



ACN 006 382 314

Senate Standing Committees on Environment and Communications

Performance, importance and role of Australia Post in Australian communities and its operations in relation to licensed post offices

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November 2013

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Introduction

1. The Senate inquiry into Australia Post and Licensed Post Offices provides the Federal Government with an opportunity to positively influence the Australian postal sector.
2. There are opportunities to grow the range of services offered through Australia Post's nationwide network of post offices that will benefit not only the owner/operators of LPOs but also the Australian people – in particular those living in rural and remote areas.

About POAAL

3. The Post Office Agents Association Limited (POAAL) is the national representative association representing for Licensees, the owner/operators of Licensed Post Offices. There are around 2900 LPOs located in suburban, regional, country and isolated areas of Australia.
4. POAAL also represents Mail & Parcel Contractors. These contractors are small business owners who hold contracts to deliver mail and/or parcels for Australia Post.
5. POAAL's members also include Messenger Post Contractors, who hold contracts to deliver express consignments for Messenger Post (a division of Australia Post).
6. POAAL was formed in 1939 as the Non-Official Postmasters Association. It has proudly, professionally and loyally represented the owners of post offices (now Licensees and Franchisees) since inception.
7. POAAL has six State Branches that offer local assistance to Licensees and engage with the relevant State administration of Australia Post. The State Branches hold local meetings for Licensees and also provide input to the National Office.
8. POAAL holds quarterly meetings at a State level with Australia Post to discuss State-based LPO operational and security issues.
9. POAAL meets with Australia Post quarterly at a National level to discuss Security issues.
10. POAAL also meets quarterly with Australia Post at a National level to discuss Marketing matters.
11. POAAL holds monthly meetings with Australia Post to discuss operational matters such as issues with stock returns or proposed improvements to transactions.

12. POAAL co-ordinates meetings, workshops and seminars (both face-to-face and by teleconference) for Licensees across Australia.
13. POAAL communicates with Licensees via regular newsletters, frequent email newsletters and its quarterly full-colour magazine *Postal News*. POAAL uses these communications to seek feedback from Licensees on current issues.
14. POAAL also helps Licensees maximise their payments from Australia Post through payments workshops, seminars, and assistance in writing to Australia Post.

Retail Post and the LPO Agreement

15. In the late 1980s, Australia Post's retail arm was running at a significant loss.
16. At the same time, Post Office Agents (the forerunner to Licensees) were severely restricted in the range of products and services they could offer.
17. Few POAs had retail technology in their business.
18. POAAL and Australia Post began discussions under the auspices of "Retail Post", a programme to modernise and revitalise the entire post office network.
19. The underpinning principle of Licensed Post Offices under Retail Post was that privately-owned post offices would no longer be dependent upon Australia Post for their total income.

*Pictured at right:
A co-located
newsagency and
Licensed Post
Office.*



20. Licensed Post Offices would be able to offer Australia Post's products and services, while operating in-conjunction with another business or simply offering other complementary services and products, provided they did not breach Annexure B of the LPO Agreement. *(Refer Annexure B attached.)*
21. LPOs would no longer be "standalone". All LPOs would have some sort of other business, whether an in-conjunction business such as a newsagency or general store, or simply stocking a range of non-Australia Post products and services, such as photocopying services or greeting cards.
22. The LPO arrangements would give protection and support to LPO owners and be sufficiently flexible to cope with changes over the years to come.
23. The LPO Agreement is flexible and adaptable. It contains a "Special Conditions" clause which can be customised for local conditions and allows for negotiation between the Licensee and Australia Post.
24. As part of the Retail Post discussions, the complex Post Office Agency payment scheme was rationalised to a simple payment scheme.
25. One of the guiding principles when preparing the new LPO payment scheme was to link payments to indices in order to avoid having to renegotiate all LPO fees and payments every year. Australia Post and POAAL eventually settled on linking certain mail payments to the BPR. Until that point, the BPR had regularly risen.
26. On several occasions, POAAL proposed that the link between certain mail payments and the BPR be broken and be replaced by either CPI or a percentage, whichever was the higher. Each time, this proposal was rejected by Australia Post, even after the Federal Government froze the price of the postage stamp.
27. The outcomes of the Retail Post negotiations were:
 - a. The network was tightened.
 - b. Agents operating tiny Post Office Agencies were given the opportunity to leave the business gracefully.
 - c. Retail technology was extended to more post offices.
 - d. Australia Post had a fresh image, and Australia Post would provide signage to LPOs.
 - e. Simple, easy-to-understand payment scheme for LPOs.
 - f. Australia Post's retail network was transformed from a loss-making network to a profitable, modern and efficient network.

Importance of Australia Post to Australian communities

28. The basic services that customers want from Australia Post are:

- a. Being able to buy a stamp.
- b. Receiving their mail.
- c. Being able to post mail.

29. All post offices and Community Agencies can provide these basic services.

30. LPOs can be enablers for other businesses by giving access to financial services. For example, in Ross (in rural Tasmania), the LPO opens on the weekend during peak tourism times. The LPO is the only source of cash in the community, and by opening on the weekend tourists are able to withdraw cash at the LPO to spend in local businesses.

31. LPOs offer employment to locals, sometimes as casual employees, sometimes as full-time employees.

32. The importance of post offices to rural communities has changed over the years and will continue to change.

33. Post offices – in particular LPOs – can be found in every corner of the country. The post office network has no equal. It is the strength and breadth of that network that lends itself to offering essential Government services to local communities.



34. Post offices serve the elderly, the frail, the disadvantaged, the infirm, the unemployed and low-paid workers, as well as mums and dads and local businesses. Many of these people living in country areas do not have access to the internet nor can they afford it.
35. Post offices are ideally situated to be an outlet for Government services for these people, many of whom have to travel huge distances to perform simple tasks such as lodging paperwork with Centrelink or applying for a birth certificate.
36. POAAL urges all levels of government – local, State and Federal – to fully utilise this existing, trusted network.



