

**The Parliament of the Commonwealth of Australia**

**THE STAMP OF APPROVAL**

**A Review of the Administration of Philatelic  
Services by Australia Post**

**Report from the House of Representatives  
Standing Committee on Transport,  
Communications and Infrastructure**

**August 1990**

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HOUSE OF REPRESENTATIVES

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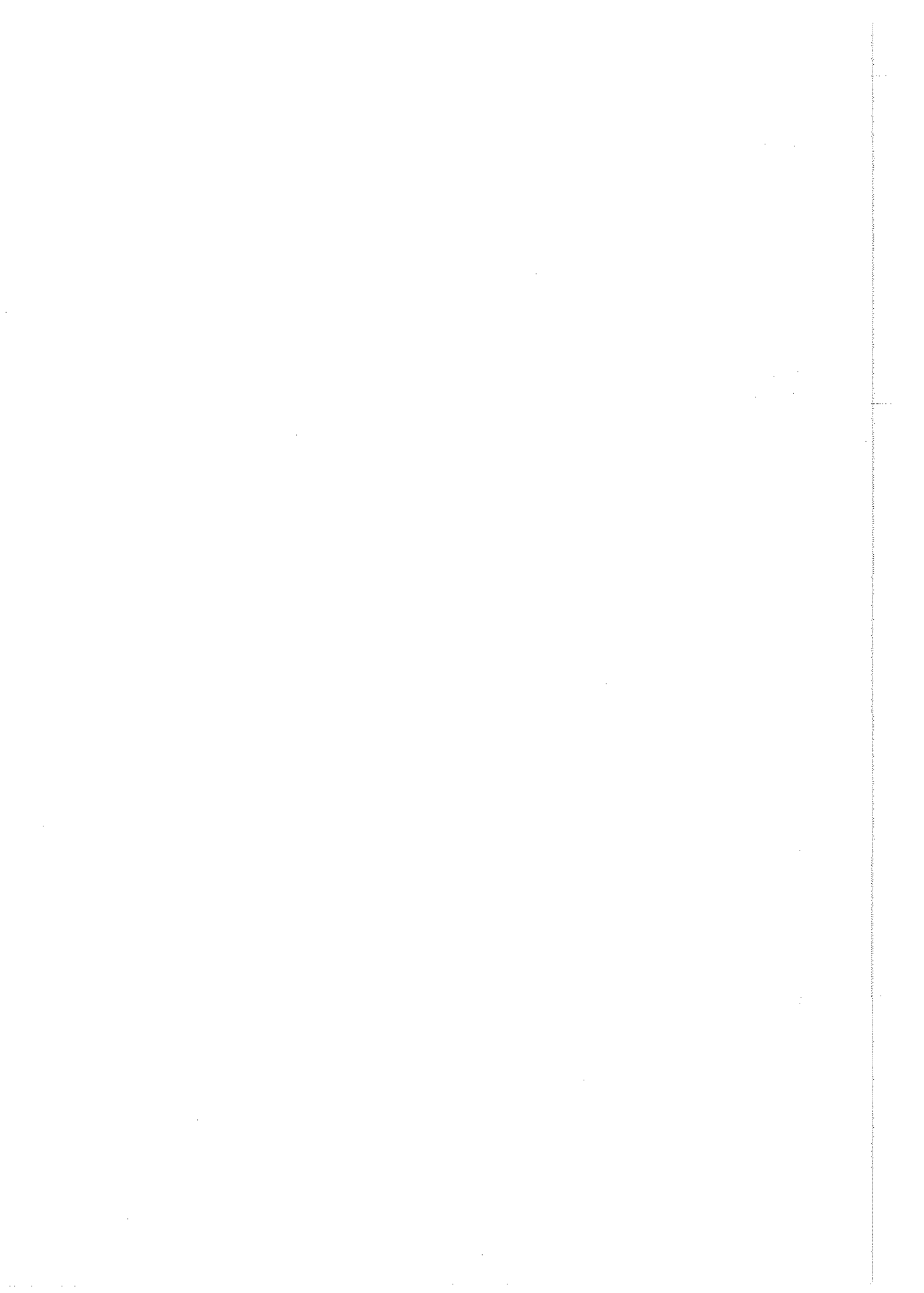
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<sup>2</sup> Replaced Mrs C A Jakobsen, MP 28 October 1987.

<sup>3</sup> Replaced Hon N A Brown, QC, MP 1 December 1988.

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<sup>5</sup> Replaced Mr C W Blunt, MP 29 May 1989.

<sup>6</sup> Replaced Mr R G Halverson, OBE, MP as a member of the Sub-Committee 31 May 1989.



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## PREFACE

Stamp collecting is a hobby in which one million Australians participate in some form or another. It is also a business that generates in the order of \$40 million in revenue each year for Australia Post.

The inquiry has highlighted a number of points of interest. Firstly, the inquiry dealt with several issues which have been of great concern to stamp collectors in Australia for many years. Secondly, the inquiry has drawn attention to the important, but diminishing, contribution made by philatelic sales to Australia Post's profits.

The Committee concluded that control of costs, which was the thrust of the efficiency audit report, was not the complete answer to the decreasing profitability of Australia Post's philatelic operations. There is an urgent need for some thorough market research to determine whether this trend of declining sales of philatelic products can be arrested.

I believe that this report provides an opportunity to improve the prospects for the future of philately and the popularity of the hobby.

On behalf of the Committee I would like to thank Australia Post, the Australian Philatelic Federation and the Australasian Stamp Dealers' Association for their assistance in the conduct of this inquiry.

I appreciate the time and contributions of the other Members, and in particular the Members of the Sub-Committee from the 35th Parliament, Mr Russ Gorman and Mr Lloyd O'Neil and the Members of the present Sub-Committee, Mr Ewen Cameron and Mr Graeme Campbell.

I would also like to place on record my appreciation of the work of the Secretariat, the Sub-Committee Secretary, Christopher Paterson and June Murphy who provided administrative support.

**COLIN HOLLIS MP**  
Subcommittee Chairman

**22 August 1990**



## CONCLUSIONS AND RECOMMENDATIONS

### Conclusions

1. The Committee's review of the efficiency audit report of the Auditor-General on the administration of philatelic services by the Australian Postal Commission has three objectives or purposes. These are:

- . to examine the responses of the audited organisation;
- . to assess the contribution to efficiency made by the efficiency audit report; and
- . where appropriate, to examine or follow-up on areas touched on in the audit report.

2. Although philatelic services constitute a very small part of the business of Australia Post, they make a significant contribution to profits. Their contribution to the total profit of Australia Post is about 20 per cent but in absolute terms philatelic profits have fallen by almost 50 per cent in recent years.

3. This decline is the outcome of stagnant revenue (sales) and increasing costs. The audit has concentrated on costs. The Audit methodology is to review the 'appropriateness' of the procedures and methods used by the Philatelic Bureau in the production, marketing and sale of philatelic products. The areas covered are the philatelic mail order system, management information systems, the management of overseas agents and the costing of philatelic services.

4. The efficiency audit report made 15 recommendations aimed at improving the efficiency and the quality of decision-making in philatelic services. Australia Post has responded very positively to the recommendations in the report and to Committee questioning on implementation and should be complimented for this. There are indeed few matters where there is disagreement between auditor and auditee and this of course reduces the need for the Committee to arbitrate on disagreements.

5. Audit has encouraged Australia Post to adopt a more professional and businesslike approach to the production, marketing and sale of philatelic products. The Committee endorses this course. Detailed examination of the responses to the Audit recommendations have isolated two key areas where the potential benefits are significant and measurable.

6. The first is the control of stock levels and Audit has been the catalyst in reducing levels of unsold stock. As a result Australia Post has set a target level for unsold stock and in 1988-89 bettered this target figure. The Committee estimates that savings of \$290 000 have accrued as a result of this audit initiative.

7. The second key area deals also with stock levels, the level of stock holdings by overseas agents. The Committee is of the opinion that this matter should be handled in a slightly different way than that proposed by Audit and estimates potential savings at \$385 000.

