The LPO Group Limited Policy on Licensed Post Office Viability

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Licensed Post Office (LPO) viability is an outlet and network level outcome that can only be achieved with reformed store level economics where pre-set viability targets are able to be met through the combination of a fair LPO Payment Scheme and efficiently operated LPOs.

LPOG believes that the current LPO Payment Scheme has lead to unviable LPOs and that the LPO Payment Scheme in its current form is not reflective of either revenue, costs or return on investment of operating a small business in the current retail environment.

LPOG considers that major reform is necessary to the LPO Payment Scheme (including the margins on stock) and the LPO Economic Model to ensure that Licensees are able to obtain a fair return for their investment in the Australia Post Licensed Post Office network as well as contributing to the maintenance of Australia Post's Community Service Obligations.

As such, LPOG is aligned with the ATO's definition of Viability:

Viability is defined as the ability to survive. In a business sense, that ability to survive is ultimately linked to financial performance and position.
A business is viable where either:

- *it is returning a profit that is sufficient to provide a return to the business owner while also meeting its commitments to business creditors*
- *it has sufficient cash resources to sustain itself through a period when it is not returning a profit.*

This means that recognition of viability as an essential part of the LPO Payment Scheme would ensure Licensees would not be put into the position of having to:

- Subsidise their LPO with external funds, including funds from other businesses; or
- Underpay themselves; or
- Fail to meet their financial obligations

LPOG asserts that viability is measurable and that Return on Expenditure (ROEx) is the only feasible and reliable measure currently available to the network.

ROEx can be applied at activity level, store level and network level.

At store level, ROEx can be used to measure the viability of a single store.

ROEx can be used to measure the viability of a group of stores which may represent a segment of the LPO network.

ROEx can also be used as an activity level outcome if it is used consistently for all activities (including stock sales) and where all fixed and variable business costs are factored in.

LPOG asserts that an ROEx benchmark must be established based on other industry benchmarks of similar small businesses with equivalent revenues.

This benchmark should be viewed as a minimum achievable target for LPO Licensees.

LPOG considers that Australia Post is responsible for:

- ensuring these LPO level benchmarks are achievable for all LPOs within the network;
- maintaining a minimum network average benchmark; and
- accounting for all fixed and variable costs when determining all LPO revenue streams and payments.

LPOG contends that:

- there is a minimum safe and efficient level of staffing required at LPOs that may differ from outlet to outlet (labour in LPOs is both a fixed and variable cost)
- the Licensee performs higher duties compared to LPO staff and this work must be recognised and compensated
- all reasonable business costs must be factored in to the economic model - which includes broad insurance coverage to mitigate the significant risks undertaken by Licensees.

LPOG believes that it is Australia Post's responsibility to drive volume on existing activities and introduce new activities to offset the decline in activity volume such as BillPay.

LPOG believes the practice of Australia Post migrating customers away from LPOs only serves to undermine the current and future viability of the LPO network without balancing these revenue shortages with other forms of revenue or direct compensation such as trailing commissions.

Payments to Licensees must increase annually in concert with the movement of LPO business costs. LPOG believes this can only be achieved through a special LPO Cost Index that includes the major cost elements such as Labour, Rent and utility charges.

Ad-hoc material changes to activity procedures that may increase the direct costs to Licenses must also initiate payment adjustments whenever this occurs.

LPOG acknowledges the challenges that viability in the LPO model presents, which includes changing consumer demand, outside market forces and business driven changes by Australia Post.

LPOG asserts that while Licensees can assist in some ways to maximise opportunities, it is Australia Post's responsibility to drive volume on existing business and introduce new business if the network in its current size and scale is to be maintained and able to continue to serve the wider Australian community.

LPOG also understands the differences in LPOs and how their location, size and mix of business impacts their profile within the network. LPOG contends that there may be examples of LPOs which function to serve a very basic subset of transactions, (such as parcel collection only) these outlets may need to be redefined as they may not be a Post

Office in the traditional sense, thus a separate payment scheme may be required that sustains their business model.