A typical country LPO

Products and services offered by Australia Post

37. Australia Post has sought to expand the range of products and services offered via the post office network.
38. During the 1990s, the focus was on growing the range of bill payments payable at post offices.
39. During the 2000s, as the bill payment market matured, Australia Post switched its focus to growing the range of identity verification transactions that could be processed at the post office.
40. The growth in internet banking has impacted on over-the-counter banking at post offices. Australia Post offers banking services for a wide range of financial institutions. We urge Australia Post to continue to add financial institutions to its in-store banking services.
41. Australia Post has also extended financial services available through post offices, most notably in recent years to include foreign currency transactions.
42. To the customer, a post office is a post office. To help maintain a viable post office network, especially in rural areas, all Australia Post products and services must be available in all post offices.
43. In the early 1990s, Australia Post only had a very small range of complementary retail products, that is, retail products other than postage stamps and Postpak products.
44. Australia Post soon followed Licensees' lead, and started stocking its corporate post offices with greeting cards, stationery and other retail products.
45. Many of these products were also made available to Licensees to purchase. In effect, Australia Post became a wholesaler of retail products.
46. The large minimum order quantities and low margins offered by Australia Post to Licensees on these retail products are a source of frequent complaint from Licensees. The minimum order quantities are frequently so large that small LPOs are effectively excluded from ordering some product lines.
47. While Licensees are under no obligation to source non-postal retail products from Australia Post (such as toner cartridges or stationery products), when customers see products in the Australia Post catalogue they expect to be able to buy those products from their local post office.
48. The LPO margins offered by Australia Post on many retail products are low when compared to margins offered by other wholesalers. Again, Licensees are under no obligation to source non-postal retail products from Australia Post, but the Australia Post catalogues can create customer expectation.
49. POAAL encourages Licensees to source alternative retail product suppliers.



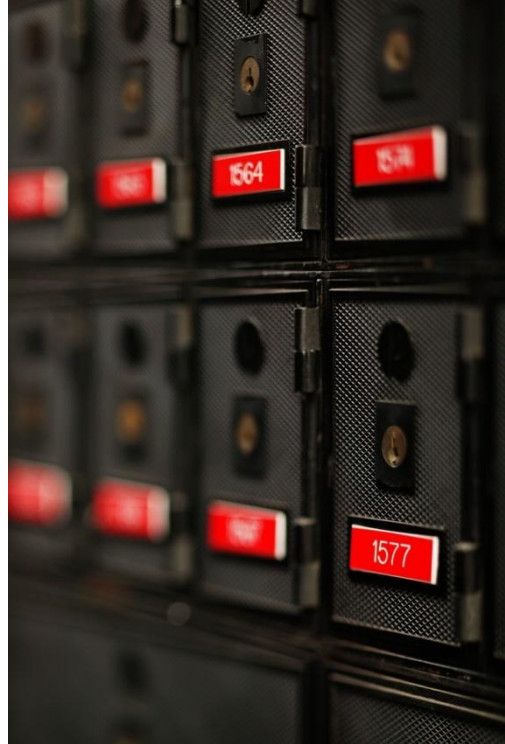
Displays of stock and retail products in a Licensed Post Office



Post Office Boxes

50. Following the introduction of the Licensed Post Office arrangements, a level playing field was introduced for all Licensees in regard to Post Office (Private) boxes.

51. Previously, where a post office was located in an area where there was no mail delivery, the payment to the Post Office Agent for post office boxes was for the “subsidised rate” – which was substantially less than the standard payment for this service. In other words, the post office owner was discriminated against according to where the post office was located. Furthermore, the Licensee had to not only provide the PO Boxes, but maintain, rent and issue accounts for them, whilst meeting Australia Post’s corporate requirements.



52. The LPO arrangements saw beneficial change. As a large number of subsidised (reduced rate) post office boxes were at POAs, Agents (now Licensees) were disadvantaged before the level playing field was introduced. There was the same amount of work regardless of location, so why shouldn’t the payment be the same? And why should Licensees have to send out their own accounts for post office boxes as was previously the case prior to the LPO Arrangements? Surely it made sense for AP to send out the accounts, follow up slow payers and so on. And why should Licensees have to pay for replacement locks and keys? Surely it made sense for Australia Post to provide them. POAAL thought that common sense should prevail, and Australia Post agreed to this.

53. There are two principal payments made to Licensees who have post office box installations at their LPO.

- a. Payment 1: Annual Fee for each let Box
- b. Payment 2: Mail Management fee for each Box let.

54. The Annual Fee for each let Box is in two categories: Licensee owned boxes and AP owned boxes. It is further broken down into small, medium, large and A4 size boxes.

55. The Mail Management fee is in two categories: Private and Business/Government institutions. It is further divided into numbers of delivery points in each of these categories. The “over 1000” private points rate and the “over 400” business points rate are negotiated individually by Licensees with Australia Post, thus giving Licensees the opportunity to show their negotiating skills and to explain to AP why the Licensee is requesting the payment they can justify.