8. The efficiency audit report has benefits that are significantly greater than the costs of carrying out the audit. The benefit-cost ratio works out at 2.5:1. There are also benefits that cannot or may be very difficult to quantify.

9. It would be both useful and cost effective if Audit checked the effectiveness of the implementation of its own and the Committee recommendations during 1991-92. This would also give Audit the opportunity to refine the estimates of cost savings made by the Committee. An appropriate recommendation has been made.

10. Controlling costs is one part of the equation. The other part, and in the opinion of the Committee the more important part, is reversing the decline in sales. This decline has become more pronounced in the period after the completion of the efficiency audit. An appropriate recommendation has been made on the urgent need for market research to find out whether the decline in sales can be arrested.

### **Recommendations**

11. The recommendations in this report can be divided into three groups. One impacts on costs, the other is designed to benefit revenue and the third checks implementation of Audit and Committee recommendations.

12. The Committee recommends that:

#### **Recommendations affecting costs**

*After Australia Post has its relevant information systems in place, it re-examine the Audit recommendation on full-cost recovery for mail orders; (paragraph 2.11)*

*Australia Post monitor closely the level of returns of philatelic products and aim for a target level of 10 per cent and eventually 5 per cent on returns; (paragraph 2.19)*

*Australia Post investigate all overseas agents who order substantial amounts of philatelic products and whose stockholdings are in excess of a year's sales and make adjustments to future stock holdings where appropriate; and (paragraph 2.29)*

### **Recommendation affecting revenue**

*Australia Post undertake a thorough analysis of the market for philatelic products and review current marketing strategies to ensure they are appropriate.*

*(paragraph 4.25)*

### **Recommendation concerning implementation**

*The Australian Audit Office examine the effectiveness of the implementation of Audit and Committee recommendations concerning philatelic services during 1991-92.*

*(paragraph 3.9)*



## 1: INTRODUCTION

### The Reference and Objectives of the Review

1.1 The efficiency audit of the Australian Postal Commission: administration of philatelic services<sup>1</sup> was referred to the House of Representatives Standing Committee on Transport, Communications and Infrastructure by the House on 24 May 1988. The Committee had not reported when the House was dissolved on 19 February 1990. At the request of the Committee, the reference was re-activated by the Minister for Land Transport, the Hon Bob Brown MP, by letter of 6 June 1990.

1.2 The purposes of the Committee review are:

- (a) to examine the responses of the audited organisation;
- (b) to assess the contribution to efficiency made by the efficiency audit report; and
- (c) where appropriate, to examine or follow-up on areas or issues touched on in the audit report.

1.3 In examining the responses of the audited organisation, the Committee may not have much more to do than check implementation when an organisation accepts Audit recommendation(s). Where there is disagreement, the Committee may have to adjudicate. An important aspect of Committee review is an assessment of the contribution made by EA reports to improving the efficiency in the areas they examine.

### Structure of Report

1.4 The remainder of the Introduction describes Australia Post's philatelic operations. Chapter 2 deals with the activities examined in the EA report and Australia Post's responses, that is, the matter in (b) of paragraph 1.2. In Chapter 3 an assessment is made of the contribution made by the audit to improving efficiency in the philatelic operations, ((b) of 1.2). Chapter 4 of the report concentrates on the revenue side of the philatelic operation ((c) of 1.2) area left largely untouched in the EA report but considered to be critically important by the Committee. The final chapter covers a number of issues raised in submissions not directly related to the EA report but of interest to the philatelic community.

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<sup>1</sup> The Auditor-General, Efficiency Audit Report, May 1988, *Australian Postal Commission: administration of philatelic services*, Parl. Paper 144/1988. Further references to this report will call it the EA report.

## Description of Australia Post's Philatelic Services

1.5 Philatelic operations are based in Melbourne under the direction of the Headquarters Philatelic Group which is responsible for:

- . stamp and postal stationery issue programs;
- . issue of associated philatelic products such as first day covers;
- . national marketing strategies;
- . national mail orders; and
- . the philatelic archival collection.

1.6 Stamp issue programs are drawn up by the Philatelic Group and submitted to the Board of the Australian Postal Corporation (previously Australian Postal Commission) for approval. The procedures for determining the stamp issue program are detailed in the Stamp and Postal Stationery Issue Policy published by Australia Post.

1.7 Stamp design is undertaken principally by free-lance designers, although some design work is undertaken in-house. Designs are assessed by the Stamp Advisory Committee (SAC) a body consisting principally of experts in graphic design, fine arts and philately. This body has no role in stamp issue policy. Printing is carried out under supervision by private security printers and packaging is undertaken by an Australia Post subsidiary, Sprintpak Pty Ltd.

1.8 A number of promotional methods are used to market products including some media advertising and the provision of classroom material. The principal promotional devices are the Australian Stamp Bulletin and the Australian Stamp Explorer, which are aimed at the adult and junior markets and have a circulation of 356 000 and 483 000 respectively. Regular consultation with the philatelic community is maintained through the Australia Post Market Monitoring and Advisory Committee (APMMAC) which includes representatives of both the Australasian Stamp Dealers' Association (ASDA) and the Australian Philatelic Federation (APF).

1.9 Philatelic officers are located in the Sales/Business Development Departments in each State and are responsible for implementing national policy and the promotion of philatelic products and the hobby of stamp collecting on a local basis. State Distributors are responsible for the distribution of stamps to sales outlets in each State ranging from full philatelic sales centres to non-philatelic post offices. Australia Post also has philatelic representatives in a number of other countries whose function is to service the local philatelic trade and promote the collection of Australian stamps.



## 2: RESPONSES OF AUSTRALIA POST TO THE EA REPORT

### The Efficiency Audit Report

2.1 The philatelic service was selected for audit due to the contribution by philatelic sales to Australia Post's overall profit. The EA report focuses on the Philatelic Bureau's processes and procedures. Following a diagnostic study, four areas were identified for review in the EA report. These were:

- . the philatelic mail order system;
- . management information systems;
- . management of overseas agents; and
- . the costing of philatelic services.

2.2 The Audit methodology is to evaluate the 'appropriateness' of the procedures and methods used by the Philatelic Bureau in the production, marketing and sale of philatelic products. The assumption appears to be that efficiency would be maximised if the most 'appropriate' procedures and methods are used.

2.3 A summary of the recommendations contained in the EA Report and Australia Post's responses is contained in Appendix 1 to this report.

### Philatelic Mail Order System

2.4 At the time of the audit Australia Post maintained 12 databases (mailing lists) for its mail order system and also contracted a private firm to maintain national databases for direct mail purposes.

2.5 Audit recommended that one national computerised database be established and that a more cost-effective organisational unit be established for mail order operations. Australia Post has now established a single national database and centralised the philatelic mail order operation in Melbourne.

2.6 The ASDA raised the issue of delays of six to eight weeks in receiving mail orders.<sup>1</sup> Australia Post advised the Committee that serious delays were occurring prior to centralisation of the mail order system. Centralisation has resulted in the earlier despatch of standing orders which are now posted the night before the day of issue. This must obviously improve customer satisfaction.<sup>2</sup> The new arrangements will provide a more efficient mail order service and should allow more effective management than has been possible in the past.

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<sup>1</sup> Transcript of evidence, p.76.

<sup>2</sup> Transcript of evidence, p.96 and p.112.

2.7 Another aspect of the mail order system is that although customers are charged for the cost of the product plus insurance and certification where applicable, there is no charge for handling and postage. Audit calculated the overall cost for processing standing and casual orders and found that for half of all mail orders the cost of processing exceeded the sales value.<sup>3</sup> Consequently, Audit recommended that Australia Post establish and recover charges on a full cost basis and set minimum order amounts.

2.8 In the response to Audit, Australia Post advised that current policy was not to impose handling charges or to set minimum values in order to encourage a positive interest in philately. Nevertheless, the recommendation would remain under consideration. Australia Post has since adopted a policy of applying handling charges to overseas orders and is monitoring the impact that this might have on the level of customer orders.

