



The American Chamber of Commerce in Australia

9 May 2014

Modernisation of Post

Ahmed Fahour

Managing Director & CEO

Australia Post

auspost.com.au

The American Chamber of Commerce in Australia (AMCHAM)

Friday 9 May 2014

Modernisation of Post

Business briefing by Australia Post Managing Director & CEO, Ahmed Fahour

It's a pleasure to have this chance to talk about our business – and the challenges and opportunities of digital disruption.

I'd like to start by acknowledging the traditional owners of the land that we are meeting on, the Gadigal people of the Eora nation and by paying my respects to their elders – past, present and future.

I spoke from this exact stage at the Hilton a bit over two years ago. And on that occasion I made the point that Australia's postal service was actually born, here on George Street, in 1809.

There was a very short news item published in the Sydney Gazette on 25 April, 1809 announcing the appointment of the colony's first PostMaster.

His name was Isaac Nichols – and he opened Australia's first post office about a kilometre up the road from here adjacent to Circular Quay.

From what we understand it was a pretty modest operation. Australia's first post office was nothing more than a simple room inside Nichols' George Street home. But it was a trusted place where the 10,000 British soldiers and convicts who were living here in 1809 could connect with their loved ones on the other side of the world.

So, Post was seen as a vital, trusted service that connected people. And – when you think about it – that's been the essence of the community service that we've offered Australians ever since.

In fact the growth of our postal service mirrors the growth of our nation. As our population has expanded, we've built new post offices and forged new mail paths to keep Australians connected.

By the 1820s, for example:

- The first posties were delivering on the streets of Sydney.
- There were regular pack-horse mail deliveries to Penrith Parramatta Liverpool and Bathurst.
- And sailing ships were carrying mail to the convicts and the early settlers of Hobart and Newcastle.

It's hard to fathom today that when our business was born horse and ship were the fastest forms of transportation and mail was the most efficient form of written communications.

Over 205 years, we've continually built new infrastructure and adopted new communications and transport technology: The train, the car, the aeroplane, the telegraph, the phone, the fax and the Internet. By absorbing these technologies we've always adapted our services to deliver faster and stay relevant to changing commercial behaviour and community expectations.

As a proud Australian and a history buff it's an honour to be entrusted to lead such an iconic Australian business. But, right now, that honour is accompanied by heavy responsibility. This is a brand that's loved by Australians. It has this rich history of serving the community over 205 years. It has unrivalled retail and delivery networks that underpin commerce and connection across Australia. But every aspect of our traditional "paper-based" activities is being "disrupted" by the community's shift to digital channels.

So the strategic challenge for Australia Post, today, is all about:

How do we take that brand essence of trust support for commerce connection and community service and make it vital to the lives of Australians and their businesses living in a 21st Century digital world? This is what I want to talk about today.

I'm of the view that our digitally-enabled economy – in Australia – really took hold in 2008. Of course, there was commercial activity on the Internet before that date. But we reached a tipping point in 2008 where Australians started to change their habits.

It was at that point that Australians started embracing the online world for shopping for making payments for accessing services and, of course, for communicating.

We've analysed the impact of digital disruption on a whole range of services that were traditionally delivered on paper. Things like newspaper circulation, cheque volumes, Yellow Pages directory advertising. And the decline trend is always the same. It starts at a slow pace and, then – after several years – it reaches a tipping-point where customer take-up of the digital alternative accelerates. When this occurs the physical, paper-based product enters a period of rapid free-fall decline.

If you look at the Australian experience in nearly all cases, 2008 was that tipping-point when many corporate and senders made the switch from using the physical product to a digital substitute.

And it's exactly the same trend for the community's use of our letters service. Letter volumes peaked in Australia in 2008. And they have been falling, quite dramatically, ever since. In fact, over the past 5 years our letter volumes have fallen by about 5% annually and over the last two years have accelerated to 8%. In total, we have seen a 30% reduction in delivered mail volume. That's a billion fewer letters today than in 2008 – even with more delivery points!

Interestingly, today, only less than 5% of our mail volume is citizens sending mail to each other. So, most Australian citizens are already communicating using digital means. The vast bulk of Australian letters are sent by businesses, corporations and government agencies, with most Street Posting Boxes empty. Our love for those SPBs is greater than our use of them!!

The only legitimate commercial response is to anticipate this shift in community behaviour to digital channels and adapt accordingly. Think of how digital technology has already transformed the music industry, book publishing, news organisations, the photographic industry (Kodak) and now retailing. The common theme in all of these examples is that the physical product was superseded by a digital service that offers consumers greater convenience efficiency and / or value.

