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Canada Post: The Tipping Point Has Arrived

Seven Policy Recommendations to Prepare the Post for the Future

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Prepared at the request of the National Association of Major Mail Users

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National Association of Major Mail Users, Inc.
Association nationale des grands usagers postaux inc.

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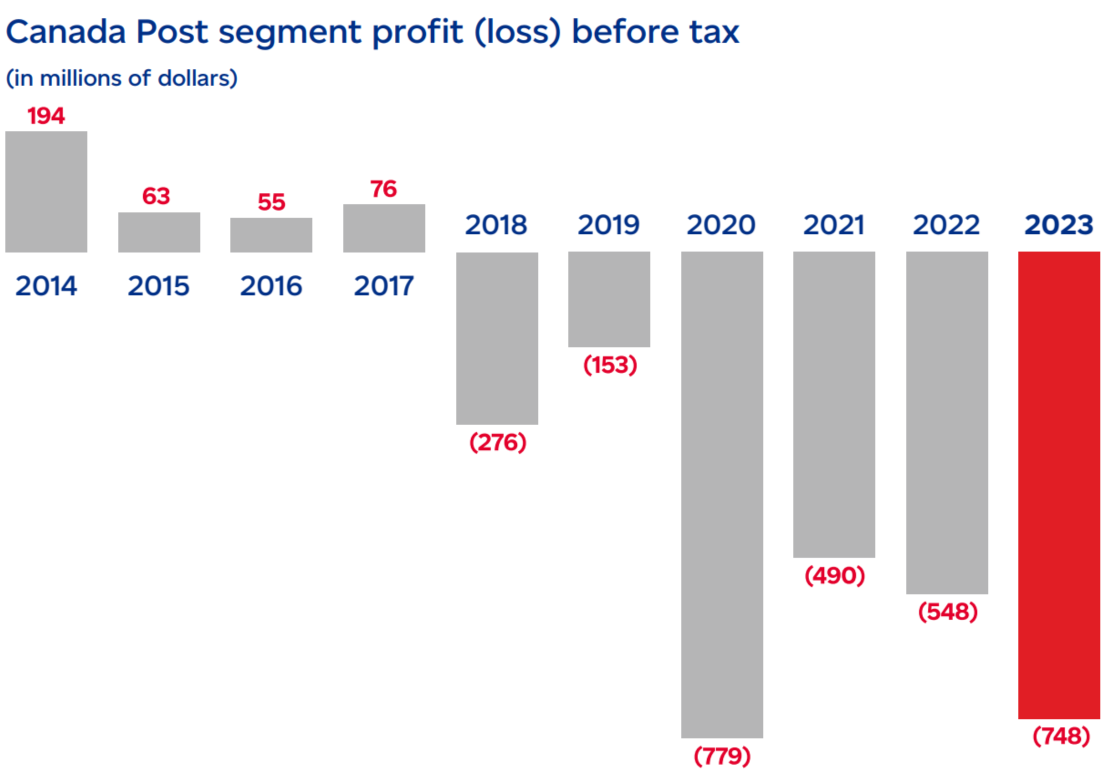
"A system built to deliver 5.5 billion letters cannot be sustained on two billion letters," Canada Post's CEO, May 2024

The current financial picture:

- For 2023, Canada Post recorded a loss before tax of $748 million, compared to a loss before tax of $548 million in 2022.
- Without changes to address the structural challenges with our operating model, we forecast larger, unsustainable losses in future years.
- Even with Canada Post's recently proposed stamp price increase, the Corporation projects that, without additional borrowing and refinancing, it will fall below its required operating and reserve cash requirements by early 2025.



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Executive Summary

The tipping point has arrived. The Canada Post Corporation needs urgent reform to reduce costs, increase revenues, and prepare for the future without accelerating the decline of the mail and package volumes that are essential to allow Canada Post to serve urban, suburban, and rural Canadians for decades to come.