2.9 It is clear that there is disagreement between auditor and auditee on the need for full cost recovery of mail order business.

2.10 Audit found that for half of all mail orders the cost of processing exceeded the sales value. These statistics are incomplete and more relevant figures would be the dollar value of mail order sales that are unprofitable expressed as a percentage of total mail order sales. Perhaps this information was not available, but without it, it is difficult to gauge the extent of the problem.

2.11 The Australia Post response boils down to business judgement; that in their view the encouragement of philately is important for future business. This view cannot be ignored, given in particular the downward trend of revenue from philatelic sales. However, judgement should be supported by necessary information. The Committee recommends that:

**After Australia Post has its relevant information systems in place, it re-examine the Audit recommendation on full-cost recovery for mail orders.**

2.12 The mail order service forms part of a retail operation and contributes around 20 per cent of philatelic sales. Australia Post would need to be confident that charging for handling and postage for the profitable part of this business will not reduce sales due to customer resistance.

### **Management Information Systems**

2.13 Audit examined the management information systems that are used for the reporting and analysis of philatelic sales and stock levels. It found that the reporting mechanisms were deficient in both the information contained in the reports and their timeliness.

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<sup>3</sup> EA Report, p.13.

2.14 With regard to sales of philatelic products the EA report recommended (R4) the upgrading of existing reporting mechanisms and the adaptation of a newly developed electronic counter services network (ECS) to philatelic sales and reporting. The recommendations have been broadly accepted by Australia Post, although consideration of some changes have been delayed due to organisational changes being undertaken in State administrations.

2.15 The EA report also recommended (R5) the production of quarterly trading statements, development of profit targets and analysis of the comparative profitability of States and major outlets. Australia Post has developed a quarterly reporting system but does not intend extending this to major outlets as it considers that sufficient control can be exercised through existing monthly reporting systems.

2.16 Controls over the level of philatelic stock returned unsold were also of concern and the recommendation (R6) covered improved reporting of unsold stock, targets or acceptable levels for returned stock and analysis of returns to minimise wastage.

2.17 Australia Post advised that a target level of 15 per cent has been set as an acceptable level for returned stock and that concerns over excessive levels of returned stock were being addressed.<sup>4</sup> Australia Post has taken some action to reduce the level of returns. The percentage returned on the Annual Collection (an album containing all of the stamps issued over the course of a year and information on those issues) rose from 10 per cent in 1985-86 to 16 percent in 1987-88 with a production cost (for returns) of \$360 000. In 1988-89 the percentage fell dramatically to zero as a result of Australia Post adopting an aggressive approach to minimise waste as recommended in the EA report. This may represent some loss to revenue but it does represent a significant reduction in costs.

2.18 Table 1 shows that there have been significant reductions in the overall level of returns since 1985-86. It is also clear that significant cost reductions and resultant increases in profits can be sustained if the level of returns can be kept below the 15 per cent limit.

2.19 The action taken by Australia Post in response to the recommendations in the EA report has resulted in significant savings. There could be opportunities for further savings if the level of returns were monitored closely and the 15 per cent level lowered as a result. In view of the foregoing, the Committee recommends that:

**Australia Post monitor closely the level of returns on philatelic products and aim for a target level of 10 per cent and eventually 5 per cent on returns.**

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<sup>4</sup> Transcript of evidence, p.106.

**TABLE 1**  
**POTENTIAL SAVINGS FROM REDUCING THE**  
**RETURNS OF UNSOLD PHILATELIC STOCK**

Year	(1) Total Production Costs  (\$)	(2) Percentage Returned  (%)	(3) Production Costs of Returns  (\$)	(4) Production Costs of Returns if 15% of Total (\$)	(5) Savings  (\$)
1985-86	5,373,000	25	1,350,000	805,950	544,050
1986-87	na	na	na	na	na
1987-88	5,022,000	20	1,001,000	753,300	247,700
1988-89	3,467,800	12	401,000	520,170	nr

**Notes:** Col. 4 is 15 percent of Col. 1 and Col. 5 is Col. 3 minus Col. 4. Figures for philatelic stamps are not available for all years and have been excluded from the table.

**na:** not available.

**nr:** not relevant because the 15 per cent was achieved.

**Sources:** Col. 3 is taken from table 1, p.19 of the EA report (1985-86) and information provided by Australia Post (1987-88 and 1988-89). Col. 1 and Col. 2 are derived from this information.

2.20 Audit also expressed concern over withdrawal of stocks after their period of issue. It said that the reporting of withdrawal dates was inconsistent and that this could result in differing issue periods and inaccurate sales figures. Audit recommended (R7) co-ordinated withdrawal dates and issue codes.

2.21 Australia Post informed audit that changes were expected to provide for central control over withdrawal dates and issue codes. Australia Post advised the Committee that issue periods had been reduced from six to four months for commemorative issues in order to improve communication of this information within Australia Post and that new arrangements have rectified the problems identified by Audit.<sup>5</sup>

### **Management of Overseas Agents**

2.22 Stamps and philatelic products were marketed overseas by four agents appointed by Australia Post. The total revenue from overseas agents for 1986-87 was \$1 536 000 which represents about 3.6 per cent of philatelic revenue for that year.<sup>6</sup>

2.23 Audit found that only one agent had ever been subject to an audit and that the absence of such a control could result in sales revenue being withheld. Audit recommended (R.8) that a program of stocktakes and compliance checks be instituted.

2.24 Another factor which had a bearing on verification that all revenue had been received by Australia Post, related to stock destruction. After stock has been withdrawn from sale, overseas agents were allowed to arrange for the stock to be destroyed locally, under the supervision of a person appointed by Australia Post. This person then provided the agent with a certificate of stock destruction. Audit found that outstanding certificates of destruction were not being followed up by Australia Post and that controls over stock destruction were weakened by allowing destruction certificates to be sent directly to agents and not following up on the certificates. The EA report recommended (R.9) a number of reforms aimed at ensuring verification of stock destruction and the timeliness of that advice.

2.25 Australia Post recognised the potential weaknesses identified regarding verification of overseas stock holdings and has undertaken to institute audit and stocktake arrangements. In relation to stock destruction, all surplus stock is being recalled to Australia for destruction until suitable arrangements can be made for overseas destruction.<sup>7</sup>

2.26 The level of stock holdings by agents was also of concern to Audit because some agents held unnecessarily high levels of stock. There was no formal monitoring of agent stock holdings and there was some doubt as to the functional responsibility of the (then) Philatelic Bureau with regard to overseas agents. Audit recommended (R10,11) the setting of stock to sales ratios for monitoring by the Bureau and a clarification of the Bureau's functional responsibility with regard to overseas agents.

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<sup>5</sup> Transcript of evidence, p.107.

<sup>6</sup> EA Report, p.23.

<sup>7</sup> Transcript of evidence, p.58.

2.27 Although Australia Post agreed to clarify the matter of functional responsibility, it was not prepared to set a stock to sales ratio because overseas business was expanding and the risk of overstocking was minimal. The only concession Australia Post offered was an examination of stock levels held by overseas agents by the Philatelic Group Manager.<sup>8</sup>

2.28 The Committee considers this approach to be insufficient and concurs with the Audit conclusion on high stock levels. In 1986-87 the agent in the UK had stock which was equivalent to three years' sales. This represented unsold stock valued at around \$1 339 000.<sup>9</sup> The costs to Australia Post of this unsold stock would be much lower. Estimates based on these lower costs and the need to have a year's stock on hand rather than three, yield cost savings of the order of \$385 000.<sup>10</sup> This is an indicative figure based on the results for one year. But it does emphasise the need to have procedures and methods for handling excessive stock holdings.

2.29 The Committee supports the thrust of the Audit recommendation but recognises that it is necessary to ensure some flexibility, and therefore recommends that:

**Australia Post investigate all overseas agents who order substantial amounts of philatelic products and whose stockholdings are in excess of a year's sales and make adjustments to future stockholdings where appropriate.**

2.30 The variation of conditions laid down in contracts between agents and Australia Post was also examined. Audit noted that proper authorisation of variations had not occurred on a number of occasions. The EA report recommended (R12) that contract variations be approved by an authorised officer. Australia Post agreed to this recommendation.

