

When Did a \$312 Million Profit Become a Crisis?

Members have been alarmed by recent media reports and announcements by management.

The CEO of Australia Post is trying to create a sense of crisis so he can increase the costs to the community and business while cutting services.

In order to get a change to the Community Service Obligations, Australia Post CEO, Ahmed Fahour is telling a tale that Australia Post is in financial crisis and that Australians only want their mail delivered two or three times a week.

Neither of these two claims are true.

Australia Post is not in crisis and the demand for mail is not going to go away any time soon.

As part of their scare campaign there was a leak to the media over the Queen's Birthday weekend the plans to cut 900 jobs this year 'because Aussie Post is going broke'. They also released a Boston Consulting Report on June 24 to justify their new Corporate Plan.

Mr Fahour is trying to suggest that mail volumes are dropping rapidly (12% a year) and that Australia Post will lose billions of dollars over the coming years.

We know that the volume decline in mail is around 4% per year but that this is made up for by the increase in parcels, and other initiatives.

The union is lobbying politicians to say they need to look at the audited Australia Post Annual Reports not media 'spin'. They need to talk to the people working in the industry including the major mail users, mailing-houses and the unions representing postal workers. We need our parliamentary representatives to defend this vital infrastructure and OUR JOBS.

The Australia Post Corporate Plan 2013/14 – 2016/17 proposes changes to the Community Service Obligations. We believe this should be rejected or at least be subject to a Senate Inquiry and a Round Table of all stake-holders before it is given any credence or support.

Union members need to defend their jobs and to lobby their politicians, customers, family, friends and communities. Members should be respond to media comment that it is clearly wrong. It is important to do this in a way that will not open you to disciplinary charges - sometimes it is better to do this anonymously or to use a friend or family member as a spokesperson.

The following information is provided to assist you.

The Truth About Australia Post's Financial Position

In Australia Post's Annual Report for 2012/13 a \$312 million profit was declared. Total revenue at Australia Post has increased from \$5 billion in 2009 to \$5.9 billion in 2013.

The Annual Report for 2013/14 is not expected to show this level of profit. This is not because Australia Post is in crisis but rather because of the very large expenditures being made by management in upgrading the Parcels section of Australia Post.

In November 2012, Australia Post purchased the second half of StarTrack (reported to be the largest freight company in Australia) for \$412 million. Australia Post has also doubled the size of the Melbourne Parcel Facility, and fully automated the processing by investing in cross-belt sorting technology. This cost \$95 million for the Melbourne site alone. A similar process has been undertaken in Sydney at a similar cost.

This is an upgrade with considerable upfront cost; planning for at least 10 years in the future. Any true examination of Australia Post's financial situation needs to take this into account.

Excessive Executive Salaries

There is also a good deal of unnecessary financial expenditure at the senior management levels of Australia Post. The chief executives are in receipt of over \$11 million in remuneration including the CEO's pay of \$4.75 million per year. (In contrast, the US Postmaster General was paid \$550,000 in 2013.)

There have been at least a dozen re-structures since Mr Fahour took over at Australia Post in February 2010. Hundreds of millions of dollars have been spent on redundancies for managers who have been replaced by managers who in turn have been 'let go'. Management and supervisory salaries have greatly increased during Mr Fahour's tenure even though job security has lessened.

One Network

Australia Post is basically a sound business. All parts of the Australia Post network are mutually dependent on each other. It does not make sense to separate the parcels and letters business because transport and delivery and retail necessarily handle both types of mail items. The trucks and vans move parcels and letters, the posties deliver parcels and letters, the retail stores sell stamps and envelopes & containers for both, and both letters and parcels are collected from the retail stores.

The Shift Of The Australia Post Parcels, Transport And Express Business To Startrack

It makes no business sense whatsoever to re-badge parcels, transport, gateway and express facilities and assets under a Blue P StarTrack logo, as Ahmed Fahour has decided to do.

Australia Post is a 205 year old brand and the second most trusted brand in Australia. Why change to a brand that can't even come close in the minds of Australian business and the community.

One would have to be deeply suspicious that such move is designed to shift public assets (with a view to privatisation) into a wholly owned subsidiary that is not open to public scrutiny, and which the public will not realise are community-owned assets.

The Decline In Letters – The Real Story

There is an obvious decline in letter volumes. This is, however, a generational decline. It is not uniform throughout the community, and it is definitely not happening at the rate that Australia Post claims it is.

Simple volumes are, however, not the only issue to be considered. The price charged for mail items, the number of people working within the postal service and the number of letterboxes to which they are delivered should also be considered.

Note that the decline is 700 million (not a billion mail items) over 10 years, and that a much higher proportion are now more profitable and larger items.

At 30 June 2013, there were still 4.6 BILLION mail items delivered that year, with a higher proportion of these being larger and more profitable than a small letter. The UK postal service has released research that indicates the rate of decline is slowing down. German and Swiss mail volumes have in fact stabilised and are starting to grow.

Many people still prefer the convenience, certainty, privacy and security of mail. Internet coverage is not universal and that the NBN roll-out is some time away from completion. There are many people who are not computer literate, or do not have sufficient funds to purchase and maintain computers, email accounts, scanners and printers.

While precise figures on recent mail volumes are difficult to obtain, the union does receive monthly Business Performance Reports from Australia Post. The latest figures for Melbourne metro shows a 4% decline overall in volumes. It also shows that that 21% more small parcels had been delivered year to date than last year and that Unaddressed mail had also grown by 9% for Standard and 17% for Large. Australia Post material often and misleadingly only refers to addressed mail under 125 grams when talking about declines.

