

# RETAIL REVOLUTIONS

Canada Post hitches its wagon to the rising star of e-commerce

BY KEN MARK

Unlike most other carriers that are trying to cope with e-commerce's impact on their operations, Canada Post is on a mission to transform its corporate business model.

To make it happen, it will refocus its efforts to deliver parcels not letters. That's because letter mail volumes are in free fall. In 2013, Canada Post delivered 3.8 billion letter mail pieces, a decline of 4.8% from 2012 while it accounted for about 50% of its annual revenue.

The trend is clear. Last year, Canadians mailed almost 1.2 billion fewer pieces than they did in 2006. And in the age of e-mail, Facebook, Twitter, LinkedIn, Instagram and other social media available on portable devices, future volumes will drop further and faster.

In a recent CBC radio interview, Canada Post CEO Deepak Chopra attributed the plunge to the rising popularity of tablet computers, which sharply reduces the use of paper, a communications medium over which, at one time, all post offices around the world enjoyed a monopoly. He compared Canada Post's current modernization plans to the tough choices railroad executives faced in the late 1970s.

To stay competitive, Canada Post must create a sustainable business strategy that can develop services to meet shoppers' demands and shippers' needs at competitive prices while relying less on the public purse.

Although dogged by the "snail mail" tag, Canada Post is likely to become financially self-sufficient long before other government agencies or Crown Corporations such as urban mass transit operators. (This article deals only with parcel delivery not with letter mail concerns.) That's because of its unique competitive advantages that include having Canada's largest retail network of almost 6,400 postal outlets, access to every address across the country and deep relationships with shippers going back at least 150 years.

More important, Canada Post is hitching its wagon to the rising star of e-commerce. Canadians are increasingly pressing the buy button when they shop online. Last year, revenues from its top e-commerce shipper customers grew 29%. That boosted annual parcel volumes by 5 million pieces while increasing revenue by 7.2% compared to 2012.

In fact, many of the necessary solutions are already in place. Chopra has stated that increased parcel delivery, Canada Post's fastest-growing sector in the era of online shopping, is gradually offsetting the drastic reduction in letter mail volumes.

Purolator, of which Canada Post owns 91%, is the preferred choice for delivering B2C (business-to consumer) packages. A 2013 survey concluded that Canada Post handles 65% of all of B2C deliveries in Canada since it works closely with major retailers such as Walmart and others. Currently close to 40% of its total revenue comes from its parcel business and direct marketing services.

"E-commerce buyers are seeking value propositions based on free delivery, convenience and returns," says Ottawa-based Canada Post spokesperson Anick Losier. "Canada Post needs to stay one step ahead. One way we have done that was launching the E-commerce Innovation Awards in 2012."

In its first two years, the winner of the Best Online Large Retailer of the Year was Guelph ON-based Well.ca, Canada's largest e-seller of personal care products. "We use Canada Post for expedited, next-day services in Ontario and other highly populated regions," says Well.ca CEO Rebecca McKillican.

"Canada Post's service metrics – delivery within specified time frames, damage rates and lost parcels are well within acceptable levels. It has also provided us with a simple way to resolve customer delivery complaints."

"One major advantage it has over its competitors is exclusive access to post office boxes and those in apartment and condominium buildings."

The annual Innovation Awards prizes are more than just a plaque on the wall. Well.ca receives a \$100,000 credit to be applied against Canada Post fees for shipping goods, creative work and direct-marketing flyers. The firm is gunning for a three-peat in 2014.

Back in 2008, when Well.ca founder Ali Asaria was looking for a carrier to deliver its products, he quickly discovered that Canada Post was just about the only game in town. "I reached out to all of the courier companies but Canada Post was the only one to respond because of our very low volumes."

"It was still very early days in e-commerce when there were not many consumer sites. Most of the other carriers preferred business-to-business shippers and were not looking for new business. Back then, there were no guarantees when it came to residential deliveries."

How times have changed. Well.ca now engages a number of different carriers. Says McKillican, "We had to diversify. We can't put all our eggs in one basket just in case there is a strike at Canada Post."

Canada Post is well aware of the changing times and is actively addressing its relations with its various unions. In April 2014, employees represented by the Public Service Alliance of Canada/Union of Postal Communications Employees accepted Canada Post's final offer. Union members will receive modest wage increases in the first two years of the four-year agreement. Current employees will also enjoy job security provisions and defined benefit pension benefits. But new employees will receive a lower starting annual wage and pension coverage from a defined contribution plan.

Such terms are similar to recent settlements by automakers to hourly paid employees represented by the Canadian Autoworkers Workers Union.

Contracts covering other more militant employees – postal clerks and mail handlers as well as letter carriers and motorized service carriers – come up for renegotiation in January 2016. If history is any guide, those talks may not be as smooth. Over the next few years, Canada Post plans to reduce its employee head count by 6,000, mainly through attrition.

Controlling labour costs is key to Canada Post's competitiveness since most other carriers do not have unions. Says Ali Asaria, "The greatest attraction for online shoppers is free shipping. But they don't consider the cost of gas or the time they spend going to the mall. Quality of service has no value for them. So carriers have to come up with the lowest bids to win contracts."

