

# **The Future of Canada Post**

**Canadian Union of Postal Workers**



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Canada Post Corporation stands at a threshold. On one hand it faces significant challenges due to economic recession, electronic diversion, and years of underinvestment in facilities and equipment. On the other it has the advantages of an enormous physical infrastructure and trained staff which could enable it to greatly extend the communications, financial and transport services it provides to the population.

Will Canada Post become a delivery agent of last resort? Or will it follow the example of other postal administrations and provide new and needed services?

### **Volumes: Past Present and Future:**

In the past there have been many occasions when the future of the post office appeared very bleak. Usually this was associated with new developments in communications technology which were thought to have the ability to replace traditional mail products such as letters. Yet with each wave of new communications technology, including telegrams, telephones, telexes and facsimile machines postal volumes grew instead of declining. Even the first decade of email saw an increase in letters and other mail products. In the 30 years from 1979 to 2009 overall volumes increased by 78%.

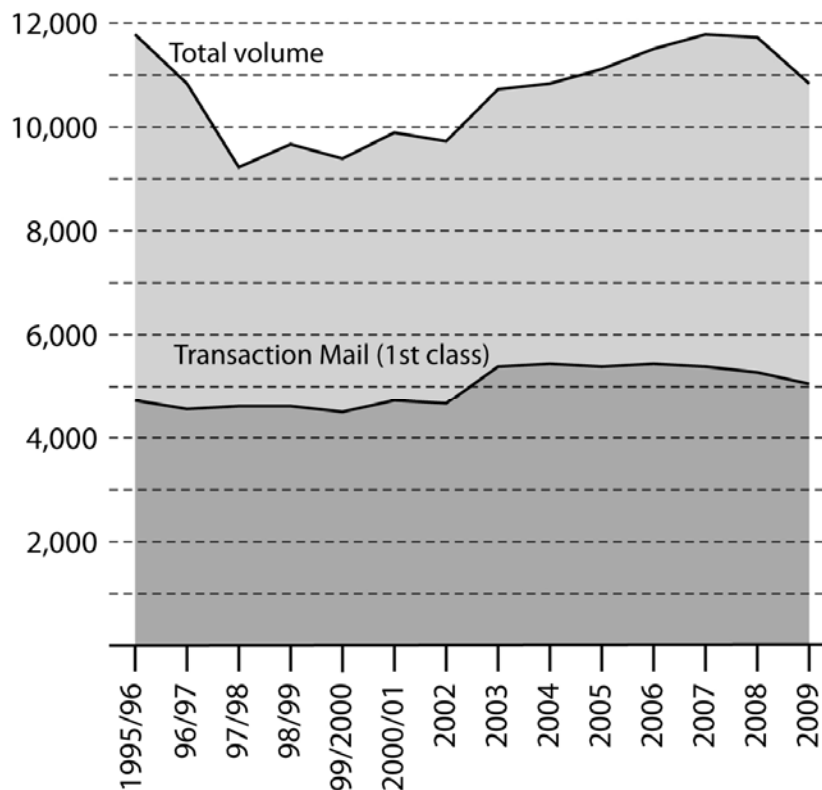
Despite the great increase in mail volumes the overall market share in the communications sector belonging to the postal service decreased. So did the rate of volume growth. By the turn of the century volume growth had slowed and in 2007 volumes began to decline.

The two major causes of this decline have been the economic downturn and the migration of paper-based letters to electronic communications.

The decline has been significant. In 2009, the last full year of volume information the volume of transaction mail (formerly known as 1<sup>st</sup> class) was 5.1 billion

pieces, a 7% decline from its 2006 peak. Total volumes are at 10.8 billion pieces, a decline of 8.3% from the all time high of 2007.

Of course total volume numbers can obscure the real changes that are occurring in the mail stream. In the last two years the amount of addressed admail has decreased by 15% and unaddressed admail, or junk mail as it is sometimes referred to, fell by 13%. Even parcels have declined by 15%.



Despite the recent losses, mail volumes are still about 10% higher than they were 10 years ago. This includes transaction mail which is still 7% higher than a decade ago.