2.31 Audit also made a recommendation (R13) to improve the reporting of marketing activities by agents as is required in the contracts with agents. Australia Post has advised that marketing plans and regular monthly reports are now being received from agents.<sup>11</sup> This should also assist Australia Post to determine appropriate stock levels for agents.

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<sup>8</sup> Transcript of evidence, p.105.

<sup>9</sup> Derived from EA Report, table 3, p.25.

<sup>10</sup> The estimate of production cost to Australia Post of the retail value of quarterly stock of \$1 449 433 in the UK (1986-87) is \$579 772 as based on confidential information. This estimate represents 3 years stock. If we assume 1 year stock to be the maximum allowed, then the savings to Australia Post would be \$386 514.

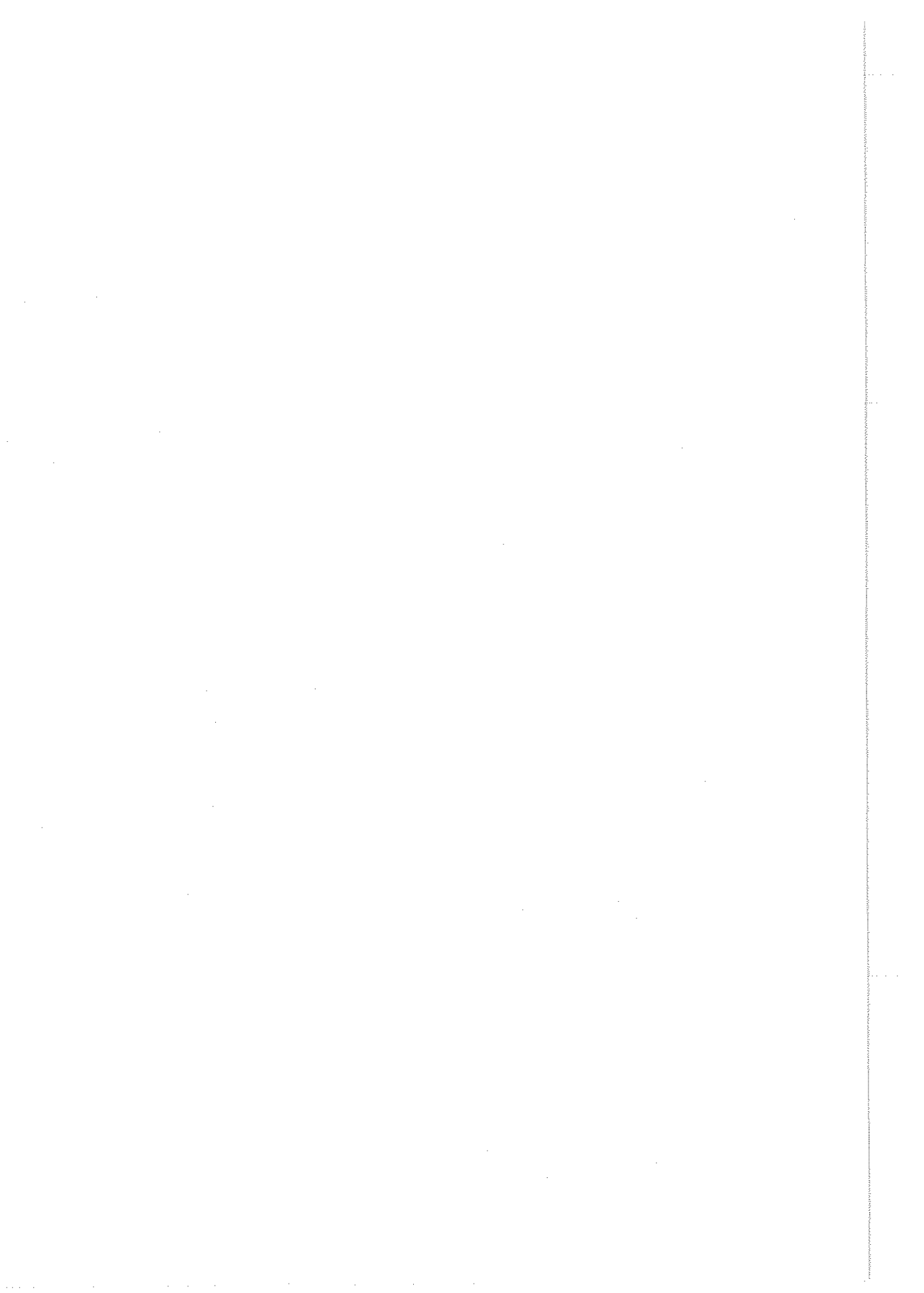
<sup>11</sup> Submission No 1, attachment 2, p.2.

## Costing of Philatelic Services

2.32 The EA report examined methods used in establishing a cost database to allocate costs to philatelic services. It was found that the sampling method used in the past did not accurately reflect philatelic activity. Audit recommended (R14) the investigation of alternative methods for allocating operational costs including the use of electronic counter services (ECS).

2.33 While Australia Post believes that current sampling methods are appropriate the new ECS will assist in more accurately determining costs.

2.34 The EA report also found that a number of other costs in relation to stamp and postal stationery production have been wrongly allocated to philatelic operations and recommended (R15) that the basis of production cost allocations be reviewed and documented. This is now being done on an annual basis.





### 3: ASSESSMENT OF THE EA REPORT

#### The Costs and Benefits

3.1 The second major purpose of the Committee review is to assess the contribution to efficiency made by the efficiency audit report of the Auditor-General (paragraph 1.2(b)). Section 48G of the *Audit Act 1901* requires the Auditor-General to provide a report each year concerning efficiency audits carried out in that year, together with cost of the audits and the resultant benefits derived from carrying out those audits.

3.2 Although the 1987-88 Annual Report of the Australian Audit Office reports the completion of the EA report at a cost of \$263 621, no mention is made of any resultant benefits derived from carrying out the audit. The EA report does make general reference to a number of expected improvements in administrative practice and management information systems. The Committee has considered these references in its assessment of the benefits that have been derived from the audit.

3.3 The rationalisation of the mail order databases and the centralisation of mail order operations to Melbourne will allow for a more economical use of resources and provide an improved service to customers. The former should result in reductions in staff and administrative costs and hence reduced operational costs. The latter (improved customer service) could assist in retaining customers and therefore sales.

3.4 The examination of management information systems highlighted the inadequacies of the data available to management for making decisions related to production, stock control and sales evaluation. In particular the EA report focussed attention on the levels of unsold stock. Audit has been the catalyst in reducing the levels of unsold stock. Table 1 quantifies the significant savings that can result from controlling stock levels. The 1988-89 result is partly due to better control of the Annual Collection. If one assumes the benefit of the audit to be the difference between 20 per cent returns (1987-88) and 12 per cent returns (1988-89) the savings work out at around \$290 000.<sup>1</sup>

3.5 What audit has done by highlighting the levels of unsold stock is to draw attention to the need to adopt a more professional approach to production, sales and marketing. This can only be achieved if management information systems are supplying the right information in a timely manner.

3.6 The EA report has also resulted in a changed approach to overseas philatelic sales. Audit found a number of weaknesses related to overseas agents stock control which have now been rectified. Once again the level of stock held by overseas

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<sup>1</sup> The difference between 20 per cent and 12 per cent of \$346 780, the 1988-89 production costs, gives \$292 560.

agents and the consequent levels of returned stock were of concern. One agent had stock on hand equivalent to three years' sales. If, as the Committee suggests, a target of a maximum of one years' stock was set, and if this reduction was reflected in reduced production, a saving of \$385 000 could be achieved in this particular instance (see para 2.28).

### **Assessment**

3.7 The EA report has produced benefits that are significantly greater than the costs of carrying out the audit. If one adds the quantifiable benefits costed by the Committee and compares them with the costs of the audit, the resultant benefit - cost ratio works out at 2.5:1. There are also benefits that cannot be quantified.