At Australia Post we have a "front-row seat" of this digital disruption – because it affects every part of our business. I've already described how quickly the Australian community is shifting away from using our Letters service. Unfortunately we've also had steady declines in the number of customers who need to go into a Retail Shop due to the decline in our letters service. I've said it before and I'll say it again, while the internet is our letters business worst enemy, it is our parcels business best friend, as Australians have embraced online shopping it's presented us with this wonderful growth opportunity, as the delivery partner of eCommerce companies.

So, for us, digital disruption is both a great challenge, but a vast growth opportunity, too.

I was appointed to lead Australia Post in 2010 at a time when the community's shift to digital channels was really becoming entrenched behaviour. Our response was the "Future Ready" program.

It has involved altering every part of our business to manage the challenges and capture the opportunities of the Digital Era. So, we've changed our strategic focus. We've altered our investment profile so we're very focussed on building new digital and parcel capabilities. We're

purposefully building a new culture – focussed on the modern needs of our customers and the community.

And we're implementing wide-ranging operational changes too, as we make the shift from delivering small, thin letters to handling larger parcels. For example, 3 years ago our posties did not deliver parcels at all whereas today our posties are delivering a quarter of all of our parcels.

We have also streamlined our operations through automation and process improvement, which has delivered productivity improvements of 5 to 6%, per annum. We have 3,000 less people and run a very lean and efficient operation, handling 20 million items, 11 million addresses and 1 million customers in our shops every business day.

These changes are necessary to provide the contemporary services and solutions that Australian government, businesses and citizens need.

That means:

1. Providing delivery, supply chain and eCommerce solutions to businesses in an eCommerce world.
2. Enabling consumers to effectively manage their deliveries and other important jobs.
3. Helping government and large corporations deliver trusted services to their customers through their shops and online.

Each of these three opportunities leverages Australia Post's unrivalled ability to provide security reliability and convenience.

The first of these opportunities relates to solutions for businesses helping them get online – and grow online. We have been blessed with opportunity and have had 8 to 10% annual growth in our parcel volumes over the past 3 years completely driven by online shopping. More than 70% of all of the parcels that we handle, today, are generated by an online transaction. That's about \$3 billion of revenue generated from online shopping and over \$300 million of profit.

So, we are already reaping the benefits of the strategic investments that we've been making to improve how we deliver for Australians who are shopping online. We have invested heavily in customer convenience initiatives such as installing 24/7 Parcel Lockers at 162 locations so our customers can collect their online shopping when it suits them – day or night.

We're also expanding our parcel-sorting centres – in all mainland capitals so that we have the capacity to deliver efficiently for Australian businesses and consumers – into the future. We are in the midst of spending \$600m upgrading our parcel-sorting technology and doubling the capacity our parcel network to handle growth for the next 10 years. Melbourne and Sydney will come online later this year in preparation for Christmas.

We've also made the important strategic acquisition of StarTrack express. We acquired the remaining half of StarTrack from our former joint-venture partner, Qantas. Star Track is a perfect strategic fit for us. It boasts the nation's leading express and freight networks in the B2B market. And it has a well-earned reputation for providing outstanding customer service to Australian business.

So, over the past 18 months, we've been working very hard on integrating these two logistics businesses. You may have noticed that we are now using our new branding which features the familiar Australia Post "P" – in dark blue – together with our StarTrack logo. This logo symbolises that the combined business brings together the trust, reach and convenience of Australia Post with StarTrack's premium service standards. To create the largest logistics force in the country.

So we can now service both business and consumer markets with an unrivalled suite of delivery services – from simple consumer parcels right through to large-scale business freight and international logistics solutions.

We have also renamed 'Messenger Post Couriers' as 'StarTrack Couriers' and fully integrated the operations of these two businesses.

The combined Parcels and Express business has grown very well and since 2010 we have produced profit growth of 20%-per annum in this category.

This integrated unit is all working together with its new headquarters, here in Sydney, at our new building called StarTrack House – at Strawberry Hills. On Wednesday night – 7 May – we launched this new building with our customers. It was an exciting night that resonated in the history of this business.

We found out that StarTrack's original business name (Multigroup Distribution) was registered exactly 40 years earlier – on 7 May 1974. Then 10 years ago – on 7 May 2004 – it was renamed Star Track Express. So, 7 May 2014 was an auspicious date to re-launch as Blue Post StarTrack.

The integration of StarTrack means that we now have the leading logistics and eCommerce proposition in the market for both Australian businesses and consumers. There is no other logistics business that can match our network reach capabilities and products, our service standards or our eCommerce solutions for the integration of delivery and payments capabilities on business websites.

The other major opportunity for us as we make the shift into a Digital Economy is in providing trusted services that enable consumers to handle life's everyday jobs. Australians are accustomed to us acting as a trusted intermediary – via our outlets. We have 4,400 postal outlets across Australia. We handle services on behalf of over 750 businesses and organisations – including bill payments agency-based banking transactions and identity checks.

