



Australia Israel Chamber of Commerce

7 March 2013

***Pushing the Envelope: Australia Post in the
Digital Economy***

Australia Post

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auspost.com.au

Australia Israel Chamber of Commerce (AICC)

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Pushing the Envelope: Australia Post in the Digital Economy

Keynote address by Australia Post Managing Director & CEO, Ahmed Fahour

This is a really apt location to be talking about Australia Post's future because so much of our early history was written just down the hill from here.

Our history can be traced back to 1809 when Australia's first post office opened on George Street adjacent to Circular Quay. At that time, there were only about 10,000 soldiers and convicts here in Sydney living alongside the Gadigal people. Of course, back then, Sydney was without doubt the most isolated place on Earth.

Sailing ships were the only link to the outside world and a ship typically took about 6 months to sail from England to Sydney. The vision of a ship arriving here in the Harbour and the hope that it might carry news from 'home' was enough to cause pandemonium on the docks. Soldiers and convicts, alike, would gather at the port desperate for news of their loved ones on the other side of the world.

Amidst this mayhem, the arriving mail would inevitably be stolen or lost.

Australia's first Postmaster Isaac Nichols was appointed in 1809 to bring order to this chaos. He would climb aboard ships, before they docked, to collect the mail and he'd then distribute the mail from Australia's first post office, a simple room at his home on George Street.

Australia Post has grown from that humble room. Over 204 years we have continually adapted our services to keep Australians connected to each other and the world.

I love this story because it says so much about the unchanging nature of Australia Post's core purpose.

Of course, all sorts of fast transport and communications technologies have been invented over the past two centuries – for example, the telegraph, the telephone, the fax machine, the plane and the car.

But we have continually adapted and evolved so our original purpose – providing a trusted and reliable way of connecting Australians – still remains the hallmark of our brand today.

So, today, I want to talk about how we are remaining true to that original purpose while repositioning Australia Post to seize the growth opportunities of the Digital Economy.

For us, the rise of the digital economy is the biggest challenge we've seen in our 204 years of history.

Undoubtedly the invention of the World Wide Web was the foundation for the massive transformation that we're currently seeing in markets across the world.

But the reality is that the Web was invented nearly 25 years ago.

The emerging Digital Economy is built on the back of that initial invention but it is really being enabled now through a convergence of other innovations.

It's the result of things like:

- Investment in fast broadband services.
- The digitisation of all forms of media and entertainment.
- Growing acceptance of cloud computing.
- Sophisticated methods of managing and mining data.
- The mass adoption of social media.
- And easy-to-use, intuitive mobile devices.

I see the rise of a digitally-enabled economy as a seismic shift for Australia and the world.

If you're comparing it to other historical events, you have to go back to the invention of the printing press, or the steam engine or electricity.

It's one of those monumental advances that actually changes our behaviour and our capability as humans.

At a basic level, of course it means we all spend much more time, each day, looking at an electronic screen. But in a deeper sense, the rise of digital channels is actually changing our patterns of work, how we relax and how we connect with each other.

When historians look beyond the impact of the GFC, I think they will really focus in on 2008 as an inflection point in the growth of the Digital Economy. That was the year that the first iPhone was released in Australia.

Today, just 5 years later, 6 out of 10 adult Australians already own a smart-phone and it's hard to imagine how we ever coped without them. These devices have made information and services truly mobile and universally accessible. In India, more people are now accessing the Internet via a mobile device than a desktop computer.

2008 was also the year that social media started to become mainstream and a runaway phenomenon, globally. In mid-2008, there were just 90 million Facebook accounts whereas, today, there are over a Billion Facebook accounts. So 90% of Facebook's users have joined in the past 5 years.

The growth of Twitter has been even faster. In 2008, there were about 1 million "tweets" sent, each day. Today, that's grown to around 340 million "tweets" per day.

Twitter is the fastest growing social technology in history. From launch, it took just 9 months to reach 50 million users. By comparison, Facebook took a year to gain that many users. Television took 13 years and Radio was in existence for a full 38 years before 50 million listeners tuned in.

So it begs the question:

What further change are we going to see over the coming decades – as superfast broadband services are rolled out to the entire country?