3.8 It is very encouraging that overall Australia Post has responded very positively to the Audit recommendations. The Committee is confident that its own analysis of the EA report and the Australia Post responses, will encourage the latter to give even more attention to increasing the efficiency of its philatelic operations. As the next chapter will show, the philatelic operation is an important profit centre for Australia Post and improving its performance should receive considerable attention.

3.9 Given the importance of the contribution made by profits from the sale of philatelic products to Australia Post's total profits, it is imperative that the implementation of both Audit and Committee recommendations be examined. Such an examination should be made by Audit, say during 1991-92, with a report to the Parliament. In this examination Audit should attempt to refine the quantifications on cost savings made by the Committee in this report. Accordingly, the Committee recommends that:

**The Australian Audit Office examine the effectiveness of the implementation of Audit and Committee recommendations covering philatelic services during 1991-92.**

## 4: THE MAJOR PROBLEM OF STAGNANT SALES

### The Problem of Declining Profits

4.1 The declining profit performance of the philatelic operation has become more pronounced in the financial years after 1986-87, that is, after Audit had completed its investigations.

4.2 Philatelic operations are an extremely important profit centre for Australia Post. In fact Audit selected Philatelic Services as a subject for an efficiency audit due to the very significant profits generated by philatelic sales; 'of the ten years that Australia Post has made profits since its establishment in 1975, three could have resulted in losses without the contribution of philatelic services and the losses made in 1980-81 and 1981-82 could have been significantly greater'.<sup>1</sup> Audit also noted that philatelic revenue increased markedly until 1981-82 and has since stagnated.

4.3 But its contribution to total profits has fallen from 100 per cent in 1982-83 to around 20 per cent in 1987-88 and 1988-89. This has resulted both from improvements in other areas and an absolute decline in philatelic profits. Between 1982-83 and 1988-89 philatelic profits declined by almost 50 per cent.<sup>2</sup>

4.4 This decline is the product of stagnant revenue and increased costs. The result is that the revenue: profit ratio has more than doubled. Today (1988-89) it requires more than twice the revenue of earlier periods to earn a dollar of profit.

4.5 The expenditure figures show that running costs have risen by about 90 per cent over the period 1980-81 to 1988-89. Because prices, as measured by the CPI, have increased by 87 per cent the increase in costs has been in line with inflation.

4.6 The revenue figures show that revenue has only increased by 16 per cent over the same period. This is well short of the CPI increase of 87 per cent and if revenue were to have maintained its value relative to inflation it would have had to have increased significantly more than was the case.

4.7 Profit has been affected principally by the inability to increase revenue in line with costs over the period 1980-81 to 1988-89. It is this declining profit margin that is of concern. This can be tackled by restraining costs and cost increases, by increasing revenue or by doing both.

4.8 The efficiency audit concentrated on the efficiency of Australia Post's philatelic operational procedures. The Committee review has assessed the contributions of the audit to these procedures and has found the latter to be very beneficial. Although significant efficiency gains are expected to flow from the audit and the Committee review

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<sup>1</sup> EA Report, p.5.

<sup>2</sup> Based on confidential information provided to the Committee by Australia Post.

of the audit, there is an urgent need to address the question of declining or stagnant philatelic revenue. Indeed it could be said that this represents the major obstacle to improving the profitability of Australia Post's philatelic operations.

### **The Reasons for Stagnant Sales: Over-issue of Stamps?**

4.9 The complaint of both collectors and dealers was that there were too many issues of stamps and that the increasing quantity of stamps issued each year and the consequential increase in cost, was resulting in collectors either giving up the hobby altogether or giving up collecting new issues.

4.10 The stamp issue policy covers definitives and commemoratives. The definitives are used for postal purposes and consist of 24 stamps, eight of which are changed each year. The balance of the issues are commemoratives, of which three commemorating the Queen's Birthday, Australia Day and Christmas are pre-determined. The stamps issued are designed around themes. Australia Post produces 12 to 14 themes each calendar year; using two for definitives, three for the pre-determined issues and the remaining seven to nine for commemorating other events.

4.11 When asked whether there were too many issues, the Public Relations Officer of the Australian Philatelic Federation responded: 'Yes, we want more collectors and fewer stamps'.<sup>3</sup> The Philatelic Federation was not only concerned with the number of issues, but also with the number of stamps in an issue, citing the overuse of the se-tenant strip.<sup>4</sup> Australia Post decided to issue only one se-tenant strip in 1989 as a step in reducing the number of issues following the Bicentenary.<sup>5</sup> The Philatelic Federation did point out that exploitation of collectors as a means to raise revenue was not confined to Australia's postal administration. It is a world-wide trend,<sup>6</sup> and this may go some way to explaining the world-wide trend in stagnating revenues.

4.12 The Philatelic Federation acknowledged the problem Australia Post has with the frequent changes to the base stamp rate and the need for make-up stamps and new postal issues. This serves to exacerbate the problem as most collectors wish to maintain a full set of issues.

4.13 The ASDA expanded upon this comment by offering the view that in the experience of dealers, a collector would normally seek to collect all issues. If they make a decision to change, they will usually stop completely.<sup>7</sup>

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<sup>3</sup> Transcript of evidence, p.9.

<sup>4</sup> Issue of five stamps of the same value depicting a total picture.

<sup>5</sup> Transcript of evidence, p.93.

<sup>6</sup> Transcript of evidence, P.10.

<sup>7</sup> Transcript of evidence, p.81.

4.14 The representatives of the ASDA stated that the most common complaint they received from customers was that there were too many issues and the cost was too great. It is not simply the cost of the stamps, but also the substantial cost of housing the variety of products put out by Australia Post. The ASDA pointed out that the most unpopular countries from a collector's point of view were those with greatest number of issues and while this does not yet apply to Australia it is important that the number of issues be reduced.

4.15 The ASDA also said that Australia Post maintains too many denominations in the area of definitives, not all of which are required for postal purposes. Australia Post currently issues definitive stamps for postal purposes for every 5 cent value up to \$1. The ASDA maintained that many of these values have no corresponding postal purpose and are issued for philatelic purposes. At one point last year there were six different \$1 stamps of which two were definitives.<sup>8</sup> In this situation it is not hard to see why some collectors may feel disillusioned with collecting new issues.

4.16 Australia Post explained that the need for a full range of 5 cent increments in the definitive issues as the need to cover increases in rates for overseas postal zones which normally increase in 5 cents or 10 cents increments. The Committee was advised that while consideration had been given to reducing the range, the need to be prepared for rate increases limited the options available.

4.17 The matter of the number of issues was raised with the Manager of Australia Post's Philatelic Group, Mr Power, who advised that the large number of issues in 1988 (66), was due to Bicentenary activities and the change in the repurchase policy. Until October 1987 Australia Post bought stamps at 90 per cent of face value and there was concern that quantities of stolen stamps were in fact being sold back to Australia Post. As a result these buy back arrangements were altered for stamps issued after October 1987 and it then became necessary to change the longer run issues in order to make the policy effective. The Bicentenary commitments and the change in the buy back policy contributed to the record number of issues in 1988. This is of little solace to collectors who were swamped with the new issues.

### **Investment Value of Stamps**

4.18 There is a further aspect to collecting which was raised a number of times, that of the investment value of stamps as a factor promoting collecting. The Philatelic Federation was more concerned with the collection and study of stamps rather than the investment value. The Federation claimed that there is little investment value in mint stamps today as the production runs and the quantities sold are very large.<sup>9</sup> This is

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<sup>8</sup> Transcript of evidence, p.89.

<sup>9</sup> Transcript of evidence, p.14.

supported by the ASDA which informed the Committee that due to the size of print runs, no issue since 1973, with one exception, has a commercial value in excess of its face value.<sup>10</sup> The exception was the 1988 year book which sold out as a result of Australia Post adopting a conservative approach to minimise waste as recommended in the EA Report.

