the real media collective

INDUSTRY COALITION

SUBMISSION

THE REAL MEDIA COLLECTIVE (INDUSTRY COALITION)

Submission to Australia Post – 2019 Proposed Price Increase

Submission date:	23rd September 2019
Lodged electronically:	postalservices@accc.gov.au
Lodged by mail:	Mr Robert Wright General Insurance, Water and Wireline Markets Branch Australian Competition and Consumer Commission GPO Box 520 MELBOURNE VIC 3001

Table of Contents

1.0 About the Industry Coalition

'The Real Media Collective' provides thought leadership, education and protection of the effectiveness, relevance, versatility, power and sustainability of consumer marketing and the letterbox advertising channel. All activities and communications are delivered in a considered, researched, balanced and verifiable manner offering a sophisticated industry voice across producers, distributors, buyers and end-users.

The Real Media Collective was formed in 2018 under a merger from the ACA, APIA and TSA Limited.

The Australasian Paper Industry Association (APIA)
The Australasian Paper Industry Association Ltd (APIA) is the industry association representing the interests of the Australasian Paper Industry. The membership includes paper manufacturers, paper importers (including mill agents) and paper merchants.

Association for Data-Driven Marketing & Advertising (ADMA)
The Association for Data-driven Marketing & Advertising (ADMA) is the principal industry body for data-driven marketing and advertising. ADMA is also the ultimate authority and go-to resource for effective and creative data-driven marketing across all channels and platforms, providing insight, ideas and innovation for today's marketing industry.

The largest marketing and advertising association in Australia, ADMA has over 600 corporate members including major financial institutions, telecommunications companies, energy providers, leading media companies, travel service companies, airlines, major charities, statutory corporations, educational institutions and specialist suppliers to the industry including advertising agencies, software and internet companies.

Fundraising Institute of Australia (FIA)
The Fundraising Institute Australia (FIA) is the national peak body representing professional fundraising in Australia. Its network of more than 200 volunteers across Australia helps them service their members through their expertise, advice and oversight.

FIA champions and facilitates best practice, with its code for ethical fundraising and through professional development, networking and advocacy for all its members.

Visual Connections
Visual Connections is the premier association for the suppliers of hardware, software, consumables and ancillary services for the print, graphics and signage industries in Australia. It supports its members and promotes a sustainable and successful future for the industry through education, exhibitions, sponsorship, grants and networking opportunities, and have

the largest trade show portfolio in the industry with PrintEx, PacPrint, Visual Impact and Label+ Packaging Expos under its banner.

Australian Forest Products Association (AUSFPA / AFPA)
The Australian Forest Products Association is the peak national industry body representing the resources, processing, and pulp, paper and bioproduct industries covering the forest products value chain.

AFPA's membership falls under four chambers (Growers, Hardwood Processing, Softwood Manufacturing, and Pulp, Paper and Bioproducts) representing the core business of organisations at different points in the value chain.

WHY ARE WE WORKING AS A COALITION?
The Associations by the nature of their commonality – commitment to achieve growth in the graphic communication industry from supply to design to production to delivery – have alignment in projects and vision for our Industry. Further, with common executive management via a shared paid Executive, Management team and Board member synergies, working together assists in a united approach and a commitment to respond to the industry's requirements to protect and promote.

Across the Board and Member companies of all three organisations we represent $5.4B of our $7.5B industry (these figures exclude Australia Post and Publishers). Collectively the industry, across paper, ink, print, publishing, mail and distribution employs over 251,000 Australians across full-time, part-time and independent contractor arrangements with mixed skilled and unskilled labour supply across metropolitan and regional locations.

2.0 The Industry Snapshot

AUSTRALIAN PAPER, PRINT & MAIL INDUSTRY

SNAPSHOT

KEY FIGURES - PRINT

Annual Turnover:
$7.5BN
$2.9BN
added industry value
(Ibis world, 2017)

Employs:
30,587
Australians
(Ibis world, 2017)

In:
5,294
businesses
(Ibis world,2017)

KEY FIGURES - PULP & PAPER

Annual
Sales Income:
$9BN
(AFPA, 2016)

Employs
60,820
of which
18,000
direct employees
(AFPA, 2016)

73.70%
paper products are recycled
(AFPA,2017)

PRINTING INDUSTRIES INCLUDE:
books, magazines, sandwich boards, clothes labels,street signs, t-shirts, catalogues, envelopes, billboards,packaging, labels, signs.

RELATED INDUSTRIES INCLUDE:
packaging, signage, marketing, design, media, communications, paper production, mail and related services, and distribution.

PULP, PAPER, PRINT & MAIL DISTRIBUTION

PEOPLE BREAKDOWN BY SECTOR

MAIL &
RELATED SERVICES
(mail processing direct & indirect)
121,389*
(ACIL Allen, 2015)

PAPER
60,820
(AFPA, 2016)

LETTERBOX
DISTRIBUTION
33,742
(ACA, 2017)

PRINT / PUBLISHING /
PRINT DESIGN
35,049

TOTAL AUSTRALIANS EMPLOYED
251,000

[Note: this is excluding the Mail advertising services Group C – as entire print industry is reported within the Print/Prepress/ Print design figure from Ibisworld, 2016].

INDUSTRY REPRESENTATION:
The industries represented above include paper, print, publishing, mail and distribution all reprsented by The Real Media Collective in partnership with the Australasian Paper Industry Association and Australian Forest Products Association. The Real Media Collective membership represents $5.4B of the $7.5B industry.