56. Many Licensees also receive a Mail Service Payment for working outside core hours. For example, this payment would apply where mail volumes dictate that extra time is needed for sorting, or where the mail arrives early (before 8am), to meet mail sorting deadlines.
57. Australia Post will provide Licensees, free of charge, with “rent me” signs for boxes, and brochures. Banners can also be borrowed from AP, advising customers of vacancies.
58. Spare locks and keys are available to Licensees free of charge from Australia Post.
59. There have been increases to the Annual Post Office Box LPO Payment and the Mail Management Fee since the LPO Agreement was implemented. The payments are linked to the basic postage rate, and increases are automatic when the BPR increases, not linked to the amount the customer pays, which varies from place to place and which would seriously disadvantage the large number of Licensees whose post office box setup is largely for subsidised customers. More subsidised post office boxes are located at LPOs than at Corporate Post Offices, meaning that these hundreds of Licensees would all be worse off if the Annual Post Office Box payment were linked to customer rental rates.
60. The benefits to LPOs of post office box installations are many. They include:
 - a. drawing customers to the LPO;
 - b. annual box fee per PO Box let;
 - c. mail management fee for each box let;
 - d. indoor sorting – no outdoor delivery;
 - e. Australia Post chases the slow payers;
 - f. Australia Post supplies spare/replacement locks and keys;
 - g. Australia Post sends out accounts to box holders;
 - h. LPOs receive a commission for each PO Box account paid at the LPO.
61. Some Licensees see a disadvantage in having to store items which are carded to post office boxes because of the space involved and because some customers are slow at collecting their items or perhaps do not clear their box frequently. However, there are good systems for storing items awaiting collection that Licensees should use.
62. PO Boxes have been a feature of mail delivery in Australia for a long time. As letter volumes decrease, Australia Post and Licensees will need to find ways to add value to the PO Box service.
63. Over the years alternative mail box companies have set up and continue to operate in competition to Australia Post. Many large buildings have their own internal private box setups. Recently we have seen Toll Holdings make a concerted attack on the market share of mail (in particular online parcels) with parcel lockers in service stations, newsagents at shopping centres. Future generations of Australians may have a Digital Post Box in the “cloud” to receive

what would have been ordinary letters/bills and opt for a parcel locker at the local service station for ordering online or the odd hard copy letter/document occasionally needed.

64. Australia Post does not have a monopoly on post office boxes or parcels; it is all up for competition.

Attached: Excerpt from Postal News Q3 2013.

Sequencing of mail

65. Australia Post has the technology to be able to sort mail for PO Boxes automatically, removing the need for manual sorting at the post offices.

66. That is, mail for PO Boxes can be sorted by a sorting machine into PO Box order. For a Licensee, this would mean that much less time would be spent preparing and putting letters into PO Boxes of a morning, saving time and staff costs.

67. This would be most suitable for metro post offices because of their proximity to the sorting technology and because generally metro post offices have larger PO Box installations.



The LPO sales market

68. Two of the strengths of the LPO Agreement are that it is an indefinite term contract and that it has no defined “territory”.
69. The indefinite term means that Licensees can sell their business at a time of their choosing.
70. No defined territory means that Licensees are free to seek out new business without worrying about encroaching on anyone’s turf.
71. Australia Post does not set the sale price of LPOs.
72. LPOs (including LPOs operated in-conjunction with another business and LPOs that offer their own range of retail products) continue to be seen as stable small businesses to own.
73. In preparing this submission, POAAL spoke to a number of reputable business brokers who gave comment on the state of the LPO sales market.
74. Since the Global Financial Crisis hit in 2008, the LPO market has been slow. The value of post offices on average has reduced from 5-6 times the annual adjusted net profit figure to around 3.8 to 4.3 times in metropolitan areas. In country areas, LPOs are currently valued at around 3 times the adjusted net profit figure.
75. This decline could be seen as a commercial-based reduction, as prices for post offices were very high and the market forces adjusted the value.
76. Banks, via their valuations and reduced lending ratios, have also impacted on the pricing as they take a more conservative approach.
77. While lenders have previously taken second mortgage security over family homes as collateral when lending for LPOs, some financial institutions are now reluctant to do this – even for LPOs – as it’s a “bad look” if they foreclose on a family home when trying to realise their securities. Lenders will, however, still consider taking mortgages over investment properties when providing finance for LPOs.
78. There is also a perception among some LPO buyers that the internet is having a significant impact on stamp sales and over-the-counter bill payment business.
79. Purchase prices for country LPOs where the adjusted net profit is under \$100,000 are being squeezed. This is typically because potential purchasers do not wish to purchase a business with an adjusted net profit of under \$100,000 where they have to work 5 or 5½ days per week.
80. LPO sales are still better than many other comparable small businesses.

81. Stand-alone retail newsagencies are under more pricing pressure than post offices or LPOs with an in-conjunction newsagency. This is due to the uncertainty regarding the amalgamation of paper deliveries along with the impact of the internet on newspaper and magazine sales.
82. In general, sales of retail small businesses over the last 3-4 years have been slow, due to the Global Financial Crisis, consumers buying overseas and a general lack of confidence in the economy. Licensees who bought their business while the market was strong may become frustrated that their business might not sell immediately.

Parcels

83. Parcel volumes have steadily increased in recent years. This is largely due to increased online spending by consumers, who are often time poor.
84. Australia Post is not Australia's only parcel delivery company. Competition is increasing, especially in the business-to-consumer market, which until now Australia Post has dominated.
85. There are other external factors that influence parcel volumes, including:
- a. Currency exchange rates (in particular the Australian dollar against the US dollar);
 - b. Internet penetration;
 - c. Smartphone penetration.
86. While many Licensees have benefited from the growth in parcel volumes, especially in parcels lodged at LPOs by SMEs, there has been a downside in regard to failed parcel deliveries.
87. When a delivery fails, that is, when an item cannot be delivered because a customer is not home to sign for the item or there is nowhere secure to leave it, the item is typically returned to the nearest post office for collection by the customer. These items are known in the trade as "carded articles".
88. An "awaiting collection card" is left in the customer's letterbox.
89. The principal problem with carded parcels left at LPOs is that of secure storage.
90. Pressures are particularly felt by Licensees with small, retail-focused LPOs – typically located in high rent suburban and metropolitan locations.
91. Licensees have benefitted from Australia Post's improvements in parcel handling/processing technology.
92. Until recently, all carded articles had to be written up in a journal – a time-consuming and tedious task. When the carded article was collected, the Licensee had to find the relevant entry in the book and then the customer had to sign in the book to acknowledge receipt.
93. Now, instead of writing articles in a book, the process is automated via hand-held scanners (also known as Portable Data Terminals – PDTs).
94. At POAAL's insistence, Australia Post has distributed hand-held scanners to all LPOs free of charge to the Licensee.



