

# Chapter 3

## Changes in the postal environment

### Introduction

3.1 Postal services in Australia have been built on the delivery of letters. Government, business and personal communications have, until recently, been transacted through hardcopy post.

3.2 However, the growth of other means of communications has been felt by Australia Post, and indeed, postal services across developed economies. E-substitution, such as SMS, e-mail and the Internet, has seen significant shifts away from letters, for example the use of email or the Internet for banking services.

3.3 At the same time, the negative effect of developments in information technologies has not been felt by parcel mail. On the contrary, demand in Australia Post's parcel services have increased as more and more purchases are made over the Internet.

### Australia Post's letters business

3.4 Generally, 'letter' refers to the traditional or reserved services, that is, the domestic carriage of letters within Australia that (subject some exceptions) weigh less than 250 grams. However, the terms letter, mail and posted article are used interchangeably in some submissions. The committee has used the same terminology as used in source documents in the following discussion. In some instances it is unclear if the information drawn from various sources is precisely comparable. The committee has indicated where this has occurred.

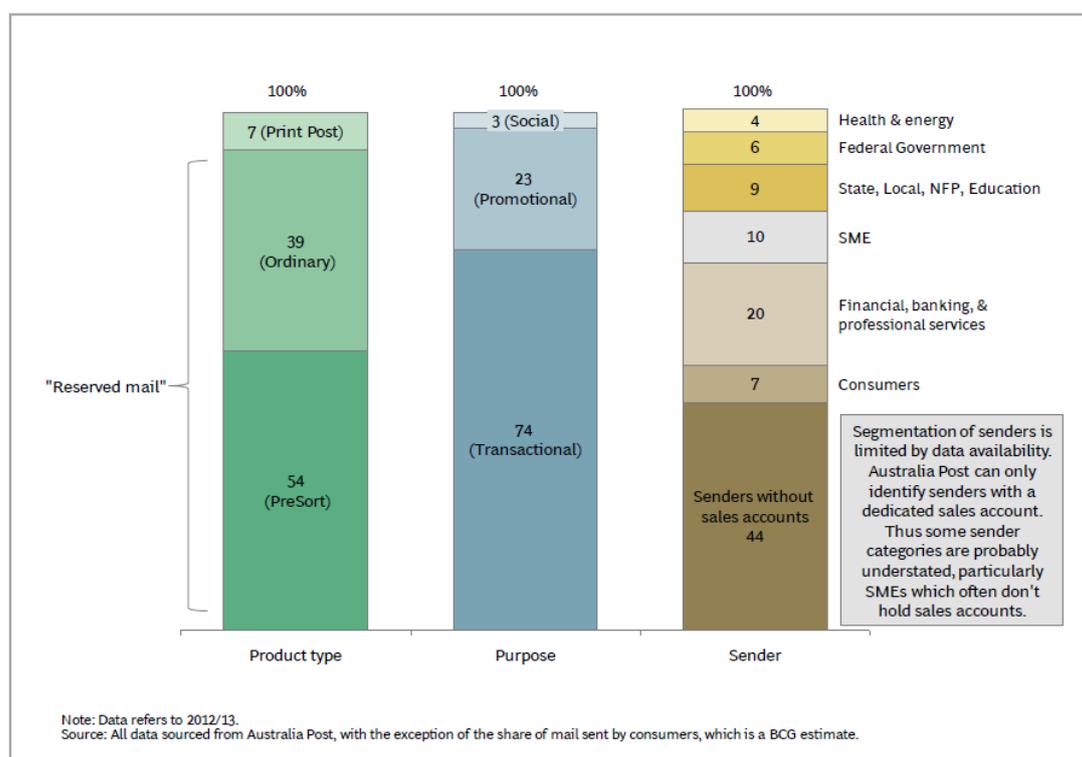
### *Types of letters*

3.5 Letters can be categorised by purpose, product type and sender. There are three main purpose categories of mail handled by Australia Post:

- transactional, which involves transactions between businesses and their customers, for example, bills, invoices, accounts and statements;
- promotional, such as targeted offers, requests, brochures, and other marketing communications; and
- social, including greeting cards, postcards and personal letters.

3.6 Letters can also be split into the product types of PreSort (that is, bulk letter mailings), Ordinary (other letters) and Print Post (newspapers, catalogues and magazines).

