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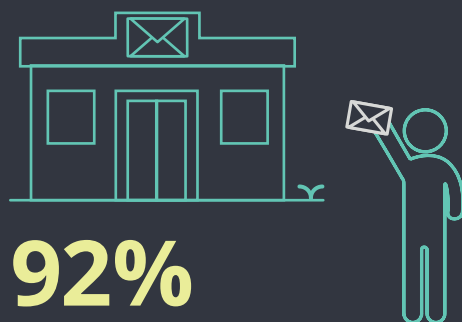
The importance of Australia Post's retail network

Retail presence



58%

of retail post offices located in regional and remote Australia compared to only 20-30% of businesses in most other industries



92%

of Australians have visited a post office in the past six months, with an average of 10 visits per person in that six-month period

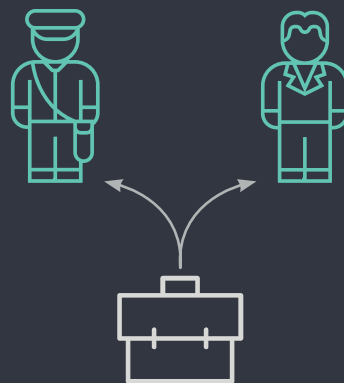
Economic contribution



Australia Post has a total economic contribution of

\$6bn

Of this, \$2.8bn is value added to other industries



1 job

at Australia Post supports another job elsewhere in other businesses and industries around Australia

Social contribution



75%

of Australians think that post offices are a trusted and valued part of their community



Access to core services across the country is valued by customers at

\$185m

per year in addition to the current prices paid for Australia Post products and services

Executive summary

There are widespread perceptions that postal services are no longer relevant in an increasingly digital age. In Australia, addressed letter volumes have declined from 3.6 billion deliveries in 2013 (Australia Post, 2014) to 2.6 billion in 2017 (Australia Post, 2017). The prevalence of online communications and transactions have transformed the consumer and business landscape in which Australia Post operates. Despite the important historical role played by Australia Post across the nation, these changes have raised questions about the organisation's role in today's economy and society.

But Australia Post continues to make important economic and social contributions across Australia, and this value is about more than replacing letter delivery with parcel delivery as e-commerce retail grows. In this report, Deloitte Access Economics explores the significance of Australia Post by analysing its value to Australian communities, businesses and individuals. The framework for our analysis is centred around four key pillars – economic, business, consumer and social value – and data was gathered from a range of sources, including a nationally representative survey of over 2,000 Australians, stakeholder consultations and earlier research.

The post office provides a range of core services to the Australian population – including not only mail and delivery services, but also various government, financial and other ancillary services. With almost 4,400 post offices around Australia, Australia Post oversees the country's largest retail network, representing a significant piece of national infrastructure for service delivery. **92% of Australians have visited a post office in the past six months, with an average of 10 visits per person in that six month period.**

Australia Post's direct economic contribution in FY2017 was \$3.2 billion in value added (contribution to GDP from Australia Post's operations). Every \$1 generated in value added creates another \$0.86 in other industries, for a total indirect contribution of \$2.8 billion through flow-on economic activity. The total economic contribution of almost \$6 billion was larger than that of some other significant Australian industries, such as broadcasting (\$5.8 billion) and professional, computer and electronic manufacturing (\$5.1 billion).

This economic activity supports employment across Australia: in FY2017, Australia Post directly employed 26,500 full-time equivalent (FTE) workers. **For every FTE created by Australia Post, another FTE was created elsewhere in other businesses and industries around Australia**, for a total of more than 51,000 FTEs supported by Australia Post's operations. Within this contribution by Australia Post overall, the post office network (Australia Post's retail stores) supports even more employment in relative terms, with every FTE in the post office network creating almost 2 FTEs in other sectors.

Australia Post's operations facilitate business growth more broadly through the provision of core business services such as e-commerce delivery, direct marketing and trusted services such as financial transactions and identity checks. Post offices facilitate more than \$100 billion in payments and banking transactions per year, and Australia Post has developed a digital identity solution which could lead to \$11 billion in benefits for Australian businesses, consumers and governments through reduced service costs, lower fraud and improved customer experience.

Key terminology used in this report

"Australia Post" refers to the enterprise as a whole, encompassing postal services including mail and parcel delivery and collection; facilitated services on behalf of financial institutions, businesses and government agencies; digital services provided through Australia Post's website; and Australia Post's head office. The overall enterprise includes services delivered through the post office network as well as those provided online and through the broader operations of the organisation.

The "post office network" is comprised of the post office retail outlets that operate under the Australia Post brand, including both corporate stores and Licensed Post Offices (LPOs) operated by licensees. It includes all services offered by post offices, such as over-the-counter services, PO boxes and retail products. However, it does not include in-conjunction businesses which may operate alongside post office services at some LPOs.



Enabling e-commerce is particularly important for small businesses, who can access new customers via Australia Post's national delivery network: 80% of Australians see no convenient alternative for receiving parcels other than through Australia Post. Increasing integration with global markets, particularly in the Asia-Pacific region, will provide new opportunities. Retail e-commerce sales in Australia are forecast to increase from \$14 billion in 2017 to \$22 billion in 2022 (Statista, 2018).

For many Australians, Australia Post and its retail network are synonymous; people use the network for delivery, financial and other services. **The consumer value of Australia Post's services exceeded the price paid for these services by \$2.1 billion in FY2017.** This was comprised of almost \$1.1 billion in consumer surplus from letter delivery (by individual and business consumers), \$230 million from parcel delivery and \$840 million from other paid services provided by the post office.

At the level of individual services and transactions, the benefit received by Australian consumers (as measured by willingness to pay for the service) averages between 20-45% of the price charged at the post office, depending on the service used – postal services such as sending mail have the highest consumer surplus. Services provided free of charge at the post office, such as collecting a delivery or making a cash deposit or withdrawal, have an average consumer surplus of \$2-3 per transaction.

Post office services are particularly valued by Australians in regional and remote areas and those without internet access at home, but usage across age brackets is fairly consistent. The importance of Australia Post to Australia's regional and remote communities is underscored by its significant physical presence in these communities, with 58% of retail post offices located in regional and remote Australia. By comparison, only 20-30% of businesses in most other industries – such as transport, utilities, health care and education – are located in regional and remote areas.

There is also a strong positive association with Australia Post's brand: almost three-quarters of Australians think that Australia Post is a core part of Australia's national identity and has significant heritage value, and that post offices are a trusted part of their community. Australians' willingness to pay for the broader social benefits of Australia Post's existence, such as fair access to core services across the country, is around \$185 million per year in addition to the current prices they pay for Australia Post's products and services.

It is clear that Australia Post still plays an important role in Australian communities today. While broader trends such as technological change and globalisation are affecting the broader economic and social environment, Australia Post's core services and the post office network will continue to facilitate business activity, connect local communities and provide access to services to consumers who do not have alternative options. These broader changes will create opportunities for Australia Post to adapt its services to deliver new value in achieving its commercial and community objectives in the future.



1 Australia Post's role is evolving in the digital age

Australia Post has historically played an important role across the nation, and continues to provide core services to Australian communities, businesses and individuals. In a changing digital and global landscape, the role of Australia Post and the way it meets its social and economic objectives are also changing.

1.1 Historical and current significance of Australia Post

Australia Post has been a part of Australian life for over 200 years. From the appointment of the first postmaster in 1809 and the beginning of letter deliveries in 1828, postal services grew throughout the Australian colonies as they were established, creating a national network of post offices and delivery services. Australia Post now oversees the country's largest retail network, with 4,379 post offices located across the country as at the end of FY2017, including 2,546 in rural and remote areas (Australia Post, 2017).

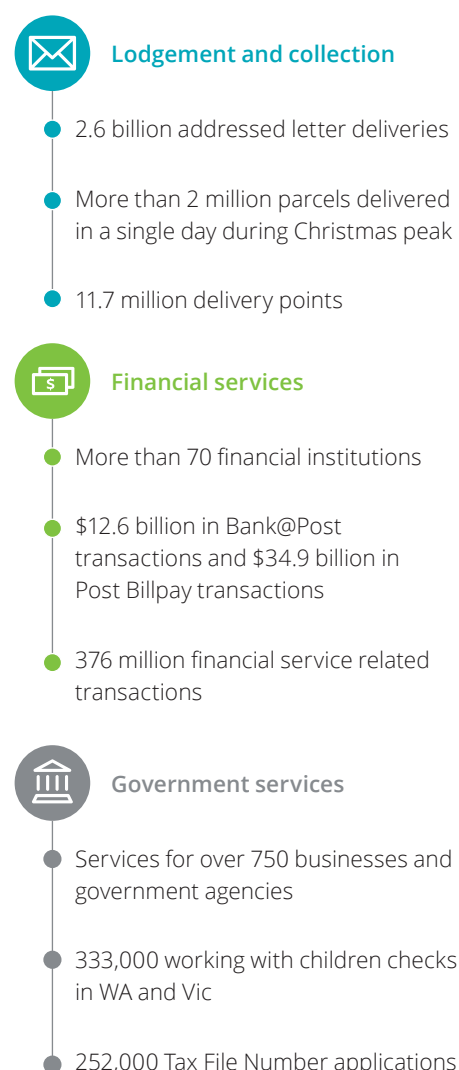
As a government business enterprise, Australia Post's Community Service Obligations (CSOs) mandate the provision of equitable access to mail services across Australia. These obligations include delivering letters at a uniform rate, as well as ensuring reasonable access to letter services to all Australian on an equitable basis and ensuring their performance reasonably meets the social, industrial and commercial needs of the Australian community (Australian Government, 1998). Australia Post continues to process billions of letters a year, delivering to 11.7 million delivery points across Australia, and has provided more than \$400 million in dividends to the Australian Government over the past five years (Australia Post, 2017).

By virtue of its history and heritage, Australia Post and its retail network of post offices are inherently associated with delivery services. Today, a post office also enables customers across Australia to access government, financial and other ancillary services. The mail and delivery services that are provided are also more diverse and customised than have historically been available.

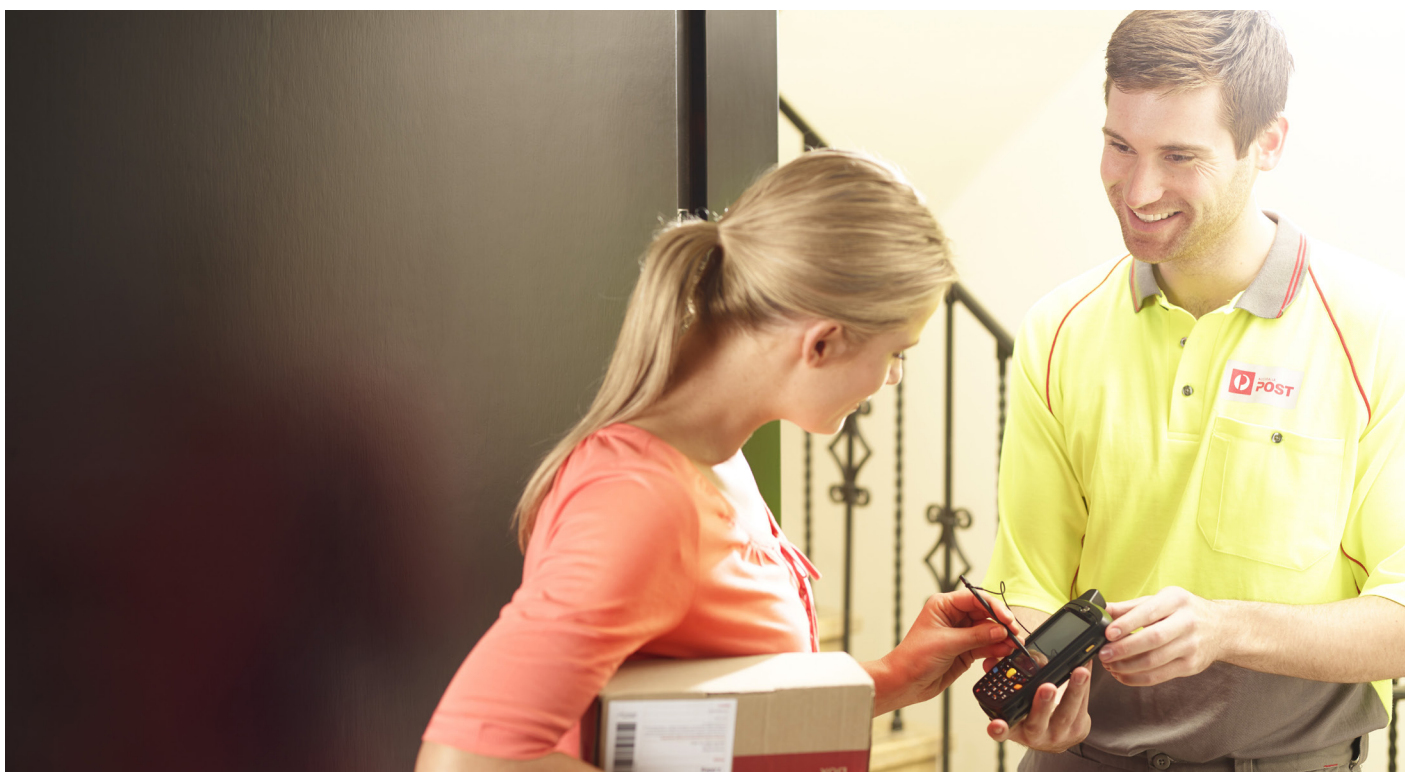
Australia Post's lodgement and collection services include typical postal services such as sending and receiving mail or parcels, and other collection services, such as Click-and-Collect. Government services include tax file number applications, passport applications, and other services that require an identity check or an in-person interview. Financial services offered by the post office include withdrawing and depositing cash, paying bills and money transfers; and other services include, but are not limited to, the sale of retail merchandise, witnessing documents, translation services and business support.

As such, Australia Post has established an important role in local communities, facilitating access to the essential commercial and social services that are required by individuals and businesses throughout the nation (Australian Senate, 2014). The magnitude of Australia Post's business and the volume of services delivered each year illustrates the size and importance of the national post office network (Figure 1.1). Noted to be one of Australia's most influential brands (Ipsos, 2016), Australia Post contributes to the day-to-day functioning of Australian society and the economy.

