

Chapter 9

Mail delivery contracts and franchisees

Introduction

9.1 While not specifically mentioned in the terms of reference, the committee received evidence concerning mail delivery contracts and post office franchisees.

Mail delivery contracts

9.2 Australia Post routinely contracts out parts of its mail delivery network, including most rural deliveries and a significant proportion of urban parcel deliveries. Licensees, particularly in country towns, often take on the mail delivery contract from Australia Post in addition to operating the LPO itself. In these instances, the licensee performs the daily sort of all incoming mail, and then also undertakes delivery of the street addressed mail. POAAL commented that this arrangement often improves the overall viability of the local LPO and provides visibility for the licensee in the community.¹

9.3 Submitters raised concerns about recent trends in the awarding of mail delivery contracts by Australia Post, which are typically for a five-year term.

9.4 POAAL commented in relation to the businesses being awarded contracts:

There are a small number of 'super contractors', who hold multiple mail contracts. Most Mail Contractors hold one or two contracts, especially in rural areas where a mail contract might only involve delivery one or two days per week.

Concerns have been expressed that a couple of companies that hold a large number (in excess of 20) of mail contracts with Australia Post may be engaging drivers who do not have sufficient training or insurance.²

9.5 Another example was provided by a submitter from a small rural community in Gippsland where, after 15 years, the licensee had to re-tender for their township mail delivery contract. The submitter commented that the licensee was offered a renewed contract for a lower amount of return and that if the licensee did not accept this, the contract would go out to tender. The submitter stated that:

Unfortunately, [they] then lost their contract to a Melbourne-based firm, and had three days' notice before these contractors were to begin work. It seems that this particular company has "won" over 40 such contracts in Victoria, with some also interstate, to the detriment of innumerable suburbs and towns, and the loss of many "mum and dad" businesses.

To add insult to injury Australia Post demanded full use of the privately-owned Post Office premises for mail sorting (denied, but access was given

1 POAAL, *Submission 9*, p. 24; see also, Mr Tom Dancer, *Submission 105*, p. 8.

2 POAAL, *Submission 9*, p. 24.

to a suitable outdoor shed), and two weeks later the...contractors filled the "postie" position with another temporary worker when their "gumtree.com" advert. was not answered!³

9.6 POAAL commented on Australia Post's handling of expiring contracts. POAAL stated that when a mail contract is due to expire, if Australia Post deems that the contractor has met his/her obligations during the term of the contract, it will engage in what is called 'Direct Negotiation'. Australia Post offers the incumbent contractor a new contract fee rather than extending the contract under the existing terms as was the previous practise.

9.7 Some contractors informed POAAL that Australia Post had presented them with a new, reduced fee, which in some cases was significantly lower than their current contract fee.⁴ POAAL stated that contractors were provided with a breakdown of the new annual fee only after representations to Australia Post. In addition, in some instances Australia Post gave the contractor less than 48 hours to consider the contract fee. POAAL commented that 'the negotiation part of "Direct Negotiation" was in many cases an attitude of "take it or leave it" on Australia Post's part'.⁵

9.8 One licensee in this position commented that:

In most cases these contracts are essential for the survival of regional LPOs. Without the income from these contracts many LPO's become totally unviable. This places a licensee in the unenviable position of having to negotiate with Australia Post knowing they cannot lose the contract.⁶

9.9 POAAL concluded that:

If Australia Post is to persist with the Direct Negotiation process, then the process must be completely transparent and Australia Post must be prepared to negotiate in good faith with contractors, bearing in mind the gulf in bargaining power between the two parties and any local conditions relevant to the contract.⁷

9.10 POAAL also noted that contractors are locked into contracts which do not allow for the occasionally volatile nature of oil prices. POAAL commented that it had grave concerns that mail services in rural Australia are under threat due to rising fuel prices. POAAL noted that the standard contract makes allowances for the review of the fuel component of a mail contract fee but the fuel price review can only be initiated by Australia Post. POAAL has proposed automatic monthly reviews of fuel prices as a fairer and more transparent mechanism to address fluctuating fuel prices.⁸

3 Ms Kathy Whelan and Mr Peter Lee, *Submission 130*, p. 3.

4 POAAL, *Submission 9*, pp 24–25.

5 POAAL, *Supplementary Submission 9*, p. 11.

6 Name Withheld, *Submission 88*, p. 2.

7 POAAL, *Supplementary Submission 9*, p. 11.

8 POAAL, *Supplementary Submission 9*, pp 12–14.

9.11 Contractors have also expressed concern about overweight and large parcels as they pose a risk to the contractor.⁹

9.12 POAAL advised the committee that it has held discussions with Australia Post regarding its rural post projects. POAAL indicated that it hoped that this project will reap some benefits for LPOs in rural areas particularly those that hold mail contracts.¹⁰

Australia Post franchisees

9.13 In 2006 Australia Post announced that it would establish 150 franchises within the postal network. Australia Post indicated that it was intended:

That network was going to be made up of licensees that may have converted to the franchise model, corporate outlets that we would convert to the franchise model, as well as green field brand new sites. So it was a mix of all of those things.¹¹