3.7 The Boston Consulting Group (BCG) provided the following breakdown of addressed letters as part of its assessment of an internal review conducted by Australia Post.

**Figure 3.1: Australia Post addressed letters categories, 2012–13**

Source: *The Boston Consulting Group, Australian and International Postal Services Overview Background Report, June 2014, p. 8.*

### ***The trend in letter volumes***

3.8 Australia Post indicated that up to 2007–08, overall letter volumes in Australia exhibited an increase. For example, between 2006–07 and 2007–08 the volume of letters increased by 2 per cent.<sup>1</sup> However, since 2008–09, letter volumes have experienced a significant decline. Australia Post commented in its 2008–09 Annual Report, that letter volumes had fallen during the year due to the challenging economic climate and ongoing electronic substitution as well as the lack of federal election mailings, which had boosted volumes to record levels in the previous period.<sup>2</sup>

3.9 Since 2008–09, the rate of decline in mail volumes has continued with Australia Post commenting that 'the year-on-year decline in Australian domestic letter volumes has been gradually accelerating'.<sup>3</sup> In its November 2013 submission, Australia Post stated, in relation to predicted trends in 2013–14 letter volumes, that:

This year's volume trends indicate that the Australian community is now shifting away from using letters at a faster pace. In the April–June 2013 quarter, the fall in Australia's domestic letter volumes was dramatically faster (10.3% down on the same period in the previous year). This is the

1 Australia Post, *Australia Post Annual Report 2007–08*, p. 9.

2 Australia Post, *Australia Post Annual Report 2008–09*, p. 17.

3 Australia Post, *Submission 8*, p. 12.

first time in Australia Post's history that we have recorded double-digit decline in our core letters product.<sup>4</sup>

3.10 At the May 2014 Budget Estimates, Mr Fahour commented further on the predicted trend for 2013–14 letter volumes and stated that there had been a decline of 6.2 per cent in the year to May 2014.<sup>5</sup> Australia Post announced in September 2014, that letter volumes declined by five per cent over the year, 'excluding the impact of the federal election'.<sup>6</sup>

3.11 The following table provides the change in letter volumes for 2007–08 to 2012–13. The table below shows that domestic addressed letter volumes have declined, while the volumes of unaddressed mail have remained relatively steady.

**Table 3.1: Australia Post's domestic addressed and unaddressed letters**

Financial year	Domestic addressed		Unaddressed letters	Total letters	
	Volume	Year-on-year decline	Volume	Volume	Year-on-year decline
2007–08	4.6 billion	–	575 million	5.2 billion	–
2008–09	4.4 billion	(4.0%)	511 million	4.9 billion	(4.9%)
2009–10	4.2 billion	(5.6%)	546 million	4.7 billion	(4.2%)
2010–11	4.0 billion	(3.7%)	612 million	4.6 billion	(1.9%)
2011–12	3.8 billion	(5.2%)	606 million	4.4 billion	(4.4%)
2012–13	3.6 billion	(6.0%)	582 million	4.2 billion	(5.9%)

Source: Australia Post, *Submission 8*, pp 12–13; Australia Post, *Answer to question on notice*, No. 32.

3.12 In addition, information was provided by the Department of Finance of the trends in letter volumes by originating sector between 2008–09 and 2012–13. The Department of Finance noted that the majority of letter volumes originate from government or business. The decline in letter volumes for these two sectors during the period was 22 per cent and 18.5 per cent respectively.<sup>7</sup>

3.13 As a consequence of the decline in letter volumes, the average number of mail items being delivered to each delivery point in the postal network has declined. In

4 Australia Post, *Submission 8*, p. 13.

5 Mr Ahmed Fahour, Australia Post, *Budget Estimates Hansard*, 28 May 2014, p. 80.

6 Australia Post, 'Australia Post reports FY14 Financial Results', *Media Release*, 4 September 2014.

7 Department of Finance, *Submission 5*, p. 5.

2000, 2.2 items were delivered to each point, by 2012 this fell to 1.7 items per delivery point.<sup>8</sup> Australia Post forecast in its 2011–12 Annual Report that the number of mail items per delivery point per day would fall to 1.3 by 2016.<sup>9</sup> At the November 2013 Supplementary Budget Estimates, Mr Fahour commented that:

By 2020, there will only be 0.5 letters per letter box each day. What that essentially means is two and a half letters per week.<sup>10</sup>

### ***Increase in delivery points***

3.14 A further factor influencing the efficiency of the postal network is the number of delivery points. While letter volumes have declined, it was noted that the number of delivery points in the postal network was increasing, on average, by 200,000 new delivery points each year.<sup>11</sup> Australia Post now delivers to 11.2 million delivery points.