The truth is I don't know. I don't think anybody has the answer.

When the printing press was invented we didn't know it would lead to an era of mass communication and, eventually, the scientific revolution.

When the steam engine was invented, nobody predicted that it would lead to mass urbanisation as people moved from an Agrarian life to work in industrialised cities.

When electricity was invented, nobody could foresee that it would lead to the light bulb, refrigeration, air-conditioning, telecommunications and thousands of other uses.

Just like those earlier inventions, technology will continue to transform our world in ways that we don't yet appreciate. Its impact on our social, cultural and commercial norms is still too staggering for us to fully understand.

Most of our public discussion about the Digital Economy here in Australia has, so far, focussed on the political debate about the type of broadband infrastructure we should invest in.

To me, investment in broadband infrastructure is a fundamental, nation-building initiative regardless of whether it's copper, fibre or wireless.

But it's still just one part of the overall picture.

The inventor of the Web, Tim Berners-Lee, visited Australia recently and he made a similar point.

He said:

“It's a wonderful thing having everyone connected ... but it's only a foundation. The fact you have a piece of fibre optic hanging out from the wall ... (or node) ... is only the start.”

I'm more interested in the services and applications that will deliver real benefits in a digitally-enabled economy.

- How do we use broadband services to deliver more efficient access to government services?
- How do we encourage Australian businesses to innovate?
- How do we help Australian businesses to get online and compete in a global marketplace?
- How do we bridge the digital divide so that the elderly and disadvantaged have access to the benefits of the Digital Economy?

These are the issues that are going to produce economic growth, productivity gains and job opportunities for all Australians.

I was interested to read a recent report by Deloitte that estimates about one-third of our economy faces “imminent and major digital disruption”.

For many sectors, that disruption has either already occurred or it's well underway e.g. look at the music industry, video stores, retailing, how newspapers are now grappling to find a sustainable business model or companies that have failed to adapt to digital technologies like Kodak.

I can speak on this topic with some authority because Australia Post is both a beneficiary and a victim of digital disruption. For us, “digital disruption” is a neutral term. It presents big challenges but vast opportunities, too.

Undeniably our biggest challenges are in our traditional mail business.

For those of you who are unaware, mail volumes are now in decline right across the world.

Returning to my point that 2008 was an inflection point in the digital economy, our mail volumes certainly support that view. Our mail volumes always tracked in line with GDP until 2000 then they were stable for 8 years until 2008 and they've been falling by about 4-5% annually over the past 4 years.

Interestingly, that rate of deceleration has increased recently.

Compared to the mail peak, our addressed mail volumes this year will be almost a billion items lower than in 2008. That's a \$400 million revenue hole that's developed in 4 years or 20% of our current mail revenue.

Given this volume and revenue decline and our Community Service requirement it's not surprising that we lost \$190 million in our traditional mail business last year. This loss has been growing since 2009 and it will continue to grow as our customers shift from physical to digital communications. As a consequence, there has been a reduction in staff in our mail division and like our falling profits, this reduction is, unfortunately, likely to continue.

Our 'Future Ready' change program is about adapting to this shift in customer behaviour that's being driven by the digital world. We have redefined our strategy in response to that shift and we've started thinking about our core markets in completely new ways.

Our strategic response to the challenge in our communications business is our Digital MailBox. So one of our three strategies, now, involves: "building a sustainable communications business – both physically and digitally".

Of course, we will continue to deliver the physical mail for Australia - letters are our original reason for being. But we know that if we don't offer a digital alternative, our share of the broader communications market will continue to fall. So, pretty soon, we will offer complementary physical and digital services.

The Australia Post Digital MailBox will be a free service that's available for all adult Australians. You will be able to use it to receive and store important documents (like bills and statements) and make payments.

If you're thinking of equivalents in the physical world, this is effectively your letterbox, your filing cabinet and your payments card or bank account but seamlessly combined in a secure, online environment.

This service is operational now and we will be launching it widely to Australian consumers in the coming months.

The development of our Digital MailBox is consistent with our vision of Australia Post as the place "that connects the digital economy with the physical world".