9.14 There are currently 29 franchised post offices.

9.15 At the May 2011 Budget Estimates, Australia Post indicated that it was reviewing its franchise model.¹² Australia Post added at the October 2011 Supplementary Estimates that:

We began franchising a number of years back and I think that was under a different business model than what we are proposing under our Future Ready strategy. As part of our Future Ready strategy, as you would be aware, we have set up different business units and we are currently looking at our retail offering to really look at how we open up access, convenience and choice for customers, and that will involve looking at different service delivery methods to make sure that the format and the ownership model is appropriate to community needs now as their channel preferences change and their access preference changes.¹³

9.16 At the February 2012 Additional Estimates, in response to questions about the extension of franchisee arrangements, Australia Post that:

The franchise agreement is a 10-year agreement. The original terms that they have entered into we will still abide by. We are not moving away from that at all. So at the end of the 10-year fixed term agreement that franchise will then be revalued and then will be reoffered back to the marketplace.¹⁴

9 POAAL, *Supplementary Submission 9*, p. 15.

10 POAAL, *Supplementary (No. 2) Submission 9*, p. 5.

11 Mrs Christine Corbett, Australia Post, *Additional Estimates Hansard*, 25 February 2014, p. 134; see also *Additional Estimates 2013, Answer to question on notice*, No. 81.

12 Mr Russell Ramey, Australia Post, *Budget Estimates Hansard*, 25 May 2011, p. 172.

13 Mrs Christine Corbett, Australia Post, *Supplementary Estimates Hansard*, 18 October 2011, p. 95.

14 Mrs Christine Corbett, Australia Post, *Additional Estimates Hansard*, 14 February 2012, p. 81.

9.17 The phasing out of franchises was discussed at the February 2014 Additional Estimates. Mr Fahour indicated that franchisees were happy with the conversion to LPOs as franchises only have a 10-year term: 'The licensed post office is forever. So what we do is we keep them in business without having their businesses terminated at the end of the term.'¹⁵

9.18 Mr Fahour went on to add that the formula for payout a franchise is contained in each contract:

Each contract specifies exactly the formula. We are giving people long-term notices of what we intend. The earliest one that is going to go up is two years' time, so it is a long, long way.¹⁶

9.19 Mr Fahour also stated that franchisees would be consulted in the first instance and then given the option to convert to an LPO or to sell.¹⁷

9.20 The committee received a number of submissions concerning the franchise arrangement established by Australia Post. POAAL, for example, stated that it had repeatedly expressed its severe misgivings about the concept and considered that it was poorly conceived and executed by Australia Post.¹⁸

9.21 A particular matter of concern to a number of franchisees was the failure of Australia Post to disclose an agreement entered into with relevant unions in which Australia Post undertook to only covert a maximum of 20 corporate post offices to franchises.¹⁹ Mr Mark Bailey stated:

...Australia Post sold us a business that came with non-disclosed encumbrances that would never allow us to achieve our business plan.²⁰

9.22 Franchisees commented that had they known about this agreement they would not have become an Australia Post franchisee. Mr Bailey went on to explain that he had been unable to sell his franchise and that 'professional business agents said we had nothing to sell and that our business was of no value'.²¹

9.23 Mr Bailey noted that financial growth, as forecast, has failed to meet targets and appropriate commission upgrades, meeting operating costs, CPI and market forces have been inadequate.²²

15 Mr Ahmed Fahour, Australia Post, *Additional Estimates Hansard*, 25 February 2014, p. 126.

16 Mr Ahmed Fahour, Australia Post, *Additional Estimates Hansard*, 25 February 2014, p. 133.

17 Mr Ahmed Fahour, Australia Post, *Additional Estimates Hansard*, 25 February 2014, p. 133.

18 POAAL, *Supplementary (No. 2) Submission 9*, p. 2.

19 Mr John Christensen, *Committee Hansard*, 5 August 2014, p. 8; Mr Tim Prest, *Submission 197*, p. 1.

20 Mr Mark Bailey, *Committee Hansard*, 5 August 2014, p. 6.

21 Mr Mark Bailey, *Committee Hansard*, 5 August 2014, p. 6.

22 Mr Mark Bailey, *Committee Hansard*, 5 August 2014, p. 6.

9.24 In addition, now that Australia Post is closing franchises, it was stated that the terms of exit payments were different to those understood to be the case when the franchise agreements were entered into.²³

Committee comment

9.25 The committee considers that franchisees have been disadvantaged by the non-disclosure of the agreement Australia Post entered into in relation to the number of corporate post offices to be converted to franchises. As a consequence of this agreement, the franchise network was restricted to 29 franchises rather than the 150 originally planned. This has had a detrimental impact on the market for these types of postal businesses.

Recommendation 18

9.26 The committee recommends that Australia Post, when negotiating the current value of franchises, takes into account the impact on the value of franchises of its inability to deliver the promised opportunities.

Senator Anne Ruston
Chair

23 Mr Mark Bailey, *Committee Hansard*, 5 August 2014, p. 9.

