

Review of Australia Post Efficiency Program in light of international benchmarks

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Executive Summary

In August 2015 Australia Post provided the ACCC with a draft price notification to increase the basic postage rate from 70 cents to \$1 for letters delivered at the new, slower “regular” timetable. Australia Post proposes that prices would take effect from 4 January 2016. Simultaneously, Australia Post is introducing a range of measures to respond to the decline in letter volumes. The ACCC is required under the Competition and Consumer Act 2010 to assess Australia Post’s pricing proposal.

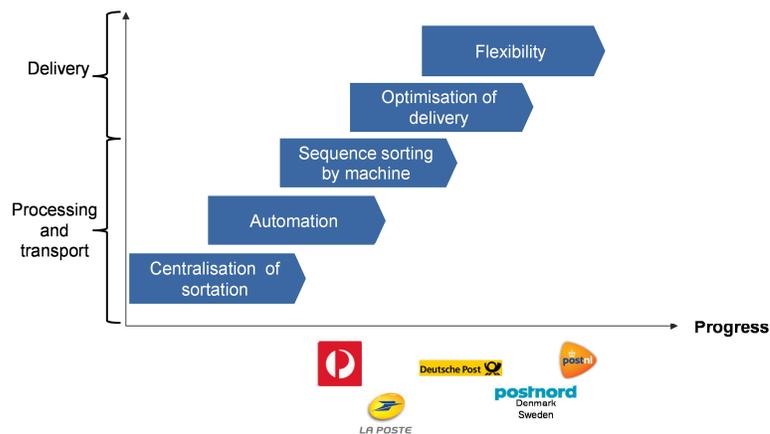
The ACCC is seeking advice on the extent to which Australia Post’s reform program is appropriate to increase efficiency in letter operations and where Australia Post stands compared to selected European postal operators. For this purpose, WIK-Consult

- reviewed Australia Post’s current operations, past performance and projected progress in increasing the efficiency of its letter operations;
- assessed Australia Post’s operations and reform program in light of international best practice.

The review takes experiences of five European postal operators into account: Deutsche Post (Germany), La Poste (France), PostNL (The Netherlands), PostNord Denmark and PostNord Sweden.

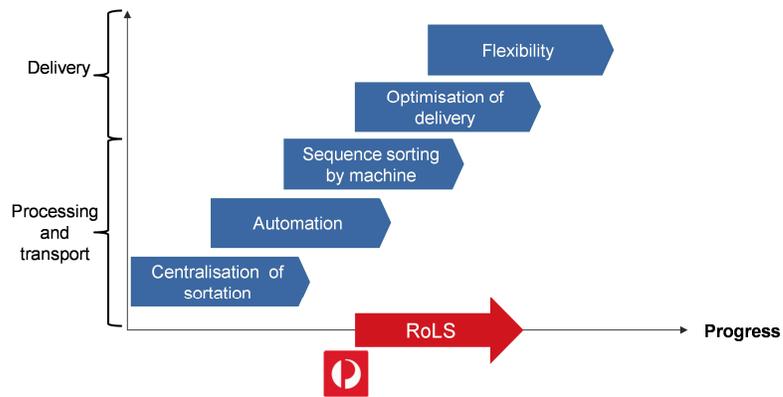
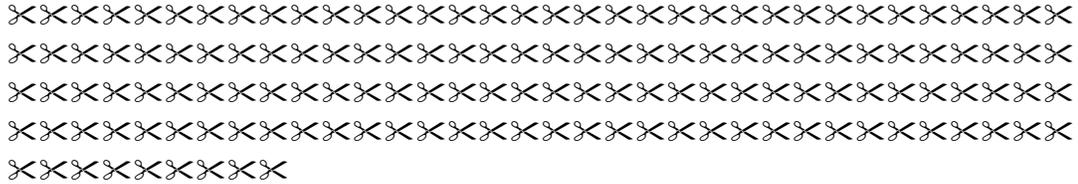
Australia Post’s current efficiency in letter operations lags behind its international peers

The assessment of Australia Post’s letter operations compared to its international peers revealed that Australia Post’s current efficiency level in letter operations lags behind the levels achieved by its international peers:



Source: WIK-Consult.

- the reorganisation of the postal network following modernisation and following the phased introduction of the two-speed letter product; and
- the implementation of the National Delivery Model (NDM).



Source: WIK-Consult

The program can enable Australia Post to catch up in terms of operational efficiency to the current levels of its international peers:

- Automation: Australia Post will replace its sorting machines for small letters and large letters (“flats”) in the next three years. This will generally increase the proportion of letters sorted by machine. Moreover, the new flat sorters will enable Australia Post to sort large letters to delivery rounds.
- Sequence sorting of small letters by machine: The corporation plans to automatically sequence-sort more than 90% of small letters by FY2019.
- [Redacted]
- [Redacted]

Australia Post’s poor performance in increasing efficiency in letter operations in the past and compared to its international peers indicates that this program is very ambitious

given the short period for implementation. The major reason is that Australia Post plans to implement many different elements simultaneously that would significantly affect processing and delivery operations.

Australia Post's envisaged cost savings appear conservative in light of international best practice...

Assuming Australia Post is able to fully implement its RoLS program its envisaged cost savings are conservative in light of international best practice. Given the substantial letter volume decline of more than 10% per year as forecast by Australia Post its savings in letter services costs are lower than annual savings achieved by Post Denmark and PostNL which face similar decline rates in letter volume. The projected decline in the number of full time equivalents envisaged by Australia Post is less demanding than its projected cost savings. The corporation would have the lowest rate of decline of all postal operators experiencing significant letter volume decline. However, two factors may limit the reduction in employment: (1) Australia Post's growing parcel business partly absorbs workers freed from letter operations and (2)

...but very ambitious in light of its past performance

In light of Australia Post's past performance in achieving cost savings and reducing employment levels the projected cost savings appear much more ambitious. All elements of the reform, substantially depend on the employees' and the unions' willingness to cooperate. In our experience this is a difficult and very time-consuming task and needs substantial communication between the parties before and during the implementation.

Australia Post could consider additional measures for cost savings

Experiences at other postal operators show that there are additional opportunities to increase efficiency and achieve substantial cost savings:

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