**Table 3.2: Trends in number of delivery points and number of articles delivered, 2006–07 to 2012–13**

	2006–07 (‘000)	2007–08 (‘000)	2008–09 (‘000)	2009–10 (‘000)	2010–11 (‘000)	2011–12 (‘000)	2012–13 (‘000)
Delivery points trends	10,266.6	10,458.9	10,588.9	10,709.0	10,879.9	11,000*	11,200*
<i>Change</i>	–	1.84%	1.23%	1.21%	2.54%	–	
Daily articles per delivery point	2.142	2.137	2.02	1.923	1.848	1.7*	–#

\* Rounded figures; # Not provided in 2013 Annual Report

*Sources: Budget Estimates 2012–13, Australia Post, Answer to question on notice, No. 252; Australia Post, Annual Report 2012, pp 30, 131; Australia Post, Annual Report 2013, p.131.*

### **Factors influencing Australia Post's letters business**

3.15 There are a range of factors contributing to the decline in letter volumes including:

- increased internet usage and adaption of online platforms, and the rise of smart phone and tablet computers;
- softer economic growth as a result of the global financial crisis;

8 Australia Post, *Annual Report 2012*, p. 30.

9 Australia Post, *Annual Report 2012*, p. 30.

10 Mr Ahmed Fahour, Australia Post, *Supplementary Estimates Hansard*, 19 November 2013, p. 20.

11 Department of Finance, *Submission 5*, p. 4.

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- cost-cutting measures instituted by major senders, accelerated by the global financial crisis, including increased emphasis on e-substitution, rationalisation (less frequent provision of account statements) and consolidation;<sup>12</sup> and
  - consumer demand for more efficient and timely interactions with business and government.

3.16 In relation to the use of letters for social purposes, Mr Fahour noted that 'the last generation of people who used mail is now down to five per cent of our volume'.<sup>13</sup> While the majority of mail is sent by business customers, this is also changing. Mr Fahour explained:

The really big driver of this volume decline is obviously the growing trend to online statements and payments as well as direct debits via BPAY. BPAY and electronic payments today control 80 per cent of these payments that are occurring. Ten years ago, the majority of these payments were either by cheque in the mail or in a post office.<sup>14</sup>

3.17 Both the Departments of Finance and Communications pointed to changes in technology and business and consumer behaviour as contributing to the decline in letter volumes. The Department of Communications noted that continuing efforts by business to reduce costs has led to an 'inevitable shift' to digital substitution. It saw this as being 'on the whole' desirable: 'it is reducing the cost of doing business and increasing opportunities for citizens and businesses to participate in a global economy, regardless of their location'.<sup>15</sup> In addition, the growing availability of affordable high-speed broadband is expected to further accelerate the decline in mail volumes sent by both business and government.<sup>16</sup>

3.18 However, while the Departments of Communications and Finance noted the importance of reducing costs for business, Mr Fahour did not consider that the increased in the basic postage rate (BPR) in March 2014 would contribute overly to the decline in mail volumes. Mr Fahour stated:

The conclusion that we have come to is that the demand elasticity associated with price increases in the letters business today is fairly non-existent. In other words, the substitution from physical to digital is occurring at a maximum pace and is not really driven by the price movements that are occurring.<sup>17</sup>

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12 The Boston Consulting Group, *Australian and International Postal Services Overview Background Report*, June 2014, p. 9.

13 Mr Ahmed Fahour, Australia Post, *Budget Estimates Hansard*, 28 May 2014, p. 112.

14 Mr Ahmed Fahour, Australia Post, *Supplementary Estimates Hansard*, 19 November 2013, p. 20.

15 Department of Communications, *Submission 7*, p. 2. See also Department of Finance, *Submission 5*, p. 4.

16 Department of Finance, *Submission 5*, p. 4.

17 Mr Ahmed Fahour, *Additional Estimates Hansard*, 25 February 2014, p. 113.

### *Forecasts of changes to letter volumes*

3.19 The decline in letter volumes and how to manage the Australia Post mail business in the face of that decline is one of the most significant issues facing Australia Post. The committee received a range of views on the rate of decline.