But these reforms should not include the recently proposed 25 cents per piece rate increase[1] for lettermail that will hurt the jobs, businesses and consumers that depend most on lettermail, and hurt Canada Post financially by accelerating the shift to electronic alternatives.

Business and household mail continues to be the core and most profitable product line of Canada Post, with a profit margin of 50%. Canada Post should have the freedom to adjust the pricing of lettermail on a regular, cost-to-serve basis. But any pricing actions must be predictable, stable, and affordable to optimize outcomes with a steadily declining lettermail business.

The volume of lettermail in Canada, the Post's traditional core product line, peaked in 2006 and has steadily declined every year since, thanks to the digitization of communications.

To survive, the Canada Post Corporation must reorganize and restructure, moving from a letter-mail-centric model to a parcel-centric model while mitigating the rate of decline for lettermail. Additionally, Canada Post should:

1. Have the freedom to adjust regulated pricing of lettermail on a regular basis without being disruptive to Canadians and the mailing industry, and obtain complete discretion to develop multiple business prices based on cost-to-serve, taking into account distance, size, and service level.
2. Replace the archaic route measurement system of scheduling letter carrier routes with dynamic route scheduling.
3. End all door-to-door delivery.
4. Franchise all 3,600 corporate outlets.
5. Maintain and invest in Smartmail Marketing (direct mail)

[1] Canada Post's proposed rate increase amounts to a 64% price jump on high-volume business mailers since 2014 and a 44% increase on household mailers.

6. Develop partnerships with private courier firms to leverage the Post's last-mile delivery network.
7. Terminate efforts to diversify into non-core markets.

Some of these changes will require the approval of the Government of Canada as the sole shareholder of the Canada Post Corporation, while others can be directly adopted by the Canada Post Corporation.

Bold action is needed to right the ship and focus the Canada Post Corporation on profitable and break-even product lines that will allow the Canada Post Corporation to become sustainable in the future. Canada Post needs a combination of new revenue and substantial cost controls. Without it, Canada Post could go the way of Blockbuster Video and disappear.

I. Introduction

Canada Post has a long, storied history that predates Confederation. Indeed, the postal service was first established in British North America in 1760 by the Royal Mail of the United Kingdom.

The author's 1989 doctoral thesis analyzed the origins and growth of the Canadian postal system including the documentation of the critical importance of the postal system as the first national system of communication, which was used self-consciously by political leaders as the earliest instrument of nation-building before and after 1867.

The final third of the thesis documented and analyzed the transformation of Canada Post – consequent to the creation of the CBC in 1935 – from an instrument of nation-building, to *the* critical partner in the national payments system. This trend was captured in a very famous phrase in Canada in the post-war period: "The cheque is in the mail". Indeed, the invoicing and payment remittances system across the totality of the economy was based on the postal system, evidenced by the enormous disruption to the economy – including measurable declines in GDP – caused by a number of national postal strikes during those years.

The thesis concluded by arguing that by the 1980s, the post office was witnessing the earliest stages of long-term absolute decline, due to the emergence of electronic communications – most importantly the emergence of the fax machine.

With the development of the world's first browser in the mid-1990s, the revolutionary disruptive potential of this innovation was first recognized by MIT Professor Nicholas Negroponte (the first investor in *Wired* magazine), in his 1995 book, *Being Digital*.

Negroponte argued that anything "informational" written on a piece of paper, e.g., books, newspapers, government records, or embedded within a physical product, e.g., cassette tape, videotape, CD, DVD, could be digitized into electronic bits. And electronic bits are governed by the laws of electricity and the speed of light.

In plain English, instead of printing an invoice or statement that was mailed and delivered physically, the information could be digitized and transferred electronically – instantaneously – at the speed of light (the approximate speed of electricity and the internet at 300,000 kilometres per second). By contrast, the movement of physical objects (atoms) is limited to the speed of the transportation systems used, e.g., a postal truck moving at 30 kilometres per hour. Contrary to Star Trek, a physical object cannot be dematerialized and transmitted electronically.