95. Scanning fee trial

- a. In response to Australia Post's growing need for barcode scanning of parcels (as part of the demand for track-and-trace), POAAL and Australia Post agreed to a **trial** of a new payment for Licensees for scanning barcodes upon delivery of carded articles.
- b. The first part of this trial was for LPOs that are eligible for the carded articles payment.
- c. The trial has recently been extended to include LPOs that host Mail Contractors.
- d. The trial will be reviewed in early 2014.
- e. POAAL is pushing for Australia Post to trial a payment to LPOs for acceptance scans, that is, scanning of parcels when lodged at the counter by the customer.

96. Licensees in metro areas are typically eligible to receive the carded article payment. The payment is negotiable for LPOs that receive in excess of 25 carded articles per week. It is greatly disappointing that Australia Post has failed to negotiate increases in this payment in good faith with Licensees.

97. An upside of carded articles is that they drive foot traffic to the post office.

98. Australia Post is investigating and implementing new parcel delivery methods in order to improve customer service and reduce the number of failed delivery attempts.

- a. 24-hour parcel lockers
- b. PO Box parcel lockers
- c. Time specific deliveries
- d. Customer Collect – this is a new service where customers can nominate a post office as their delivery address. That is, there is no delivery attempt to the customer's home address, instead the parcel goes straight to the post office to await collection. LPOs need to specifically request to be nominated as a Customer Collect outlet, and their request is assessed based on criteria such as storage space, opening hours and available car parking.



99. POAAL has negotiated with Australia Post carded parcel **bypass arrangements** for LPOs.

- a. Bypass arrangements permit Licensees to request that carded parcels destined for their LPO are instead redirected to an alternative nearby post office.
- b. These arrangements can be temporary (for example, to allow the Licensee to clear a backlog of parcels) or permanent (for example, a

small LPO might only receive street addressed carded parcels weighing under 2kg).

- c. These bypass arrangements allow Licensees to manage the flow of carded parcels in their business, depending on local conditions.
- d. It is up to the individual Licensee to request this service as they are best aware of their circumstances.

100. LPOs with permanent bypass arrangements are typically small suburban and metro LPOs with limited secure storage space.

101. There are still some problems with parcel delivery for Australia Post to resolve. POAAL has raised the following issues previously with Australia Post:

- a. Customers reporting that “awaiting collection cards” are sometimes not left in letterboxes.
- b. Australia Post’s customer contact centre will from time to time telephone the LPO to try to locate a customer’s parcel, often despite the Australia Post tracking system showing that the parcel is not at the LPO.

102. Australia Post is in the process of introducing new hand-held scanners for Contractors. The new scanners should give Australia Post more information about the timing and location of delivery attempts, which will help with customer service and with compliance monitoring.

103. The parcels business is completely open to competition. Australia Post has a strong market share in rural and remote areas that aren’t serviced by other carriers.

104. Traditionally, Australia Post has enjoyed market dominance in the business-to-consumer market. More recently, other carriers have started entering this market. Australia Post’s dominance is now no longer guaranteed. This is being mirrored in parcel delivery markets in other developed countries.

Overweight and oversize parcels

105. The maximum allowable weight for a parcel delivered by Australia Post is 32kg. This applies only for certain contract customers. For all other lodgements made at the post office, the maximum allowable weight is 22kg.

106. The maximum allowable size for a parcel is:

- a. The greatest linear dimension must not exceed 105cm;
- b. The maximum cubic dimensions must not exceed 0.25m^3 .

107. POAAL has deep concerns regarding parcels accepted for delivery via Australia Post that exceed the maximum allowable weight and size.



108. By accepting overweight and oversize parcels for delivery, Australia Post is putting Licensees, Contractors and its own employees at risk of injury.

109. Australia Post trialed a special delivery service called the “XL Parcels Network”.

110. The XL delivery network processed and delivered overweight and oversize parcels separately to the regular parcel delivery network. Dedicated drivers and vans were used, with specialist lifting equipment.

111. Parcels that were delivered through the XL Network were never carded to post offices (including LPOs).

112. Australia Post has terminated the XL Parcels Network, much to Licensees’ and POAAL’s dismay.

113. Overseas postal corporations (such as PostNL in the Netherlands) are now introducing a similar delivery network for handling overweight and oversize parcels.

Parcel delivery methods

114. The typical methods of delivery for a parcel are by a Parcel Contractor or for rural addresses by a rural/roadside delivery contractor.
115. For deliveries to private addresses, these delivery methods rely on the customer being at home to receive the parcel.
116. Parcel deliveries to business addresses are almost always successful, as delivery takes place during standard business hours.
117. Parcels addressed to PO Box customers are delivered via the post office.
118. New delivery methods are now being trialled and implemented by Australia Post, including:
 - a. 24-hour parcel lockers
 - b. Deliveries during specific timed delivery windows
 - c. Customer Collect (delivery direct to designated post offices)



Cost of basic postage in Australia

119. Postage and parcel rates are increasing worldwide. Parcel delivery companies typically adjust their rates annually, taking into account inflation and other rising costs.
120. US-based carrier UPS recently announced that its US rates will increase an average net of 4.9%. This follows an increase of 4.5% the previous year.
121. Similarly, DHL Express has recently announced that its rates within the USA will increase by 3.9% and in the Asia-Pacific region by about 5%.
122. FedEx's US rates will increase an average of 3.9%, following an increase last year of an average of 5.9%.
123. The US Postal Service has recently announced an increase to its basic postage rate, effective January 2014.
124. Delivery cost pressures include fuel costs, staff wage rises, maintenance costs and vehicle purchase or leasing costs.
125. Australia Post is subject to all these cost pressures. There has been no increase to the basic postage rate (BPR) since June 2013. The BPR is currently 60c.
126. Australia Post reported a significant financial loss for its reserved service in the 2012/2013 financial year.
127. Australia Post's BPR should be increased as soon as possible.