4.19 This lack of investment value for mint issue stamps is reflected in the fact that the buy back price offered by dealers for such material is less than face value and the quantities sold have ensured that there is no secondary market for these products.<sup>11</sup> Australia Post acknowledged the need to pay heed to the potential investment value stamps are seen as an investment. If we were to leave them on the market or to produce a lot more of them, that would weaken the value of the stamp as an investment to the collector ... . It is one of the things we have to balance - the needs of the system and the needs of the customer.<sup>12</sup>

4.20 While the Committee acknowledges that the volume of stamps produced for each issue may have a depressing effect on retail prices, it is not appropriate that production runs be limited in order to increase the value of philatelic products. This would simply encourage speculation. A more appropriate solution would probably come from a reduction in the number of issues and a policy of tailoring production to more accurately reflect demand as recommended by audit (R6).

### **Conclusions**

4.21 The key issue in the examination of Australia Post's philatelic operations is the decline in revenue and profits.

4.22 Minimisation of administrative costs and production costs will assist in maintaining or increasing profits but the prime contributor to the poor profit position is the stagnant market for philatelic products.

4.23 Even though the number of stamp issues by Australia Post has now reduced to a level comparable with other countries, Australia Post must acknowledge a degree of concern among collectors with regard to the number issues, the variety of forms in which stamps are issued and the increased costs of collecting.

4.24 While much of the evidence as to why collectors are giving the hobby away or ceasing to collect new issues is largely anecdotal it is of considerable concern to the Committee. The level of philatelic business has declined markedly since 1980-81 and this should be of paramount concern to Australia Post. The Committee acknowledges that the Philatelic Group does conduct market research and has developed a business plan

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<sup>10</sup> Transcript of evidence, p.81.

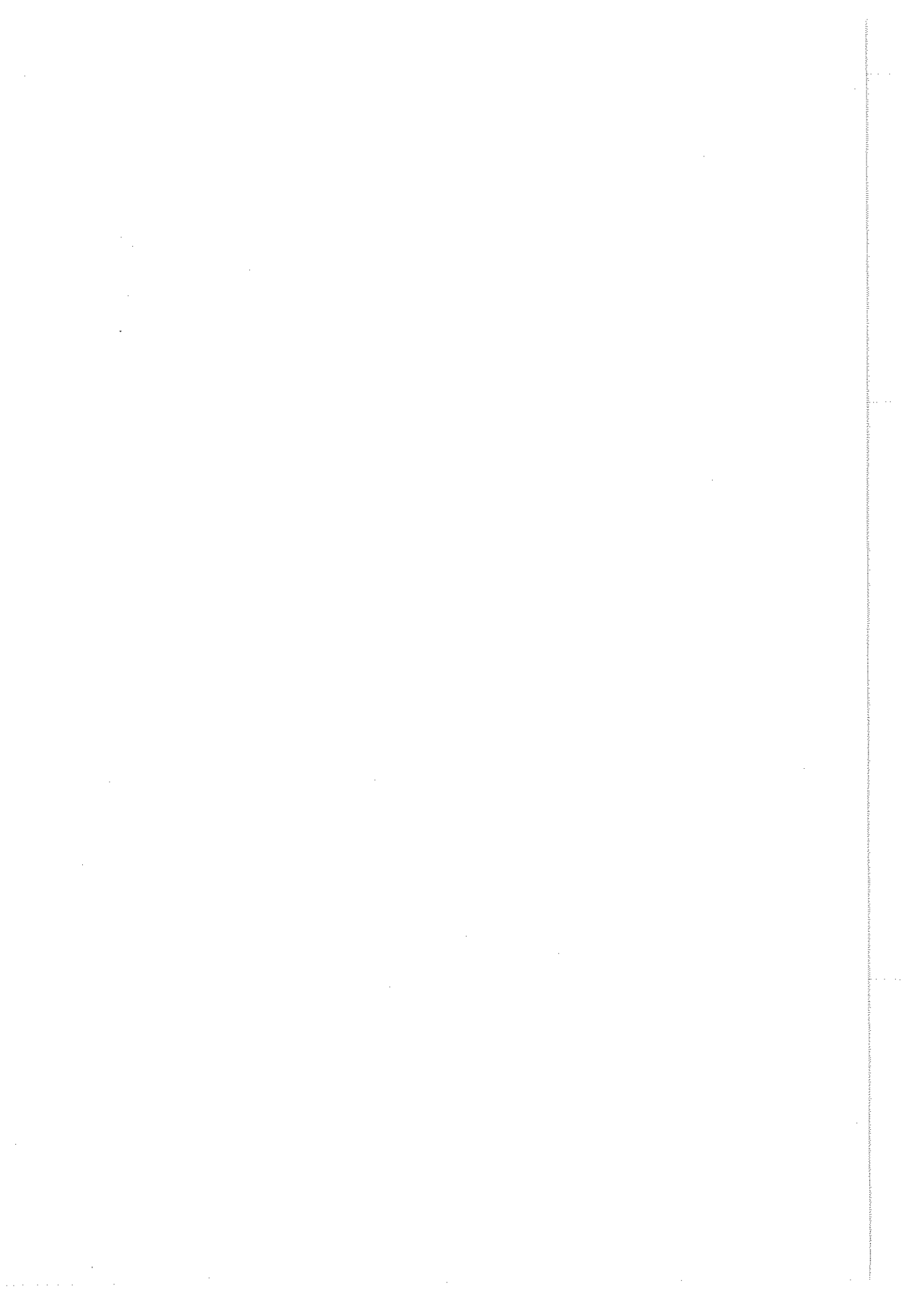
<sup>11</sup> Transcript of evidence, p.83.

<sup>12</sup> Transcript of evidence, p.110.

for the entire philatelic operation; however, the Committee believes that a thorough review of the philatelic market and Australia Post's marketing strategies is warranted. A 50 per cent decline in profit and only a 16 per cent growth in revenue since 1980-81 is a development that must be given serious consideration.

4.25 A strategy needs to be developed to combat the static market for philatelic products. A comprehensive analysis of the market for philatelic products and a review of marketing strategies is required. In order to ensure that a fresh perspective is brought bear on this problem, the Committee considers it desirable that in conducting such a review, Australia Post seek the assistance of marketing specialists with experience in retailing and product development. The Committee recommends that:

**Australia Post undertake a thorough analysis of the market for philatelic products and review current marketing strategies to ensure that they are appropriate.**





## 5: OTHER MATTERS

### Promotion of Philately

5.1 The APF expressed the view that Australia Post's promotional and marketing activities are primarily directed at existing collectors and that more attention should be paid to attracting people into the hobby. The APF suggested that one method that could be adopted would be to utilise withdrawn issues for promotional purposes, this stock could be cancelled to order and used in school promotions. This suggestion was also supported by the ASDA and Australia Post advised the Committee that they are giving this consideration.

5.2 It should be noted that Australia Post does run school based promotions and also publishes the Stamp Explorer which is available to children free on request. Australia Post regards investment in promoting the hobby among children and in schools as a long term strategy. It is the Committee's view that Australia Post's promotion of philatelic products to children is of a high standard.

### Printer's Waste

5.3 The APF raised the issue of printers waste. This is philatelic material which has blemishes or errors as a result of the printing process. The Federation expressed concern that quantities of this material was finding its way on to the market and being sold as collectors items, often fetching high prices. The Federation was concerned that this practice brings the hobby into disrepute by destabilising prices on the secondary market and that Australia Post should tighten its security procedures to ensure that it does not continue to occur. The APF's view was that modern printing methods do not result in the imperfections that were inevitable in the past, and that this material is therefore being obtained illegally.

5.4 The ASDA confirmed that there is a trade in this material but that no new material had been sighted for the last few years - such material is predominantly pre - 1986.

5.5 This matter was raised with Australia Post which acknowledged that there had been problems in the past. Australia Post has reviewed its security procedures for printing and is not aware of any material produced in the last two years that could be classified as printers waste. Any material that is brought to the attention of Australia Post is thoroughly investigated.