Source:
Market Research Report: Printing Industry. Ibis World, 2016 Economic contribution of the Australian mailing industry.
Acil Allen, 2015 National Pulp and Paper Sustainability Report. Print NZ, 2018

APIA

3.0 Response – ACCC Issues Paper: Australia Post's Draft Notification, August 2019

The Real Media Collective and the Industry Coalition (*the Collective*), representing the paper, print, publishing, mail, packaging and distribution sectors, does not support the Basic Postage Rate (BPR) price increase recently submitted to the ACCC due to the impact the BPR increase will have on business service pricing.

The following section responds specifically to the ACCC 'Consolidated List of Questions' outlined from one to twelve responding to Australia Post's request to increase the Basic Postage Rate (**BPR**) to $1.10 in an attempt to address declining revenues.

The Collective recognizes the BPR increases proposed are as follows:

Letter service	Current price	Proposed price	Increase
Small letters (BPR)	1.00	1.10	10.0%
Large letters up to 125 grams	2.00	2.20	10.0%
Large letters >125 grams <250 grams	3.00	3.30	10.0%

Source: Australia Post, Draft notification, August 2019, p.12.

Table 1: Australia Post – proposed Basic Postage Rate increases, January 2020.

The Collective remains open to further discussions with the ACCC, Australia Post and Government as it is critical to the strength of the broader industry to develop a commercial solution to future-proof a strong paper, print, mail, publishing and distribution industry for the Australian economy.

3.1 Price increases, limited justification

Q1 Considering the factors outlined by Australia Post in its submission, do you consider the proposed price increase is justified? Please explain the reasons for your view.

The Collective cannot support the Basic Price Rate (BPR) price increase recently submitted to the ACCC via the *Australia Post's Draft Notification, August 2019,* without a line of sight from Australia Post on how this BPR increase will affect future pricing across Business mail. From historical engagement in relation to pricing methodology from Australia Post, the Collective can only assume Business mail prices will continue to increase under a non-commercial model which is damaging to Industry, Employment and the Economy.

Whilst the BPR impacts one section of Australia Post pricing, Letters (Stamps), with the removal of the ACCC Oversight into Business mail pricing, the BPR now sits as the ceiling for business mail products.

Since the Reform, Industry has been the hardest hit with price increases for business products significantly inflated. Business mail prices have increased annually and in fact, 2017 saw two price increases issued.

At the time of each price increase notification the Collective outlined serious concerns across each product highlighting the impact to volume and Industry to Australia Post. Not once, despite repeated protests have Australia Post reconsidered or reviewed pricing increase notifications since 2015.

Should Australia Post look to recover lost revenue from stamped letters through the BPR this needs to be applied and outlined, however the flow-on effect of BPR pricing increases has significant impact to business and this information is missing from *Australia Post's Draft Notification, August 2019*.

The Collective has submitted several written reports to Australia Post since the 2014 Reform calling for stability, transparency and long-term visibility. This unfortunately has not been forthcoming. Industry has further argued volume declines are directly linked to pricing models and most critically Australia Post's model is not commercial across the current market.

Despite the advent of digitisation, acquisitional mail remains a valuable part of communications across the Australian marketing landscape. The continual financial sustainability and stability of this media channel is critical to the Australian economy.

Our direct membership represents $5.4BN of the $7.5BN industry. We are an industry that employs many Australians across all demographics with some 251,000 Australians in full-time, part-time and independent contractor employment arrangements across metropolitan and regional locations, we are an industry in transition, however a strong sector which has great opportunity to stabilise and grow.

In order to achieve ongoing transition and growth, the Collective is calling on Australia Post to work together to build a commercially responsible model, with mutually beneficial operational efficiencies and pricing transparency. We can only realise this in partnership.

Business pricing has been communicated with the below increase notification for implementation in January 2020:

Business letter products *	Overall weighted average increase	Range of increase across sizes/weights
PreSort Letters	6.4%	3.2% - 6.8%
Metered/Imprint	6.2%	4.4% - 6.6%
Promo Post	3.1%	2.8% - 6.6%
Charity Mail	3.0%	2.6% - 6.8%
Print Post	4.1%	3.4% - 7.5%
Print Post Linehaul	4.0%	3.7% - 4.7%
Clean Mail	6.6%	4.4% - 6.8%
Acquisition Mail	3.2%	3.1% - 6.6%
Reply Paid	4.5%	2.9% - 7.8%
Registered Post	4.1%	2.4% - 7.1%
Impact Mail	3.2%	2.8% - 3.5%
Local Country	3.6%	2.6% - 4.7%
Sample Post	5.0%	4.8% - 5.1%

**regular delivery timetable only*
Source: Australia Post, August 2019.
Table 2: Australia Post – proposed Business Mail price increases, January 2020.

Despite Industry objections and calls to work together, Business mail prices have continued to increase and the latest notification provides no sight of these increases stabilising.

PreSort, bills and letters, with the introduction of the January 2020 pricing will realise an increase of [redacted]% across four years, Print Post, that which mails subscription publications, such as magazines, [redacted]% across four years, Promo Post, marketing collateral and voucher offers, [redacted]% and Charity Mail [redacted]% across the same time frame. These pricing increases are unsustainable, not aligned to Consumer Price Index (CPI), nor reflective of the retail or manufacturing economic landscapes and lacking the responsibility of a Government asset to work with Industry and build a robust economic landscape for immediate and secondary organisations across the sector.

Price Increases since Reform – Business Mail

	Jan-16	Jan-17	Jul-17	Oct-18	Sub-total	*Proposed* Jan-20	Total increase across four-year period
Print Post Regular	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Charity Mail Regular	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Promo Post Regular	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
PreSort Regular	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]

Table 3: Business mail price increases Jan-16 to Jan-20.