Manual LPOs

128. There are about 400 LPOs that do not have access to Australia Post's electronic point-of-sale (EPOS) system. These LPOs are sometimes called "manual" LPOs.
129. Manual LPOs are limited in the Australia Post services that they can offer. For example, online EFTPOS banking is not available at manual LPOs. To the customer, a post office is a post office. To help maintain a viable post office network, especially in rural areas, all Australia Post products and services must be available in all post offices.
130. Previous Federal Governments provided funding (under the Rural Transaction Programme and Bank@Post) to install EPOS at hundreds of rural LPOs, resulting in increased services to those rural communities.
131. The funding for the Bank@Post programme expires in 2015. This funding, latterly provided by Australia Post, covers the cost of installing and maintaining EPOS at LPOs with low volumes of transactions. This funding must be extended or communities will suffer loss of service.
132. Australia Post is now developing a slimmed-down point-of-sale system called FlexiPOS. Extending the new FlexiPOS system to the remaining 400 LPOs that are currently without technology will result in hundreds more communities enjoying access to a much greater range of Australia Post's services, including banking.
133. FlexiPOS is being trialled at a small number of LPOs. The feedback from Licensees involved in the trial has been positive.
134. One Licensee taking part in the FlexiPOS trial said, "I'm very happy with the new system. It's still evolving, but I'd rather have it than not have it!"
135. Another Licensee taking part in the trial said that FlexiPOS is a real timesaver – the fact that it automatically generates receipts is a plus (as opposed to writing out receipts by hand).
136. To the customer, a post office is a post office. The customer expects all Australia Post's services to be available at all post offices – even small rural LPOs. To help maintain a viable post office network, all Australia Post services must be available in all post offices.
137. In order to secure postal services in rural areas in the future, LPOs will need to have access to Australia Post's electronic network, including banking services. Without electronic services their customers are disadvantaged.

Country and rural issues

138. The issues that face Post Office Licensees in country areas are different to those facing metro/regional outlets.
139. Many LPOs in country regions are operated manually, that is, they do not have Australia Post's EPOS technology. This means that Licensees at these LPOs are limited the Australia Post services they can offer. Australia Post must extend EPOS or a similar point-of-sale system to these small LPOs.
140. Some country LPOs received funding under the Bank@Post programme for installation and maintenance of their EPOS system. This subsidy is due to expire in 2015. The subsidy should be continued in the interests of the community where the LPO is located, and in the interests of keeping the LPO viable.
141. Where a mail contract originates at a country LPO, the contract should be automatically offered in the first instance to the Licensee to help make the postal business in that area more viable and give the Licensee responsibility for the whole retail and delivery setup.
142. Most of Australia Post's Community Service Obligations (CSOs) derive from country, remote and outback Australia. It should be noted that the Licensees who operate LPOs in these areas are also disadvantaged by distance, separation from children who attend school in other more populated areas, higher costs including fuel, utilities, clothing, food, communications and education. This means that in effect the Licensee is subsidising the community in which they operate.



Australia Post's online plans

143. POAAL has raised significant concerns with Australia Post regarding its plans for online sales of products such as postage stamps, Express Post items and packaging products, direct to customers.
144. POAAL acknowledges that some customers prefer to deal with suppliers online, however this does not mean that the retail network needs to be excluded from the process.
145. Wherever possible, Australia Post should use its online presence to drive foot traffic into post offices. For example, giving customers the option to collect their order with no delivery charge from their nearest post office.
146. POAAL is also concerned that while any moves to offer more products online might expand Australia Post's market, it will erode the existing customer base at LPOs. Australia Post must investigate options such as offering trailing commissions to the LPO nearest the customer's address for online purchases.
147. Some entrepreneurial Licensees have an online presence and sell some products online.



At left: a suburban LPO, showing Australia Post signage on a restored building

Transfer of business

148. POAAL has repeatedly made strong representations to Australia Post regarding transfer of business, where Australia Post representatives target customers who presently do business with an LPO with the aim of transferring the customer to an Australia Post corporate facility.
149. POAAL has raised this matter with the ACCC but the ACCC did not consider that Australia Post's actions constituted a breach of the *Trade Practices Act*.
150. More recently, Australia Post gave POAAL an undertaking that it would not actively seek to migrate customers from LPOs to corporate facilities. We are not convinced that this has filtered through to the field.
151. From time to time, Australia Post will make offers directly to business customers that Licensees are unable to match. These offers might involve products and services that are not available to Licensees at all. In other instances Australia Post might offer products and services at discounted rates unavailable to Licensees.
152. This leaves a bad taste in the mouth for Licensees, who feel that Australia Post is unfairly competing with Licensees for the same business.
153. Australia Post needs to introduce a standard procedure for the investigation of these instances and communicate this procedure to all Licensees.

Mail Contracts

154. Australia Post has for decades contracted out certain parts of its delivery network. Most rural deliveries are performed by Mail Contractors, and now most urban parcel deliveries are performed by Parcel Contractors.

155. Mail Contracts are typically for a five-year term.

156. In country towns, the local Mail Contractor is usually based at the LPO.

157. In these instances, the Licensee receives the mail in the morning and performs what is known as a “primary sort”. That is, the Licensee separates the mail for the Contractor(s) and the PO Boxes.

158. The Contractor then sorts his/her mail at the LPO (into street order, etc) before heading out to deliver the mail.



159. In many cases, the Licensee is also the Mail Contractor.

160. POAAL is pushing for Licensees to be encouraged by Australia Post to take on the local mail contract. Some of the major benefits include:

- a. Customers don't distinguish between Contract and LPO operations.
- b. Improvements for overall viability of the local postal business.
- c. Local person accountable for all postal services in the town or district.

161. 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.

162. 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.