Figure 1.1. Overview of services provided at Australia Post's retail outlets



Sources: Australia Post (2017) and provided figures



1.2 A changing digital and global environment

The environment in which Australia Post operates in is rapidly changing, as technology transforms the way businesses and consumers interact, and how individuals communicate with each other. Growth in the digital economy is seeing more economic and social activity becoming enabled by information and communications technologies, and this is increasingly driving service delivery to online channels (Australian Government, 2017). Australia has doubled its digital growth in the five years to 2017, largely led by finance, insurance and administrative services (McKinsey, 2017) and by 2020, the contribution of the digital-enabled economy in Australia is forecast to account for 7% of GDP (Deloitte Access Economics, 2016).

Increasing globalisation is also driving greater integration of Australia with global markets, particularly in the Asia-Pacific region. In FY2017, Australian exports of goods and services rose 16.9% to \$373 billion, whilst Australian imports of goods and services rose 1.5% to \$363 billion. Asia-Pacific Economic Cooperation (APEC) economies accounted for 76.8% of total exports, with China as Australia's largest goods and services export market—valued at \$110 billion (DFAT, 2017). Greater integration with our neighbouring countries provides growth opportunities for Australian businesses, access to new knowledge and technological expertise, and a wider choice of products for Australian consumers.

These changes are shifting the nature of consumer-business relationships. With consumption and business engagement increasingly taking place over digital channels and across international borders, people have more control over when, where and how they shop – as well as more information to identify alternative options in just a few clicks. Customers are demanding faster, more convenient access to services and are willing to shop around, diminishing brand loyalty (Spencer and Freeman, 2012). As a result, businesses are increasingly focusing on providing more customer-centric experiences in order to create growth opportunities and gain a competitive advantage in the market.

In this evolving digital and global landscape, the role and relevance of businesses that provide physical services has come under scrutiny (Howard, Josserand & Green, 2015 and Cooper, 2017). As an organisation that both delivers paper-based mail and provides a large range of in-person services through the post office network, particular questions have been raised about Australia Post's operations in the digital age. At times, there has also been public commentary around Australia Post's performance in meeting modern customers' expectations, such as in relation to lost or late parcels and poor customer service (The Age, 2016 and Brook, 2018).

However, while digital disruption and increasing globalisation are creating new opportunities to deliver value, physical place and proximity continue to be important contributors to human prosperity and well-being in the digital age. Previous research has found that people still value the physical experience of living in a place, including social relationships with our neighbours and engaging with the local community (Deloitte, 2015a). In this context, Australia Post is developing as an organisation that uses its national infrastructure, community role and diverse operations in a way that supports the increasing digitisation and globalisation of business and consumer activity, while continuing to meet its obligations to deliver accessible and equitable services across Australia.

For example, while using services through digital channels is the preferred method for some, there are still a large number of communities, businesses and individuals who rely on Australia Post to provide delivery and agency services – such as in the context of ongoing population ageing and regional activity. Post offices provide customers with the choice to use services in person, and in an increasingly digital age, Australia Post's role in facilitating this in-person access and choice continues to be an important one. It provides an option for Australians to conduct personal or professional business at accessible locations around the nation; enables individuals without internet access to use essential services; and represents an opportunity to connect physical and digital service delivery, where physical presence is required in addition to using a digital platform (e.g. identity checks for some government and financial services).

Furthermore, globalisation means that Australia is becoming increasingly integrated with international markets, this includes through the physical delivery and communications channels that facilitate cross-border business and economic activity. Australia Post therefore plays an important role in enabling Australian businesses to access new markets and customers overseas – particularly for small businesses, who may not otherwise have the scale to access these wider national and international markets except through e-commerce and delivery. On the consumer side, Australia Post also facilitates access to products that may not be available in the local area, particularly for Australians residing in remote communities.

1.3 Purpose and structure of this report

This report explores the significance of Australia Post by analysing its value to Australian consumers, businesses and communities. It seeks to measure how Australians use delivery and post office services and the value associated with this use, while also exploring perceptions towards Australia Post amongst individuals and communities across the nation. The purpose of this report is to provide an evidence base for discussions about the current and future role of Australia Post in a changing digital and global environment.

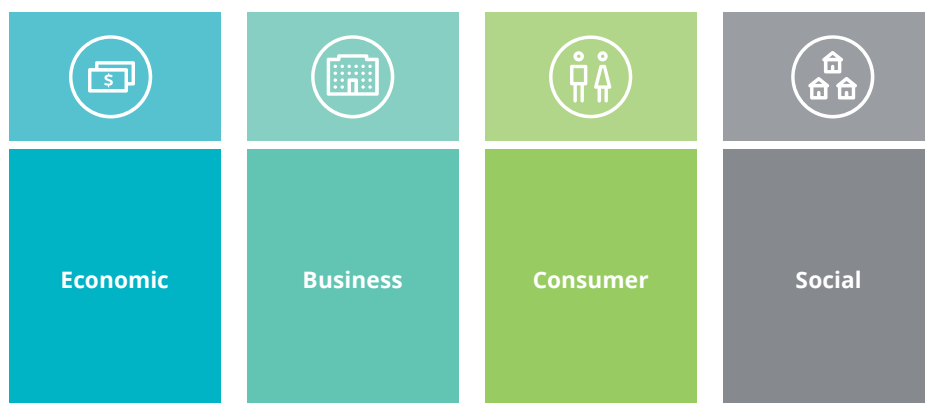
Information was collated from a range of sources to inform the research, including:

- A nationally representative survey of over 2,000 Australians, used to determine perceptions towards Australia Post's services and role in communities, and to analyse willingness to pay for products and services provided in post offices.
- Economic modelling using financial data provided by Australia Post, in order to measure the contribution of Australia Post to the Australian economy, and the economic activity generated by its operations in other industries.
- Consultations with internal stakeholders across Australia Post, as well as external stakeholders including post office licensees and community members, business customers and other customers.

The conceptual framework underpinning the analysis of Australia Post's value is centred around four key pillars – economic, business, consumer and social value (Figure 1.2). The remainder of the report is therefore structured around these pillars of value as follows:

- Section 2 discusses how Australia Post generates economic activity, including its overall economic contribution and the importance of the post office network for Australia's regional economies.
- Section 3 highlights how Australia Post enables wider business operations, such as through facilitating e-commerce delivery, business transactions and innovation.
- Section 4 examines the consumer value associated with Australia Post's services, including the extent to which these services are used and which cohorts particularly benefit for this use.
- Section 5 discusses the broader social benefits arising from the trusted role that Australia Post plays in local communities across the nation, and how Australians value this role.
- Section 6 provides some concluding remarks around the future role of Australia Post.

Figure 1.2. Four pillars of Australia Post's value



Source: Deloitte Access Economics (2018)



Economic contribution of Australia Post, FY2017

Direct contribution



\$3.216 bn
revenue



26,539
jobs

Indirect contribution



\$2.759 bn
revenue



24,832
jobs



2 Australia Post is a driver of economic activity

With its delivery services and network of post offices distributed throughout the country, Australia Post's operations generate economic activity and support employment in both capital cities and regional areas across Australia.

2.1 Economic contribution of Australia Post

Economic contribution modelling examines the economic footprint resulting from production in a particular sector or by a particular firm. Deloitte Access Economics has estimated the economic contribution of Australia Post using input-output modelling, which captures the interlinkages between Australia Post's operations and other parts of the Australian economy. Further details on the economic contribution modelling methodology and detailed definitions of the key terminology used are provided in Appendix A.

This analysis uses data on the revenues and operating expenditures of Australia Post, and the input-output tables published by the Australian Bureau of Statistics, to determine how Australia Post's economic activity generates economic activity in other sectors. The modelling therefore captures both the direct contribution to the economy through Australia Post's operations, as well as its indirect contribution through flow-on economic activity such as the intermediate inputs that are supplied by other firms and used in Australia Post's operations.

The economic contribution is measured in terms of value added: the difference between the value of Australia Post's output and the cost of the inputs required to generate those outputs.¹ For instance, Australia Post creates value added by taking inputs (such as transport, telecommunications and property services) and turning these into outputs (such as delivery and retail services) with a higher value than the initial inputs. The sum of value added across all entities in the Australian economy, plus net taxes on products, equals Australia's gross domestic product (GDP).

Australia Post's direct economic contribution in FY2017 was \$3.2 billion in value added (contribution to GDP). Every \$1 generated in value added creates another \$0.86 in other industries, for a total indirect economic contribution of \$2.8 billion.

The total economic contribution of Australia Post was therefore almost \$6 billion in FY2017. This was larger than the total value added contributed by some other significant Australian industries, such as broadcasting (\$5.8 billion contribution in gross value added) and professional, computer and electronic manufacturing (\$5.1 billion contribution in gross value added) (ABS, 2017a).

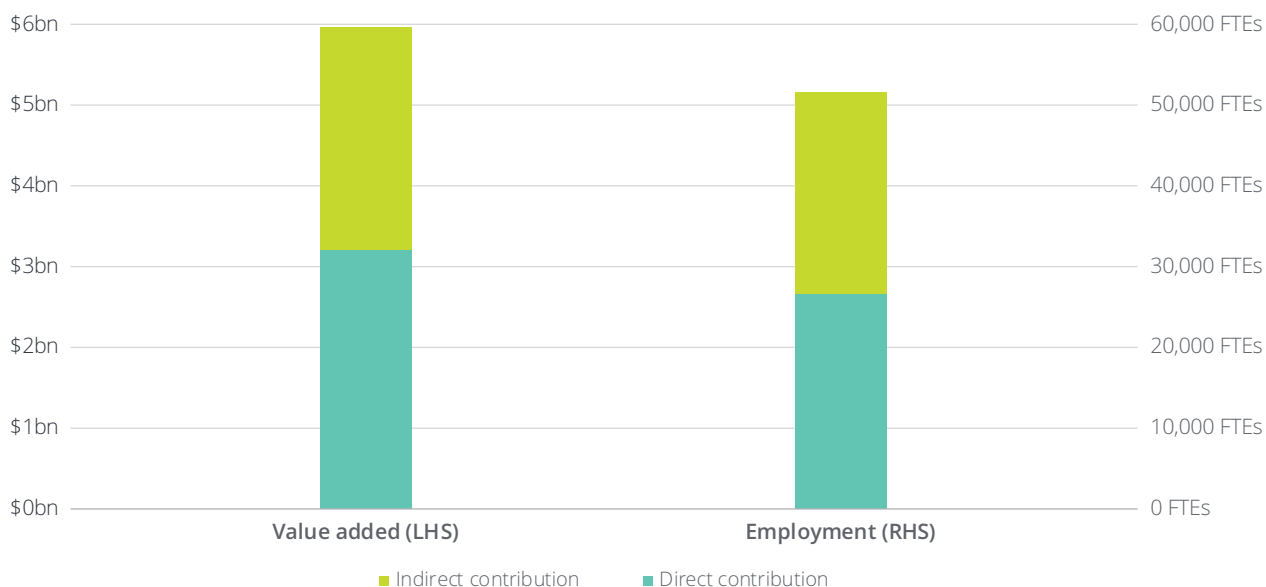
A more detailed breakdown of the direct economic contribution of Australia Post as an enterprise reveals that around \$2.8 billion (around 87%) of the \$3.2 billion in value added is the result of labour income. This is a substantial proportion of Australia Post's overall direct economic contribution, as compared to labour's average share of value added across the entire Australian economy being around 45% (ABS, 2017a).

¹ Total value added is comprised of two components: value generated by capital inputs (measured by profits or gross operating surplus), and value generated by labour inputs (measured by wages and salaries).

Further analysis of the indirect economic contribution of Australia Post as an enterprise finds that the key industries supported by Australia Post's economic activity are transport, property operation and real estate services. These industries supply inputs that are used in Australia Post's operations across the country. The biggest indirect source of indirect value added is by far transport and deliveries, which generated over \$1 billion in value added in FY2017 as a result of Australia Post's economic activity.

Australia Post's operations also results in significant job creation throughout the Australian economy. **In FY2017, Australia Post directly employed around 26,500 full-time equivalent (FTE) workers. For every one FTE created by Australia Post, almost one other FTE was created elsewhere in other businesses and industries** through flow-on economic activity, supporting 24,800 FTEs overall in indirect employment (Chart 2.1). Australia Post's operations therefore supported a total of more than 51,000 FTEs across the Australian economy in FY2017.

Chart 2.1. Economic contribution of Australia Post, FY2017



Source: Deloitte Access Economics (2018), ABS (2017), Australia Post (2018)

The total economic contribution of Australia Post's network of retail outlets can be separately modelled using input and expenditure data from post offices, and assuming that the ratio of the post office network's gross operating surplus relative to input expenditure is consistent with the ratio for Australia Post's enterprise as a whole. Deloitte Access Economics finds that the post office network's total economic contribution was around \$1.1 billion in value added and 10,300 FTEs in FY2017 (Table 2.1). Notably, the post office network supports even more employment in the wider Australian economy in relative terms, with every one FTE in the post office network creating almost two FTEs in other sectors.

These results are consistent with previous international research, which has found that post offices make a significant economic contribution in other countries. Most recently, a UK study reported that the value of post office services in the UK (including postal services and paying bills) was between £4.3 to £9.7 billion, depending on the estimation process used (Ellison & Piggott, 2016).

Earlier studies also include a report on the value of an individual post office in Manchester, which concluded that each post office contributes around £310,000 to the local economy each year, of which £120,000 is direct spending on local goods and services (New Economics Foundation, 2006). Based on the current number of post offices in the UK (11,659 – Brown, 2018) and after adjusting for inflation, this would be equivalent to just over £5.7 billion. In the US, another earlier study found that the US Postal Service had a direct economic contribution of US\$55 billion in salary and benefits and US\$20 billion in other costs (Slentz & McCann, 2009).