The Collective is firm in its view that Australia Post, despite its obligations, does not engage in meaningful consultation with Industry in regards to pricing nor operational improvements with mutual benefits. The Collective cannot stress enough our willingness to work with Australia Post on a better way to work together. Refer Promotion of the Mail Channel: Question Three, p17, for further exploration of the opportunity to work better together.

The Collective expresses concerns to the ripple effect of any BPR price increase without due consideration from Australia Post to the long-term impact to Business mail pricing. Industry has sought clarification from Australia Post in this regard and this has not been forthcoming with any meaningful solution.

In the absence of any commitment or line of sight from Australia Post on how this BPR increase will affect future pricing in Business mail, Industry can only assume Business mail prices will continue to increase, as they have since the Reform and the Collective does not view the Business mail price increases as justified.

The key areas of concern for the Industry Coalition include:

1. **Ongoing price increases to counter loss of revenue is unsustainable** – volumes are currently at risk of **accelerated** decline due to the ongoing price increases implemented by Australia Post.

2. **Unstable pricing models under a monopolistic structure is untenable for Industry** - Price increase timing from Australia Post does not recognise the budgets and subscription modelling industry operates under. Despite repeated requests from the Collective, Australia Post continue to implement price increases across an

October/January timeframe which leaves businesses and charities mid-term on established budgets, unable to mitigate these price increases and leading to an immediate volume decline.

The Collective notes the comment within *Australia Post's Draft notification, August 2019* (3.3. Pricing for business letter services, p13) whereby Australia Post state:

Business and Government customers have been very clear they want more transparency and predictability around price changes. Providing notice, or at a minimum guidance, of future price changes allows customers to plan for changes financially and minimise disruption.

To address this issue Australia Post has committed to the following approach:

- *Single increases each financial year (1 July – 30 June).*
- *Provide major customers and industry three months' notice of planned price changes.*
- *Provide pricing guidance for the following year to large customers and industry as soon as is practicably possible.*

Whilst not meeting business needs for appropriate strategy and budgeting purposes entirely, this is the first formal documentation from Australia Post communicating this commitment and it is welcomed, assuming it will be implemented in a timely manner.

The Collective is seeking firm commitment from Australia Post in this regard.

3. **Forecasting and commercial modelling is not forthcoming** - the Collective understands Australia Post operates to a four-year forecast, however Australia Post has not provided a long-term pricing model for which Industry can forecast, manage future price increases or develop considered capital expenditure investment schedules.

4. **Reported losses via the Letters Business that justify price increases are inflated and not cognisant of latent capacity in Postal Worker distribution networks.** Further, future projects to deliver more parcels via this network with the introduction of One Network and technological implementation such as the Electric Delivery Vehicles (eDVs) is not reflected in the forecasts.

   Letters and Parcels must be reported under one business
   Australia Post argue the separation of the parcels and letters businesses, which could be justified only if the postal network and other opportunities Australia Post

enjoys under the Letters monopoly are separated from the parcels and other business.

Compared to a decade ago, ~70% of Australia Post's total revenue is now derived from parcels – a 45% increase. Investment into eDVs introduced to Australia in 2017, will possess a larger carrying capacity of about 720 litres to ensure any latent capacity from the Letters decline will be replaced with parcels (Prime Mover, 'AusPost to Trial eDV in Victoria', 2019).

Posties from a letter only environment will be able to carry as much as three times as many parcels as they could before enabling Australia Post to maintain high profitability and strategic growth whilst carrying a dual product offering to market.

From this, the Collective notes Australia Post will use its established fixed network of Offices, Postie numbers and frequency of delivery to grow the smaller parcels delivery model, creating a better sustainability for Posties (ABC, 'Australia Post Explores New Age of Letter, Parcel Delivery with Electric Vehicles', 2017).

Industry welcomes these initiatives and congratulates Australia Post on taking these steps. However, separating the business units – parcels from letters – which both sit within a common distribution network afforded by the existing Letters infrastructure network, is incorrect.

Business mail drives parcel volumes
Industry rejects price increases across all Business mail, specifically Promo Post, Print Post and Charity Mail. These products encourage response and hold the strongest attribution to the profitable parcels sector of Australia Post's business.

Print Post acquisitional pieces encourage online purchasing and have developed the cultural shift of the letterbox from a transactional vehicle to a shopping channel (Roy Morgan Research, 2018), which the parcels business enjoys the benefits of.

Reporting from Australia Post isolating the Letters business is not transparent to the entire business. The Collective calls on Australia Post to report with broader scope considerations in this regard and within this reporting build a pricing methodology for Business mail that reflects the total Australia Post business position.

5. **Fixed and operational cost efficiencies have not been fully explored** – in accordance with the Auditor General and Australia Post's reporting there are many opportunities across labour, postal boxes and postal office outlets that can be reviewed to increase operational efficiencies and deliver improved cost modelling to Australia Post's bottom line. Blanket price increases should be the last resort given the impact to

Industry, Employment and the broader Economy. Refer Operational Efficiencies: Question Eight, p21, for further exploration of the operational efficiencies able to gained by Australia Post.

6. **Current economic climate cannot absorb this pricing approach from a Government asset** - Given the macro economic conditions being felt by business across Australia it is incumbent upon Australia Post to become more efficient and generate further savings as opposed to using its monopolistic pricing powers to pass the burden to business to buttress Australia Post results.

   There is absolute recognition from the Collective that a Government asset should deliver a profit for the greater economy, however a balance must be achieved.

