



Supplementary submission to the

Senate Inquiry into the performance,
importance and role of Australia Post

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POAAL National Office
PO Box 190
CARLTON SOUTH VIC 3053

www.poaal.com.au

Introduction

1. The purpose of this supplementary submission is to update the Committee on some developments in the sector over the past six months and to clarify some matters raised in media reports and the recent public Committee Hearing.

Australia Post must diversify and transform

2. Significant parts of Australia Post's retail business are mature, including letters, banking and bill payment.
3. While Australia Post has benefited from the growth in parcel volumes, this is an increasingly competitive market. The government-commissioned Boston Consulting Group report noted that it would be unwise for Australia Post to rely on profits from the fast-growing, fully competitive parcels business (or other income streams in competitive markets) to fund the declining letters monopoly.
4. New business must be found or Australia Post will become a burden on the taxpayer.
5. No amount of changes to aspects of LPO operations or payments will be of any use if the Australia Post business model fails.

Australia Post must encourage Licensees to diversify

6. One of the core principles of the LPO model was that there would be very few "standalone" LPOs. Licensees were encouraged to be entrepreneurs and stock non-postal products or operate the LPO in-conjunction with a host business such as a general store, newsagency or pharmacy.
7. The diversification principle came under attack from elements of Australia Post's NSW administration during the 2000s. Australia Post NSW management actively pushed for Licensees to stock only Australia Post products and services in their businesses. This was to the detriment of Licensees' businesses and was the cause of much Licensee discontent in NSW. It caused severe damage to the relationship between Licensees and Australia Post management in NSW. In the last 18 months Australia Post NSW has revamped its management structure in relation to LPOs and is seeking to repair relations with Licensees and with POAAL in NSW.
8. Licensees must be encouraged to diversify. Australia Post Network Managers must encourage Licensees to have a spread of income streams so that Licensees are not 100% reliant upon Australia Post for their income. Diversification helps small business owners cope with fluctuations in the market.
9. POAAL understands that during the early years of operation under LPO conditions, a business broker encouraged Licensees to split in-conjunction businesses when selling. While the vendor and broker benefited at the time, some of these small businesses are now struggling on their own.

Increase to basic rate of postage (BRP)

10. The increase in the BRP from 60c to 70c resulted in a boost to Licensees' incomes.
11. It is POAAL's opinion that political pressures and cycles can impact on the timing of Australia Post's requests for an increase to the BPR, even when there may be a compelling commercial case for an increase.
12. Despite this year's increase in BPR, Australia Post is still making a loss in its letters business.
13. The concession stamp has in some instances encouraged people to continue to use the mail, in particular those who are frail or elderly.

Franchised Post Shops

14. At the Committee's Hearing in Adelaide on 5 August 2014 the matter of Franchised Post Shops was discussed.
15. Franchised Post Shops were an Australia Post initiative. POAAL repeatedly expressed its severe misgivings about the concept.
16. POAAL did not have any input to the Franchised Post Shop concept or contract.
17. The Franchised Post Shop project was poorly conceived and executed by Australia Post.

Point-of-sale technology in small rural LPOs

18. POAAL has long championed the need for Australia Post's point-of-sale technology in **all** LPOs, including small rural LPOs.
19. POAAL successfully lobbied for Federal Government funding for the installation of point-of-sale technology at LPOs under the Rural Transaction Centre scheme and the Bank@Post project.
20. POAAL was delighted when Australia Post announced recently that under its "Rural Sustainability Package" the remaining 400 or so LPOs without point-of-sale technology would be eligible for the free installation of Australia Post retail technology.
21. Local communities will benefit from their local LPOs having access to Australia Post's retail network. Communities will have access to electronic banking, which assists other businesses in the community. Locals will be able to access products and services previously only available in the nearest large town or regional centre. The LPO's position as the hub of the community will be secured.

Letter volumes

22. Australia Post foreshadowed some months ago that the losses in letters would soon overwhelm the profits it makes in other parts of the business. In August the Australia Post Managing Director/CEO reported that in the first six months of the 2014 calendar year Australia Post posted a loss because of the losses in the letters business.
23. Australia Post has recently stated that government generates a significant proportion of domestic letter volumes. Government-generated letter volumes will decline as government deals more and more with Australians online.
24. The BCG report predicts letter volume decline of 8-11% to the 2019/2020 financial year. Australia Post's prediction is a decline of 11.4%, but BCG says that this is "reasonable for planning purposes". In fact, it says that it is "prudent for business planning to be based on larger declines" because of the uncertainty of digital adoption.
25. The BCG report also notes that the impact of the Australia Post Digital Mailbox on letter volumes has been overstated in Australia Post's future letter volume estimates. The lower impact is in part because Australia Post entered the digital mailbox market later than other national postal corporations.