Prof. Negroponte argued that this would completely disrupt *everything* in market economies, which are overwhelmingly service-based and informational (rather than the previous manufacturing-based economy based on the production of physical goods), including financial services, media, payments systems, advertising, entertainment, music, retailing, health care, the logistics industry, and the post office. As the services sectors of the modern economy constitute over 80% of GDP and employment, the change predicted by Prof. Negroponte was revolutionary.

Negroponte argued that once business, government, and consumers understood the new technology and its possibilities, it would be steadily adopted throughout the entire economy and society. There would be no going back to the old analogue technology of paper-based records and information. While millennials understand this deeply as the first completely digital generation, there are still some – albeit steadily declining in numbers – older consumers and leaders who insist on the importance and necessity of visiting a physical bank branch, post office branch, or travel agent to conduct business.

The first entrepreneur to understand the strategic significance of this revolution was Jeff Bezos when he founded Amazon. Initially, many analysts, journalists, academics, and decision-makers failed to understand Bezos' vision, believing it was simply a niche service – a "bookstore online" – while Bezos understood it was a vastly more powerful revolutionary instrument that would deconstruct the entire economy over time, starting with retail.

However, the full disruptive impact of the "digitization of everything" did not become manifest until the first decade of the new century. The first wave of extensive digitization in Canada and the US occurred with all aspects of the national payments system of invoicing and payments, as banks, credit card companies, pensions, utilities, and businesses developed an understanding of the profound cost and time savings of instantaneous communications with customers. Indeed, these changes can be dated empirically with the beginning of the decline of lettermail in 2006 in the audited annual report of Canada Post.

The second wave of digitization was accelerated by the development of e-government circa 2008-10 as federal, provincial, and municipal governments started to understand and exploit the enormous increase in ubiquitous, 24/7 communications with citizens, governments, and stakeholders regarding income support programs, subsidy programs, services to citizens, communication of studies, and consultations with citizens, to name just some.

The decision to transition to e-government had far-reaching consequences for the post office. It is not well known that from 1867 until that period, the federal government was by far the single largest user of the Canadian post office in mailing EI, CPP, OAS, and, of course, CRA returns, while the three levels of government dominated postal users – understandable in a vast country with the second largest land mass in the world.

In 2015, the Macdonald–Laurier Institute, a think tank, commissioned the author to provide an empirical analysis of the profound changes that occurred after the completion of his thesis, from 1989 until 2015. It was during these two decades that Canada, and every OECD country, experienced the digitization of most informational services or activities, including banking, communications, entertainment, media, advertising, publishing, broadcasting, and government services.

The completed MLI Report – *Is the cheque still in the mail?* – concluded that "the market demands of customers are slowly transforming the traditional post office into a parcel post firm to facilitate deliveries required by the increasing popularity of e-commerce."

In 2018, the author published an op-ed in *The Globe and Mail* entitled "Barring major changes, Canada Post is headed for the corporate graveyard". In the same year, the author published a second op-ed, "Even if back to work, Canada Post is plagued by deeper issues". The author concluded that:

If these issues are not addressed, Canada faces the real possibility of creating a Potemkin postal system with large numbers of postal workers walking the streets of Canada to deliver non-existent letter mail every day to 16 million addresses that no longer mail letters.

In the next section of this report, we will examine the empirical decline of lettermail during the last 15 years.

II. Review of Canada Post Letter Volumes, 2006 – 2022

The audited annual reports of Canada Post demonstrate unequivocally the secular, long-term decline of lettermail in Canada since 2006.

It must be noted that lettermail or "transaction mail" – the core business of Canada Post, which is protected from competition by Parliament in the *Canada Post Corporation Act* – has by far the highest profit margin (50%) of any Canada Post product, according to a 2016 study by Canada Post.

Volume of Mail – in Billions of Pieces, 2006-2014

	2006	2007	2008	2009	2010	2011	2012	2013	2014
Transaction Mail	5.5	5.4	5.3	5.0	4.8	4.6	4.4	4.1	3.0

Now, we examine the decline of lettermail since the 2015 MLI study. The audited annual reports of Canada Post reveal a steady and dramatic decline in the number of pieces of transaction mail from 3.7 billion pieces in 2015 to 2.3 billion pieces in 2022.