   Balancing performance of a Government asset against the Government's broader fiduciary obligations to the people of Australia and the negative impact on business and the flow-on effect to individuals and the Australian economy is simply too big to ignore.

7. **Local manufacturing must be supported whilst in transition** - The Collective represents the largest manufacturing industry employer in the country, with significant contribution to the economy and employment. The largest businesses and employers across the Collective are those experiencing the most significant hardships as they organically transition their businesses through a digital era to embrace Industry 4.0 futures. The key word here is 'organic' transition, unfortunately the approach to ongoing, uncommercial and unrealistic price modelling from Australia Post will lead to an accelerated decline and ultimate collapse of a transitioning sector. Distribution cost increases received from Australia Post to deliver our industry's products, have a direct and immediate negative impact on volume for our manufacturing industry.

   Across all media channels, both locally and globally, investment has shifted with the implementation of high volume, low cost digital media channels. Established media channels, including print, publishing and mail, have therefore needed to review their commercial models and develop new pricing and operational solutions.

   Print manufacture is looking to energy solutions, multi-tiered labour structures and pricing solutions of significantly reduced profit margins looking at low margin, high volume and service diversity models.

   In the Ibisworld report, 'Feeling the press: Declining demand has forced down prices and led to industry exits', August 2018 reports:

"While profit has risen as a share of industry revenue over the past five years, intensifying price pressures and slowing demand have placed downward pressure on industry profitability. Rising competition from digital alternatives has reduced average per-unit prices, as firms have lowered prices to acquire client contracts."

[redacted]

Local manufacturing can no longer enjoy the once strong and growing profit levels previously enjoyed across the Australian market, however there are operational opportunities and upskilling solutions that can, and are, being invested in to maintain employment levels and industry value to the economy. Industry is committed to this and offering commercial solutions to its predominantly Retail customers is critical.

Australia Post, however, are operating under an out of date model and its pricing is uncommercial to the industry landscape. Australia Post should either review its model to market to deliver a commercial solution or work with Industry to transition from a monopoly to an open market model.

Industries, most recently our airline carriers, across Australia are consistent with the view of the Collective, 'monopoly' modelling is hindering transition of a strong future Australian economy ('Airline bosses call on Australian airports to drop 'really, really, expensive' fees', SBS, 2019).

Closing comments
With the above in mind, the Collective cannot support the BPR increase due to its direct impact to Business mail pricing nor do we consider the pricing submission from Australia Post justified. We seek, and remain open to discussions with Australia Post. We request insight to the ongoing approach to BPR pricing in relation to the impact to Business mail pricing. Industry cannot weather another five years as we have in the previous, whereby Business mail reached between [redacted]% and [redacted]% price increases, it is simply unsustainable in a modern mail distribution era.

3.2 Letter decline forecasts are misleading

Q2 Do you consider that Australia Post's forecasts of declining letter volumes are reasonable? Do you consider that the rates of decline in letter volumes as outlined in table 5 would vary across different letter segments/services?

Australia Post's volume decline predictions are largely associated with Letters (Stamps) and forecast modelling requires greater scrutiny from the ACCC to align to all products across Australia Post with analysis from the 2015 Notification and current 2019 Notification.

Volumes are reported across financial year comparisons, whereas pricing increases have been issued across varying periods for Business mail. It is therefore impossible to accurately review the true impact and the Collective cannot agree to the forecasted declines without due analysis and accurate comparison.

Despite this, the Collective can conclude that Business mail volumes are the most resilient across the Australia Post letter mail volumes. It is the Collective's view that Business mail offers the greatest opportunity to Australia Post and should be protected. Charity Mail, Promo Post and Print Post a key area of prospective focus.

Volume Increase/Decrease – Business Mail Volumes

LETTER PRODUCT	FY15 v FY14	FY16 v FY15	FY17 v FY16	FY18 v FY17	FY19 v FY18	Total % +/-	Average % +/-
Stamps	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Metered Imprint	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
PreSort	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Charity Mail	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Promo Post	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Print Post	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Total Addressed	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]

Table 4: Australia Post, Mail Industry Working Group, June Report - CONFIDENTIAL NOT FOR PUBLIC RELEASE.

Further, the Collective have been advised from our customer base using these three Business mail products that there is serious risk to volumes should the pricing instability and increases continue.

Products in review:

Charity Mail is a solid mail sector and should be protected to stem the tide of charity organizations considering to abandon physical mail due to the postage pricing increases. Modelling from one of the largest charity mail providers in the country indicates any additional Charity Mail rate increases could see more than 78% of Charity Mail to be removed from the industry. With the largest mail operators seeing Charity Mail as 30-35% of their business, this removal of Charity Mail would lead to serious unemployment and collapse of a viable and relatively stable mail products sector.

As pricing increases accumulate, we have seen a resilient channel start to fall into decline, from [redacted]% growth to [redacted]% decline, further increases will only expedite volume declines not stabilize. We know the mail channel is a successful donation driver and awareness profiler for Charities who are in desperate need for financial support.

Danish Cancer Council
In a study conducted by the Danish Cancer Council on measuring the response and recollection rates of post versus email reminders, they were able to decipher which channel elicited the best audience engagement and action. Direct mail works as a key donation driver because the human brain is hardwired so that direct mail's physicality has an advantage over virtual channels when it comes to impact, retention and response. The results showed a higher response rate for direct mail at 24% compared to email at 12%, and direct mail showed a strong recollection rate more than double than email at 58%, compared to 25%.

Roy Morgan Research
Research across Sydney, Melbourne and Newcastle this year it was found that Australians respond better and are 'more likely to take notice' or 'be opened' if they are Charity material.