The question is what will happen in the future. With an economic recovery volumes are likely to recover somewhat. Most observers expect direct mail, especially of financial institutions to rebound. Likewise parcel delivery is likely to increase as internet purchasing continues to gain acceptance with the public. It is unlikely, however, that transaction mail will return to its previous levels. Most projections call for a slow but steady decline. Greater accessibility to broadband,

the proliferation of low cost home printers and increasing acceptance of on-line bill payments are all factors which will contribute to greater electronic diversion of letter mail.

### **Less Delivery to More Points of Call**

While volumes may be declining the number of points of delivery is steadily increasing. Each year Canada Post extends its delivery to an additional 200,000 new households and businesses. During the past decade population growth has required CPC to provide daily delivery to an additional 2 million points of call, an increase of 15%. Almost half of this increase has occurred in lower density rural or suburban delivery areas.

### **The Environment: Opportunities and Threats**

Like most of the world's population Canadians are increasingly concerned about environmental issues and there are some areas where these environmental concerns may have a significant impact on volumes and revenues of Canada Post.

Throughout the world there is a growing concern over the amount of CO<sub>2</sub> emissions and waste disposal issues associated with direct mail also known as admail. This concern has manifested itself in a broad based movement to create do-not-mail lists and even to have unsolicited admail banned altogether.

This issue was addressed in the Report of the Advisory panel of the Strategic Review of Canada Post Corporation in December 2008. It noted that a number of submissions expressed the view that Canada Post has a responsibility in the environmental agenda and believe that admail is a misuse of paper and forest products and that Canada Post needs to confront this issue in an environmental way. Similar concerns were evident in a 2008 study conducted by CPC with Harris/Decima which resulted in a white paper called *The New Environmentalism*. More than 60 per cent of Canadian respondents said they always or often think

about the environmental impact of mail and catalogues. Participants said they recycle 85 per cent of their advertising mail.

Unfortunately for Canada Post the DM News/Pitney Bowes survey on direct mail and the environment shows that consumers greatly overestimate the negative effects of direct mail on the environment. Forty-eight per cent of respondents thought that advertising mail from US households counted for more than half of the country's municipal waste when it is actually responsible for two per cent.

On the brighter side there is evidence that good environmental behaviour by admailers and postal administrations will be rewarded. Sixty-eight per cent of respondents said they would have a higher impression of direct mailers if they used recycled paper and cardboard. The survey also revealed that, in many cases, consumers are willing to pay more for environmentally friendly products as long as those costs are considered reasonable.

Concerning the delivery of parcels, environmental concerns of the public are likely to generate more volumes for postal administrations including Canada Post. Combining parcels with the delivery of letter mail makes very good sense from an environmental perspective. Currently three separate vehicles may be involved in providing mail services to a route on a daily basis. These include one vehicle to transport the letter carrier, a second to deliver mail to relay boxes, a third to deliver parcels and perform pick-ups. With motorization of letter carriers and combined delivery of parcels and letters this process may be reduced to one vehicle. Studies in the United States have revealed that parcel delivery conducted by the postal service contributed three times less CO<sub>2</sub> emissions than delivery by major courier companies.

### **Profits and Prices: Past, Present and Future**

In the past 15 years, Canada Post Corporation has generated over \$1.7 billion in profits and has provided the federal government with a return of over \$1.2

billion in dividends and income tax. This is a remarkable record of continuous profitability which is unmatched by virtually any major Post Office in the world.

Even more remarkable is the fact that these profits were generated with postage rates which are among the lowest in the industrialized world and significantly below that of all major European countries which have much higher population densities. Furthermore Canada Post has continued to be profitable while keeping its price increases much below the general rate of inflation and below that of its primary input costs. During the period of profitability between 1995 and 2008 postage rates in Canada increased by 15.6% while the overall rate of inflation increased 27.4%.

The future profitability of CPC is difficult to predict. Without an accounting adjustment due to future benefit costs the 2009 profit of \$319 million would have been reduced to \$48 million or 0.6% of overall revenues. With the cancellation of the 1998 CPC Policy Framework and the introduction of the Canadian Postal Service Charter in 2009 CPC has announced a proposed schedule of price increases which will at least match the current rate of inflation.