It's an important part of our core business that we're expanding continually by adding new types of Trusted Services including new Financial Services, Payments, Travel Services, Foreign Exchange, Insurance, Superannuation and Government Services.

By continually adding more services in this way we're giving Australians new reasons to visit us – and this has offset some of the customer declines due to letter volume decline. On that point it's interesting to note that a quarter of our revenue in Retail financial services today comes from products and services that we've only created in the last 4 years. For an organisation of our size, a quarter of revenue is a remarkable change. For a business that's 205 years old I hope that indicates just how rapidly we are changing and handling the customer decline in the usage of letters.

Today, I am pleased to announce that as part of our service offering that Australia Post will – from this Christmas – extend its weekend trading to all-year round. This means we will:

1. Open our corporate nationwide Post Office network for Saturday trading country-wide.
2. Deliver parcels and package to households on Saturdays.
3. Extend our highly successful Express Post and Express Letters guaranteed delivery service to six days a week by adding a Saturday delivery option.

We will begin these service extensions later this year in preparation for Christmas and this will become a permanent feature thereafter.

Customer demand has shifted to these services. So, we will extend and grow our business to meet this customer demand and shift our resources from our declining letters service to our growing parcels, express and retail services.

But we also recognise that in today's world we have to offer Australians access to those same Services in a trusted convenient digital format. So we're not only expanding our range of Trusted physical Services. We're also building digital infrastructure that replicates the convenience, privacy, control and trust that we've always offered Australian consumers, via our physical networks.

I've spoken previously about our Digital MailBox which is a free online portal, available now, for any Australian. It's open 7 days a week, 24 hours a day, to receive your mail and pay your bills!

It's a secure site where you can receive and store your important documents – like bills – and make payments. It's effectively your letterbox, your filing cabinet and your payments card, but seamlessly combined in a secure online environment. And it gives the user complete control over who they communicate and transact with.

In the coming months we will announce a major bank, a major retailer, a major airline and many others that are joining the existing 44 mail senders on our Digital MailBox.

In essence, we are building digital infrastructure that gives Australians secure access to a broader range of online services that includes service from Australia Post, like deliveries, but also from governments and other corporations. This is a long-term investment that will play out over the next 5 to 10 years.

What this means for consumers is the ability to truly control your privacy, online; manage your deliveries, online; and securely handle more of those everyday tasks, online.

In this way, we are going to empower Australians with secure, easy access to a “supermarket of services” both in the real world, via our wonderful postal outlets, as well as the digital world via your MyPost Digital MailBox.

But while we are busy building that future and modernising Post we also have to carefully manage the on-going decline of our Letters business. The unfortunate reality is that our Regulated Letters business is now bleeding money – as the community shifts away from letters and towards digital forms of communication. We lost \$218 million in providing the Letters service last financial year.

This loss has been growing – every year – since our letter volumes started declining five years ago. In this current financial year we are now projecting a \$350 million loss in providing the regulated Letters business. Up until this year we've been able to offset these ballooning losses in Letters with profit growth from Parcels and Retail trusted services. But we have now reached a point where that's no longer possible.

Our projections show that with mail volume declines now accelerating to between 8 and 11% per annum over the coming years, our Letters business, under current momentum, will lose over \$1 billion annually in the coming years. We do not have the ability to absorb this.

Without change and reform, Australia Post will not be able to survive and continue to provide the trusted services that we have provided for 205 years, without government funding of the Community Service Obligation.

Given the community's dwindling use of our letters service, without fundamental change it's becoming impossible for us to meet both our Commercial obligation and our current Community Service Obligation targets. Since Corporatisation, we have not taken a single dollar of government funding, rather we have provided over \$4bn in dividends to the government.

Over the past 5 years our letter volume, per delivery point, has fallen by 30%. Our forecasts, based on customer/sender information, show that in the next five years there will be a further 40 to 50% reduction in letter volumes. So, this implies by 2020 we will only be delivering about 25% of the letter volume that we were delivering in 2008.

Furthermore, by 2025 – only 10 years from now – the letters business in Australia will have completely evaporated and accumulated billions of dollars of losses. We want to be clear we can no longer offset our losses in letters with the profits we earn in the commercial parts of the company. Therefore, simply running our business, as is ... is not an option.

Our strategy to modernise Post is clear and absolutely necessary.

We believe we need to change today, while we are strong, so that this transition is done in an orderly way – and so we can protect the community’s equity in our business. If we wait another 12 months it might be too late as the large losses from letters will overwhelm the organisation.

Already many of our Post Offices are under huge pressure and they can’t sustain this volume collapse in business and payments. Already many of our many employees are seeing big drops in the amount of activity. They are working hard but there is less business so it’s harder to feed so many mouths.