Job Losses

Job losses would be large if this three day a week delivery policy was implemented. Three day a week delivery would mean a loss of perhaps 40% of processing and delivery work at Australia Post. As well as perhaps up to 10,000 corporate staff, contractors and licensees, staff in the mailing houses and the paper, envelope and printing businesses would also be affected directly, with a general knock on affect in the economy.

Mail volumes from Australia Post Annual Reports At 30 June

1990 – 4 billion	1998 – 4.4 billion	2006 – 5.4 billion
1991 – 4.1 billion	1999 – 4.5 billion	2007 – 5.5 billion
1992 – 4.1 billion	2000 – 4.8 billion	2008 – 5.6 billion
1993 – 4.2 billion	2001 – 5.2 billion	2009 – 5.3 billion
1994 – 4.3 billion	2002 – 4.9 billion	2010 – 5.1 billion
1995 – 3.8 billion	2003 – 5.3 billion	2011 – 5 billion
1996 – 4 billion	2004 – 5.3 billion	2012 – 4.8 billion
1997 – 4.2 billion	2005 – 5.4 billion	2013 – 4.6 billion

Decline in Employees – Not Just Mail

This decline in mail has been matched with a steady decline in the number of postal workers working in the postal service.

Over 5 years this has been a decline of over 10%.

Number of Employees

From Australia Post Annual Reports

30 June	Full-time employees	Part-time employees	TOTAL
2009	25,107	10,196	35,303
2010	24,172	10,086	34,258
2011	23,369	10,103	33,472
2012	23,221	9,810	33,031
2013	23,665	9,067	32,732
31 March			
2014*	23,793	8,645	32,438

**Figures provided by AP to the CWU on a quarterly basis*

On 11 June 2014 Ahmed Fahour announced that there would be a further 900 job cuts at Australia Post.

The Community Service Obligations

"Two or three day a week" delivery would be a great impost on business and the community, and it would be a great drag on productivity.

"Two or three day a week delivery" does not make economic sense for Australia. The underlying infrastructure by and large would have to remain, as some items have to be delivered every day. The task in a postal administration is to have the infrastructure fully utilised to maximise profitability. Christmas volumes for example are the time of greatest profitability for Australia Post.

There is a compelling argument that it is less efficient to run mail at differential speeds than to 'clear the floor' of mail every day. You have to separate the two types, store the delayed mail, usually double handle it, and spend more time and money on planning. This will encourage people to stop sending mail because it is not timely. Inevitably customers get upset by the failures in delivery that ensue when the priority mail gets over-looked.

Ahmed Fahour is in the process of making it increasingly difficult for letters to maintain its share of the message market.

The prices have been increased from 55 to 60 cents in 2010 and again from 60 to 70 cents in 2014 (This is a 27% increase), but the speed of delivery has been reduced.

Businesses have also had to comply with getting new envelopes printed before they can access the delivery speeds they have been used to.

Two Tier Mail Service – Priority And Regular

On June 2, 2014 without consultation with the union or major mailing-houses, management changed delivery speeds for bulk mailers. Regular delivery (1-2 days) was re-named PRIORITY mail and a new REGULAR mail standard was implemented which ranges from 2/3 days to 11/12 days plus (for Print Post.) This is all unnecessary and very poor service.

Why Boston Consulting Group (BCG) Has It Wrong

• Letter Decline

Australia Post expects letter volumes will decline by 11.4% per annum to 2019/20. BCG go along with an 8 - 11% decline. We believe mail will decline by about 4% per annum. Refer: Role of Mail 2020 - International Post Corporation 2011. *The outlook for UK mail volumes to 2023 – PricewaterhouseCoopers.*

We do not believe that Australia Post and BCG have accounted properly for the slow-down from the GFC effect, and the rebound once economies grow. These reports also estimate e-substitution will slow once the base-line of non-digital and reluctant digital users is reached. We believe that Australia Post is investing too much confidence that their Digital Mail-box will become a substitute for physical mail.

• The Parcel Business Can and Will Continue To Subsidise Letters

The existing vast infrastructure has been developed on the back of the letters business. It is impossible to separate the two streams. Posties now deliver all small parcels under 2kg which comprise 70% of parcels delivered by Australia Post.

The NAB Online Retail Sales index shows that in the year to April 2014 online sales hit \$15.25 billion. That is still just 6.6% of all retail sales. Obviously there is much more for online retailing to grow. Australia Post has maintained its market share of Business to Consumer parcel market in the last 12 months despite challenges.

• Fixed-costs / no further productivity improvements

BCG believes that there are limited opportunities to achieve further cost savings in the postal service. There are several productivity improvements ahead.

- The increase in automated sequencing of mail
- Motor-bikes with larger carrying capacity
- The automation of parcel sorting (the sort rate will be increased by 3 times per hour with 25% less staff hours)
- Reduced primary sorting of parcels at Parcel Distribution Centres.
- Loose-loading of parcels into trucks will result in transport cost savings of over 30%.
- The Retail side of the business has a proven track record of innovative new products and services.
- Australia Post could dramatically down-size non-operational management positions substantially for cost savings.

• Current model of letter delivery exceeds the demands of most customers

Australia Post and BCG rely on an unscientific survey of 8,000 retail customers responding to a 'survey' that gave them the choice of 3 day a week delivery or paying \$25 a year to receive their mail.

We would draw attention to the following survey which found:

- 98% of people open mail addressed to them (99% in Regional Australia).
- 84% of these open their mail on the day it is received.
- 60% of those store their mail for future reference. (Australia Post Consumer Survey Mail Findings Jan 2013)

Furthermore BCG cross-country analysis does not take into account Australia Post's unique features. Australia is a huge continent with a very small population. Our postal service has some unique advantages – no competition or privatisation, and our mode of delivery (primarily motor-bike and van) has significant productivity advantages. Australia Post has been recognised as the best postal service in the world and we want to keep it that way.