Canada Post also is moving aggressively to reduce costs and boost productivity by tightening up its logistics network and operations through introducing a hub-and-spoke network. New large, modern sortation plants close to airports in Vancouver and Winnipeg have replaced older, stand-alone post office buildings in city centres. Inside them, new technology automatically sorts parcels and letters at the same time right down to individual letter carriers' routes and in





the proper delivery sequence.

Using a “park-and-loop” system, letter carriers can now park small, fuel-efficient vehicles at well-chosen spots to carry bundles of mail to the door on foot and loop back to the vehicle. Since this eliminates the need for relay boxes, they can now make individual delivery stops for single, multiple or centralized points of delivery.

Besides protecting letter carriers from snow, rain or sleet, the new approach also deals with density and scale by boosting the number of items left per stop through combining the delivery of letters and parcels for the same address. As well through greater mobility, it increases the number of stops per kilometer, or to borrow a term from professional football, Canada Post is “flooding the zone.”

“Economies of scale may be more important than labour costs,” says Tom Schmitt, president and CEO of AquaTerra Corporation and former CEO of FedEx Global Supply Chain Services and of Purolator, Inc.

In addition, Canada Post has launched innovative services such as The Delivered Tonight pilot program in the Greater Toronto Area from September 2013 to February 2014. During the test period, when customers ordered items by the afternoon they could receive them later the same day. The project involved several of Canada’s most popular online retailers including Best Buy, Future Shop, Indigo, Mastermind Toys and Walmart.ca.

Canada Post plans to roll it out again later this year during the busy Christmas shopping season. Says Anick Losier, “In 2013 at that time, when we worked seven days a week for six weeks, we had 10 individual days when we delivered more than one million parcels. The year before, we had only two.”

Other postal administrations are actively introducing their own innovative processes and services. The USPS recently expanded its Sunday delivery of Amazon.com orders in New York City and Los Angeles to 15 smaller cities across the US. Orders placed Saturday morning will be delivered the next day.

European post offices have also been busy developing similar services leveraging their coverage of highly clustered urban regions. Belgium’s bpost has been building on its earlier same-day delivery service trials and extending it to delivering grocery items. About 80% of the orders are for fresh or frozen foods, with the five most popular shops being a local supermarket, fruit and vegetable store, butcher’s/delicatessen, bakery and liquor store. The Swedish post office Postens also offers similar services.

Even though such services are still in their infancy, it is clear that various postal authorities have become bold enough to launch such cutting-edge solutions. To many logistics practitioners, delivering fresh food is the Holy Grail of their profession. As expected, Amazon.com is still leading the pack with its AmazonFresh delivery initiative in Seattle, Los Angeles and San Francisco.

So far, many of these post-office delivery innovations stay within the originating country. That’s because post offices are creations of individual governments, so there can be gaps in how they handle foreign parcels and shipments, especially returns. Says Amine Khechfe, Palo Alto CA-based co-founder and general manager of Endicia, “The hardest thing for post offices to do is to act as one network. Each has its own services

with unique branding and service standards. Although there is a network to exchange data, which general customers can access, there really are no combined strategies to serve global companies that wish to use the postal network as one entity, i.e. FedEx and UPS.

“By partnering with strategic technology providers like Endicia, post offices can tackle these challenges. For example, since Endicia can print outbound and return labels for both Canada Post and the USPS, it can easily turn exports into returns and offer this solution to postal customers.

“Now, US-based businesses using Endicia can create Canada Post shipping labels with postage and email them to any Canadian customer requesting to return parcels to the United States. Similarly, Canadian merchants using Endicia can also facilitate the return their products from the United States. As a result, retailers on both sides of the border can use the same technology for outbound and return shipments.”

In a recent Mississauga speech, Valerie Normand, Canada Post director, Parcels and eCommerce Solutions Integration emphasized the importance of focused on domestic reverse logistics or returns. “They are the necessary evil of e-commerce and they present a cost challenge for shippers and carriers, accounting for up to 22.3% of electronics, up to 34% of health and beauty items and up to 54% of fashion outbound shipments.

“You need to make returns part of your business decisions. About 70% of Canadian shoppers believe it is most convenient to include the return label in the original purchase, and 76% of Canadian shoppers feel a clear returns policy is important.

“We are seeing a lot of positive data around customers being inclined to shop again or recommend the site to someone else once a clear returns policy has been established.”

Finally, catching consumers at home when their purchases are delivered remains a pain point for all carriers. Chopra estimates that 40% of consumers are not at home when goods are dropped off. In response, Canada Post offers various solutions. In the short term, consumers can indicate a convenient post office outlet in pharmacies and other partners located in malls, business centres etc. which buyers frequent. Longer term, the much-discussed community mail boxes have been designed to accommodate up to 80% of all parcels.

Although many others consider it a problem, Jim Eckler, President, Eckler Associates and former president & CEO of SCI Group Inc., a Canada Post affiliate, believes that it is a merely a business challenge that can be resolved with imaginative solutions such as automated storage boxes accessible by secure one-time electronic codes or credit cards placed in stores, gas station, mall office, condo or apartment lobbies.

Whatever the parcel’s final destination, Canada Post wants to be there as the last-mile carrier of choice.



**Ken Mark** is a veteran technology expert, who has covered supply chain management since it was called distribution and has documented its legitimization as a critical business function. He holds an MBA from York University.