Table 2.1. Economic contribution of Australia Post and the post office network, FY2017

	Value added (\$ millions)	Employment (full-time equivalent)
Australia Post enterprise		
Direct contribution	3,216	26,539
Indirect contribution	2,759	24,832
Total contribution	5,975	51,372
Post office network		
Direct contribution	457	3,770
Indirect contribution	686	6,432
Total contribution	1,143	10,203

Source: Deloitte Access Economics (2018), ABS (2017), Australia Post (2018)

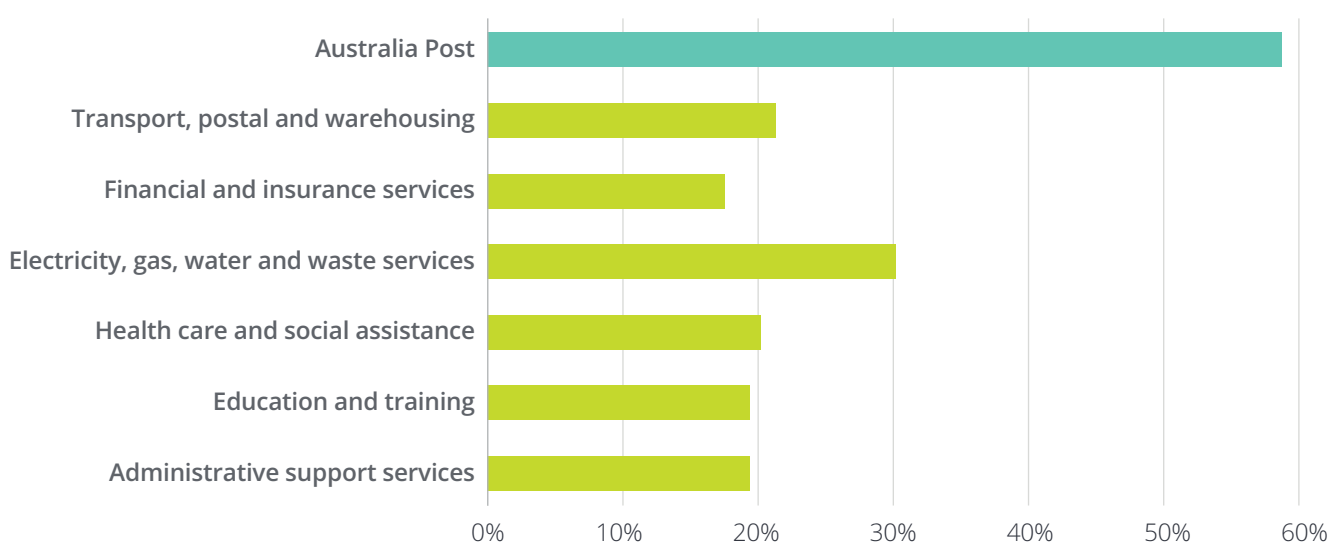
2.2 Importance to regional economies

In addition to these overall measures of economic contribution, Australia Post's network of post offices provides a national presence which supports economic activity in regional communities. Regional businesses are an important driver of Australia's economic growth more broadly, with regional Australia accounting for around 45% of national economic output and employing around one-third of Australia's workforce (RAI, 2016). Over the past decade, the majority of this economic activity and the dominant source of regional economic growth has been the mining, agriculture and manufacturing industries. However, in more recent years, there has been a surge in small business activity in regional Australia, with 30% of Australia's small and medium-sized enterprises located in outside of the major cities (ABS, 2018a)

Important to the vibrancy and development of regional economies is the physical presence of local businesses, such as banks, supermarkets, post offices, retail stores and other essential services that communities rely on. These businesses are necessary for both the day-to-day activities of local residents and operations of local businesses, as well as providing communities with a sense of community identity (Coffield, 2013).

Australia Post has a substantial physical presence in regional communities, with 58% of its 4,379 retail outlets located in regional and remote Australia as at end of FY2017. This is a significant regional representation compared to most other industries in Australia – such as transport, utilities, health care and education – where only 20-30% of businesses are located in regional and remote areas (Chart 2.2). Australia Post's widespread national presence and use of suppliers and contractors across the country means that a large share of its economic activity occurs in regional and remote Australia.

Chart 2.2. Share of businesses/retail outlets in regional and remote areas



Source: ABS (2018), Australia Post (2017)



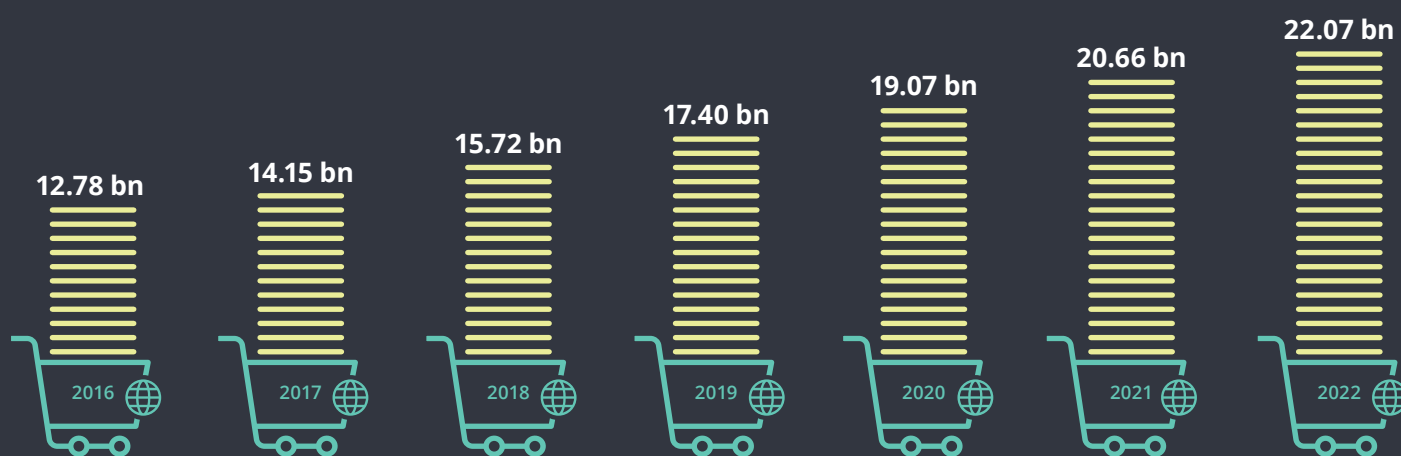
Moreover, since post offices provide a range of in-person services, they can be a natural hub for foot and vehicle traffic in the local community. There are over 240 million retail customer visits to Australia Post outlets each year, which can support retail sales amongst other businesses in the local area. This is particularly the case in regional communities, with average post office visitation of 15 visits over six months by Australians in regional and remote areas, compared to around eight visits for those in cities.

Post offices have historically played an important role as part of the centre of commercial activity in Australian towns (Wiltshire, 2017), and while customers may now visit for different services (e.g. picking up a parcel rather than posting a letter), the post office continues to facilitate customer traffic to local businesses today. Many post offices which are run by licensees also operate 'in-conjunction' businesses, such as a newsagency, pharmacy or general store. Almost 60% of licensed post offices (LPOs) are run in conjunction with other businesses, and a significant proportion of in-conjunction LPO revenue can come from this adjoining business activity (Australian Senate, 2014).

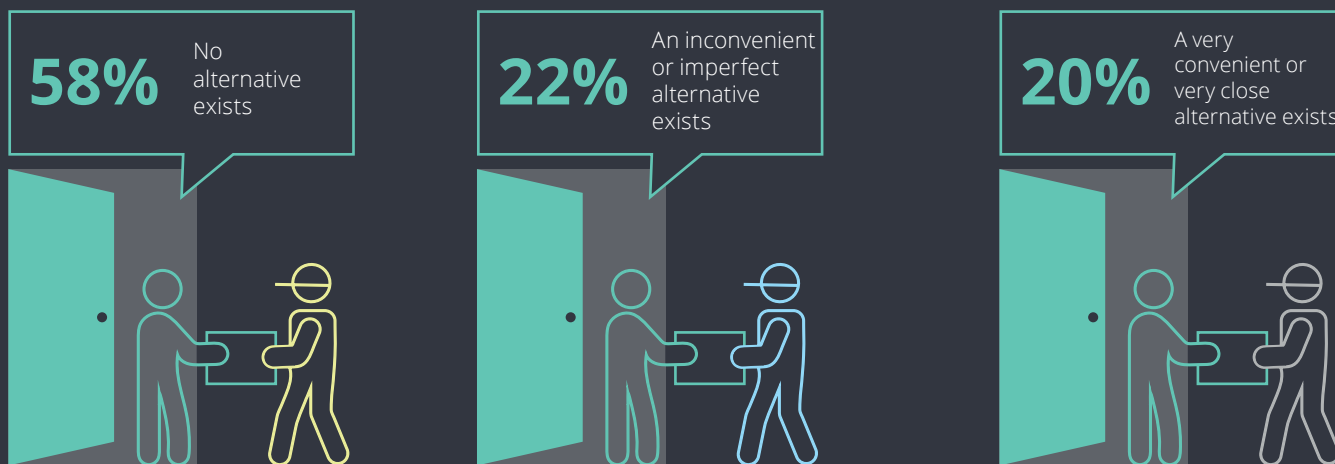
LPOs that are run in conjunction with other businesses are often situated in regional and rural Australia, which benefits the local community through the provision of a broader range of products and services, while also benefiting the licensee by providing a more diversified revenue stream. The operations of these in-conjunction businesses and the flow-on economic activity to other suppliers and industries is activity not able to be captured in the economic contribution analysis of Australia Post as an enterprise, since unfortunately there is no data available to identify the in-conjunction economic contribution. However, given the diversity of products and services provided and the associated revenues, **this in-conjunction business activity is important to the economic prosperity of regional, especially rural towns.**

Australia's retail e-commerce

Expected growth in Australia's retail e-commerce sales



Perceptions of alternatives to Australia Post for collecting a delivery



3 Australia Post supports business operations and growth

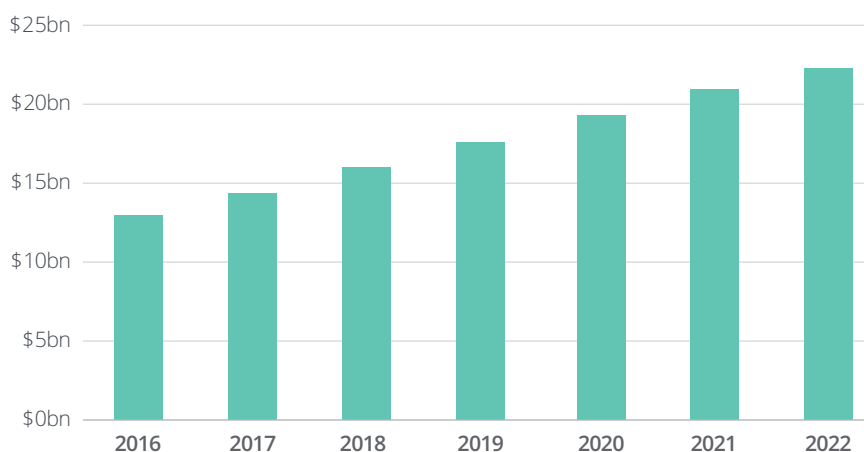
A large range of business activities are supported by Australia Post's operations including e-commerce delivery, direct marketing and trusted services such as financial transaction and identity checks. Facilitating business growth is a key component of Australia Post's national role.

3.1 Facilitating e-commerce growth

New technologies, ubiquitous use of the internet and the digitisation of services mean that business and consumer activity is increasingly being conducted online. User penetration of e-commerce in Australia currently sits just above 50% and is expected to reach over 57% in the next four years, to an equivalent of 14.9 million consumers (Statista, 2018). It is estimated that **by 2022, retail e-commerce sales in Australia will reach \$22 billion, up from \$14 billion in 2017** (Chart 3.1).

This shift in how Australians purchase products, from physically in-store to digitally via online shopping, is partly being driven by changing characteristics of Australian society. In general, Australia is becoming a richer, more densely populated and busier society. In 2015-16, the average equivalised disposable household income was \$1,009 per week, compared to \$843 per week a decade prior (ABS, 2017b). Higher disposable incomes are leading to greater levels of discretionary purchasing, meaning that Australians are consuming more than ever before. At the same time, individual time is becoming more constrained, creating demand for more convenient shopping options and delivery to the customer door.

Chart 3.1. Expected growth in Australia's retail e-commerce



Source: Statista, 2018

With so many products now available online, e-commerce has provided customers with more choice in how they shop and interact with businesses. Buying products through online shopping is becoming increasingly prevalent across Australia, for both younger and older generations (ACMA, 2016).

Coupled with this is an increased willingness by customers to pay for faster delivery, convenience and customisation. For example, previous research has found that around 80% of consumers would be willing to pay a premium for customised clothing or footwear (Deloitte, 2015b).



An increasing amount of services are also being delivered and consumed through digital channels; for example, over 75% of all banking services delivered by Australia's major banks are now performed online (Boston Consulting Group, 2016). Moreover, service providers are shifting towards communicating with customers online, rather than via the post. For example, utilities are increasingly moving towards delivering bills through email (The Australian Government, 2017). Further technological development offers new pathways for businesses to access customers and improves overall experiences for customers with a digital preference.

Australia Post is facilitating the growth of e-commerce by providing a mechanism for trade between consumers and businesses online through their delivery and payment services. During the busy periods of the year, for example Christmas, Australia Post has delivered up to 2 million parcels in a single day (Australia Post, 2017). Products from local and international businesses that would previously would have been inaccessible to many customers across Australia are now delivered directly to consumers by Australia Post, saving customer time and effort.

In an increasingly customer-centric environment, these delivery options are tailored to individual consumer preferences, providing customers with greater control and flexibility of their parcel delivery. For example, Australia Post's MyPost, Click and Collect and Parcel Locker services aim to provide customers with a range of options for their delivery experience. Customers can also track their deliveries and receive live updates to know when their parcels will be arriving.

The development of e-commerce has transformed the small business landscape. There are now almost 2.2 million small businesses (with less than 20 employees) in Australia, and these businesses represent a significant driver of growth and job creation across the economy (ABS, 2018a). The increasing availability of e-commerce has magnified the ability of these small businesses to reach their customers. E-commerce enables Australian small businesses to access customers in domestic and international markets, enabling them to scale up sales and revenue regardless of their business location. In 2015-16, around 40% of small and medium-sized businesses in Australia received orders via the internet – more than double the proportion from five years ago (ABS, 2017c).