Campbell Rinker Donor Confidence Survey
A study showed that 37% of people who gave to Charities online did so because they received a direct mail letter from the Charity, looked them up online, and made a donation on the non-profit's website, The Fundraising Authority.

Print Post Mail was a stabilizing and potential growth opportunity for Industry and Australia Post however has been heavily impacted by price increases.

Our publisher members report 'Subscription Publishing' is over-achieving, however given the Australia Post pricing instability and increases they are looking to alternative distribution models. [redacted]

[redacted]

[redacted]

Promo Post following the initial Reform commitments from Australia Post it was agreed Promo Post would not experience price increases for an eighteen (18) month period. The strategy to develop the Promo Post product delivered a [redacted]% volume increase which was halted with a [redacted]% price increase over fifteen (15) months. With the implementation of the [redacted]% price increase volume decline reached [redacted] within months.

Promo Post is a product which delivers great benefit for the small tier marketer and retailer, offering an entry level to promotional mail. It was heralded by Industry as a great product initiative, however from successful development, the product failed when pricing became non-commercial and brands moved away from a product that had not yet been properly implemented.

Closing comments

Should Australia Post continue with non-commercial pricing methodologies, the market will become the ultimate decider, seeking alternative models and this could lead to greater acceleration to the volume declines Australia Post is experiencing. Some Retail stakeholders argue alternative solutions may lead to an increase in volumes of the overall channel and apply significant pressure to Industry to develop alternative solutions.

Regardless of outcome, without partnership and a strong transitioning plan, neither benefit the ongoing supply of Business mail distribution by Australia Post nor the long-term viability of Letter (Stamps) products. Without Business mail volumes, the Letters (Stamps) pricing will either run at disastrous unprofitability or will be highly inflated price levels, burdening Australian citizens demonstrably.

3.3 Promotion of the mail channel

Q3 Do you consider that there are new and/or undeveloped areas of the letter business that have the potential for growth given more targeted pricing and promotion?

Within the *Australia Post Draft Notification – August 2019*, Australia Post has outlined there is investment into the campaigns run by the Collective. Whilst appreciative of the contribution, the investment is some $[redacted] per campaign and by comparison to the size and benefit of these campaigns to Australia Post's mail volumes the investment is relatively minor when comparing to other industry promotional campaign opportunities.

The Collective works with NZ Post who contribute the same financial investment to the promotion of mail as Australia Post. When analysing the two company sizes and markets Australia Post delivers some 2.2 billion Letters nationally whereas to NZ Post deliver 450 million Letters nationally. It is clear to understand the Collective view that there is great opportunity for Australia Post to invest in promoting the Letters channel with appropriate funding allocation to the campaigns.

Campaigning opportunities such as the Banana Growers campaign, Meat & Livestock, Lamb campaign and more, are simply not achieved in partnership with Australia Post and the Collective currently which is an opportunity lost.

Australia Post has invested heavily in the retail campaign, 'Everyone Matters', developing the Australia Post brand. However little investment to promoting the channel. Love Mail and other campaigns have been indicated as those being in preliminary phases, however Industry has not been consulted nor briefed.

This approach to promotion has occurred previously whereby Australia Post invested financially and with an extensive team to develop the 'Campaign Targeting Tool' without industry consultation as to methodology or release. The minimal 4,000 users across small to single business operators should not be deemed a success for an organisation the size of Australia Post overseeing the distribution of a $1,842M Other Reserved Letters sector.

The opportunity lost to work with the Collective who works directly with Retailers, Brands and Agencies across the country is a significant opportunity lost to promote the channel. The major users of the media channel of mail are not scheduling via a public online tool such as 'Campaign Targeting Tool'. These major investors are working with the Collective on Roy Morgan Research currencies and Return on Investment (ROI) modelling.

Australia Post over the past twelve (12) months has had significant success with Bank at Post strategies and investment from large financial institutions, implemented strong commercial arrangements with the Licensed Post Offices and commitments to Trade Unions, however Industry has remained largely ignored with an expectation that Industry will continue to endure price increases and present mail for processing in accordance with Australia Post's onerous requirements for a minimal discount incentive.

We welcome Australia Post to a partnership with the Collective in this regard to the benefit of all, however despite all other channels across the Collective developing media currencies to build the ROI, a critical lever to promote the marketing investment in acquisitional channels, Australia Post have continually declined the opportunity to align a currency for letterbox and established media channels.

The Collective looks to Royal Mail, annually reviewing successful opportunities across their model to market and congratulates the Royal Mail partnership with Industry. Royal Mail have developed the Marketreach model with Industry, creating an independent Board and operational team that is overseen by Industry and Royal Mail collectively. The content being made available for mail channel investors is powerful and compelling.

The Collective would welcome such approval from Australia Post to work with the Collective members utilising the existing strengths each party has to offer with mutual benefit for all parties (www.marketreach.co.uk, 2019).

Closing comments
The Collective has and will continue to welcome meaningful consultation with Australia Post to promote the channel. We have tabled many solutions that have been successful in other countries, however these have all been delayed or declined by Australia Post. Negligible investment has been provided from Australia Post to stimulate the mail channel across the programs operated by the Collective or other organisations, despite repeated requests to expand engagement.

the·
real·media·collective

3.4 Diversified Specifics modelling review

Q4 Diversified Specifics' modelling suggests that prices are not a major driver for declines in letter volumes and declines are driven by electronic substitution. Do you agree? If not, why not?

Q5 Is Australia Post's approach to augmenting Diversified Specific's econometric forecasts appropriate, and does it provide more accurate forecasts for letter volumes?

