our members are providing is that the price savings of the Off Peak PreSort service, in comparison to the new prices for the Regular PreSort service, are not lower than the transition costs and therefore it does not make financial sense to migrate to the new service.

Lastly, the name of the Off Peak PreSort service is a matter of concern for marketers because it portrays a lower standard of offering than Regular mail does. With this in mind ADMA submits that a neutral name such as Business mail or similar is used instead of Off Peak.

Volume Discounts

ADMA submits that Australia Post should develop a pricing structure that provides discounts to high volume users. This type of approach is widespread throughout other industries and in this context would ensure that organisations that may be contemplating moving away from mail entirely or reducing their volumes receive incentives to continue to maintain their current volume of mail.

ADMA notes that there may be some competition considerations with respect to this approach but submits that given the potential to reinforce volumes that a way to overcome potential competition concerns should be found.

Other Matters for Consideration

Lastly, Australia Post has pointed to the increase in multiple delivery points as a key factor necessitating an increase in prices. ADMA would like to see additional information and examination of whether these delivery points are more concentrated and the impact that this has on the cost of mail.