Postal Services Industry Award

26. The *Postal Services Industry Award 2003* was the national award that covered staff employed at many LPOs.
27. The previous Federal Government adopted an "Award Modernisation" programme. The CEPU applied for the Award to be modernised. Following a hearing in early 2009, the Award was deemed to be an "enterprise award".
28. Under modernisation, two key aspects of the Award were under threat:
 1. Casual loading of 20%; and
 2. No minimum call-out for casual employees.
29. The no minimum call-out provisions were set up because LPOs often employ staff to assist only with the sorting of morning mail for one or two hours. This arrangement worked well – POAAL is not aware of any disputes at all over minimum call out since the introduction of the Award.
30. After the 2009 hearing, the onus was on the CEPU to lodge an application to create an enterprise award, otherwise the Award would expire on 31 December 2013.
31. POAAL wrote to the Government requesting that the *Postal Services Industry Award's* expiry date be extended and that measures be introduced to protect the casual loading and minimum call-out provisions of the Award.

32. In late December 2013 the CEPU lodged an application for the creation of an enterprise award.
33. Following discussions between POAAL and the CEPU, the Fair Work Commission held a preliminary hearing. The matter was then set down for a hearing in Melbourne in early July 2014.
34. Despite POAAL and the CEPU being close to agreement on the terms of the enterprise award, the process was disrupted when a third party inserted itself into discussions. At the eleventh hour, this third party requested that the hearing be postponed claiming to be unprepared, notwithstanding the fact that POAAL and the CEPU both managed to be ready and in attendance at the hearing. The hearing was postponed, and the CEPU eventually withdrew its application. At that point, the Award ceased to exist and the *General Retail Industry Award* has now become the relevant award for many LPO staff.
35. The Retail Award includes a minimum call-out of three hours for casual employees and a casual loading of 25%.
36. Preliminary feedback from Licensees with casual staff is that they are reducing shifts and in some cases laying off staff as a result of having to pay under the Retail Award. Other Licensees are considering reducing LPO opening hours.

Australia Post Digital Mailbox (APDM)

37. There appears to be no direct benefit to Licensees in the APDM.
38. The BCG report noted that Australia Post is overoptimistic in its projections for take-up of the APDM.
39. The Minister for Communications recently announced that state and local governments will be offered free access to the myGov online transactional hub.
40. In other countries such as Denmark and Norway, the national postal operators have developed a digital mailbox that has been adopted by the government to be its online digital transaction hub.
41. The Senate Committee must urge the Government to support Australia Post by making full use of the APDM. In taking on any digital business on behalf of the government, Australia Post can back up the APDM with its unrivalled national physical network – which includes LPOs.

Mail Contractors

42. Mail Contractors make up a significant proportion of Australia Post's delivery network.
43. Hundreds of Licensees also hold mail contracts. The inclusion of a mail contract with a rural LPO often makes the overall business viable and suitable for husband-and-wife teams.

44. POAAL has held discussions with Australia Post regarding its Rural Post project. POAAL hopes that this project will reap some benefits for LPOs in rural areas and in particular for Licensees that also hold mail contracts.

Australia Post Board

45. The significant structural challenges being faced by Australia Post drive home the need for the Australia Post Board to have Directors with postal and logistics experience.

LPO Agreement and Payment Scheme

46. The LPO Agreement has shown itself to be a very strong and flexible document that has been able to adapt to changes over the past 20 years. It is the benchmark for other franchise agreements.
47. The indefinite term to the Agreement and the absence of a defined franchise territory helps LPOs maintain their value in a way that other franchises with fixed terms do not.
48. The LPO Agreement, LPO Manual and LPO payment schemes are separate documents. By remaining separate, changes to payments – as new payments are introduced and as other payments are increased – can be implemented simply without affecting the LPO Agreement.
49. The LPO Agreement can include “Special Conditions”, which means that any individual LPO Agreement can be customised by the Licensee – following consultation with Australia Post – to meet specific local conditions.
50. The costs of doing business have fluctuated over the years. Licensees have been empowered as entrepreneurs under the LPO Agreement and need to embrace the flexibility to operate as true small business owners in order to respond to change at a local level. This does not obviate the need for Australia Post to find new business and new efficiencies within its corporate operations.

POAAL is independent

51. POAAL receives no funding from Government or Government agencies. It is completely and proudly independent of Australia Post.

Australia Post’s future plans

52. What is Australia Post’s vision for the future? It’s difficult to be a small business operator in the postal sector when there’s no clear and articulated vision from Australia Post of where the business is heading.
53. Australia Post must share its plans for its future well in advance to enable Licensees and Mail Contractors to plan for their future.

Franchisor acting in good faith

54. POAAL has made many submissions to Government and Government Agency Inquiries over the years on the topic of good faith, in particular with regard to franchisors acting in good faith towards franchisees.
55. While acting in good faith can apply to many aspects of the franchisor/franchisee relationship, one particular point of friction between Licensees and Australia Post has been the matter of Australia Post transferring customers away from LPOs to corporate outlets.
56. In recent years, senior Australia Post executives have strongly stated that it is not Australia Post's policy to transfer business away from LPOs and that it is not in the best interests of Australia Post's overall business to engage in this behaviour. Nonetheless, there continue to be elements of Australia Post's workforce that target customers who lodge at LPOs. There is a continuing disconnect between what Australia Post's top management says and what its frontline staff actually do.
57. There are some services and products that corporate post offices can offer that LPOs cannot. All Australia Post products and services must be available through all LPOs.