163. It must be emphasised that there are many Contractors holding multiple contracts who do the right thing.

164. Australia Post has introduced a new system to deal with contracts that are due to expire. When a mail contract is due to expire, and if Australia Post deems

that the Contractor has met his/her obligations during the term of the contract, Australia Post will engage in what is called “Direct Negotiation”.

165. Direct Negotiation replaced a system known as “First Offer”, where Australia Post would in essence offer to extend the contract for a further five years under the existing payment terms for the mail contract.
166. Under Direct Negotiation, Australia Post offers the incumbent Contractor a new contract fee.
167. Many Contractors whose contracts were due to expire on 30 June 2013 contacted POAAL with concerns about Australia Post’s Direct Negotiation process. 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.
168. There appeared to be two main drivers for Australia Post’s change from “First Offer” to “Direct Negotiation”. The first was Australia Post’s attempts to reduce delivery costs. The second was Australia Post’s move to “tidy up” some Contracts, and ensuring that costs are allocated correctly.
169. Following pressure from POAAL, Australia Post supplied Contractors with some details of how the Australia Post “price” was calculated. It was apparent that Australia Post was aggressively targeting hourly rates.
170. POAAL urges Australia Post to negotiate with Mail Contractors in good faith with local mail delivery conditions in mind when entering into Direct Negotiation.



Messenger Post

171. POAAL's members include Messenger Post Contractors, that is, owner/drivers who hold contracts (usually through an incorporated company) with Messenger Post.
172. Messenger Post is the national courier division of Australia Post (Australian Postal Corporation).
173. Messenger Post engages Contractors to perform courier services, including pick-up and delivery.
174. Messenger Post requires that Contractors form incorporated companies.
175. Messenger Post typically offers its Contractors a two-year contract, sometimes with an option for a one-year extension. (Motor vehicle leases are typically for a three-to-five year term, meaning that the Contractor is risking being without a contract and having to maintain vehicle finance payments.)
176. These contracts require Contractors to be available to provide courier services 24 hours per day, seven days per week, including public holidays. (Schedule 2, Clause 1.2 of the standard Messenger Post contract.)
177. In recent years, many Messenger Post Contractors have contacted POAAL regarding the terms of their contract with Messenger Post, in particular, their inability to negotiate the terms of the contract and the rates of pay.
178. POAAL has raised these concerns with Messenger Post in writing.
179. The process for becoming a Messenger Post Contractor is as follows:
 - a. Messenger Post advertises that there are contracts available.
 - b. Messenger Post will meet with people who express an interest in being a Messenger Post Contractor.
 - c. Messenger Post informs applicants that they will need to form an incorporated company, source a vehicle and be fully insured before they will be offered a contract.
 - d. Messenger Post often tells applicants what the expected income will be. (Note: Contractors report that the actual income seldom reaches the income quoted initially by Messenger Post.)
 - e. Once the Contractor has set up the company, sourced a vehicle and met the mandatory contractual insurance requirements, then Messenger Post will offer a contract. There is a risk that having made these investments Messenger Post might not offer them a contract.

180. At present there is no competition between Contractors on price as Messenger Post unilaterally sets rates of pay, without giving Contractors any opportunity to negotiate rates.
181. Contractors are responsible for all their own operating costs, including fuel, maintenance, vehicle financing, servicing, uniforms and relief staff.
182. Contracts are almost always one-vehicle contracts.
183. Contractors are offered a standard form contract. Messenger Post does not offer Contractors a legitimate opportunity to negotiate any terms of the contract. The contract is offered on a “take it or leave it” basis.
184. Contractors do not invoice Messenger Post. Instead, Contractors are paid via a customer-generated invoice.
185. There are two rates of pay for Messenger Post Contractors:
 - a. Set runs – where the Contractor has a set delivery run which is usually performed every work day.
 - b. Ad hoc – where Messenger Post allocates ad hoc work to available Messenger Post Contractors.
186. The rates paid by Messenger Post for set runs and ad hoc work are set by Messenger Post.
187. Some ad hoc rates vary by vehicle class (e.g. wagon, van), but these rates are still set by Messenger Post.
188. Messenger Post generally refuses to negotiate these rates with Contractors – rates are offered on a “take it or leave it” basis.
189. From time to time, Messenger Post hires more Contractors than necessary to perform the work available.
190. This over-supply does not result in greater competition on price for the consumer – Contractors are still paid the same rates.
191. By offering more contracts than necessary, Messenger Post is managing its business poorly and inefficiently, while Contractors bear 100% of the risk in investing in equipment, company registration, insurances and other business set-up costs.
192. Contractors are expected to brand their vehicles with Messenger Post livery, meaning that they are unable to perform work for other courier companies using that vehicle.
193. Contractors are often hesitant or unwilling to leave Messenger Post because of the financial investment they’ve made in a vehicle and other business expenses.

194. Prior to hiring new Contractors, Messenger Post should have specific work for Contractors.
195. Contractors report that job rates have remained unchanged since 2006. In some cases they have been reduced.
196. Many Messenger Post Contractors have commented that they are earning the same per week now as they were eight or nine years ago, despite the obvious increases in their cost of doing business over that period.
197. Contractors and their representatives have attempted to negotiate rates with Messenger Post but all requests have been rebuffed.
198. At the very least, Messenger Post must investigate applying an index or indices similar to those that apply to Australia Post Mail Contractors, so that movement in fuel prices or labour rates are reflected in the contract fee paid by Messenger Post.

RECOMMENDATIONS

199. The Federal Government has the opportunity to help secure the future for Australia Post and LPOs, including LPOs in regional, rural and remote Australia.

200. The range of government services available through Australia Post, and therefore LPOs, should be extended.

- a. Post offices, including LPOs, already offer local, State and Federal Government services such as:
 - i. Drivers licence applications/renewals;
 - ii. Passport applications/renewals;
 - iii. Payment of local council parking fines and rates;
 - iv. State Government “Working with children” ID checks
- b. Offering more Government services (such as simple Centrelink transactions) through the post office network would increase business levels at LPOs and help keep the post office in the community.
- c. Local residents also benefit from not having to travel large distances to access government services.
- d. Government services offered through Australia Post should be available at all post offices, including all LPOs.