### **CPC Remains an Important Institution**

Despite the recent decline in mail volumes and its uncertain financial future one thing is certain. The post office remains, and will continue to be a very important institution playing a vital role in the economic, cultural and social life of the country.

With over 6,500 post offices CPC has the most extensive retail network in the nation. It delivers, on a daily basis, tens of millions of letters, magazines, bills, invoices, parcels, and advertising materials to more than 15 million addresses. Tens of thousands of businesses rely on CPC to transport goods and inventory and maintain their cash flow.

Canada Post Corporation, including Purolator, its parcel delivery subsidiary, has the largest fleet of vehicles in the country and the number will grow as CPC purchases thousands of new Ford Transits as part of its program to motorize letter carrier delivery.

The public also believes in the value of postal services and the importance of Canada Post Corporation. In 2009 Canada Post Corporation was named as Canada's "most iconic brand". CPC has also been ranked as the most trusted Canadian institution, surpassing the Canadian Military, the Supreme Court, the RCMP and the Canadian Broadcasting Corporation.

### **Another Post Office is Possible**

Faced with declining volumes and economic recession it is very doubtful that Canada Post can continue to fulfill its mandate to provide universal service at acceptable postage rates and still remain financially self-sufficient.

The response of management to this situation has been to embark on a massive \$2.5 billion program of automation which involves new mail processing equipment, several new plants, and renovations at other facilities, motorization of letter carriers and the mechanized sequencing of letters for delivery. Once the program is fully implemented CPC expects Deletion annual savings of \$250 million.

This automation program may or may not achieve the results hoped for by management. In the United States, where sequencing was introduced in the 1990s, it took many more years than expected to obtain the anticipated productivity gains.

In any event new technology will not result in improved services or address environmental concerns of the public. It is time to do both.

## **Postal banking: A Revenue Generating Service which is Necessary and Possible**

When Canada Post became a new Crown Corporation in 1981 the President, Michael Warren argued for the expansion of financial services at the retail counters. CPC was already involved in providing money orders and, in some locations, currency conversion.

Between 1867 and 1969 the Canadian Postal Savings Bank had provided basic banking services at branches across Canada so the idea of banking services was not new.

Warren argued that there were 2000 communities in Canada which had a post office but no bank and the postal service could step into this service vacuum.

The need for a postal bank in Canada has grown since the days of Michael Warren. Within the past 20 years there have been more than 2000 closures of bank branches mainly in rural and low income areas. Between 1993 and 2003, for example, Newfoundland and Labrador lost 23% of their bank branches. Recent studies show that the vast majority of rural residents expect this trend to continue and are very concerned about it.

While Canada has simply talked about postal banking most of the rest of the world has been doing it.

In the world today each year 1.5 billion people use the services of postal banks and more than 400 million people have postal bank accounts.

There are several different models that Canada Post should consider.

In Brazil the post office has partnered with a private sector bank to greatly increase the availability of banking services in all regions of the country.



In New Zealand the Post Office established KiwiBank which now has more branches than any of the private sector banks.

In Italy, Bancoposta has greatly expanded upon its traditional savings bank services in partnership with private sector banks.

The French postal service, La Poste, launched its own bank in January 2006 and now has over 11 million postal banking accounts.

In the UK, where Royal Mail has a partnership with the Bank of Ireland there is a campaign to establish a separate Postal Bank. Currently there is also consideration of permitting all banks to avail themselves of postal counters for savings bank transactions.

In India the post bank is also used to provide banking services to those without accounts.

In April 2010 former Canada Post President Moya Greene told the Senate's Standing Committee on National Finance that CPC was giving very serious consideration to providing "a more traditional and generalized banking offer".

We believe it is time to transform these considerations into a firm plan of action.

### **Expansion of Parcel Delivery**

For over 100 years the post office has been a pick-up and delivery agent for parcels and packets. Thanks to the development of e-commerce and internet marketing the parcel delivery sector is projected to experience a continuous period of significant growth. The question is will this growth in parcel delivery be regulated in a manner which encourages efficiency and limits, as much as possible, growth in traffic congestion and CO2 emissions.