3.20 Mr Fahour stated at the November 2013 Supplementary Estimates that the rate of decline in letter volumes was accelerating and this trend was expected to continue:

A volume decline of four to five per cent over the past four years has accelerated in the past six months to eight to 10 per cent. When we look into 2020, unfortunately for us, the community's use of our letter service looks like it is going to continue to fall.<sup>18</sup>

3.21 At the May 2014 Budget Estimates, Mr Fahour stated that 'under current momentum' letter volumes are expected to decline by eight to 11 per cent through to 2020.<sup>19</sup> Mr Fahour went on to state:

We estimate, just using that trajectory, that by the next decade this notion of people sending and receiving letters and mail will be quite a small niche business. It will be transactional mail. The reality is that it will be an adjunct service to the thing that people will be getting, which is an increasing number of parcels. It is just a big letter in a box, hopefully, that we are delivering.<sup>20</sup>

3.22 The committee examined other sources of information on the projected decline in letter volumes. As part of the Australian Competition and Consumer Commission's (ACCC) process for examining the 2014 increase in the BPR, Australia Post provided a forecast for the Reserved Service letter volumes for 2013–14 and 2014–15.

**Table 3.3: Forecasts of changes in Australia Post's Reserved Service letter volumes**

<b>Financial year</b>	<b>PreSort letters (business mail)</b>	<b>'Other' (including 'ordinary') letters</b>	<b>Total Reserved Services</b>
2013–14	(3.9%)	(10.4%)	(6.6%)
2014–15	(6.3%)	(7.9%)	(6.9%)
Average annual change	(5.1%)	(9.1%)	(6.7%)

*Source: Australian Competition and Consumer Commission, Australia Post price notification for its 'ordinary' letter service February 2014, ACCC Decision, 20 February 2014, p. 24.*

18 Mr Ahmed Fahour, *Supplementary Estimates Hansard*, 19 November 2013, pp 19–20.

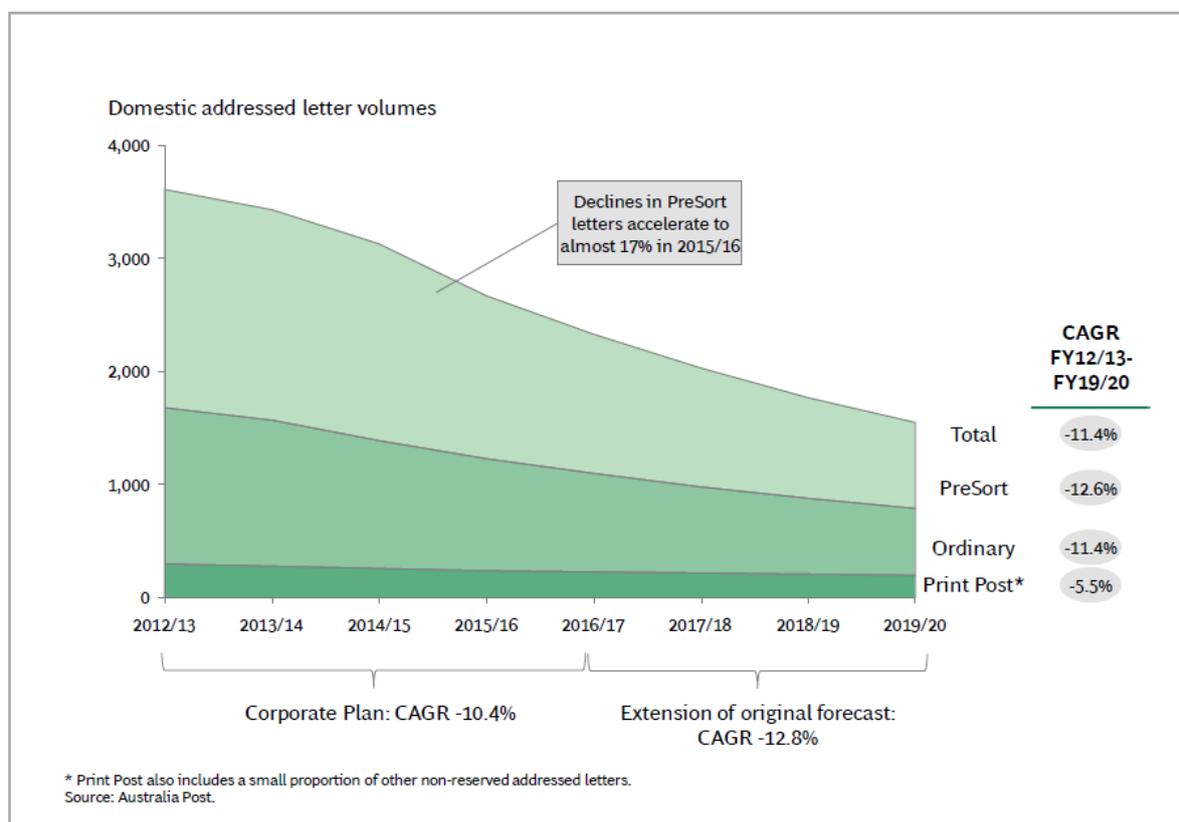
19 Mr Ahmed Fahour, *Budget Estimates Hansard*, 28 May 2014, p. 80.