A variety of logistics businesses exist to facilitate the delivery of goods ordered online; however, Australia Post has several unique offerings that are particularly favoured by small business customers. Its national infrastructure of post offices and delivery services means that Australia Post can ensure delivery to customers in any region of Australia. Further to this, small businesses consulted with for this study emphasised Australia Post's efficiency in delivery, confidence in the quality of services customers receive and, as described in the box alongside, the added flexibility for customers collecting their orders. This enables small businesses to deliver direct to customers and reduce the costs of using intermediary wholesalers or having a 'bricks and mortar' store.

Supporting Australian small businesses to grow through e-commerce

Quittin Time is a small, family business that specialises in importing and selling rum across Australia. The business provides wholesale rum to venues and retails to customers through Dan Murphy's online. More recently, the business established a personal e-parcel direct account with Australia Post to facilitate direct sales to consumers through their website.

Quittin Time chose Australia Post to be its customer delivery partner because of the flexibility of service provided. As a small business, it is critical to Quittin Time that sending parcels is convenient. The local post office in the Tuggerah business hub offers broad opening hours (6am-6pm) that allows the business to post orders at any time during the day. Customers then have the flexibility of choosing where and how they wish to collect their order, such as at home or through their own local post office.

For sales and deliveries to individual customers (under 5kg), Quittin Time believes that Australia Post has the most competitive rates, and are the most efficient and fastest mode of delivery. The business also values the personalised service provided by Quittin Time's Australia Post account manager, a service that is not provided by other delivery companies. Through its account manager, Quittin Time are working to identify how Australia Post can provide a competitive rate for the delivery of larger orders to venues, given there are current cheaper delivery options available for these bigger deliveries.

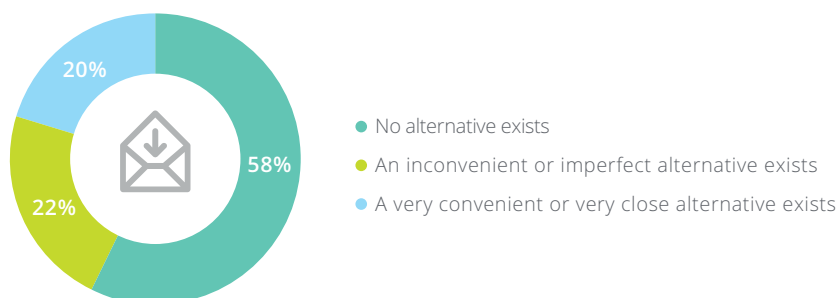
Going forward, Quittin Time expects Australia Post to play an important role facilitating the growth of its direct sales. By directly delivering products to customers, Quittin Time can open up its cash flows and capture retail, rather than wholesale, profits – putting the business in a better position to grow in the future.

However, amidst the significant increase in volume of e-commerce and parcel deliveries, there have also been questions raised about the performance of Australia Post's parcel delivery services. These include failing to deliver to the customer's home, claims of lost or stolen parcels, and poor service quality (Doran, 2018). As noted in the box above, Australia Post's pricing for particular types of parcel deliveries can also be higher than other competitor delivery businesses, and some customers believe that Australia Post's parcel prices – which partly subsidise losses incurred through mail deliveries – are not consistent with the quality of service provided (Castle, 2016).

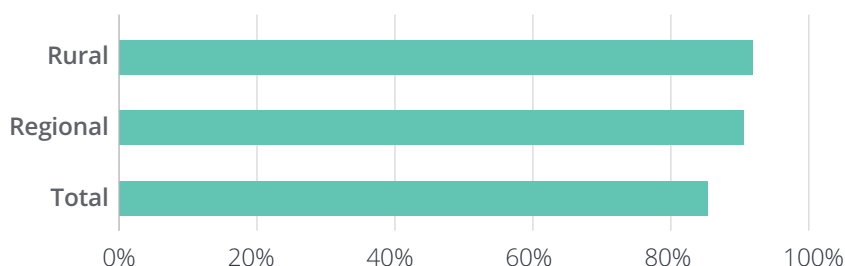
Notwithstanding these issues, in the absence of Australia Post and its post office network, it is unlikely that the current market could replicate the same level of national delivery. **Approximately 82% of Australia's e-commerce by value is going through Australia Post's delivery network** (Wiggins, 2017), and **the majority of customers (80%) see no convenient alternative for receiving parcels other than through the post office**. Moreover, 84% of customers feel positive about receiving items they have ordered, and for Australians in regional and rural areas – where alternative retail options may be particularly limited – these proportions jump up to more than 90% (Chart 3.2).

Chart 3.2. Customer awareness and perceptions of Australia Post

Alternatives to Australia Post for collecting deliveries



Positive attitude towards items received from Australia Post



Source: Deloitte Access Economics survey (2018)

3.2 Enabling broader business activity

Operating a business can be a complex process requiring a broad range and substantial number of transactions, including financial, customer service and physical transactions. These transactions are often sensitive in nature, and can represent a substantial cost to businesses if they are not easily accessible. Australia Post enables business activity by providing a range of these services and transactions: it is perceived by businesses and customers as a trusted service provider, and its substantial network of post offices enables greater accessibility throughout local communities.

One example of this is the identity services which are provided through the post office, incorporating in-person identity checks and verification, as well as Australia Post's new digital identity solution, Digital iD, to provide greater transactional security for business. These identity services build confidence between Australian businesses and consumers, enabling commercial transactions via both physical and electronic channels. Post office identity services are convenient and accessible – two-thirds of Australians see no convenient alternative (or no alternative at all) to the post office for completing an identity check.

According to the Office of the Australian Information Commissioner (2017), 58% of individuals have decided not to deal with a business because of security concerns. Identity checks conducted by Australia Post therefore enable business activity in other industries such as legal and financial services, as well as small businesses who may need verification of identity as a form of risk mitigation. Australia Post also performs identity checks for Australian Passport applications, representing the 'gold standard' of identity services, as discussed in the box on the next page. This role could become increasingly important in the context of ongoing government and industry discussions regarding further development of digital identity capabilities and in improving the security of online transactions.



Identity services provided at the post office

Post offices provide a range of identity services to Australians. These services are often provided on behalf of Federal or State Governments and include passport and tax file number applications, identity checks and police checks, license renewals and applications, and Keypass ID applications. Australia Post is also dedicated to creating a digital identity solution for Australia with Digital iD. By addressing gaps in the current system, Digital iD could save governments, businesses and consumers \$11 billion a year through reduced cost to serve, lower incidence of fraud and improved customer experience (Bajkowski, 2016).

Staff at Australia Post play an important role in the delivery of these identity services. This is especially true in regional, rural and remote areas. Australia Post provides information about different identity services, guides customers through application processes and assists customers to complete forms. Post offices also provide document and identity verification services, process forms with personal information, and capture data into government systems, demonstrating their role as a trusted organisation in the community (Ipsos Global Reputation Centre, 2017).

In particular, Australia Post plays a significant role in the lodgement and delivery of passport applications. Currently, the Australian Passport Office relies on Australia Post's extensive physical network to process over 1.75 million passport applications each year. Australia Post is critical to the processing and delivery of passports because of their national retail presence and their trusted reputation as a secure handler of personal documents. Furthermore, Australia Post staff help maintain the integrity of passports as an identity document, conducting the highest level of assurance through document verification and in-person sighting, in accordance with the National Identity Proofing Guidelines.

In the coming years, it is expected that the passport application process could move online. While this may reduce Australia Post's role as a lodgement and processing service provider, the post office could still be required to provide assistance throughout the application process to Australians who require help to complete the application, or who do not have internet access.

Broader economic activity is also facilitated through the post office's provision of payment and banking services, with local businesses, clubs and organisations sometimes relying on the convenience of using the post office for day-to-day transactions, as well as the in-person support offered by the local post office where there are limited alternatives available. And the post office provides an option for businesses to receive payments from consumers: one-third of post office visitors over the past 6 months had paid a bill at the post office, reflecting the convenience of transactions through the post office, particularly for cash transactions. In total, \$129 billion in payments and banking transactions can be facilitated by the post office in a year.

Finally, Australia Post's delivery network provides a channel for Australian businesses to engage in direct mail marketing. While direct mail marketing is typically costlier than digital marketing, there can also be additional business benefits in connecting with customers through physical delivery channels. This is because physical materials have been found to drive greater brand association and internalisation of advertising content by consumers. Research from the UK found four key characteristics of direct mail: it contains more useful information; it makes consumers consider their perceptions about a brand or a product; it can create positive feelings; and, it leads to action that creates commercial value (Royal Mail MarketReach, 2015).

As a result, delivering marketing through paper-based media can lead to higher customer engagement with the products and services being advertised, and with a business's overall brand. Many companies employ combined marketing strategies that include digital and direct mail marketing, recognising the role and benefits associated with both channels (Alton, 2017).

3.3 New channels for business innovation

The trend towards greater customer-centricity and increasing demand for convenience is leading to growth in a variety of new business models where products are delivered directly to customer homes. These new business models include: drop shipping, in which sales occur through a business, and orders are passed onto a supplier; private and white labelling, where products are developed or owned by an e-commerce retailer but manufactured by someone else; subscription businesses, that deliver customers products at regular, scheduled intervals; and more bespoke businesses with custom-made/made-to-order models (DeMatas, 2018). The box alongside describes an example of one such Australian business in the beauty industry, which is growing through a subscription model.

Australia Post's delivery services enable these new business models to access a national market (and international markets), with more than 11 million delivery points across Australia, including to regional and remote communities which may be too costly for more commercially-focused delivery businesses to reach. Australia Post overcomes geographic limitations for online stores and facilitates what would traditionally be considered in-store services online. The reach and reliability of Australia Post's national delivery network is a particularly important enabler of these businesses' success and reputation.

Growing a digital business through a subscription model

Bellabox is a beauty start-up that delivers boxes full of sample products from international beauty brands. The business allows Australians to experience new products that are often absent from the domestic market. Through their subscription business model, Bellabox provides monthly beauty boxes to over 25,000 members. Each box includes 5-6 beauty products for one of 500 international and domestic brands that partner with Bellabox. Customers are provided with a tailored range of products, providing these brands with a form of sample marketing which reaches new customers in a personalised manner.

The products delivered by Bellabox are highly targeted towards each customer's demographics, place of residence and 'beauty profile'. This provides a unique opportunity for beauty brands and other organisations to gain targeted market exposure which can then convert into direct sales for the brand. For customers, the value of Bellabox lies in the variety of relevant beauty products and the added convenience of door to door delivery.

As Bellabox is a completely digital business, with no brick and mortar stores, it relies heavily on Australia Post's delivery services to get boxes to consumers. According to Andrew Batt, the Chief Executive Officer of Bellabox, "If we [Bellabox] can't deliver it, we don't have a business."

Of particular importance is Australia Post's national infrastructure, allowing Bellabox to reach customers in relatively remote areas across Australia such as Katherine, NT, where other delivery organisations do not service. Furthermore, with over 25,000 parcels delivered each month, Australia Post's sophisticated tracking systems assist Bellabox to manage its high volume of deliveries with flexibility and at a competitive cost.

As these new business models and the e-commerce market continue to mature, a broader range of products and services can be delivered to customers' doors. There have already been a large expansions of online grocery, health and educational services delivered to homes, with strong growth prospects in the future. E-commerce is growing faster than the total market (Murray, 2018). Australia Post is already enabling the provision of some of these new services, such as through its delivery of bowel cancer test kits on behalf of the Australian Government (discussed in the box alongside). Further development of these operating models in the future could potentially create a large service market that will require national infrastructure to deliver, such as that currently operated by Australia Post.

Australia Post also invests in more targeted programs to support community-orientated businesses, small to medium-sized enterprises and social enterprises. These include events such as the Australia Post Regional PitchFest and social enterprise support programs such as Social Traders. The national reach of Australia Post and its range of services which facilitate business activity underpins this broader engagement with local businesses across Australian communities.

Assisting with the provision of services in Australia

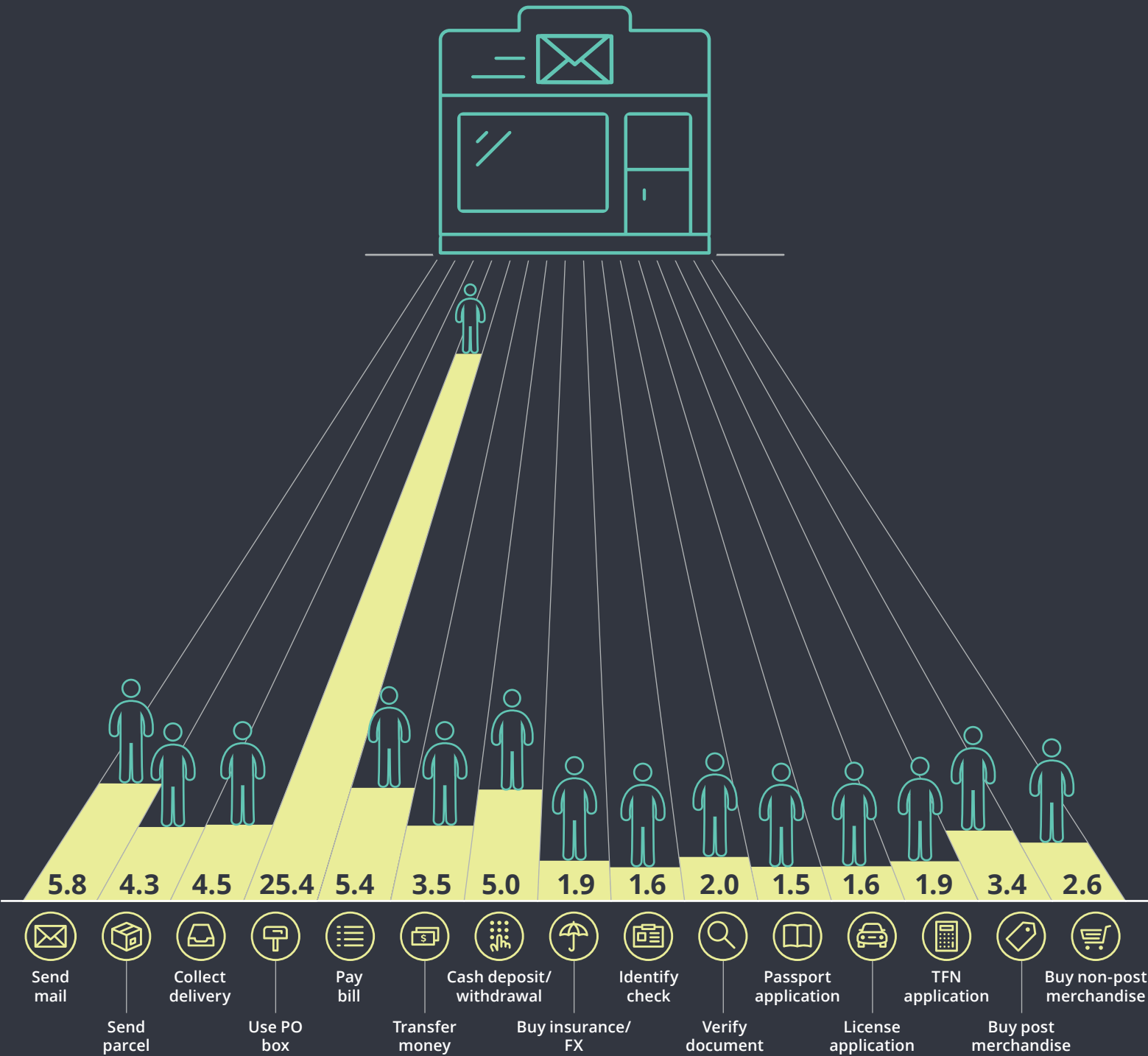
Bowel Cancer is the second most common cause of cancer-related deaths in Australia. The National Bowel Cancer Screening Program is an Australian Government initiative which aims to help detect early signs of bowel cancer and reduce the number of Australians who die each year from the disease. Once the Program is fully implemented in 2020, free test kits will be delivered to Australians aged 50-74 years every two years (Australian Government, 2018).