Volume of Mail – in Billions of Pieces, 2015-2022

	2015	2016	2017	2018	2019	2020	2021	2022
Transaction Mail	3.7	3.4	2.9	3.0	2.8	2.4	2.4	2.3
Parcels		.19	.24	.29	.32	.38	.36	.28
Direct Marketing	4.9	4.6	4.8	4.6	4.5	3.3	3.9	3.9

Canada Post provided the following analysis in the 2022 Annual Report, concerning the dramatic declines in lettermail:

Core mail volume declines

Risk

Lettermail experienced its 16th consecutive year of volume decline in 2022. This decline is a result of digital transformations, regulatory changes, economic impacts from the COVID-19 pandemic and economic uncertainty, mail product cost increases and changing behaviour of mailers and consumers. As well, an increased focus on cost reduction has made low-cost alternatives, such as email and digital platforms, more attractive forms of communication for many businesses.

Although the Canada Post Smartmail Marketing service remains a highly effective driver of marketing results for businesses of all sizes, it continues to face strong competitive pressure from digital advertising substitutes, as well as direct competitors that distribute printed flyers. Public concern regarding the environmental sustainability of unaddressed advertising, particularly related to the use of plastic bags, may contribute to additional uncertainty in the form of increased activism and new regulations. The rising cost and lack of availability of paper place additional pressure on Smartmail Marketing, and all commercial mail.

While Canada Post correctly identified digital transformation as the root cause or independent variable, post office management identified cost increases, changing behaviour, and the COVID-19 pandemic as partly responsible for the steady decline of lettermail. However, if the internet and the browser had never emerged, the *status quo ante* would still be in place – regardless of pandemics, regulations, or changing behaviour – as there would be no alternative to sending communications by mail.

As the author predicted in the 2015 MLI study and two op-eds in *The Globe and Mail* in 2018, the long-term decline of lettermail is accelerating.

Parcels

However, a far more troublesome trend is the declining trend in Canada Post's market share of parcels – which Canada Post – and this author in 2015 – argued would save the post office from the deconstruction caused by the digital transformation of letters. Parcels delivered by Canada Post peaked during the pandemic, reflecting the surge in e-commerce.