Australia Post's Diversified Specific econometric forecast is not an accurate measure for declining letter volumes. This forecast operates as an actuarial rather than a commensurate and appropriate forecast, as it borders much, not only on the current situation but on probability and projections for the future without also incorporating other unknown and unforeseen variables and factors. Another issue with such forecasting is the likelihood of misspecification testing; which refers to the model used having based its forecasts on an inadequate summary of data.

Volume declines
The Collective does not accept the position from Australia Post that price increases are not co-relative to volume declines. Noting Mail Volume declines have been significantly impacted since the implementation of the Reform and aggressive price increase platform delivered by Australia Post. From stable figures in 2013 of 4,580.2 (M) and 2014 of 4,570.2 (m) to a declining dip from price increases in 2015 of 4,314.2, 2016 of 4,023.5 and 2017 of 3,634.7 and ongoing to present day.

When over-laying stable pricing volumes with stable pricing there is a parallel trend, Promo Post and Print Post pricing stability realised a significant and improved volume performance. A [redacted]% decline was realised when a [redacted]% price increase from implemented to the Promo Post business product. This volume reflected a +[redacted]% to a [redacted]% from the implementation of pricing increases.

Customer dictates the market
The Collective argues the Diversified Specifics model is predominantly built for the Letters (Stamps) business and may reflect an appropriate measure across consumer purchasing behaviours, however at a commercial level the model is not reflective of the current macro-economic conditions across the main channel investors, mainly Retailers and Publishers, who operate under fixed marketing budgets.

Industry is being pressured by Retailers to explore [redacted] Refer: Letter decline forecasts are misleading, Question two, p14 for further exploration of potential modelling.

Digital Divide and Community Service Obligations
The Australian community Australia Post services is experiencing significant digital divide. Currently 1.3 million households (that is 3.25 million Australians) do not have internet access at home, more often these people are disadvantaged, elderly, or low-income families. Only 51% of Australians over 65 are internet users (Australian Bureau of Statistics. Household Use of Information Technology, 2014-15). In addition to internet accessibility and affordability, 76% of Australians prefer physical mail (Toluna, 2017).

Many developed countries the world over, have determined that fewer citizens, other than those identified in Australia, were impacted by the digital divide and implemented legislative protection for the most vulnerable and to protect consumer choice. In the Netherlands, it was determined there were some 50,000 households with no internet connection, by comparison to 1.3 million Australian households, however this number of disadvantaged citizens was sufficient enough for the Ombudsman to determine that going digital should only be an option (Keep Me Posted, 2019).

Closing comments
The ACCC should review the Diversified Specifics model with commercial economic matters in consideration as the BPR remains the ceiling price. Diversified Specifics should also engage Industry to build a more robust, futuristic and commercial model.

3.5 Operational efficiencies

Q6 It appears that Australia Post has achieved certain cost efficiencies in its letter business by reforming mail processing and delivery. Have Australia Post's Reform efforts to date been sufficient and in line with earlier commitments? Is Australia Post's progress so far comparable to international benchmarks?

Q7 What is the likely remaining scope of efficiency gains of the Reform measures? Over what time period do you believe they will be realised?

Q8 Are there any other specific areas where Australia Post can seek to improve its operational efficiency?

Q9 Australia post has forecast that it will be able to reduce its trading costs for reserved letter services by around 16 per cent over the period 2017-18 to 2021-22, resulting in a cost reduction of $296 million over the four years. Is Australia Post's forecast cost reduction and efficiency improvement comparable with that which would be expected under best international practice?

From the Reform there are several submissions from Industry stakeholders, reports including the WIK Report, ACIL Allen and the more recent Auditor-General Performance Audit exploring Australia Post's efficiency successes and opportunities. The Collective recognises these reports and submissions and urges the ACCC to review these once more as commonality remains despite some years having passed.

Two key areas the Collective believe remain areas for improvement and alignment to international standards include meeting the required standard, modernising the Australia Post labour model and working with Industry.

Over-servicing can lead to efficiency opportunities
The Collective accepts Australia Post operates with limitations to managing costs in the Letters business. Further, the Collective accepts Australia Post operates under a fixed cost infrastructure, as a result of Community Service Obligation's (CSOs) and Prescribed Performance Standards.

The Collective accepts these include a mandated delivery timetable and standards, operating a minimum of 4,000 Retail Outlets (at least 2,500 in rural areas) and 10,000 street posting boxes which require daily pick-ups and a requirement to provide daily delivery to over 98% of Australia's 11.3 million delivery points (which increase annually by 100 to 150K). Whilst accepting this, the Collective sees great commercial opportunity for Australia Post to not over-exceed its commitments and therefore reduce costs.

When reviewing the Prescribed Standard and the Actual outputs, the Collective notes Australia Post operates 5,085 more Street Posting Boxes than required, 356 Post Offices than required with an additional 38 in regional areas. The costing of these additional services to the network could be reduced whilst maintaining compliance, or if these additional services remain for commercial reasons to the Australia Post business then these costs should be removed from the pricing methodologies to ensure Industry and Business is not compensating these cost lines.

Community Service Results for FY18

	FY18	Prescribed standard	Variance
Street Posting Boxes	15,085	10,000	+5,085
Percentage of letters delivered on time	98.5%	94.0%	4.5% pts
Post offices nationwide	4,356	4,000	+356
Post offices in rural & remote areas	2,538	2,500	+38
Percentage of points to receive deliveries per CSO obligations	98.8%	98.0%	0.8% pts

Table 4: Australia Post, Mail Industry Working Group, June Report - CONFIDENTIAL NOT FOR PUBLIC RELEASE.