As a trusted government enterprise with national coverage, Australia Post is able to facilitate the delivery of life-saving services for Bowel Cancer Australia. The test kits are delivered through Australia Post's network, and test samples are delivered safely via the network to laboratories for analysis. This requires specific customised steps in delivery, such as strict time limits for the samples to be returned to testing laboratories and ensuring that samples are not subject to environmental extremes. Australia Post has worked with the Government to ensure that these requirements are met in an efficient and consistent manner across the country. By 2020, around 4 million test kits will be delivered every year.



Post office visitation by use of services

Average number of uses per service in a six month period



4 Australia Post is valued by consumers across the nation

Despite the perception that Australia Post's relevance is declining in the digital age, the research finds that Australians continue to use and value mail and post office services. For many Australians, Australia Post and its retail network are synonymous; people use the network for delivery, financial and other services.

4.1 Use of Australia Post services

Australia Post's relevance in the digital age has increasingly been brought under question. Changes in technology and consumer behaviour are driving a sharp decline in demand for letter services within Australia (Boston Consulting Group, 2014). Demand for addressed letters has decreased by 1 billion deliveries over the past five years, and losses from regulated mail delivery was \$102.4 million in FY2017 (Australia Post, 2017). These trends contributed to Australia Post's first half-year loss since becoming a government enterprise in 1989, in the six months to June 2014 (The McKell Institute, 2015).

Digital substitution towards lower-cost and faster online communication channels – as well as growth in the online provision of financial, government and other services compared to in-person service delivery – has placed increasing pressure on Australia Post to illustrate its relevance to Australian consumers and businesses. At the same time, competition in the parcel delivery market from newer service providers means that Australia Post is required to consistently differentiate itself and demonstrate value to customers over its domestic and international competitors. This focus on creating value for customers, and ensuring a customer-centric delivery model, represents both a challenge and an opportunity for Australia Post's delivery of services.

While an increasing amount of service delivery and commercial activity is transitioning to online channels, most Australians continue to visit the post office for using core services in person. Our research finds that **92% of Australians have visited a post office at least once in the past six months, with an average of 10 visits per person** over this six month period – equivalent to visiting the post office approximately once every two to three weeks. This suggests that many consumers across Australia continue to rely on Australia Post's provision of services on a day-to-day basis.

Post office visitation most frequently relates to the core postal services of lodging and collecting deliveries. In particular, sending mail was cited as a service used at the post office by 58% of Australians who had visited a post office in the past six months, sending parcels by 53%, and collecting a delivery from the counter by 54% (Chart 4.1). While a much smaller proportion use a PO box (19%), those individuals that do are very frequent visitors to the post office, with average use of 25 times over a six-month period (around once per week).

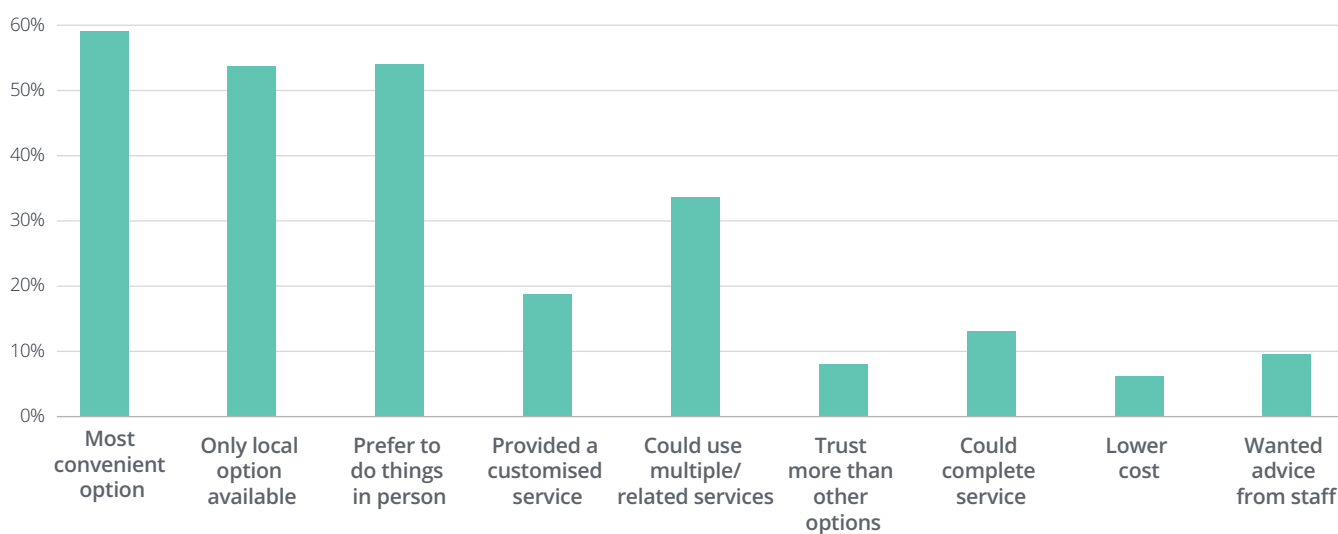
People also visit the post office for more general retail transactions outside of post-related services. One-third of post office customers had paid a bill at the post office over the past six months, and 22% had visited to make a retail purchase unrelated to postal services (such as prepaid phone cards, toys, books and collectables). The driving factor behind post office visitation is convenience: almost half (45%) of customers choose to use the post office because it is the most convenient and accessible option for services, and 36% have no alternative option for using these services (Chart 4.2). And despite the growth in digital transactions, one-third of customers visited because they preferred to do things in person at the post office.

Chart 4.1. Post office visitation by use of services



Source: Deloitte Access Economics survey (2018)

Chart 4.2. Reasons for using the post office for a service



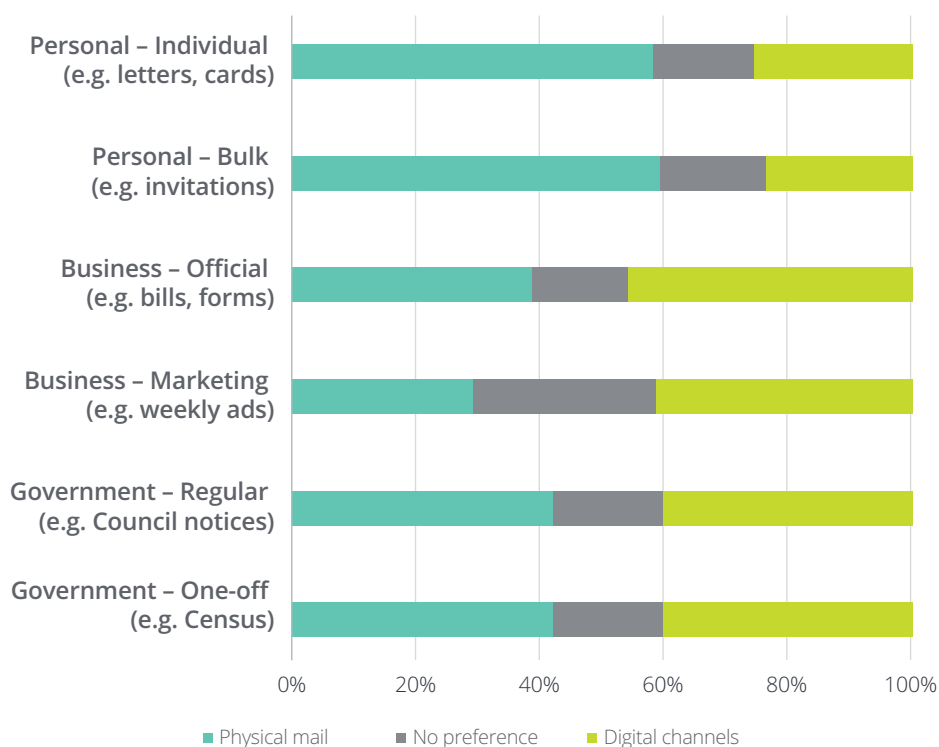
Source: Deloitte Access Economics survey (2018)

The frequency and rate of usage for relatively 'one-off' post office services such as identity checks, document verification and applying for official documentation (e.g. passports, licenses and tax file numbers) was found to be less than that of these regular service offerings (Chart 4.1). However, for many of these more one-off services, Australians believe there are limited alternatives to the post office when they do need to use these services. For example, almost 80% of respondents think there are no comparable alternatives to the post office for passport applications, while two in three think there are no comparable alternatives for identity checks.

Outside of the post office, Australia Post's services more broadly also include the provision of mail delivery across Australia in an accessible and timely manner, as prescribed in its CSOs (discussed in Section 1). Digital channels are increasingly being used by both individuals and businesses for communications, and there has been an ongoing decline in mail volumes across Australia over recent years – from 3.6 billion deliveries in 2013 (Australian Senate, 2014) to around 2.6 billion in 2017 (Australia Post, 2017).

At the same time as this declining use, there continues to be significant goodwill across the Australian population for particular types of paper-based mail. Our research finds that **the majority (almost 60%) of Australians have a preference for receiving personal messages via physical mail rather than through digital channels, such as letters, cards and invitations** (Chart 4.3). 71% of Australians check their mail at home every day (and a further 19% every couple of days), and 83% of people feel positive when they receive personal letters and cards in the mail.

Chart 4.3. Consumer preferences in delivery channels



Source: Deloitte Access Economics survey (2018)

This suggests that while digital substitution may be significantly affecting mail volumes, there is still value in paper-based communications. Previous studies suggest that individuals may prefer receiving mail for personal reasons because of unique connectivity benefits associated with physically delivered communications, including greater emotional reactions and more memorable content than digitally delivered communications (Dooley, 2015). There can also be practical considerations which lead to a preference for paper-based communications, such as ease of reading, tactile experience and a lack of reliable internet access (Two Sides, 2017).

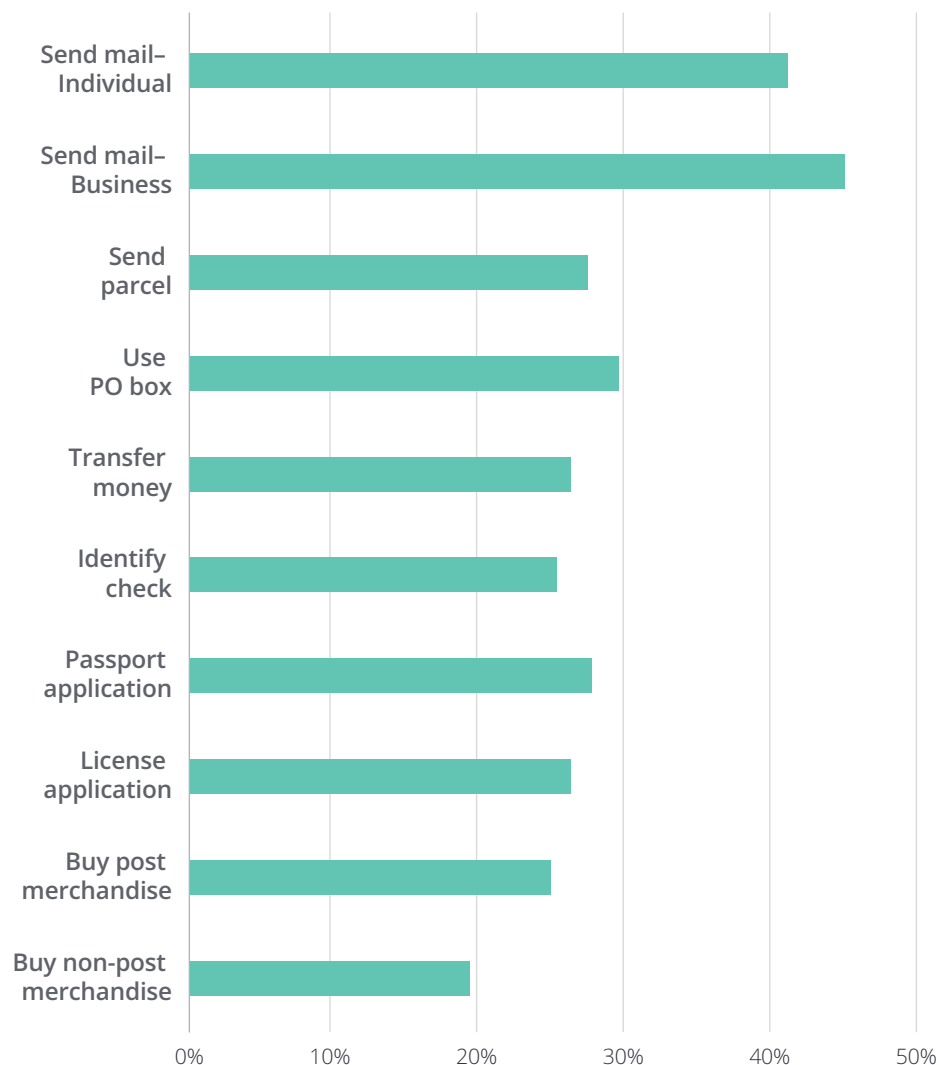
Fewer Australians nominate a preference for physical mail for official communications from business (e.g. bills and forms) and government (e.g. council notices and the Census), with around 40% of Australians preferring to receive these letters in paper format (Chart 4.3). And less than 30% of Australians state that they prefer to receive marketing material from businesses in the mail. However, most of the letters sent in Australia are business-to-consumer mail, and previous studies have found that the majority of consumers across all age groups want a choice between receiving paper-based communications and digital communications from businesses (Riebel, 2018).