Every year at Post we conduct extensive customer surveys, interviews and focus groups. We discuss our postal and logistics services with consumers, small business and corporates. We also ask users (senders of mail and parcels) and receivers (citizens) a range of questions about our products and services.

The customer feedback is extremely clear to us:

1. Customers highly value Australia Post and see us as a vital community asset, especially our Post Offices.
2. They want us to remain relevant today and tomorrow in both our stores and in our parcels and logistics offering.
3. They understand that letters are declining due to technology like email, social network sites and from how business and government is choosing to communicate with them.
4. They accept that letter frequency will decline as they receive less mail each day and it is only two-thirds of letter boxes that are getting a letter every day, but they would prefer to receive letters less than 5 days a week rather than paying an annual fixed letterbox fee.
5. While letters can come 2 or 3 days a week they would like to see more weekend trading and greater access to parcels and trusted services in store and online like payments, travel services, identity services, postage, etc. We want you to have access to your stores on Saturday’s.
6. Finally, it is also clear that while the nation accepts we need to change our services, it expects that Post would look after:
 - elderly, disadvantaged members of the community.
 - citizens and customers in rural Australia.
 - support maintaining the many Post Offices.
 - continue to support small businesses across the country, and
 - finally to look after our wonderful employees, like Posties and Post Office staff.

We at Post listen to our customers and the community at large. We are owned by the people of Australia and our job is to manage this transition with a mindful eye on our important stakeholders, including our shareholder, the Federal Government.

This is why we are building and creating the Post Office of the future, as I outlined earlier, but we are taking important initiatives to look after our important stakeholders.

For Australian business we have introduced a 2nd speed letter service which has a slower frequency of delivery, but a cheaper price than the 5-day-a-week service, so they can choose the service and price that suits their needs. We will make this offer to citizens next year as well – which allows consumers to pick a slower speed stamp at a lower price than a 5-day-a-week stamp. Like we used to have in the past, and akin to the UK & USA.

For the elderly, the unemployed and the disadvantaged we have just introduced a concession stamp and left it at 60 cents until 2017 to insulate them from the recent 10 cent basic postage rate increase.

We will not walk away from our Community Obligations, while we are dealing with our commercial issues.

Next month we will also launch our new investment program under the banner of "Rural Post" which will outline a renewed commitment and support to our rural communities.

Finally, for our employees, we have launched initiatives to support them in transitioning from letters only to delivering parcels, moving into growth areas of our business and providing training and re-skilling through our Post People First program.

We are absolutely committed to maintaining an accessible and reliable postal service for all Australians. That means maintaining our unrivalled "last-mile delivery" capability to every part of the nation. It also means maintaining a comprehensive Retail footprint of 4,000-plus stores offering trusted services that help Australians to connect with business and government.

I'm sure many of the people involved, here, at the American Chamber of Commerce are familiar with the financial plight of the world's largest postal service the US Postal Service.

I am good friends with Pat Donahoe the US PostMaster General. I have enormous respect for him – and his management team. They are incredibly professional and they run a tight ship. But their efforts to reform the United States' letters service and put it on a sustainable footing have been consistently blocked by the US Congress.

As a result, over the past 3 years, USPS has lost \$26 billion and shed over 200,000 jobs. Furthermore USPS have recently announced that it will slash a further 100,000 jobs by 2017 (i.e. 20% of their workforce). They are well and truly past the tipping point.

In the past 3 years USPS's total losses have been more than Australia's annual Defence budget. And it's more than our Commonwealth Government will spend on Hospitals and Schools – combined – this year.

In addition to having postal reform blocked, USPS has not been able to grow in Parcels and eCommerce – because of successful lobbying by FedEx and UPS.

Of course our Board and our Management team are determined to ensure that our business does not slip into these kind of large-scale losses. We are united in our determination to continue the job of transforming Australia Post by reforming our letters service, building new digital infrastructure and services, investing in our parcels network to support the growth of eCommerce. And maintaining a nationwide Retail network that provides a growing range of trusted services on behalf of business and government.

It goes without saying that we will manage all of these changes carefully in a way that protects our people and our business partners, such as our Licensees. We want to continue to play our role in powering the growth of ecommerce in Australia – by providing reliable parcel delivery to every person in the nation.

We know that our nationwide Retail and Delivery networks are a strategic advantage – not a cost overhead. So we're absolutely committed to maintaining our presence in communities everywhere.

With the community's support and the Government's permission we can reform our Letters service and get it back to a sustainable position.

Once we do that then Australia Post will cement its role as a hub of commercial and social connection – for all Australians. I'm sure my 'career ancestor' Isaac Nichols, would approve. 205 years ago, just up here on George Street, he built the foundations of this business.

Today, we're staying true to the original purpose of Sydney's first PostMaster by providing trusted services that are vital to connecting Australians and their businesses but, here and now in the Digital Economy. Thank you.

ENDS