5.6 The Committee accepted an invitation from Australia Post to inspect the current printing operation at Leigh-Mardon Pty Ltd, and was very impressed with both the quality control and security arrangements in place for the printing of philatelic material. The professionalism and quality control is a credit to the company and the supervision by Australia Post is comprehensive. All possible steps have been taken to ensure that the quality of the stamps produced is both uniform and of high standard and safeguards against waste material being pilfered are more than adequate.

5.7 It should be noted that Leigh-Mardon is committed to maintaining high standards with regard to quality and security as credibility is essential to its business. This company has been able to secure a number of export contracts for philatelic products from Asian countries against competition from traditional suppliers in Europe and the USA.

#### **Consultation between Australia Post, Collectors and Dealers**

5.8 Collectors and Dealers meet regularly with Australia Post through Australia Post Market Monitoring and Advisory Committee. Meetings of APMMAC provide a forum for collectors and dealers to raise issues with Australia Post. Both the APF and ASDA expressed satisfaction with the operations of APMMAC.

5.9 In the course of the hearings, both the APF and the ASDA expressed the view that they should be represented on the Stamp Advisory Committee (SAC). This was partially due to the mistaken belief that the SAC has a role in stamp issue policy. This is not the case. It is a technical committee whose primary purpose is to advise on stamp design.

5.10 As both the APF and the ASDA have complimented Australia Post on their designs and as there is a philatelic expert on the SAC, there is no reason to recommend any expansion of membership.

#### **Release of Archival Material**

5.11 There was considerable criticism recently over an Australia Post decision to auction a limited amount of archival material consisting of early Australian traditional stamps. The fear was that the market would not bear the release of additional material that was relatively rare and as a consequence prices would be depressed. The APF informed the Committee that the reverse was the case, that the release of this material satisfied a demand and in fact strengthened the market and boosted the collection of traditional stamps. Market prices have in fact risen as a result of the sale.

**PETER MORRIS MHR**  
Chairman

22 August 1990

## APPENDIX 1

### SUMMARY OF AUDIT RECOMMENDATIONS AND AUSTRALIA POST RESPONSES

<i>No. Audit recommendations</i>	<i>Australia Post responses</i>
<b>Centralisation of philatelic mail order and direct marketing data bases</b>	
1. Australia Post continue the initiatives it advised to Audit with the ultimate objective of establishing a single national computerised database with terminal access for the States which would perform a dual mail order and direct marketing role (4.2.11).	The initiatives advised to Audit were: <ul style="list-style-type: none"><li>• endorsement by its Executive Management Committee in August 1987 of an Information Services Plan which included the development of a computer based system for philatelic marketing, and</li><li>• its Stamps and Philatelic Branch had taken initial steps to develop a database approach to marketing of philatelic services by combining several existing sources of customer information.</li></ul>
<b>Location of the philatelic mail order areas</b>	
2. Australia Post undertake a detailed evaluation to establish the most cost-effective organisational unit within which the mail order service can be located (4.3.5).	The benefits of a national mail order facility were being examined utilising the database system referred to under recommendation 1 above.
<b>Philatelic mail order charges</b>	
3. Australia Post establish and recover charges for processing mail orders on a full cost recovery basis and set minimum order amounts (4.4.4).	Current policy was not to impose handling charges for philatelic mail orders or to set minimum values, in order to encourage a positive interest in philately. Nevertheless, the recommendation was noted and would remain under consideration.
<b>Philatelic sales reporting and analysis</b>	
4. (a) Australia Post set and monitor a deadline for the production of the Monthly Philatelic Sales Report pending the introduction of more detailed and timely product sales information reports.	(a) to (c) Financial performance results which included philatelic sales, were prepared monthly in accordance with strict deadline requirements and provided to all State Managers. In future a deadline would be set and monitored for the production of detailed monthly philatelic sales reports and comparative trading results would be made available to State Administrations on a uniform basis.
(b) Australia Post make comparative State sales results available to State head offices for analysis and comment.	
(c) pending the introduction of the ECS System, Australia Post expand the use of the MOSS and QOSS reporting systems for philatelic purposes to all States, to capture and report monthly product sales (against targets) and stock holding information by issue and outlet for analysis and action by appropriate personnel.	
(d) when ECS is developed to process philatelic transactions, the system be used to capture more detailed sales and stockholding information from all outlets (with ECS terminals). This could link with the MOSS and QOSS system or other systems to produce timely and detailed reports by State and outlet for analysis using a hierarchy of summarised, detailed and exception reports (5.2.13).	(d) When ECS was fully developed the feasibility of incorporating philatelic data would be investigated.

5. Australia Post move towards producing at least quarterly philatelic trading statements, develop profit targets and institute a periodic analysis of the comparative profitability of the States and major outlets against targets in order to encourage and monitor outlet profitability (5.2.16).

Prior to the commencement of the audit quarterly segment reports were being developed on a State basis to compare actual results with budget expectations, including philatelic profits by State. Because of the difficulty in allocating costs accurately, this had been a difficult exercise requiring extensive development of costing systems.

(Audit is aware of this development and suggests that the reports also be extended to major philatelic sales outlets (see 5.2.18))

**Controls over the level of philatelic stock returned unsold**

6. (a) Australia Post amend reports of PSM or MOSS and QOSS systems to provide details of the progressive and monthly number and percentage of production and stock issues returned by product, issue and in total.

Philatelic stock wastage had been of concern for some time and steps had been taken to reduce production quantities significantly in order to align supply with demand. In addition, the recently introduced Post Office Internal Control System provided for Postmasters to monitor closely stock holdings and wastage. A study would be conducted to determine an appropriate level of wastage and action would be taken to enhance the Postmasters Stock Movements (PSM) ADP System to provide reports on wastage levels for each philatelic product.

(b) Australia Post set a separate standard for the acceptable level of returns of philatelic products.

(c) Australia Post institute regular and formalised monitoring of the level of returns and subsequent review of standing orders at Headquarters, State head offices and outlets on a product and issue basis using a hierarchy of summarised, detailed and exception reports. (5.4.8).

**Control over withdrawal of philatelic stocks**

7. Australia Post co-ordinate withdrawal dates and issue codes for stamps and other philatelic products which appear on all internal Australia Post reports and documents to ensure consistent issue periods. A standard time should be determined after which details of withdrawn stocks would be removed from the PSM system and from other reports and documents (5.5.5).

Following an internal study in 1985 Australia Post had scheduled changes to the PSM system to provide for central control over withdrawal dates and issue codes. The changes had yet to be implemented because of higher priorities.

**Management of overseas agents**

8. (a) Australia Post institute a formal program of stocktakes of agents' stock holdings.

In view of the increased activity arising from the operations of the overseas agents, it was agreed audit and stocktake arrangements could be strengthened and relevant instructions made more explicit.

(b) Australia Post promulgate guidelines, detailing its requirements for the performance of independent stocktakes, and other tests/procedures to ensure compliance with agency contract conditions (6.2.4).

9. (a) Australia Post ensure timely follow up of certificates of destruction by establishing a register of destruction certificates

Arrangements had been made for philatelic material withdrawn from sale to be returned to Australia for destruction. Should it be decided in the future to allow agents to organise destruction, appropriate controls would be implemented.

(b) for agents who destroy stocks locally, Australia Post develop formal guidelines or instructions detailing Australia Post's requirements including methodology and approach, for use by the supervisors of the destruction of stocks.

(c) Australia Post develop formal procedures for the appointment of stock destruction supervisors.

(d) Australia Post amend contract conditions to provide that all destruction certificates be sent by the destruction supervisor directly to Australia Post (6.2.10).

10. Australia Post review agent stock holdings and set for each agent an approved stock/sales ratio or a total dollar stock holding, against which orders and stockholdings can be monitored. This standard would need to be adjusted for variations in line with any major promotional campaigns (6.2.15).

11. Australia Post prepare a functional statement for its Victorian Philatelic Bureau detailing its role and responsibilities in respect of agents and formally assigning, as appropriate, the responsibility to control and monitor agent stockholdings and order quantities (6.2.17).

12. Australia Post ensure that contract variations are approved by a delegated officer (6.2.21).

13. (a) Australia Post develop procedures to ensure timely and appropriate follow up of reports of the past year's marketing activities.