4.2 Value of Australia Post services

The extent to which Australian consumers value Australia Post's services can be measured by the consumer surplus: the benefit that these consumers receive from using these services, as measured by their willingness to pay for this use, above the actual price charged by Australia Post. Our research finds that for the paid services offered by Australia Post, the additional consumer surplus ranges between 20% and 45% of the price charged on average, depending on the service used. Further details on the methodology used to estimate consumer surplus are provided in Appendix B.

Postal services have a relatively high consumer surplus as a proportion of the price charged for the service. Sending mail is associated with an average consumer surplus of 42% for a letter posted by an individual, and 45% for a letter posted by a business (Chart 4.4). The relatively high surplus for mail delivery, as measured by a proportion of the price, could be because there are limited substitute options available for consumers who wish to post a letter – more than three-quarters of Australians do not believe a comparable alternative exists for sending mail. It could also relate to the regulated pricing structure associated with sending letters in Australia, whereby the regulated letter service is required to be affordable and accessible to all Australians.

Chart 4.4. Consumer surplus as proportion of price charged for service



Source: Deloitte Access Economics survey (2018), Australia Post (2018)

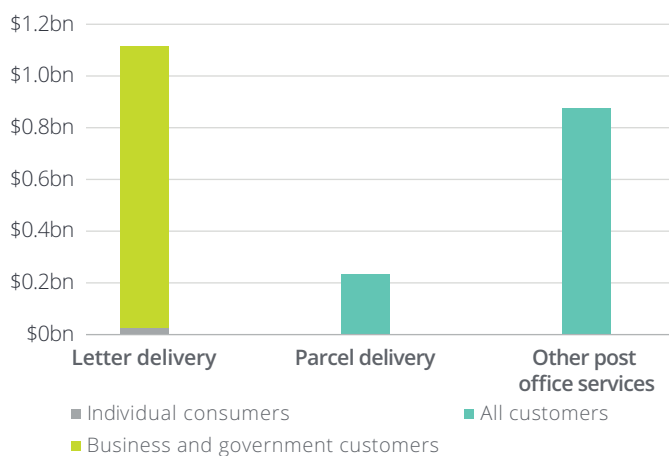
In estimating the total consumer surplus associated with Australia Post's paid services, the cost and frequency of use is also important. For example, as a share of the price charged for the service, the average consumer surplus associated with sending a parcel (27%) and completing a passport application (28%) are roughly equivalent. However, the cost of a passport application is \$282 for a 10-year passport, while the cost of sending a small parcel is \$8.50 for standard delivery – so in dollar terms, the average consumer surplus per passport application is around \$78, while for sending a small parcel it is \$2.30. At the same time, Chart 4.1 illustrates that Australian consumers use parcel delivery services significantly more frequently than passport application services at the post office.

The consumer surplus for different paid services has been combined with Australia Post's revenue data from FY2017 in order to estimate the total surplus across all Australian consumers (our methodology is described in Appendix B). **The total consumer surplus is found to be more than \$2.1 billion in FY2017 for Australia Post's paid services, which is comprised of almost \$1.1 billion from letter delivery, around \$230 million from parcel delivery and \$840 million from other post office services** (Chart 4.5). The large share of letter delivery surplus associated with business and government consumers is because these consumers represent 97% of letters volume in Australia (Hatch, 2016). By comparison, the total consumer surplus associated with domestic tourist visitation to Australia's Great Barrier Reef has been estimated at around \$1.5 billion per year (Deloitte Access Economics, 2017).

There are also services provided by the post office that do not directly incur a charge to the customer, such as collecting a delivery over the counter, personal banking services including cash deposits and withdrawals, and applying for a tax file number. Post office customers receive value from using these services, and a willingness to pay for this value means that there is a consumer surplus above the free cost of service.² The average surplus for completing a tax file number application at the post office is \$2.90, while the average surpluses for collecting deliveries and making cash deposits and withdrawals are closer to \$1.90 per transaction (Chart 4.6).

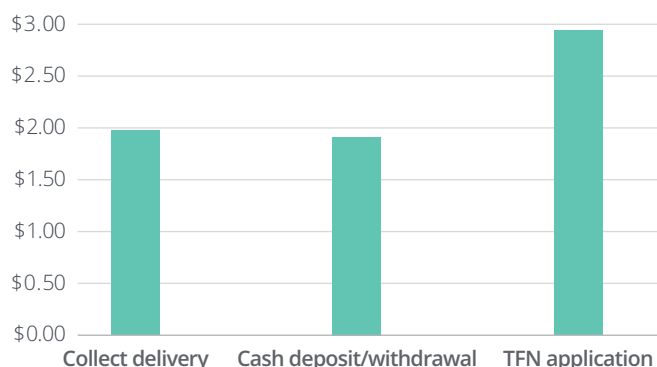
² While the direct cost of these services at the post office is free, there may be indirect channels through which the consumer pays, such as through fees paid earlier in the transaction. The consumer surplus estimates here are in addition to any indirect costs.

Chart 4.5. Total consumer surplus for Australia Post's paid services



Source: Deloitte Access Economics survey (2018)

Chart 4.6. Average consumer surplus for free services provided by Australia Post



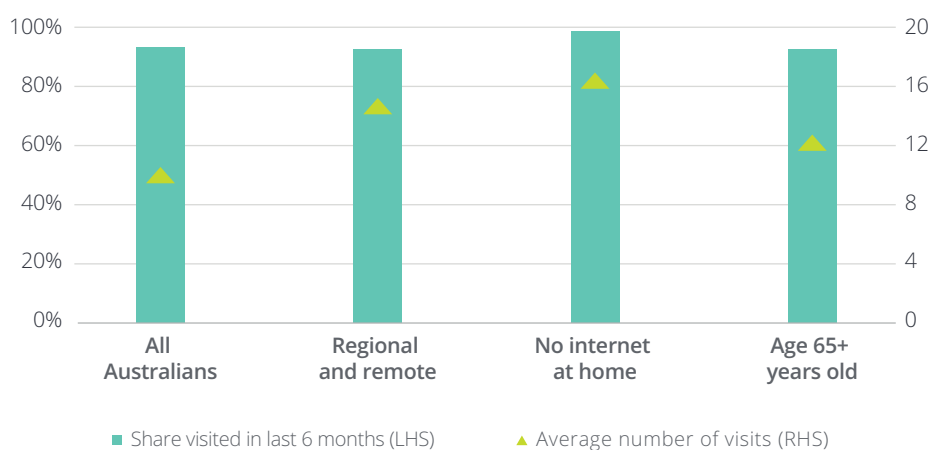
Source: Deloitte Access Economics survey (2018)

4.3 Cohorts with particular benefits

There are particular groups of consumers across Australia that are more likely to use and value Australia Post's services. In particular, **93% of Australians residing in regional and remote areas had visited a post office in the previous six months, with an average of 15 visits over this period (Chart 4.7).³ Use of the post office was even higher for individuals without internet access at home, with 98% visiting an average of 18 times in the past six months.** Meanwhile, visitation and use of post office services is fairly consistent across old and young age brackets.

The relatively high usage in regional and remote areas highlights Australia Post's significant role in delivering core delivery services to communities around the nation, consistent with the CSO objectives. These CSOs recognise that individuals, businesses and governments need to be able to access such services no matter where they are located across Australia: as at the 2016 Census, there were almost 2.5 million Australians living in regional and remote areas (ABS, 2016). Meeting these community objectives means that Australia Post's operations extend to areas where businesses that are only commercially motivated may not choose to operate.

Chart 4.7. Post office visitation by cohort



Source: Deloitte Access Economics survey (2018)

Ensuring accessibility to Australia Post's delivery services includes not only maintaining a large network of street posting boxes (more than 15,000 in 2016-17 (Australia Post, 2017)) and timely delivery to individual households, but also having a significant number of retail access points throughout the country. The 4,379 post office retail outlets located across the country as at end of FY2017 – including more than 2,500 in regional, rural and remote areas – means that Australia Post has a significant national infrastructure that enables its role as a service provider to extend beyond the delivery services mandated in the CSOs. This includes providing other core services to Australian communities where there is value in having a physical presence for service delivery, such as banking, retail and government services: for example, there are around 1,550 locations around Australia where there is a post office with Bank@Post banking services but with no bank branch in the area (Australia Post and APRA data, 2018).

Australians in regional and remote areas use post office services somewhat more frequently, particularly delivery services. For example, over a six-month period, 66% of Australians in regional and remote areas had visited a post office to send mail compared to 55% of those in major cities, and Australians with PO boxes used this service 45 times on average in regional and remote areas compared to 16 times in major cities.

Moreover, the accessibility of post offices is an even greater driver of visitation for people in regional and remote areas: 44% of post office visitors in regional and remote Australia said that the post office was the only option available for completing the service required, compared with 33% in major cities. However, perhaps the surprising result is that post office use amongst Australians residing in cities is only a bit lower than in regional and remote areas for many services provided by Australia Post (Chart 4.8), suggesting that post office services continue to remain relevant in metropolitan areas as well.

³ For the purposes of this research, survey respondents were asked for their postcode and were allocated to city, regional and remote areas based on the ABS's 2016 Remoteness Areas (ABS, 2018d).

Chart 4.8. Use of delivery, banking and retail services at post offices by location



Source: Deloitte Access Economics survey (2018)

Given Australia Post's national infrastructure and community-related objectives, post offices can function as a 'service provider of last resort' in more isolated communities where other service providers have decided not to operate for commercial reasons. One illustration of this important role is in the post office's provision of banking services. Recent years have seen the closure of bank branches in a number of regional and remote communities across Australia, leaving some towns with no alternative in-person options for banking services apart from the post office (Booth, 2018). As discussed in the case study alongside, the post office's ability to support in providing banking services to these towns is of significant value to local residents, particularly to local organisations and businesses.

Australians without access to the internet at home are also particularly frequent users of post office services. In 2016-17, 14% of Australian households did not have internet access, representing over 1 million households across the country (ABS, 2018b). Difficulty accessing the internet can relate to infrastructure barriers, affordability concerns or having limited comfort with using technology, and post offices provide a convenient alternative option for accessing communication, banking and retail services.

Post offices as the sole option for in-person banking services

Australia Post's retail network of post offices provides the only available option for in-person banking transactions in many regional and remote areas across Australia. There are around 1,700 locations where there is a post office which offers Bank@Post services and there are no major banks, and around 1,550 locations where there is a post office with Bank@Post and there is no bank branch operating at all (Australia Post and APRA data, 2018).

Middlemount is a town in central Queensland with a population of around 2,000. In 2016, the only major bank branch left in town decided to close its operations – citing a reduction in over the counter customer transactions due to growth in mobile and internet banking. As a result, Middlemount was left without access to a local bank branch, with the next closest bank located 142km away in Emerald.

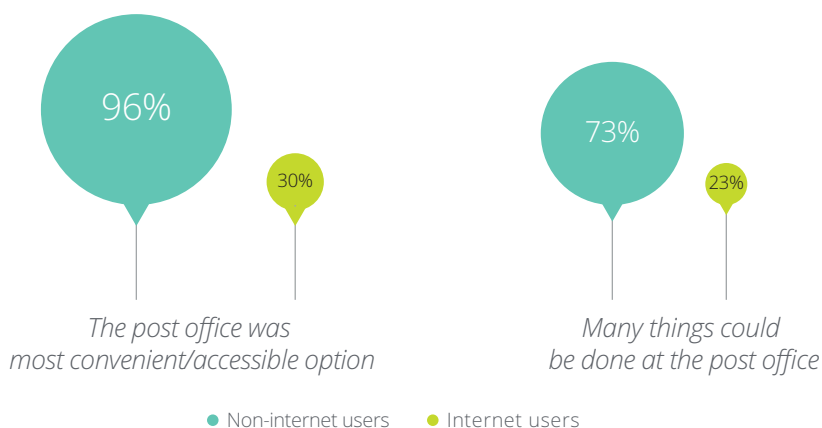
The impact of this closure has been felt throughout the town, but especially for Middlemount's local businesses, clubs and community organisations. These customers place a particular value on in-person banking services for a range of reasons, such as the security and support provided when transacting over the counter, and the inability to conduct large cash deposits and withdrawals at the ATM. At the time of the closure of the last remaining bank branch, local residents commented that they would be heavily impacted by the need to travel an hour and a half each way to access the nearest bank (Central Queensland News, 2016).

Fortunately for locals, the Middlemount Post Office has been able to step in and provide an alternative in-person option for some banking services, such as deposits and withdrawals. Since the closure of the last bank branch, the Middlemount Post Office has seen Bank@Post transactions increase by almost 200 transactions per month. Around one-third of customer transactions at the Middlemount Post Office are a direct use of banking services, whilst another one-third involve banking in some way (e.g. paying a bill). Whilst the post office cannot deliver all of the banking services that a bank branch would provide, it is a convenient and accessible option for local businesses and community organisations to conduct their day-to-day banking requirements (Central Queensland News, 2016).



The service that had been utilised by the largest share of non-internet users was paying bills, with 82% having visited a post office to pay a bill in the past six months. Australians without internet access at home were significantly more likely to say that post offices are the most accessible option for using services, with 96% identifying this as a reason for visiting the post office, compared to 30% of Australians with internet access. They are also much more likely to value the ability to use multiple services to complete different tasks at the post office (Chart 4.9).