201. Any future application by Australia Post to increase the price of the base postage stamp (currently 60c) should be supported by the Federal Government.

- a. The base postage rate was last increased in June 2010.
- b. Australia Post has reported significant losses in its reserved service in recent annual reports.
- c. It is not in the best interests of our members that Australia Post’s reserved service operates at a loss.
- d. POAAL would support any moves by Australia Post to increase the base domestic postage rate.

202. The Federal Government should, in co-operation with Australia Post, install Australia Post’s point-of-sale technology at small rural LPOs that are currently without point-of-sale technology.

- a. Under the Rural Transaction Centre Programme, 135 LPOs received point-of-sale technology.
- b. Under Bank@Post, 264 LPOs received point-of-sale technology.
- c. Existing funding under the Bank@Post programme must be extended.
- d. In the 21st century, no LPO should be without point-of-sale technology.

203. Australia Post must remain in public ownership.

- a. The biggest threat to the survival of privately-owned LPOs in Australia is the possibility that Australia Post may not remain in public ownership.
- b. POAAL is concerned by continuing speculation in the media regarding the future of Australia Post.
- c. POAAL is very keen to see Australia Post remain in public ownership.

- d. It is in the best interests of all Australians – particularly those in rural, remote and isolated areas – that Australia Post remains government-owned.

204. Australia Post should continue to improve the parcels network to the mutual benefit of customers, Licensees and Australia Post, including:

- a. Reintroducing the XL parcel delivery network for overweight and oversize parcels;
- b. Taking all possible steps to improve first-time parcel delivery;
- c. Investing in innovative new parcel delivery methods; and
- d. Negotiating in good faith with Licensees on negotiated carded article fees.

205. Australia Post must include Licensees in its plans to sell any products or services online, always taking into account:

- a. How Licensees might be able to benefit from any online activity;
- b. Any potential risks to Licensees' business levels from Australia Post's online activity; and
- c. How to make best use of the LPO network when selling any products or services online.

206. Australia Post must ensure that its sales staff do not cannibalise customers from LPOs.

207. Australia Post must investigate efficiencies in its Postpak production and distribution to enable Licensees to earn a more commercial margin on Postpak.

Licensee profiles

Koumala LPO, Qld – Jenny Patroni

Jenny Patroni has run the LPO in Koumala, 50km south of Mackay in north Queensland for more than 30 years.

“I also operate a mail run out of my office three days a week, which is 111km long with 138 drops along the way,” she says. “I employ two part-timers to help with the mail sorting on mail run days and to work in the office while I do the run. It is something that I really enjoy as it gets me out of the office and it has its perks as I deliver to a beach area and at Christmas time I find eskies next to the mail box with crabs or fish in them.”

Jenny owns the LPO premises, which includes an attached residence. She has 263 PO Boxes in use, and has just added another 100 to meet demand from the growing community.

She bought the business after working as a rates clerk at the local council.

“I wanted something that was family friendly, I used to bring my kids to work but you couldn’t do that now as it is too busy.”

Jenny services close to 500 customers in the close-knit farming district, starting work at 5.30am and working through to 6pm, Monday through Friday. She doesn’t open the LPO on weekends. She does a high volume of banking, as the LPO is the only place in town where the locals can withdraw cash.

“I do sell Australia Post products, a lot of Postpak and copy paper but because of the quantity Australia Post requires you buy, for many products I can’t justify it as my post office is not big enough.

“It is also difficult to network with other nearby LPOs as we all sell different things, what sells in one place doesn’t sell in another.”

Jenny loves dealing with the public and providing a service to the local community.

“I like to think we are playing our part in keeping services in country towns.”

She says technology has knocked LPOs around, taking away revenue streams as customers start using internet banking and bill paying services.

“Australia Post is a good brand but sometimes there does seem to be a ‘them and us’ attitude when you look at what Australia Post corporate offices are able to provide that we aren’t allowed to at LPOs,” she says.

She also finds parcels, particularly the size of them in country areas – saddles or tyres are common – can be a problem when it comes to storage or moving them about.

Deakin LPO, ACT – Ajit Banerjee

Ajit Banerjee and his wife Anna have owned the Deakin post office in the leafy Canberra suburb for 17 years.

Over that time, the pair has seen plenty of changes to the services and products sold by Australia Post but say stamps remain their best seller.



“We have doctors, schools and clubs around us, all of which have a big clientele and they do a lot of bulk postage,” he says. “Then there is Express Post, registered and Platinum Post which comes from the embassies and from passports and that sort of thing.”

Its foreign currency services are also popular.

The pair work from 7am to 5pm weekdays and the post office opens from 9am-12 on Saturdays.

Ajit says he hasn’t had a day off in 17 years, but loves being a post office Licensee. He and his wife work in their business by themselves.

“We enjoy the customer interaction, we are very fortunate that we are well placed with the embassies, schools and the doctors and the hospitals all in our locality,” he says.

“We meet everyone from a little toddler to elderly folk about to turn 100. We also get to know our customers and we know who to turn to whenever we have a problem whether we need to fix a fence or sort out a teenager’s problem.”

The Deakin LPO has 515 post office boxes and is located in the Deakin shopping strip.

“We sell mainly Australia Post products, I don’t take much from other wholesalers, some cards as Australia Post doesn’t sell those and some stationery products like cartridge ink that Australian Post doesn’t carry.”

Ajit believes Australia Post is doing a good job with efforts to diversify and bring in other products and services.

“There is always something that can be improved. But I think they generally do a good job.”

Onerous red tape when it comes to damaged stock or products not working is an issue.

“It doesn’t need to be that difficult. In the past I always felt I could iron things out when there was a problem but now it tends to take longer than it should.”