As I mentioned earlier, digital disruption has also presented Post with some VAST growth opportunities. The most obvious is in e-commerce.

Over the past 3 years, our parcel volumes have been growing by around 10% a year, driven by online shopping. 70% of our parcels are now generated by an online transaction. That's over a

billion dollars of revenue for us each year. This has enabled us to grow our parcels jobs and profitability.

Overall, for our Group, the growth in the ecommerce market along with careful cost management and productivity gains has enabled us to offset the declines in our mail business.

The Australian eCommerce market was initially slow by international standards but it's now growing rapidly. All of the research is predicting double-digit annual growth in Australian online spending through to 2020.

3 out of 4 items bought by Australians, online, are purchased from domestic websites and it's mainly small and medium-sized businesses that are the engine room of our domestic e-commerce market.

Many of them barely existed 5 or 10 years ago - think of companies like Catch of the Day, Ozsales, Deals Direct and Greys Online.

It's incredible to watch the growth of these businesses, first-hand. These entrepreneurs foresaw that technology was fundamentally changing the nature of markets and they capitalised on that opportunity.

Not so long ago, markets were defined by geographic areas.

Businesses would locate in an area where there was a population density that would provide the demand for the products or services that they sold. The rise of digital marketplaces supported by effective logistics networks has changed the nature of our marketplace entirely.

Digital marketplaces are now diffuse so businesses can be located anywhere and still sell to customers globally. Obviously, that's both a threat and an opportunity for Australian business.

There are plenty of examples of small businesses in regional areas of Australia that are thriving as a result of this change. I'll give you just one example. It's an online retail business called BirdsNest. They sell women's clothing and they have customers from across Australia and around the world. The entire business is in the Snowy Mountains town of Cooma including website, operations, warehouse and customer service.

This company employs 90 people in Cooma! 94% of their sales are online. They sell 5,000 items a week. And they use us, Australia Post, as their delivery partner so we're a pretty significant part of their overall customer experience.

Again, it gets back to our strategy of being the organisation that connects digital services to consumers in the real world.

Our nationwide logistics network is now underpinning the growth of thousands of small businesses like Birdsnest. We provide them with a fast, reliable way of getting their product to their customers so their success is also our success. That's why we have a vested interest in expanding digital marketplaces and supporting business to get online.

But we also acknowledge that some aspects of our parcels network were built for a different purpose and a different type of customer. So we're investing heavily in the capacity of our network to handle increased volumes so that we can continue to support the growth of Australian online retailers.

We're also investing in our capacity to offer Australian consumers greater choice and convenience in how they receive items they've bought online. Our customers aren't always home during the day so we're looking at a range of delivery alternatives that will make the online shopping experience easier for them.

Just one example is our investment in Smart Parcel Lockers that are accessible 24/7. These Smart Lockers enable our customers to collect parcels when it suits them – day or night so it gives the customer complete control. We've now got these Smart Lockers in 50 locations with a further 200 to come over the next 2 years.

Clearly, the Digital Economy has already had a dramatic impact on our daily operations but I think there is now a bit of a disconnect between what we actually do and the community's perception of what Australia Post does.

The community – who own our business – still largely see us as a letter delivery business with post offices in every town. Of course, that is an important part of the community service that we provide. But there's a whole other side to Australia Post, too.

We're also an unashamedly commercial business – with our focus firmly set on capturing the opportunities presented by a digital economy. In reality that means we're increasingly becoming a parcels business.

This year, our parcels business will earn more revenue than our letters business. It's the first time that has happened in our 204 years of history and it's the result of a quite deliberate and strategic push into our most immediate growth opportunity in the Digital Economy.

There's no doubt we still have a lot of work ahead of us in terms of implementing our strategy but I'm confident that we have a really firm understanding of how our markets are shifting in this Digital Economy.

I'm also confident that our strategic response is sound and I know that we are investing heavily in our growth opportunities.

By making these changes now, I'm confident that we will maintain Australia Post as a vital piece of community infrastructure – for all Australians and we will continue to fulfil our original purpose: As the business that provides trusted and reliable ways for Australians to connect.

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