Chart 4.9. Reasons for visiting the post office for Australians without internet access



Source: Deloitte Access Economics survey (2018)

Australians' perceptions of Australia Post's brand and role



73%

Australia Post is a trusted and valued part of community



72%

Australia Post is a core part of national identity



65%

Australia Post is a unique service compared to other delivery



35%

Post offices and delivery services are irrelevant



86%

Recognise red post boxes as Australia Post



5 Australia Post delivers social and community benefits

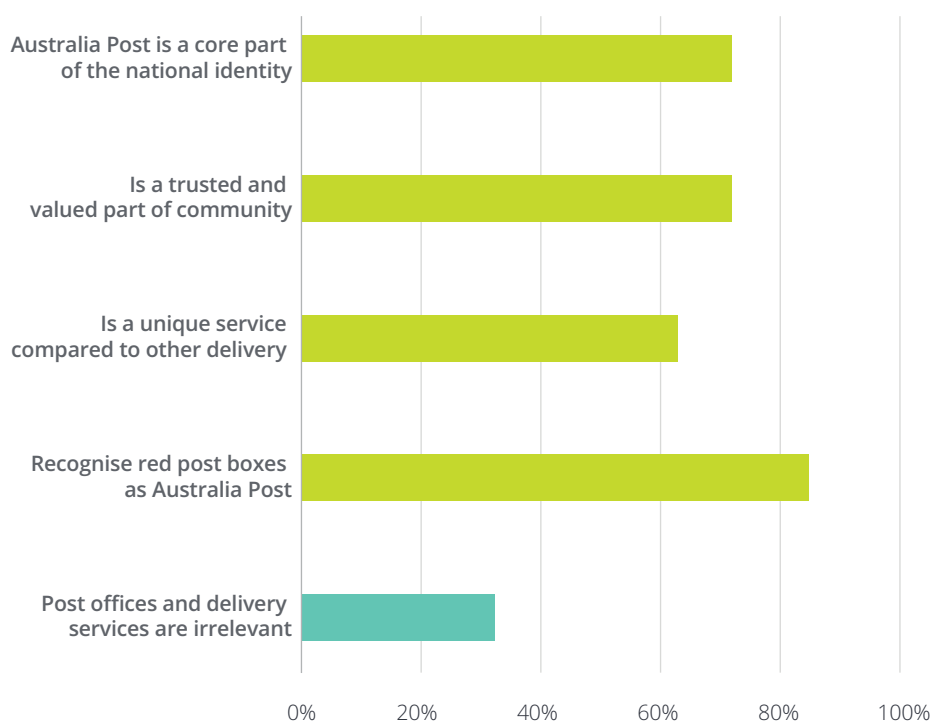
Australia Post's role in the community stems from its historical importance in our national identity, and its ongoing provision of services and support for local businesses and consumers. Most Australians value the accessibility and equity benefits of post office services.

5.1 Trusted role in local communities

Australia Post's brand is well known and highly regarded across the country. It has previously been ranked as the 23rd most valuable brand in Australia (Brand Finance, 2016), and has been described as "an iconic and trusted brand" during the 2014 Senate Enquiry. Our research finds that **73% of Australians think that Australia Post is a core part of Australia's national identity and has significant heritage value** (Chart 5.1).

Related to this heritage and community value, Australia Post holds a diverse property portfolio associated with its post office network and wider delivery operations, with the enterprise owning 437 properties across the country as at June 2018. Of these properties, 73 are included in the Commonwealth Heritage List of national, Indigenous and historic buildings and places (Australia Post, 2018b). These properties span across a range of Australian architectural styles, reflecting Australia Post's operations over the past 200 years. They include large Victorian Renaissance revival buildings, such as the Adelaide and Melbourne GPOs, early Federation works such as the Broken Hill Post Office, through to modern Post-WWII buildings such as Inglewood Post Office (built in 1947-49).

Chart 5.1. Australians' perceptions of Australia Post's brand and role



Source: Deloitte Access Economics survey (2018)

Many of these buildings have a pride of place in the commercial districts of Australian cities, towns and suburbs, and were developed to become local landmarks through the addition of architectural features such as clock towers (NSW Office of Environment & Heritage, 2012). They continue to be valued today as buildings of historical, architectural and heritage significance (Kay, 2014). As part of owning and managing its large portfolio of properties, Australia Post invests in the maintenance and upgrade (e.g. improvements to technology and energy efficiency) of these buildings, spending \$11.4 million on repairs and maintenance of heritage-listed properties in FY15 to FY17 (Australia Post, 2015/2016/2017). In this way, Australia Post plays an important community role in maintaining many of Australia's premier heritage buildings.

At a local level, **73% of Australians believe that post offices are a trusted and valued part of their community** (Chart 5.1). This trusted brand enables Australia Post to provide services that involve important or sensitive information, such as handling physical property, checking identities, providing advice and assistance, and educating the community. More generally, Australia Post's community involvement includes disseminating general community information, educating the local population such as digital literacy and mentoring programs, and linking residents and businesses with other service providers in the local area – similar to roles sometimes played by public libraries. In 2017, Australia Post also invested \$6.8 million in community-based programs and initiatives.

Australia Post's national presence means it can also play a role in natural disaster planning, response and recovery in regional and remote areas, as discussed in the box below. In these situations, trust in information is one of the most critical factors for successful disaster management (Paton, 2007).

Despite the increasingly digital environment that Australians live and work in, **only 35% of people think that post offices and delivery services are irrelevant in today's economy and society**. There continues to be a reliance on post office services by the community, even for those services that have digital substitutes such as paying bills, personal banking services and buying non-post related merchandise. And while there are other businesses that offer the delivery services that are core to Australia Post's operations, the majority of Australians (65%) still see Australia Post as providing a unique service offering compared to other delivery businesses.

Australia Post's role in natural disaster planning, response and recovery

Australia Post can play an important role in the community both during and after a natural disaster event. Temporary bases are typically established in order to quickly restore mail distribution and communications, and broader community assistance is also often provided, sending supplies to remote areas. One such example of this was the impact of Cyclone Debbie in Cannonvale, Queensland in 2017: as part of the disaster planning process, Australia Post staff rented motorhomes and generators which were used in the immediate aftermath of the cyclone to establish temporary post offices. This provided community members with a local hub for accessing power and internet straight after the event, enabling them to register for emergency government funding.

It is the trusted role that Australia Post plays in these local communities that enables the organisation to assist in disaster response and recovery efforts. Many local residents come to the post office in the aftermath of a natural disaster to pick up their mail and parcel deliveries, and seek out news about temporary facilities and potential assistance. Australia Post has also partnered with other community organisations such as St Johns Ambulance, the Salvation Army and the Rural Fire Service in order to provide support during the disaster recovery phase. With natural disasters forecast to become more common and severe in the future, the role of the post office in supporting the community through these extreme events will continue to be an important one.

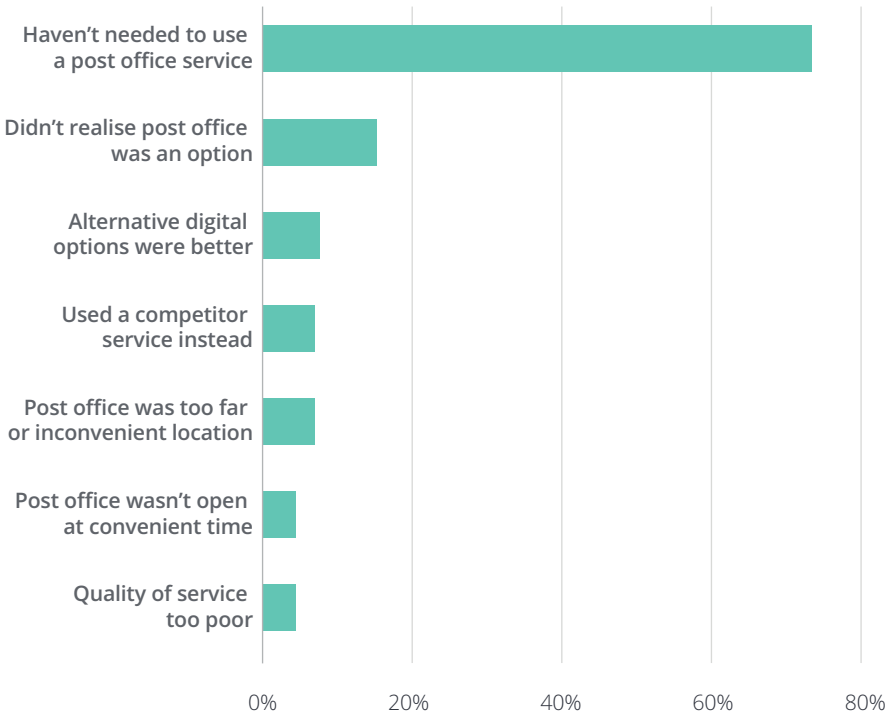
5.2 Valuing accessibility and equity in service provision

Having nationally accessible services is important to Australians. Given the important role that Australia Post plays in providing equitable access to core services across the country, even Australians who have not used these services place a value on the broader community and social benefits.

The majority (69%) of Australians who hadn't visited a post office in the past six months stated that this was because they had not required the use of any post office services, while 14% were not aware that the post office provided the services they needed (Chart 5.2). In contrast, reasons that indicated that post offices aren't a suitable or relevant option – such as inconvenient location, opening hours and cost – were not cited by many respondents.

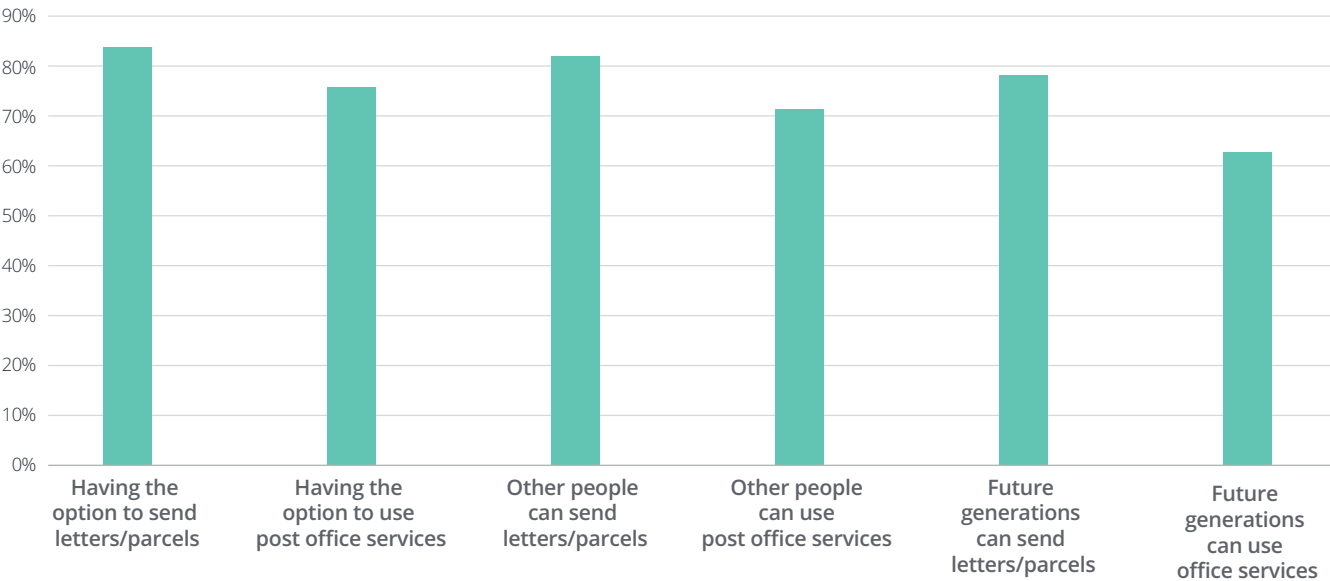
Whether they are regular users of delivery and post office services or not, a significant majority (79%) of Australians think that Australia Post is important for ensuring equity of access to core services for all communities across the country. 84% of people value that Australia Post provides a convenient option for delivery services, while 75% value having the option to use the post office for the broader services provided (Chart 5.3). Moreover, 82% value the existence of Australia Post's delivery services because other people can use them should they be required, and 71% value that other Australians can use the post office's broader services (for example, where they do not have access to alternative service providers).

Chart 5.2. Reasons for not having visited a post office



Source: Deloitte Access Economics survey (2018)

Chart 5.3. Reasons for valuing Australia Post apart from direct use of services



Source: Deloitte Access Economics survey (2018)

Our research finds that this option and existence value is worth a significant amount to Australians. The average Australian (aged 18+) is willing to pay \$10.20 per year, in addition to the prices paid for purchasing Australia Post’s products and services, in order to ensure the ongoing existence of Australia Post and the post office network. This means that **across the population of adult Australians, the value associated with these non-use benefits of Australia Post is around \$185 million per year** (ABS, 2018c). By comparison, the estimated financial cost to Australia Post of meeting its CSOs was around \$191 million in FY2017 (Australia Post, 2017).

This value is also evidenced in the reaction of local communities on the occasion that a post office in their area should close. The physical presence of a post office can be extremely meaningful to a town, especially in more isolated areas where post offices have been described as the lifeblood of rural Australia (Elliot, 2014). Closure or potential closure of a local post office leads to significant community protest from residents, businesses, clubs and organisations, and local leaders. The box on the next page highlights some of the negative community consequences associated with a post office closure, with even a temporary closure leading to reduced foot traffic to local businesses and greater inconvenience for local residents to perform everyday tasks.



Impact of a post office closure on the local community

In November 2013, the Montville Post Office shut down, and post office services were relocated to the next closest retail store in Mapleton. Upon the announcement of the post office closure, residents in the town held protests in the street, and lobbied the Montville Chamber of Commerce for its return. Residents commented that “just because Montville is a small community, does not mean the basic requirements aren't critical to those of us who live here” (Williams, 2013).

The importance of the local post office is highlighted through comments from local Member for Fisher, Mal Brough, who noted in Parliament that the closure had significantly inconvenienced local small businesses and elderly members of the community (Clare, 2013). The closure of the post office had a significant negative impact on the ability for residents to do banking transactions in person, post letters and receive delivery of mail and parcels, and local businesses nearby noticed a reduction in foot traffic.