There is a direct and inverse relationship between increased delivery density and use of fossil fuels, pollution and traffic congestion. Greater delivery density also permits lower prices and great overall economic efficiency.

We believe it is necessary for CPC to greatly expand its presence in the parcel business with the objective of becoming the last-mile delivery agent for the entire sector. In rural areas there have been some very positive developments. Recently, CPC has entered into an arrangement with FedEx Ground Canada whereby CPC will provide last-mile parcel deliveries for rural and small town communities in Canada on behalf of FedEx. We believe this agreement should be used as a template throughout the parcel delivery sector, beginning in lower density rural areas and expanding to the urban areas as CPC ramps up its delivery capacity so that it can provide last-mile service to the industry.

### **Counter Services: Internet and Government Services:**

CPC often boasts about having the largest retail network in the country. We believe it is time to use this network to meet the needs of the public. There are many examples of postal administrations which have reorganized their facilities in order to expand services to the public. Canada Post can do likewise. In the mid 1990's we were the first postal administration in the world to provide public internet services. Today, in many under-serviced rural areas, the post office could provide access to high speed internet. There are many smaller communities where the federal and provincial governments have reduced services or even closed their operations, forcing residents to drive long distances to obtain services. In some cases it would be appropriate for departments of government to locate operations within post office facilities. In others it may be appropriate for postal employees to be trained to provide the services.

### **Door to Door Delivery**

Another area of potential service improvement is the expansion of door to door delivery to those residences that now receive their mail at community mailboxes

(CMBs). We recognize that this service improvement would cost money and believe that it should be rolled out as CPC begins to reap the financial benefits of its modernization program. It would be a means by which the public could receive a share in the benefits of their investment. It would also be a positive contribution to reducing CO2 emissions as door to door letter carrier delivery requires much less use of fossil fuels than the practice of customers driving to pick up their mail at neighbourhood CMBs, leaving their engines running while they empty their compartments.

Today approximately 15 per cent of points of call are serviced by urban community mailboxes. These residents are denied equal service by CPC simply on the basis that their homes were built more recently than 1975, when CPC first began to substitute CMB delivery for letter carrier delivery.

The Union's position on expansion of door to door service has been supported by several third parties who have examined CPC's operations.

In 1989, Alan Marchment, Chair of the Postal Services Review Committee, proposed that CPC rebalance its objectives in favour of improving services by offering door-to-door letter carrier delivery to the urban and suburban residences that were then serviced by CMBs.

The 1996 CPC Mandate Review also addressed the issue of CMBs and door-to-door letter carrier delivery. The review noted those were problems of fairness and uniformity. It also raised the concern about the problems created when elderly and/or disabled people are denied door-to-door letter carrier delivery and the safety hazards CMBs pose for women accessing them at night in isolated areas.

Altogether the 1996 review made three recommendations concerning CMBs and door-to-door letter carrier delivery.

1. CPC should provide exceptional door-to-door letter carrier delivery to disabled and elderly people who have difficulty accessing CMBs.
2. CPC should review all CMB locations from the viewpoint of women's safety and relocate those found to be hazardous.
3. CPC should replace CMBs with door-to-door letter carrier delivery in urban areas as resources permit.

In 2008 the Report of the CPC Strategic Review recommended that CPC provide an overview of the environmental impact of each type of delivery mode.

We believe that expansion of door to door delivery should start now and proceed as CPCs finances permit.

### **Conclusion: Expansion, Not Contraction, Is the Solution to CPCs Challenges**

There is no doubt that the circumstances are changing for Canada Post. Economic recession and electronic substitution pose serious challenges to the ability of CPC to remain financially self sustainable in coming years.

Despite these changes CPC will remain a very important national institution providing vital services to the population and the business sector.

It is time that the post office moves forward to provide new and needed services to the public. Services that can provide added revenues, reduce CPC's environment footprint, and meet the ever changing needs of the population.

The future requires growth and expansion. And the future is now.