Auditor-General Report and Labour Efficiency Gains

The Collective refers to the Auditor-General ANAO Report, 2017-2018, Performance in this regard noting the following findings:

Australia Post should identify and address any current impediments to further improving the efficiency of its letters service, including implementing and realizing the benefits of its improvement strategies. Australia Post is yet to realize many of its planned efficiency of its total business improvements.

Australia Post's workforce profile combined with decisions relating to workforce management have created challenges in implementing and realizing the full benefits of strategies to improve efficiency, particularly in relation to penalty hours and overall staff members.

Australia Post's strategies to improve its efficiency have focused on process optimization and automation along with labour force flexibility, all with the objective of improving labour productivity. It has been relatively slow in developing and implementing some of these strategies. In particular, Australia Post has not fully implemented its strategies to improve labour productivity, which were to be key drivers of the planned efficiency improvements.

Although Australia Post's progress so far, in comparison to international postal agencies facing similar challenges, is comparable, it nonetheless commenced its adoption of these same strategies later than its international counterparts. Australia Post's high operation fixed costs for delivery network and protracted implementation plans have showcased the need for strategic views and stakeholder support in earnest.

The WIK report in their benchmarking review of 2015 concluded in their consultation, inter alia, that Australia Post's efficiency in letter operations has lagged behind its international counterparts with relatively low performance in terms of efficiency improvements and cost savings between 2008 and 2014 (WIK-consult, 2015).

It is the Collective's understanding that Australia Post's major investment in capital equipment for mail sorting, was done so with little engagement with the Collective membership companies that prepare and present the bulk of business mail products that this equipment services. As a result, the Collective membership have reported that many of the financial benefits expected from this significant investment by Australia Post, have not been able to be met.

Working in partnership for mail processing
Efficiency gains across operational optimisation will only be achieved by industry and Australia Post working together in partnership to prepare mail for efficient processing. With the current consultation process between Australia Post and Industry there is limited opportunity to develop mutually beneficial and successful operational efficiencies.

The Collective submitted a proposal to Australia Post some eighteen (18) months ago to develop a strong platform for partnership. [redacted]

[redacted]

[redacted]

[redacted]

Closing comments

The Collective has not conducted a full review of all Australia Post operations and efficiency gains and accepts reporting from Australia Post to its achievements and congratulates it as such. However, we do rely upon the departments and consultation bodies who have explored operational efficiencies with greater depth and from that the Collective's position is that there are opportunities for Australia Post to reduce fixed costs where over-servicing occurs, we further encourage Australia Post to modernise its labour model and work in partnership with the Collective to develop mutually beneficial solutions.

3.6 Cost allocation, Wik and the Reform

Q10 What are your views on Australia Post's proposed method of cost allocation? Are there any other cost allocation issues that the ACCC should be considering?

Q11 Have Australia Post sufficiently responded to the concerns identified by the ACCC and Wik in 2015 concerning the cam, including the level of granularity applied to activities and factors to reflect changes in processing activities?

The Collective recognises the findings from the WIK Cost Allocation Model Review, 2015 that identified some concerns with Australia Posts Cost Allocation Model (CAM) as well as recommendations. In order to maintain a reliable CAM which operates most efficiently, the WIK CAM Review outlined that Australia Post should ensure that:

- *there is improved transparency in model documentation (more detailed model specification, detailed explanation of elements included in activities, derivation of factor values);*
- *there is more detailed tracing and reasoning of factor value changes;*
- *activities, factors and factor values reflect the actual processes in the core postal functions;*
- *the CAM will be further developed to an integrated model which enables*
    - *consistency checks and the identification of potential calculation faults, and*
    - *simulations and sensitivity analysis (which could also be a deducted version of the CAM);*
- *the CAM gets an integrated forecast module to conduct consistent calculations for price changes in the future;*
- *certain activities better reflect the actual processes with respect to products;*
- *relative effort factor values, in particular for parcels, reflect the actual processes, state of technology and volume structure;*
- *certain activities are refined to better reflect differences between products and sub-activities;*
- *unattributable cost are allocated to products according to an EPMU rule;*
- *certain activities are separated into sub-activities so that they sufficiently reflect cost differences related to the introduction of ordinary stamp priority and regular mail services.*

The Collective supports these recommendations and relies upon the ACCC to evaluate the application of these recommendations from the Delivery Cost Review undertaken by Australia Post. Given the level of censorship to the *Australia Post – Draft Notification, August 2019*, the Collective cannot effectively comment on the adoption of the recommendations from the Wik Cost Allocation Model Review, 2015.

Total Factor Productivity

In regards to Australia Post's productivity measure called "Total Factor Productivity" to track their performance over time, Industry has some challenges with the justification of cost allocation and opportunity. TFT measures how efficiently inputs such as labour and capital are utilised in production. The rate of growth is calculated by subtracting growth rates of labour and capital inputs growth from the rate of growth of the outputs.

Australia Post's TFT over time shows:

1991 – 2008: 2.8% Average
2008 – 2013: 1.5% Average
2013 – 2018: -0.3% Average
2015 – 2018: 0.9% Average

The above results show steady growth in productivity for the period of 1991 – 2013. Australia Post attribute the decline from 2013 – 2018 due to the challenge of a declining postal service market and increasing geographic dispersity of the customer base. Further, Australia Post claim the recovery from 2015 – 2018 is due to a number of internal cost containment and efficiency initiatives and Australia Post are claiming that despite ongoing productivity improvements that price increases are justified to ensure a sustainable letter service in an environment of accelerated decline in market volume and increasing delivery footprint.