However, after two months of the post office being closed, the owners of the local IGA were able to gain the licensing rights to the post office and re-instate post office services in Montville. Since its re-opening, the post office has played a vital role in the community, reflected by the post office winning the local small business of the year award in 2017. As licensee, Ann Wells, reflected, “the post office is trusted in the community to provide services. Locals value the in-person services and support provided through the post office.”



6 Australia Post's importance in the future

Despite the perception that Australia Post's relevance is declining in an increasingly digital age, this report finds that it continues to play an important economic and social role. This is not simply about letter revenue being replaced by parcel revenue, but also the role of Australia Post's retail network of post offices in local communities. For many Australians, Australia Post and its retail network are synonymous – people use the network for delivery, financial and other services, and even if they do not frequently visit the post office, its existence is valued for equity and access considerations.

Digitisation and globalisation could continue to have implications for Australia's economic and social landscape over the coming years. In this changing world, Australia Post's core service offerings and post office network will still play an important role in facilitating business activity, connecting local communities and providing access to services to consumers who do not have alternative options. The opportunities created by this change will also enable Australia Post to adapt its services to deliver new value in achieving its commercial and community objectives.

In the future, there will be more growth in e-commerce, with further opportunities particularly for small and medium-sized Australian businesses to expand into new global marketplaces (McDonnell, 2017). Australia Post's delivery network represents an important part of the national infrastructure that enables Australian businesses to export into these international markets and grow e-commerce trade in the future, thereby supporting economic growth and job creation across the nation. There will be growth opportunities in national e-commerce markets: for example, revenue from online shopping in Australia is expected to grow by 35% from FY18 to FY21 (IBISWorld, 2017). At the same time, there could also be greater competition in the parcel delivery market; for example as drone delivery becomes an increasingly viable option.

The strength of Australia Post's brand and its trusted role in local communities will underpin ongoing use of Australia Post's services by individuals and businesses throughout the country.

This report finds that only a minority of Australians believe that post offices are irrelevant in today's society despite the increasing availability of digital substitutes, and many people still use their services because of convenience or limited alternative options. These findings suggest that Australia Post's operations will continue to support the everyday activities of Australian individuals and businesses, even as the form of this support evolves to better complement the use of digital platforms and transactions.

Furthermore, in this increasingly digital world, it is important that in-person services remain available as an option to Australians who are unable to readily access the internet. Australia Post's national network of post offices, which have a more significant presence in the regional and remote parts of Australia than many other businesses and industries, means that it can meet the needs to these cohorts who prefer to transact in person. Delivering accessibility and equity in the provision of these core services will remain an important part of Australia Post's future role.

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Appendix A

Methodology for estimating economic contribution

Economic contribution studies are intended to quantify measures such as value added, exports, imports and employment associated with a given industry or firm, in a historical reference year. The economic contribution is a measure of the value of production by a firm or industry.

Value added

Value added is the most appropriate measure of an industry's/company's economic contribution to gross domestic product (GDP) at the national level, or gross state product (GSP) at the state level.

The value added of each industry in the value chain can be added without the risk of double counting across industries caused by including the value added by other industries earlier in the production chain.

Other measures, such as total revenue or total exports, may be easier to estimate than value added but they 'double count'. That is, they overstate the contribution of a company to economic activity because they include, for example, the value added by external firms supplying inputs or the value added by other industries.

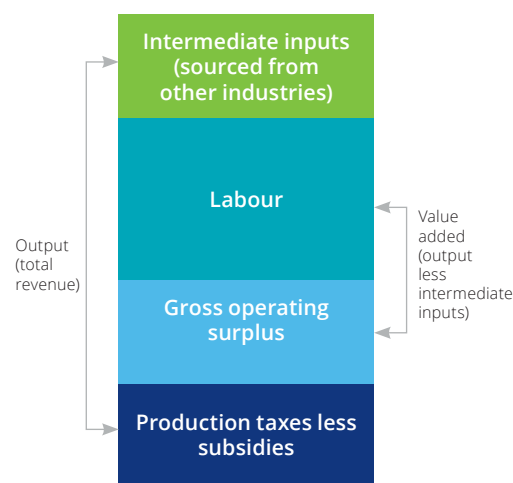
Measuring the economic contribution

There are several commonly used measures of economic activity, each of which describes a different aspect of an industry's economic contribution:

- Value added measures the value of output (i.e. goods and services) generated by the entity's factors of production (i.e. labour and capital) as measured in the income to those factors of production. The sum of value added across all entities in the economy equals gross domestic product. Given the relationship to GDP, the value added measure can be thought of as the increased contribution to welfare. Value added is the sum of:
 - Gross operating surplus (GOS). GOS represents the value of income generated by the entity's direct capital inputs, generally measured as the earnings before interest, tax, depreciation and amortisation (EBITDA).
 - Labour income is a subcomponent of value added. It represents the value of output generated by the entity's direct labour inputs, as measured by the income to labour.
 - Tax on production less subsidy provided for production. This generally includes company taxes and taxes on employment. Note: given the returns to capital before tax (EBITDA) are calculated, company tax is not included or this would double count that tax.
- Gross output measures the total value of the goods and services supplied by the entity. This is a broader measure than value added because it is an addition to the value added generated by the entity. It also includes the value of intermediate inputs used by the entity that flow from value added generated by other entities.
- Employment is a fundamentally different measure of activity to those above. It measures the number of workers that are employed by the entity, rather than the value of the workers' output.

Figure A.1 shows the accounting framework used to evaluate economic activity, along with the components that make up gross output. Gross output is the sum of value added and the value of intermediate inputs. Value added can be calculated directly by summing the payments to the primary factors of production, labour (i.e. salaries) and capital (i.e. gross operating surplus, 'GOS', or profit), as well as production taxes less subsidies. The value of intermediate inputs can also be calculated directly by summing up expenses related to non-primary factor inputs.

Figure A.1. Economic activity accounting framework



Source: Deloitte Access Economics

Direct and indirect contributions

The **direct economic contribution** is a representation of the flow from labour and capital within the sector of the economy in question.

The **indirect contribution** is a measure of the demand for goods and services produced in other sectors as a result of demand generated by the sector in question. Estimation of the indirect economic contribution is undertaken in an input-output (IO) framework using Australian Bureau of Statistics input-output tables which report the inputs and outputs of specific sectors of the economy (ABS, 2017d).

The total economic contribution to the economy is the sum of the direct and indirect economic contributions.

Limitations of economic contribution studies

While describing the geographic origin of production inputs may be a guide to a firm's linkages with the local economy, it should be recognised that these are the type of normal industry linkages that characterise all economic activities.

Unless there is significant unused capacity in the economy (such as unemployed labour) there is only a weak relationship between a firm's economic contribution as measured by value added (or other static aggregates) and the welfare or living standard of the community. Indeed, the use of labour and capital by demand created from the industry comes at an opportunity cost as it may reduce the amount of resources available to spend on other economic activities.

This is not to say that the economic contribution, including employment, is not important. As stated by the Productivity Commission in the context of Australia's gambling industries:

Value added, trade and job creation arguments need to be considered in the context of the economy as a whole ... income from trade uses real resources, which could have been employed to generate benefits elsewhere. These arguments do not mean that jobs, trade and activity are unimportant in an economy. To the contrary they are critical to people's well-being. However, any particular industry's contribution to these benefits is much smaller than might at first be thought, because substitute industries could produce similar, though not equal gains.

In a fundamental sense, economic contribution studies are simply historical accounting exercises. No 'what-if', or counterfactual inferences — such as 'what would happen to living standards if the firm disappeared?' — should be drawn from them.

The analysis — as discussed in the report — relies on a national input-output table modelling framework and there are some limitations to this modelling framework. The analysis assumes that goods and services provided to the sector are produced by factors of production that are located completely within the state or region defined and that income flows do not leak to other states.

The IO framework and the derivation of the multipliers also assume that the relevant economic activity takes place within an unconstrained environment. That is, an increase in economic activity in one area of the economy does not increase prices and subsequently crowd out economic activity in another area of the economy. As a result, the modelled total and indirect contribution can be regarded as an upper-bound estimate of the contribution made by the supply of intermediate inputs.

Similarly, the IO framework does not account for further flow-on benefits as captured in a more dynamic modelling environment like a Computable General Equilibrium model.

Input-output analysis

IO tables are required to account for the intermediate flows between sectors. These tables measure the direct economic activity of every sector in the economy at the national level. Importantly, these tables allow intermediate inputs to be further broken down by source. These detailed intermediate flows can be used to derive the total change in economic activity for a given sector.

A widely used measure of the spill-over of activity from one sector to another is captured by the ratio of the total to direct change in economic activity. The resulting estimate is typically referred to as 'the multiplier'. A multiplier greater than one implies some indirect activity, with higher multipliers indicating relatively larger indirect and total activity flowing from a given level of direct activity.

The IO matrix used for Australia is derived from the ABS IO tables. The industry classification used for input-output tables is based on ANZSIC, with 111 sectors in the modelling framework.

Appendix B

Methodology for estimating consumer surplus

As part of Deloitte Access Economics' survey, respondents were asked several questions regarding their use of post office services, to understand a preferences structure from which consumers' willingness to pay can be derived. First, respondents were asked about the number of times they had used a given service or purchased given items at the post office over the past six months (Table B.1).

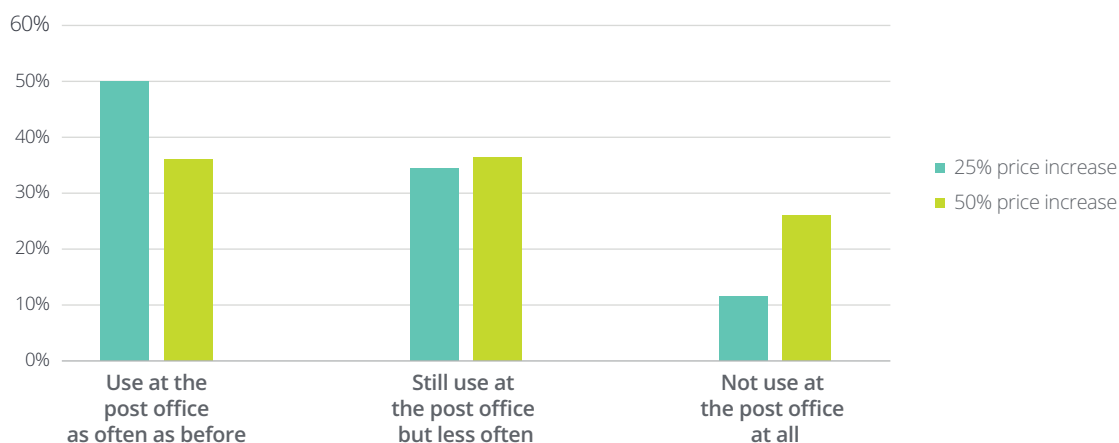
Table B.1. Survey question on use of post office services and products

Service or product offered by post office	Frequency of use
Sending mail	___ times
Sending parcels	___ times
Collecting a delivery (excluding from a PO box)	___ times
Using a PO box	___ times
Paying bills	___ times
Transferring money (by money order for domestic transfer, with Western Union for international)	___ times
Other personal banking services (e.g. deposits, withdrawals, balance checks)	___ times
Buying insurance and foreign currency products	___ times
Completing an identity check (e.g. police check, check for property transfer)	___ times
Verifying and witnessing documents	___ times
Passport application	___ times
License renewals and applications	___ times
Tax File Number application	___ times
Buying post-related merchandise for later use (e.g. prepaid postage, packaging)	___ times
Buying non-post-related merchandise (e.g. souvenirs, stationery, cards, phones)	___ times
Other service or product (please specify)	___ times

Source: Deloitte Access Economics survey (2018)

For each service or product that had been used at least once in the past six months, respondents were asked two questions regarding the number of times they would purchase that product or service if the price were to increase:

- Think about what you paid for these services and/or products at the post office over the past 6 months. If the price were to **increase by 25%**, and assuming there are no price changes for alternative options (if any comparable alternatives exist for each service/product), what would you do?
- Think about what you paid for these services and/or products at the post office over the past 6 months. If the price were to **increase by 50%**, and assuming there are no price changes for alternative options (if any comparable alternatives exist for each service/product), what would you do?

Chart B.1. Australia Post customer demand response to a 25% and 50% price increase for sending mail

Source: Deloitte Access Economics survey (2018)

Respondents were able to select one of the three options for each question: use at the post office as often as before; still use at the post office but less often; or, not use at the post office at all. These two questions were asked separately for each product or service that had been used. A response of 'still use the post office but less often' was assumed to be equivalent to using the product or service 50% less than had originally been indicated.

Chart B.1 provides an example of the estimated demand responses based on the survey results for the service of sending mail, if the price of sending mail were to increase by 25% or 50%. Following a 25% price increase, 51% of respondents who send mail would send mail using the post office as much as before, and 36% of respondents would continue to send mail at the post office but less often. Following a 50% price increase, these demand responses change to 36% and 37% respectively.

The survey results at different price points can be used to estimate the price elasticity of demand for each product and service at these various prices; that is, the responsiveness of quantity demanded following a change in price. We combine our survey results based on consumers' stated preferences on what they would do in response to a price change, with previous research on how consumers have historically responded to changes in the price of sending mail in Australia (Australia Post, 2018a). This previous research also enables us to differentiate between the consumer surplus of individual customers and business customers for sending mail.

Based on these estimated elasticities and price points, the number of people who would still demand a product or service at a given price threshold is calculated.⁴ From the quantity demanded at each price point, the average consumer surplus for the various products and services can be derived.

We apply these average consumer surpluses to Australia Posts revenue line items to get the total FY2017 surplus for each product. For example, Australia Post delivers 2.6 billion letters per year, of which 3% are sent by individuals and 97% are sent by businesses. Based on this volume, the consumer surplus for individual mail delivery is equal to \$32 million, and for businesses mail delivery the surplus is over \$1,038 million. For parcels, the total consumer surplus is \$842 million and for other services, including facilitated services and sales of products unrelated to postal services, the surplus is equal to \$234 million.

⁴ Note that the price points are mutually exclusive to the extent that each person is only counted in the maximum willingness-to-pay category that they sit under.

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