(b) Australia Post create a new condition of contract that agents provide an annual plan or forecast of marketing and promotional activities to be undertaken each year for review and action by Australia Post (6.2.26).

**Post Office operational costs and business levels study**

14. Australia Post investigate alternative cost allocation methods for allocating post office operational costs to philatelic services, including use of the ECS system when it becomes operative, or other systems (7.1.9).

**Stamp production, stationery for sale and pre-stamped envelope costs**

15. Australia Post regularly review and document the basis of allocation to philatelic services of costs of stamp, stationery for sale and pre-stamped envelope production. (7.2.3)

Although there were significant differences in stock holdings compared to sales, the risk of overstocking was minimal. It was also difficult to set an effective ratio in view of expanding agency business.

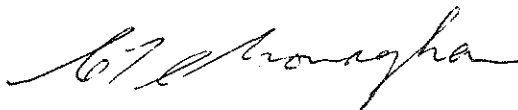
A functional statement will be developed.

Contract variations in future would be approved by the Manager, Supply, at Headquarters.

Action would be taken to ensure reports from agents were received on a timely basis and to formalise existing procedures for the provision of marketing plans. Marketing and promotional plans were, however, discussed and agreed with the agents during regular visits by senior marketing representatives from Headquarters.

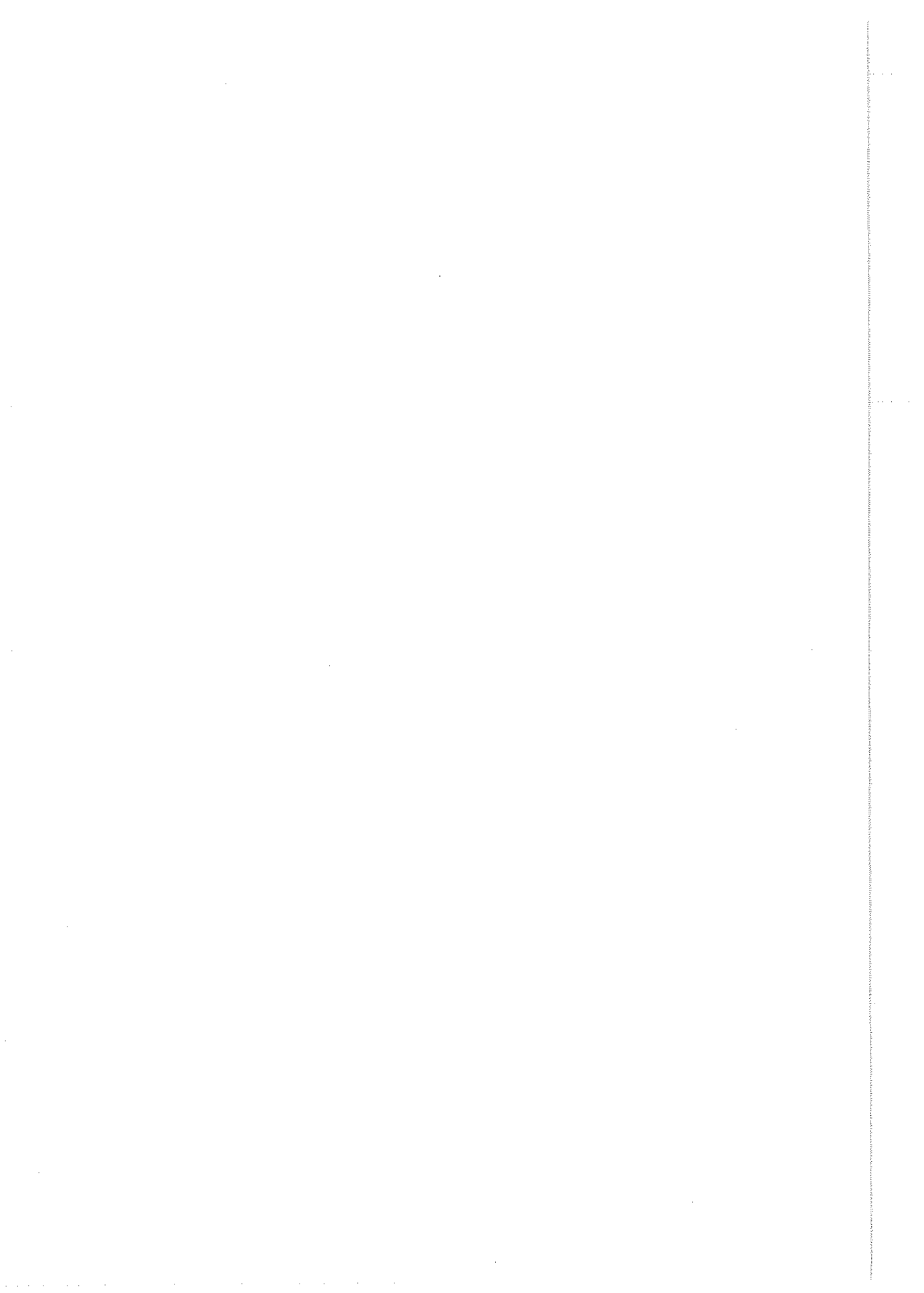
The present method of allocating costs was considered appropriate. More frequent sampling could achieve a more precise measure but the cost would be excessive and industrial reaction could be expected. The ECS system would eventually provide additional information which may assist in cost allocations.

Cost allocations would in future be reviewed on an annual basis.



C. T. Monaghan  
Acting Auditor-General

Canberra A.C.T.  
24 May 1988



## APPENDIX 2

### CONDUCT OF THE INQUIRY, EVIDENCE AND WITNESSES

#### The Inquiry

1. The House of Representatives Standing Committee on Transport, Communications and Infrastructure was appointed under Sessional Order 28B. The Committee is empowered to inquire into and report on any matter referred to it by either the House or a Minister.
2. After preliminary consideration of the efficiency audit report, the former committee sought comment on both the report and Australia Post's philatelic operations from the Australian Philatelic Federation and the Australasian Stamp Dealers' Association. Input from these national organisations was desirable as their interests were directly affected by many of the recommendations made in the efficiency audit report. Furthermore, both organisations have a thorough knowledge of the market for philatelic products and a long association with Australia Post's philatelic operations.
3. The subcommittee took evidence at public hearings on two occasions and inspected security printing facilities.
4. The subcommittee report was presented to the Committee on 22 August 1990.
5. The evidence consists mostly of written submissions made to the Committee and oral evidence taken by the subcommittee at public hearings. The written submissions which have been authorised for publication will be bound and sent to the National Library and the Parliamentary Library. A set will be retained in the committee secretariat.

#### Evidence

6. The submissions authorised for publication and listed in alphabetical order of the person/organisation making them are as follows:

Submission No(s)	Person/Organisation
1	Australia Post
2	Australian Philatelic Federation
3	Australasian Stamp Dealers' Association

- 4 Mr J Church
- 5 Australian Philatelic Federation
- 6 Hon G Scholes MP, Member for Corio

7. Copies of the proof transcripts of proceedings were sent to witnesses. The corrected proofs will be bound and sent to the National Library and the Parliamentary Library. One set will be retained in the committee secretariat.

### Witnesses

The following witnesses appeared before the subcommittee and were examined:

Organisation/Witness	Date(s) of Appearance
<b>Australian Philatelic Federation</b>	
Mr Raymond Chapman Public Relations Officer	5. 6. 1989
Mr Brian John Farmer President	5. 6. 1989
<b>Australasian Stamp Dealers' Association</b>	
Mr Simon Bruce Dunkerley Victorian President	4. 7. 1989
Mr Anthony Graeme Shields President	4. 7. 1989
<b>Philatelic Group Australia Post</b>	
Mr Brian Coughlan Manager Philatelic and Retail Products	4. 7. 1989
Mr Russell Hayden Hick Acting Manager	4. 7. 1989
Mrs Joanna Vannan Monie Research and Design Manager	4. 7. 1989
Mr John Rodney Power Manager	5. 6. 1989