As for the future, Ajit believes the continued focus on diversifying and finding new opportunities will leave Australia Post well-positioned.

“We can also look at what can be added. I don’t think we have to wait for Australia Post to do everything for us.”

Cygnnet LPO, Tas – Lisa Cooper

Lisa Cooper has run the Cygnnet Post Office, 45km south of Hobart in Tasmania's Huon Valley for eight years.

She loves the hours – a far cry from the seven-day a week liquor store business she used to own – and the social interaction with customers who range from backpackers and fruit pickers to interstate tree changers.



“I start work just before 7am and I finish around 5.30pm,” she says. “I do come in on weekends sometimes to do a bit of admin or cleaning work and of course leading up to Christmas the hours jump up to 60-65 hours a week and we open on Saturdays to move parcels out of the building.”

Lisa leases the stand alone business – located in the main street with 420 post office boxes – employing one staff member four days a week and enlisting the help of her partner for one to two days to meet the demand from the region's growing population. She also hosts two mail contractors and takes parcels from a third contractor.

Aside from the regular stamps and envelopes, she sells non Australia Post items such as books, photo printing services, gift cards, wrapping, mobile phones, printer cartridges and soft toys.

Her best selling products on a volume basis are pre-paid satchels.

“Most of the non Australia Post stock I get elsewhere has a good profit margin – around 40 per cent which is fairly typical retail margin. Australia Post thinks eight per cent is not too bad!”

Lisa would be happier if Australia Post wasn’t a wholesaler and a retailer.

“Australia Post wholesales to us and at the same time they stock their corporate offices yet after the stock has been there for as little as a month they slash the price and I have to compete with that,” she explains. “I don’t get price protection so I either have to take it out of the retail area, and put it in later when they have sold all their stock for less than cost, or I have to try and explain to the customers why I am selling the stock at the original retail price.”

“They are also chasing the online business which hurts us.”

She believes one of the biggest challenges for Australia Post will be competition in the parcel delivery system.

Albert Park LPO, Vic – Joe Spiteri

Joe Spiteri could do with another 100 post office boxes at his LPO in Albert Park, a bayside suburb of Melbourne.

“I have 300 which are all leased and I have a long waiting list with people coming in from neighbouring suburbs to ask if they can have a box,” he says.

With limited space at the Armstrong Street site, Joe says meeting the demand for PO boxes will be a challenge.



Now a Licensee after being a postal manager with Australia Post for 38 years, Joe runs his LPO under a family trust and leases the premises, which includes a tiny back office.

“I had my son working for me, however he has moved on and now I am training someone up as it really needs more than one person,” he says. “I don’t host any mail contractors.”

A typical day starts at 6.30am and ends around 5.30pm. On Saturdays he works from 8am-12.30pm.

His best selling products are the Australia Post packaged products, such as Express Post satchels.

“I still have some businesses who buy boxes of stamps but not a great deal. Hopefully we will get Christmas cards this year, although I have already had complaints from customers about the cost of sending a card overseas which has gone up to \$2.55.”

Joe says the downturn in postage has been a challenge, but he commended Australia Post for continuing to test new products including financial products that could potentially result in higher commission rates for licensees.

“Like every other LPO we have to find ways to make ends meet and we have to introduce products other than Australia Post products,” he explains.

“I stock children’s books and some toys and greeting cards, anything that I can find that has a better margin than what Australia Post offers, however I will steer clear of anything that is close to the core Australia Post product.”

For Joe, one of the joys of running an LPO is being his own boss and of course, the people.

“I know virtually everyone who comes in, the majority by their first name. Being able to greet someone by their first name means I am able to offer a personal touch and that is something people respond to.

“When they do the surveys my office rates better than the corporate or state offices of Australia Post, which is a reflection of that personal touch. I get people coming here from other suburbs who like the fact they can come straight in to the counter and don’t have to queue up. “

Flinders Uni LPO, SA – Richard Arrowsmith

Communication is an area Australia Post can lift its game, believes Flinders Uni LPO owner Richard Arrowsmith.

The former IT professional, who owns the LPO on the Adelaide university’s campus, believes better and more timely communication would improve the partnership between Licensees and Australia Post and allow the organisation to be a stronger player as new competitors enter its traditional markets.

“When you look at why people get grumpy with Australia Post the root cause is communication,” he says. “It is irritating when you don’t have the information you need to do your job - you want to get it right but the information is often hard to get,” he adds.

Richard bought the Flinders Uni LPO three and a half years ago when he was looking to get out of the corporate world.



“It is five days a week, and I get to close the doors between Christmas and New Year and I don’t have to wear a suit or go to any meetings,” he says. “It is also ten minutes from home in a secure or closed environment of the campus.”

“At the same time there is a level of professional responsibility and challenge in thinking strategically about ways to improve the business.”

He starts work around 8.15 and leaves around 5.30pm. There are only 55 leased post office boxes and the mail takes around 15 minutes to sort.

“I don’t host mail contractors or card street address mail as no-one wants to pay for parking to come onto campus to pick up their parcels,” he says.

His biggest sellers are pre-paid parcel satchels, express post envelopes and registered post and he also offers phone recharges, dry cleaning, sells Metro cards (public transport cards) and Western Union transactions.

“Stamp sales and bill payments are declining significantly but we have one agency transaction which is a screening check application for students doing placements which is a godsend as we do around 1000 per year. We also do around 250 passports.”

Apart from being his own boss, Richard says the physical and health benefits of owning an LPO have been significant. “I lost five kilos when I first started because I am on the go all day,” he adds.

As for the future, he believes Australia Post still has a significant competitive advantage with its extensive post office network.

“If they want good service and end to end compliance with their scanning and that sort of thing they need to give Licensees a carrot and treat them well. At the same time Licensees need to understand it is a competitive environment and they are not going to get paid \$2 a pop for handling a parcel.”