



May 5, 2014

Costs of Doing Business: Retail Trade Industry Study
Productivity Commission
GPO Box 1428
Canberra City ACT 2601

Dear Madam / Sir,

Thank you for inviting us to make a submission.

One of the fastest growing costs for retail businesses in Australia, especially small – medium retail business is freight. This includes freight costs from supplier to the retailer and from the retailer to the consumer, where for example goods are shipped to the consumer.

The key benchmark for setting freight rates in Australia, is a 100% Australian Government owned entity – Australia Post.

Our submission is that the actions of Australia Post in recent years has detrimentally impacted the businesses and consumers it provides services for, and in particular small / medium business. Australia Post is making Australian businesses more uncompetitive, by its exorbitant price increases that are also leading up prices with their private sector competitors.

The Productivity Commission you should look at very closely is that Australia Post has increased the prices of Parcel Post satchels (500g and 3kg) by **55%** since 2009. They have also increased the prices of over the counter parcels and Express Post satchels, by a similar amount.

Parcels and satchels are the way Australian companies send goods to other companies and to consumers. They either use Australia Post or Couriers etc or their own fleet (if they have a fleet).

We have a copy of the Australia Post price increase media releases since 2009, to prove these price increases. If you need them, please let us know. They only retain the last price increase accessible on their website, so you need to print them off each time.

For many years Australia Post has provided a competitive service which was less expensive than Courier Companies, and also provided a wider geographic coverage. **Since 2011/ 2012, following the heavy Australia Post price increases, Courier Companies are now much cheaper than Australia Post.** We will provide examples later in this response.

Australia Post in their media releases and other commentary over the past 4 years has blamed the following for the price increases:

1. More delivery locations across Australia (i.e.: new suburbs etc)
2. The increase in Diesel prices
3. The declining letter volume, resulting in need to make up revenue elsewhere
4. Online Tracking ability on parcels and satchels, (i.e. new improved service)

While there may be more suburbs in new urban areas, we do not believe this is a major factor. Diesel prices since 2009 and 2014 are very similar in cents per litre. Letter volumes may indeed be declining, but this does not justify the huge increases on Australian consumers and businesses. The tracking ability is Australia Post late entrance to the market; Couriers have been offering this for years.

As you know, the Australian Bureau of Statistics CPI increase, given the Australian and Global economy in the past 4 years has been approximately 11.07% since 2009. **Therefore Australia Post has increased prices five times the CPI.**

What impact has this had on Australian Businesses and Consumers?

Australia Post are losing parcel business to Courier Companies, who are much cheaper and offer a better service (albeit to major cities, major regional and rural areas, and not every remote rural location).

The impact has been worse actually. With such a rapid increase in Australia Post parcels and satchels pricing, **Australia Post is price leading up the market** and allowing the Courier Companies to push their prices up more than they maybe would have. This also has overall competitive issues for Australian versus overseas businesses.

At an Online Retail conference in Sydney in November 2013, and a Director from Kogan Pty Ltd presented. He can ship a small package (Rubik Cube) from their warehouse in Shenzhen China (including packing, labour, air shipping and delivery) to **any residential address** in Australia for \$A1.40, whereas it costs him \$A7.50 for sending the same item (including packing and postage, but excluding labour) across the street or across the country inside Australia.

We realise international postal agreements will be a factor, but you can understand the quantum of the problem facing Australian businesses and consumers with the uncompetitive landscape Australia Post is providing and contributing to.

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Australia Post introduced new services in late 2011 called *Click & Send* in partnership with Ebay.

<http://auspost.com.au/parcels-mail/click-and-send.html>

These 500g and 3kg satchels were released into the market at competitive prices, but soon after in 2012 Australia Post increased the price of the 500g product by a whopping \$1 (around 15%) and by a lesser yet substantial amount in the first half of 2013. The Australia Post increases were so aggressive and uncompetitive, that in October 2013, following complaints, they decreased the price by 20c to \$6.95. In April 2014, they increased the price again by 20c. This product is targeted at small retail business and are purchased **online** (customer or business prints consignment details and pays with credit card or Paypal).

This *Click & Send* product has tracking, but **ONLY** if you take it to an Australia Post outlet, queue up and have it scanned. This process could involve a queue at the Post Office for anything up to 25 minutes, depending if you are unlucky enough to get a bill payment or passport application in front of you.

The business can lodge the Click & Send satchel into a red Australia Post mailbox, but they don't get lodgement proof or lodgement tracking. They can also pay an extra service fee and Australia Post will collect from their premises.

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So let's look at how uncompetitive Australia Post has become and how this will be hurting Australian businesses and consumers.

Please see attached spreadsheet (Attachment A)

We have compared the pricing of Satchels and also cartons (22 kilo limit at Australia Post, and 25kg limit with couriers).

Couriers are up to 22.5% cheaper in the 500 gram market with a better 1 kilo product

Couriers are up to 25.7% cheaper in the 3 kilo market

Couriers are up to 30.8% cheaper in the 5 kilo market

Couriers are up to 47% cheaper in the 22 kilo market with a better 25 kilo product and with tracking

As you can see couriers, who offer a better service, are significantly cheaper than Australia Post. The price delta is simply too great, and the couriers offer a better service in that they collect from the consumer / business premises, whereas with Australia Post you have to line up and lodge at a Post Office or red street post box (and lose lodgement tracking)

Australia Post may offer better contracted rates with high volume business customers, as the Couriers would as well.

Whichever way you look at it, Australia Post have been irresponsible with their close to 60% increases in parcel and satchel rates since 2009. Worse, they are making Australia uncompetitive, contributing to excessive inflation and impacting on the disposable income of consumers and the profits of businesses. Their pricing actions are also leading up the prices of their private sector competitors. We would argue that they are also forcing small businesses who sell products of a lower shipping value, out of business.

Thank you for the opportunity to submit to the Productivity Commission.

We would be happy to appear before the Productivity Commission, should you deem that necessary.

Mark Skipper FAICD, CPL
Chairman

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