

Tabled by Mr Fahour,  
Aust. Post  
19/11/13

**Senate Estimates Opening Statement**  
Ahmed Fahour, Australia Post MD & CEO  
19 November, 2013

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Thank you, Chair.

Yes, I appreciate the opportunity to make an opening statement.

When we announced plans to transform Australia Post, under the Future Ready program, in 2010 ... I made the point that the process of change would be difficult ... especially given the backdrop in Australia of the impact on the economy during ... the GFC ... and the changing environment that “old world” businesses are facing due to digital disruption.

At that time, I said our over-riding objective was very simple.

I said to our management team that ...

***“For me ... a happy workforce ... will lead to happy customers ... then a happy community ... and, at the end, a happy Shareholder.”***

This has been a mantra of **our** business.

So, today, I'd like to quickly describe some of our initiatives to create this “satisfaction loop” amongst our most important stakeholders.

Before doing so ... I'd just like to expand on my point earlier about the business backdrop Australia Post faced and how we have been managing this change through these business conditions.

I'm not just talking about the effect of the GFC ... which has seen subdued Retail conditions ... low level of business confidence ... and a reluctance to spend amongst consumers.

Our business has also felt the very real impact of digital disruption since 2008 ... as our customers increasingly shift to digital channels for communicating ... for shopping ... for making payments ... and accessing services.

Our 4,400 retail shops have been under the same pressure as many other private retailers – like video shops, book stores and newsagents.

As I am sure you know ... we are the biggest physical retailer by footprint in the country.

This is a great benefit but also a huge responsibility.

**Within that context ...** I want to talk about what we are doing for our important stakeholders – the first is our workforce ... not only including our employees but also our business partners.

**In terms of creating a happy workforce ...** We have invested heavily in programs aimed at developing the skills of our employees – and preparing them for the transformation that needs to occur in our business.

This has involved career-development training for our frontline workers ... as well as tailored leadership programs for our supervisors and managers.

More recently ... we have introduced the “Post People First” program ... which gives our existing employees priority when it comes to career development and job opportunities.

So, as we manage this significant change ... we’ve been intent on demonstrating to our employees that we value them.

... And we’ve been following through with **real** initiatives to protect jobs ... and open up new career opportunities.

As a result ... we’ve had rising levels of engagement and overwhelming employee support for our change program.

Our Employee Engagement score is up 9 percentage points over the past two years ... so it’s now reached a record-high 77.5%.

And earlier this year, when we held a ballot for our new Enterprise Agreement ... a resounding 75% of Award staff voted in favour of the Agreement.

**Looking after our workforce ... also means looking after our own stores and those of our business partners ... including licensees ... franchisees ... community agents ... and mail contractors.**

They are an important part of the larger Australia Post family.

Our nationwide network of 4,400 stores ... includes 2,560 outlets in rural Australia.

These rural stores are part of our new emerging business unit called Rural Post ... which has a very special role within our business.

We know that for many communities these stores are the last link for accessing a whole range of government and business services.

Two-thirds of our entire Retail network is operated by Licensees and Franchisees ... small business people ... who provide vital services – Australia-wide.

They offer postal services as one part of their business – along with a range of other merchandise and services that are completely unrelated to Australia Post.

For many of these businesses, Post services are, on average, around 10 to 30% of their activities.

One of the ways that we have supported these stores has been to shield them from the financial loss, which amounts to approximately \$600 million over the past 5 years in our 'Reserved Services' Letters business (which I will come back to) ... while ensuring they share in our growth opportunities – such as Trusted Services.

We have also added a range of trusted services on behalf of the Government ... like passports ... driver's licenses for the Department of Transport in WA ... Births, Deaths & Marriages certificates in NSW ... the "Working with Children" Card in Victoria ... and Tax File Numbers, nation-wide, on behalf of the Tax Office.

In recent years ... our licensees have also benefitted from increased fees for the delivery of parcels, over-the-counter (which was 29 cents per item ... but includes, this year, a further 22 cents with scan events) ... new commercial services, like travel insurance ... and higher commissions for processing bill payment and banking transactions.

We're absolutely committed to maintaining the viability of our LPO network.

They contribute a great deal to our strong brand – and our ability to offer a truly national service.

They are vital to us ... just as, I know, our sustainability is vital to them.

I want to acknowledge the official representatives – POAAL, with whom Australia Post has worked constructively with since the 1930's. POAAL represents the great majority of our Licensee's across Australia.

**Our goal of creating Happy Customers** is fundamental for any business operating in a competitive, commercial world (as we do).

Australia Post has a monopoly in name only – which loses money.

We face digital and real competition – locally and internationally.

To that end ... it's really the changing behaviour of our customers that has been the **impetus** for our business transformation.

If we don't change ... our customers will continue to shift to alternatives.

For the past three-and-a-half years ... we have been very focussed on changing our services to keep up with the way that Australians live and work today – and how they will **communicate, shop and transact**, well into the future.

Given Australians are shifting so rapidly to digital channels, we only have **one** choice if we want to stay relevant...

We simply **have to** overhaul our infrastructure and our capabilities.

I've spoken here, previously, about the significant investment that we're making in our most immediate customer growth opportunity – Parcels – to support the growth of Australian online shopping.

Specifically, I've talked about 24/7 Parcel Lockers for consumers ... our investment in StarTrack ... and the expansion of our parcel facilities in all mainland capitals.

We are also upgrading our Retail network to attract more customers ... extending our opening hours during peak periods ... refitting our stores ... and adding new trusted services.

In our Letters business – which is being severely impacted by the customer shift to digital communications – our response is even more dramatic.

The rise of email ... social networking sites ... and corporate websites means that 99% of all written correspondence is now online.

... We are left with less than 1%.