However, when reviewing State Government reports, New South Wales in particular, the increasing density of population and housing across Australia does not support Australia Post's position of geographic dispersity of the customer base. The reality of data across Australia show population increase is within metropolitan areas with density increases, rather than regional distribution as Australia Post suggest.

When reviewing the 'Trends in NSW population growth', 2019, the trends show population increases across Country areas sit at a moderate 6.7% growth across the decade, whereas metropolitan Sydney reports between 15.6% to 22.0%. The population trends data challenges the position from Australia Post of the geographic dispersity and Industry calls on this consideration to be reviewed within the TFT tabled (Trends in NSW population growth, Chris Angus, 2019).

Closing comments

The WIK Recommendations and the TFT are two key areas Australia Post should consider. Transparency, operational data forecasts of the future evolution of CAM and density sprawl impacts to the CAM are the areas the Collective would urge the ACCC to explore with Australia Post to ensure the modelling is robust and justified.

3.7 WACC Parameters

Q12 Are the WACC Parameters proposed by Australia Post for its reserved services (including a MRP of 7.0 per cent) consistent with an efficient benchmark cost of capital commensurate with the risks faced by Australia Post?

The Weighted Average Cost of Capital (WACC) should be consistent with the WACC standard permitted for all other private or government-owned regulated businesses. This is an issue addressed by the ACIL Allen report (ACIL Allen Consulting, 2015) and the Collective urges the ACCC to review other sectors to ensure consistency.

"The ACCC should closely scrutinise the proposed WACC and ensure that it is consistent with the WACC allowed for other regulated business, whether Government or privately owned. We note, in particular, that the proposed Gamma does not appear to be consistent with contemporary regulatory practice."

Economic Contribution of the Australian Mailing Industry, 27th August 2015
ACIL ALLEN CONSULTING

4.0. In conclusion

In conclusion, the Collective is seeking ongoing meaningful consultation to address our concerns and protect the Industry for today and the future. The Collective continues to be open to working consultatively with Australia Post and have always acted in good faith on positive outcomes for all parties to stabilize, promote and grow a viable paper, print, publishing and mail industry within Australia.

It is unfortunate that Australia Post have not reviewed their engagement, nor their consultancy with Industry despite significant opportunity to do so. Industry protagonists find themselves frustrated with ongoing efforts to work with Australia Post whilst the Collective initiatives continue to be dismissed or sidelined.

[redacted]

Charity Mail, Promo Post and Print Post are the hardest working products for Australia Post, three areas Industry has invested heavily to stabilise and yet Australia Post continues to dismantle a working strategy and approach which has seen volume declines reduce.

There is much opportunity to work in partnership with Industry, to develop transitional models, however Australia Post see only one pricing opportunity which is viewed as aggressive and counter-productive to Industry initiatives.

5.0 References

Australian Paper Print & Mail Industry (2019), Snapshot: Employment Breakdown by Sector, Pulp, Paper, Print & Distribution Industry.

Australia Bureau of Statistics, 2019, 6202.0 – *Labour Force. Australia. Jun 2019*: (Online), Available from:
https://www.abs.gov.au/AUSSTATS/abs@.nsf/Latestproducts/6202.0Main%20Features2Jun%202019?opendocument&tabname=Summary&prodno=6202.0&issue=Jun%202019&num=&view=

Australia Post, Annual Report, 'Everyone Matters', 2018.

Auditor-General ANAO Report No. 11 (2017-2018) *Performance Audit, Australia Post's Efficiency in Delivering Reserved Letter Services.*

ABC News (2017), Australia Post Explores New Age of Letter, Parcel Delivery with Electric Vehicles (Online), Available from:
https://www.abc.net.au/news/2017-06-07/australia-post-explores-electric-vehicles-for-mail-deliveries/8598036

Australian Forest Products Association (2019), *About AFPA*: (Online), Available from:
https://ausfpa.com.au/about/

Australian Forest Products Association (2019), *IPCC Report Backs Sustainable Forest Industries to Help Tackle Climate Change:* (Online), Available from:
https://ausfpa.com.au/media-releases/ipcc-report-backs-sustainable-forest-industries-to-help-tackle-climate-change/

Australia Post Media Release (2018), *Parcels Deliver Profit Growth: Melbourne.*

Australian Forest Products Association (2019) *Quick Facts*: (Online), Available from:
https://ausfpa.com.au/quick-facts/
A Summary of Issues Arising from Australia Post's draft Price Notification to ACCC: 26/10/2015 (ACIL Allen Consulting).

Demographic Resources: .idcommunity (2016), *Australia Employment Status*: (Online), Available from:
https://profile.id.com.au/australia/employment-status

NZ Post, Integrated Annual Report, 'Delivering what people care about', 2018.

Prime Mover (2019), AusPost to Trial eDV in Victoria (Online), Available from:
http://www.primemovermag.com.au/news/article/auspost-to-trial-edv-in-victoria

Royal Mail plc (2016), Royal mail Submission: (Online) Response to Ofcom's Fundamental Review of the Regulation of Royal Mail
https://www.ofcom.org.uk/__data/assets/pdf_file/0033/90789/Royal-Mail.pdf

'Airline bosses call on Australian airports to drop 'really, really, expensive' fees', SBS, 2019.

Trends in NSW population growth, Chris Angus, 2019.

WIK-Consult, (2015)"Review of Australia Post Efficiency program in light of an international benchmark".

Wik Consult (2015) :Review of Australia Post Cost Allocation Methodology: Weaknesses of the CAM" (Online) Available from:
https://www.accc.gov.au/system/files/WIK%20Cost%20Allocation%20Model%20Review%20-%20Full%20Report.PDF