20 Mr Ahmed Fahour, *Budget Estimates Hansard*, 28 May 2014, p. 92.

3.23 BCG, in its Australian and international postal services overview, assessed Australia Post's internal review of its letters business. The BCG report examined Australia Post's forecasts of the decline in letters. BCG noted that changes in letter volumes are difficult to forecast and that Australia Post had consistently underestimated letter volume declines over the period of its corporate plan. BCG did, however, report that the rate of letter decline to date (June 2014) for 2013–14 was lower than forecast.<sup>21</sup>

3.24 BCG reported that Australia Post forecast an average decline in domestic addressed letters of 11.4 per cent per annum to 2019–20. BCG noted that this forecast comprised an average decline of 10.4 per cent per annum through to 2016–17, after which major letter categories are rolled forward at 2016–17 rates, resulting in an aggregate decline of 12.8 per cent per annum to 2019–20.<sup>22</sup>

**Figure 3.2: Australia Post forecast of annual domestic addressed letters to 2019–20**



Source: *The Boston Consulting Group, Australian and International Postal Services Overview Background Report, June 2014, p. 12.*

21 The Boston Consulting Group, *Australian and International Postal Services Overview Background Report*, June 2014, p. 11.

22 The Boston Consulting Group, *Australian and International Postal Services Overview Background Report*, June 2014, p. 11.

3.25 The Australia Post forecast includes a small decline in print post and a very large decline in PreSort letter volumes. BCG noted the PreSort forecast was 'linked to the expected take-up of the MyPost Digital Mailbox and other similar products'. BCG went on to state that it believed that the Australia Post forecast overstates the likely scale and speed of the impact of digital mailboxes. While there had been a successful take-up of this product in Denmark, BCG stated that this was an isolated case driven by specific circumstances and 'this is unlikely to be replicable now in Australia'.<sup>23</sup>

3.26 The committee also notes that, in recent months, a number of digital mailbox providers in the United States have cancelled their services. In official statements to their customers, both Manilla and Zumbox cited that the service was not financially viable. Zumbox's Australian partner, Digital Post Australia, will continue to operate.<sup>24</sup>

3.27 BCG reported that its assessment was that letter volumes will decline by eight to 11 per cent per annum to 2019–20 and stated that 'although Australia Post's forecasts are slightly outside this range, BCG considers them to be reasonable for planning purposes'.<sup>25</sup>

3.28 The Communication Workers Union Australia (CWU) commissioned a review of the BCG report from The Australia Institute.<sup>26</sup> The Australia Institute noted that, while there was a trend decline in the volume of letters, 'estimates of the rate of decline vary significantly and assertions that the trend decline will continue for a decade or more are based on no empirical evidence'.<sup>27</sup>

3.29 The Australia Institute went on to conclude that 'the Boston Consulting Group's range of forecast annual decline in letter volumes of 8–11% is much too pessimistic'.<sup>28</sup> In addition, The Australia Institute commented that:

A forecast of the postal services & telecommunications industry out to 2023 is quite a novelty. The macroeconomic assumptions are provided by

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23 The Boston Consulting Group, *Australian and International Postal Services Overview Background Report*, June 2014, p. 12.