So, we're actually reinventing the traditional letterbox.

We are offering our customers – business, government and consumers, alike – the opportunity to **securely connect** with each other ... via our **Digital MailBox**.

This innovative service enables Australians to receive their bills and statements – in an electronic format ... on any Internet-enabled device ... 24/7 ... anywhere in the world.

It also enables users to easily make payments ... and maintain a secure, online archive for ALL of their bills and payments.

We're very pleased that Telstra is the latest major Australian corporation to go live on our Digital MailBox.

**I'll spare you the sales pitch ... but it's also a tremendous platform for the digital delivery of Government correspondence!**

**This brings me to the very important point about ensuring that our Shareholder is happy.**

This is a BIG challenge ... given that, **every single Australian** is effectively a shareholder in our business.

The test that we apply to our Shareholder performance is based on our ability to meet **both our commercial and community service** objectives – at a national level.

Our recently released Annual Results ... show that we again struck a careful balance between these two competing objectives.

Importantly ... we met or exceeded all of the CSO standards that relate to providing a reliable and accessible community service ...

- That includes delivering 95.5% of letters on-time or early ...
- and maintaining 4,429 Retail outlets, across Australia.

Commercially, it was a strong performance too.

Despite incurring a record loss of \$218 million in our Regulated business as Letter volumes continued shrinking ... We still made an **overall** profit (after-tax) of \$312 million.

This result was mainly due to the strong performance of our **Non-Regulated** Retail and Parcels businesses.

I should point out that during the financial year, we also paid \$244 million in Dividends to our Shareholder – the Commonwealth Government.

- So we are **not, in any way**, dependent on tax-payer resources.
- In fact ... we actually contribute to the Government's consolidated revenue.
- ... And we want to continue our strong history of returning Dividends to the Government ... so that money can be reinvested in other vital community services.

We were pleased with last year's results ... but we're also conscious that it's a **rear-vision view of what has already happened in our business.**

**When we look to the future ... it's a more concerning view.**

For a start ... the application of new accounting standards mean that the expense involved in maintaining our legacy Defined Benefit Superannuation Scheme will increase by another \$150 million in this financial year – and all future years.

As outlined in our annual report our Super expense will total approximately \$300 million going forward, which will come directly off our profit.

By comparison ... five years ago, we paid \$50 million, per annum.

On top of that ... we know that the customer shifts in our core markets are going to make it increasingly difficult to balance high standards of commercial **and** community service performance, into the future.

The most significant customer trend, for us, is the rapid shift away from letters, to digital communications ... as our customers increasingly use their phone, tablet or computer to communicate.

As a consequence of the growth in these online exchanges ... our letter volumes are now falling off a cliff.

This is a consistent trend **all over the world.**

In Australia ... our letter volumes peaked in 2008 – and we're already 22% below that peak.

That means Australian posties – today – are delivering a **billion** fewer letters than they were five years ago ... and \$500 million less revenue to Post!

Worryingly ... the latest data indicates that the rate of decline for letters is now accelerating.

Over the past 4 years ... volume decline has been about 4 to 5% ... but, in the past 6 months, the pace of that decline has doubled to be about 8 to 10% down on last year.

As we look out to 2020 ... unfortunately, the community's use of our Letters service will keep falling.

When letter volumes peaked back in 2008 ... we were delivering an average of 1.8 letters to each letterbox ... each day.

That has already fallen to 1.3 letters – on average – per day.

**By 2020** ... we will only be delivering, on average, 0.5 letters to the family letterbox, each day.

In other words ... the average Australian household will only be getting 2.5 letters – in their *physical* letterbox – **per week**.

The really big driver of this volume decline is the growing trend to online statements and payments ... as well as direct debits via BPAY.

This decline in letter volume is the single **biggest** issue we are grappling with – right now – as a business.

And that's why our strategy is very focussed on building new services for the Digital Economy.

While our parcels business is strong ... it has given us an opportunity to help our Posties replace letters with parcels ... and maintain meaningful delivery work.

However, over the coming 12-18 months ... the rapid decline in letter volumes and the associated financial losses, plus the rising cost of the legacy Defined Benefits scheme ... will start to overwhelm the profitable parts of our business – in Parcels and Retail.

Our approach to keeping Australia Post financially self-sustaining is multi-faceted.

- In Mail ... we are moving quickly to digital mail and carefully reducing our resources in the declining Letters area of our business.
- In Parcels ... we are investing in equipment and infrastructure to ensure we have the capacity to manage the growth in online shopping ...

- And we're also looking to expand internationally, so that we can capture logistics opportunities ... especially on imports from Asia, the USA and New Zealand.
- And, in Retail ... we are expanding our trusted service offering – by offering more financial ... commercial ... and government services.
  - On this last point, I would like to highlight this as being an especially important opportunity for Australia Post and for our 4,400 shops.
  - We have delivered trusted services for 200 years ... and government services over the last 30 years.
  - The Commission of Audit is a wonderful opportunity to consider whether Australia Post can play a more extensive role in the delivery of government services to the Australian community.

I want to assure this Committee that the Board and Management of Australia Post are very alert to the changes in customer and community behaviour that are happening in each of our core markets.

As we implement these **transformational** changes ...

- We are very conscious of our responsibility to maintain reliable, accessible services for the community ... and
- We are committed to protecting our employees and maintaining the viability of our licensees, franchisees and agents.

We are focussed on preserving our strong brand by providing vital services that connect all Australians in a modern ... digital world.

We want to enshrine our original purpose in Australian society ... as a trusted place where people can connect ... a vital service provider ... and a hub for literally thousands of Australian communities.

We look for your support in helping to keep Australia Post a vital and trusted business that is sustainable in the coming years.

Thank you, Senators. ... We welcome your questions.