24 'Manilla will be closing on July 1, 2014', <https://www.manilla.com/announcement/> (accessed 30 July 2014); 'Zumbox pulls the plug on digital post', <http://www.zdnet.com/zumbox-pulls-the-plug-on-digital-post-7000028275/> (accessed 30 July 2014)

25 The Boston Consulting Group, *Australian and International Postal Services Overview Background Report*, June 2014, p. 4.

26 CWU Australia, *Supplementary Submission 2*, The Australia Institute, 'Review of the Boston Consulting Group's report to the Minister for Communications, Briefing for the CWU on Australia Post's operations', *Technical Brief No. 32*, July 2014.

27 CWU Australia, *Supplementary Submission 2*, The Australia Institute, 'Review of the Boston Consulting Group's report to the Minister for Communications, Briefing for the CWU on Australia Post's operations', *Technical Brief No. 32*, July 2014, p. 1.

28 CWU Australia, *Supplementary Submission 2*, The Australia Institute, 'Review of the Boston Consulting Group's report to the Minister for Communications, Briefing for the CWU on Australia Post's operations', *Technical Brief No. 32*, July 2014, p. 4.

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*Euromonitor* and many of the operational assumptions are taken from past averages or seemingly were invented from scratch.<sup>29</sup>

*Other views on the decline in letter volumes*

3.30 During the ACCC's assessment of the 2014 Australia Post price notification for letters, views were sought from interested parties. While Mailing House accepted Australia Post's volume forecasts, the Printing Industries Association of Australia (PIAA) put another view. The ACCC reported PIAA had submitted that print post 'will remain a key component of the emerging multi-channel communication'.

3.31 PIAA also referred to Australia Post consumer surveys undertaken in 2012 which found a consumer preference for bills and statements to be sent by mail. As a consequence, PIAA argued that transactional and direct mail will continue to have a significant role into the foreseeable future. PIAA also argued that 'there is evidence that advertising agencies are starting to question the effectiveness of digital media and are returning to traditional areas of advertising'.<sup>30</sup>

3.32 The ACCC went on to note:

Similarly, Mailing House notes there are threats to electronic communications caused by, for example, electronic eavesdropping, data and identity theft and privacy issues posed by social media that could result a significant flow back to physical mail.<sup>31</sup>

3.33 The dire outlook for mail volumes was not shared by all submitters to the committee's inquiry. For example, the CWU Australia stated that Australia Post's outlook was more pessimistic than that of international experts. It stated that 'mail is not dead. This is not a business that is going to go away anytime soon'. CWU Australia added:

Our members are delivering fewer letters but small parcels and packets have replaced the declining volume of traditional letters.<sup>32</sup>

3.34 The committee also received evidence from individual LPOs which pointed to increased mail volumes at least for their particular LPO. For example, one licensee with 18 years' experience stated:

I have been sorting the same incoming mail for the same delivery points on a daily basis for over eighteen years. Over this time I believe quantity of mail increased steadily and peaked three or four years ago and has only eased fractionally since then. I do not have written records of this, but that

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29 CWU Australia, *Supplementary Submission 2*, The Australia Institute, 'Review of the Boston Consulting Group's report to the Minister for Communications, Briefing for the CWU on Australia Post's operations', *Technical Brief No. 32*, July 2014, p. 10.

30 ACCC, *Australia Post price notification for its 'ordinary' letter service February 2014*, ACCC Decision, 20 February 2014, p. 25.

31 ACCC, *Australia Post price notification for its 'ordinary' letter service February 2014*, ACCC Decision, 20 February 2014, p. 25.

32 CWU Australia, *Submission 2*, p. 5; see also Mr Martin O'Nea, Assistant National Secretary, CWU, *Committee Hansard*, 6 December 2013, p. 30.

does not make my observation any less truthful. What I have noticed is the steep decline in mail with postage stamps attached. I am curious to know if Mr Fahour's steady decline of letters is calculated on the sale of postage stamps ignoring all the bulk lodged and unaddressed advertising mail we still deliver.<sup>33</sup>

3.35 Another licensee similarly commented that while personal addressed letters may have declined, print post has increased:

As LPO owners working on the coal face day in day out, we know if there is substantially less mail being sent to our PO Boxes. Sure the personal stamped letters may be in decline but the increase in Print Post advertising and promotional mail has largely offset this.<sup>34</sup>

3.36 This view was supported by the LPO Group. Mr Andrew Hirst, LPO Group, commented that while addressed letter volumes had decreased across the network 'there has also been a vast increase in what is called unaddressed mail, which is the junk mail you get in your letterbox'. He went on to comment that since 2001, the delivery of junk mail had increased from once a week to upwards of six a day now. He concluded 'for all that the volume of official mail with a stamp on it has dropped, when you take into account all the unaddressed mail that has tagged along, the decrease is not as big as Australia Post say from our perspective'.<sup>35</sup>

3.37 The committee also notes that Australia Post's Annual Report 2012–13 stated that larger customers were increasing their use of mail:

While overall volumes declined, many of our larger customers increased their use of mail. This year more than 40 per cent of our bulk mail customers increased their use of mail, demonstrating the role physical mail continues to play in business communication.<sup>36</sup>

3.38 Australia Post's consumer surveys support the ongoing role of physical mail. The August 2013 survey found that 'consumer preference for receiving bills & statements by mail has risen over the last 12 months'. The preference for receiving rates, water, gas, mobile phone and insurance bills and bank statements increased by three per cent over the preceding 12 months. It was noted that 'despite online channels being used more by senders, consumers' preference for mail continues to grow'.<sup>37</sup>

3.39 When it comes to receiving communications from government, consumers prefer mail. Fifty-two per cent of the January 2013 survey participants indicating that mail is the preferred channel for receiving policy/legislative changes from government

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33 Name Withheld, *Submission 110*, p. 1.

34 Name Withheld, *Supplementary Submission 32*, p. 1; see also Mr Ivor Ransom, *Submission 100*, p. 1.

35 Mr Andrew Hirst, LPO Group, *Committee Hansard*, 4 March 2014, p. 14.

36 Australia Post, *Annual Report 2013*, October 2013, p. 24.

37 Australia Post, Australia Post Consumer Survey Mail Finding, August 2013, pp 3, 5 <http://auspost.com.au/media/documents/aus-post-consumer-survey-mail-findings-aug-2013.pdf> (accessed 10 July 2014).

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organisations.<sup>38</sup> In addition, the May 2013 survey found that young people (18 to 24 year olds) still prefer to receive mail across six out of ten communication types, including magazines and important or sensitive information.<sup>39</sup>

### **Committee comment**

3.40 The committee notes that Australia Post's business was built on the traditional letter service. Currently, that service is changing with a significant decline in letter volumes. The change is principally the result of the emergence of new technologies which have led to the substitution of various forms of digital communications, such as email, SMS and the Internet, for letters.

3.41 The committee notes that there is a reduction in the number of Australians who now use letters for personal communications while government and business are moving to digital communications to lower costs and improve access for customers. At the same time, parcel deliveries have expanded as consumers take advantage of online shopping to access the goods they wish to purchase.

3.42 While the decline in letter volumes was generally undisputed, the committee notes that there were differences of opinion in relation to the rate of the decline and the forecast of future trends.

3.43 The committee notes the difficulty in predicting the rate of decline. The committee further notes the recently announced partnership between the Department of Human Services and Australia Post to trial digital mail delivery.<sup>40</sup> Government customers will be able to opt to have their government digital mail automatically forwarded to their Australia Post MyPost Digital Mailbox.<sup>41</sup> As government communications comprise a large proportion of letter volumes, a successful move to digital mailboxes by the Commonwealth Government will have an impact on the rate of decline of Australia Post's letters business.

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38 Australia Post, Australia Post Consumer Survey Mail Finding, January 2013, p. 14. <http://auspost.com.au/media/documents/australia-post-consumer-survey-mail-findings-jan-2013.pdf> (accessed 10 July 2014).

39 Australia Post, *Consumer Survey Mail Finding*, May 2013, p. 14

40 The Minister for Communications, the Hon Malcolm Turnbull, 'Access to digital mail moves forward', *Media Release*, 18 August 2014.

41 The MyPost Digital Mailbox was launched by Australia Post in 2012. Further information is provided in Chapter 4 of this report.