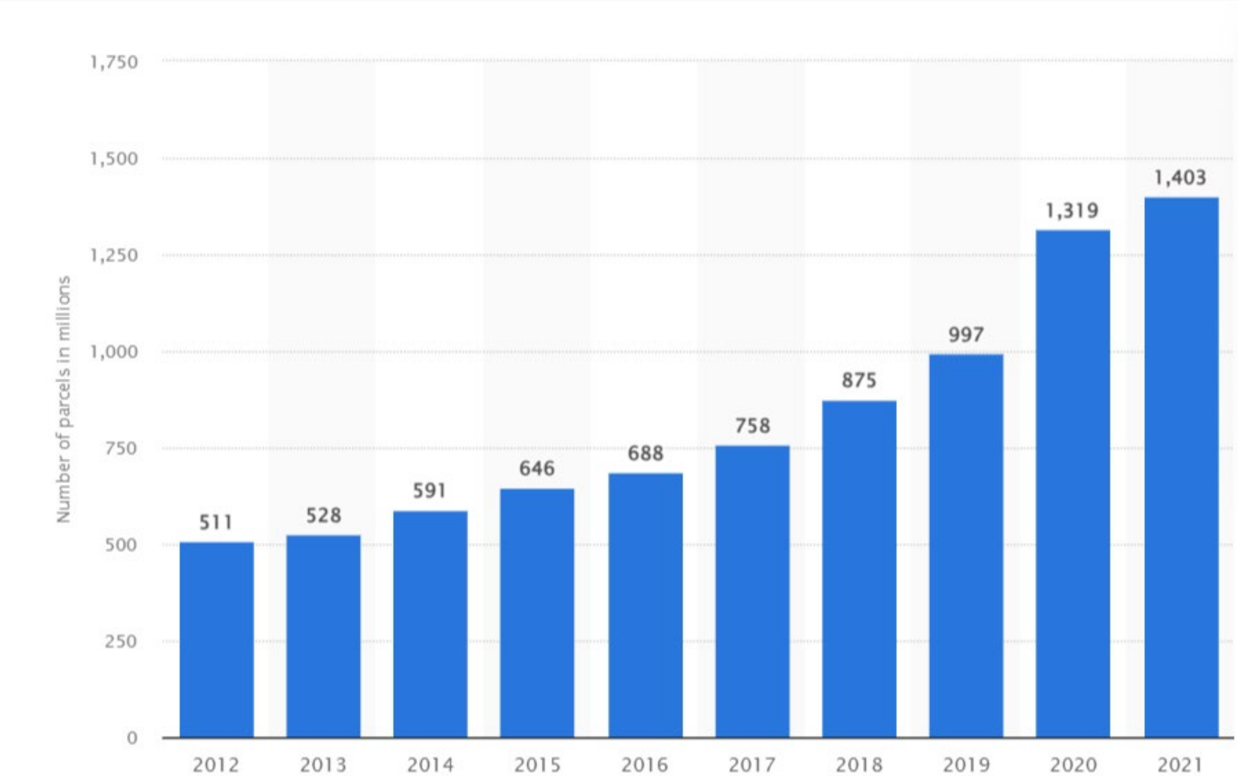
Nonetheless, the most recent trend is a downward decline. But this is not due to a decline in parcels shipped. The graph immediately below reveals the very large increase in the parcels shipped (characterized as "CEP," i.e., courier, express, and parcel). Rather, Canada Post is losing share to more nimble and cost-efficient competitors.

Confidential conversations with industry observers concerning operating costs – e.g., labour, vehicles, fuel – in the parcel market advised the author that the average all-in operating costs per hour are as follows:

- Canada Post: $50 to $60 (do not operate on Saturdays and Sundays, as that requires time and a half in salary)
- Legacy couriers, e.g., Purolator, UPS, Fed Ex, Canpar: $40 to $50 per hour
- Private competitors e.g., Intelcom, who use gig workers (who use their own vehicles and operate on weekends): $20 to $30 per hour

Assuming these numbers are approximately accurate, it strongly suggests that Canada Post is not and cannot be competitive in parcels – if they attempt to compete directly.

Courier, express and parcel (CEP) market volume in Canada from 2012 to 2021 ***(in million pieces)***



Source: Statista and Effigy Consulting, 2023

https://www.statista.com/statistics/1219790/courier-express-parcel-market-volume-canada/

Direct Marketing

Direct marketing (branded “Smartmail Marketing” by Canada Post[2]) is of the greatest interest to mass mailers. Once again, a trend of declines in absolute physical volumes of direct mail using Canada Post is revealed. Direct marketing physical volumes have declined from 4.9 billion pieces in 2015 to 3.9 billion pieces in 2022.

However, the graphs below show that while the direct mail advertising market is growing in Canada and other countries, Canada Post is losing market share.

The following stats are drawn from Stats Canada and from Mehul Nagotkar:

https://www150.statcan.gc.ca/n1/pub/11-621-m/11-621-m2023002-eng.htm

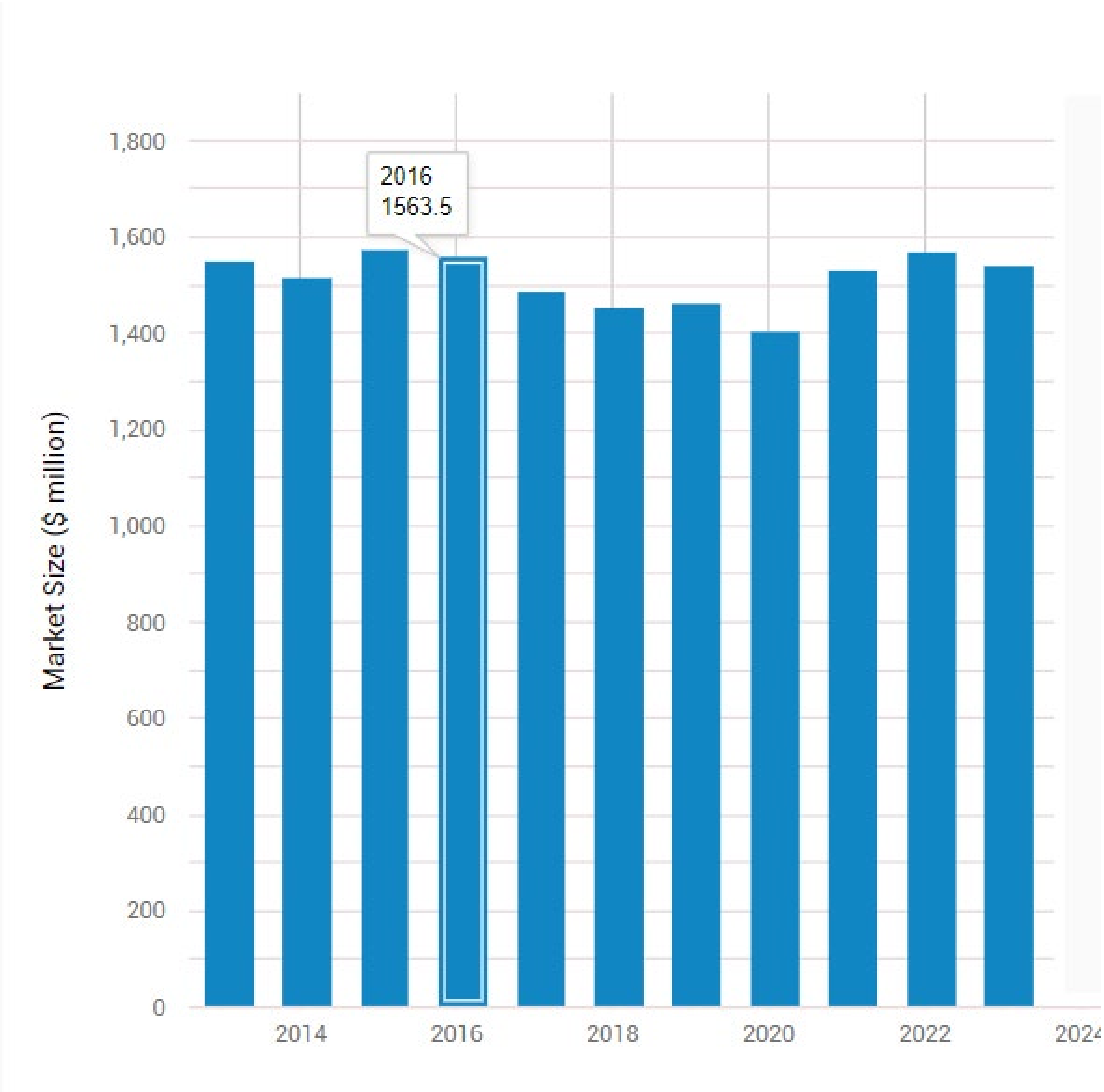
https://www150.statcan.gc.ca/n1/daily-quotidien/220913/dq220913b-eng.htm

https://www.linkedin.com/pulse/evolution-direct-marketing-canada-during-covid-19-era-mehul-nagotkar

$1.5bn	Direct Mail Advertising in Canada Market Size in 2023
-1.7%	Direct Mail Advertising in Canada Market Size Growth in 2023
1.2%	Direct Mail Advertising in Canada Annualized Market Size Growth 2018–2023

[2] https://www.canadapost-postescanada.ca/cpc/en/commercial/marketing/campaign/direct-mail/direct-mail-smm.page

Direct Mail in Canada 2014-2024

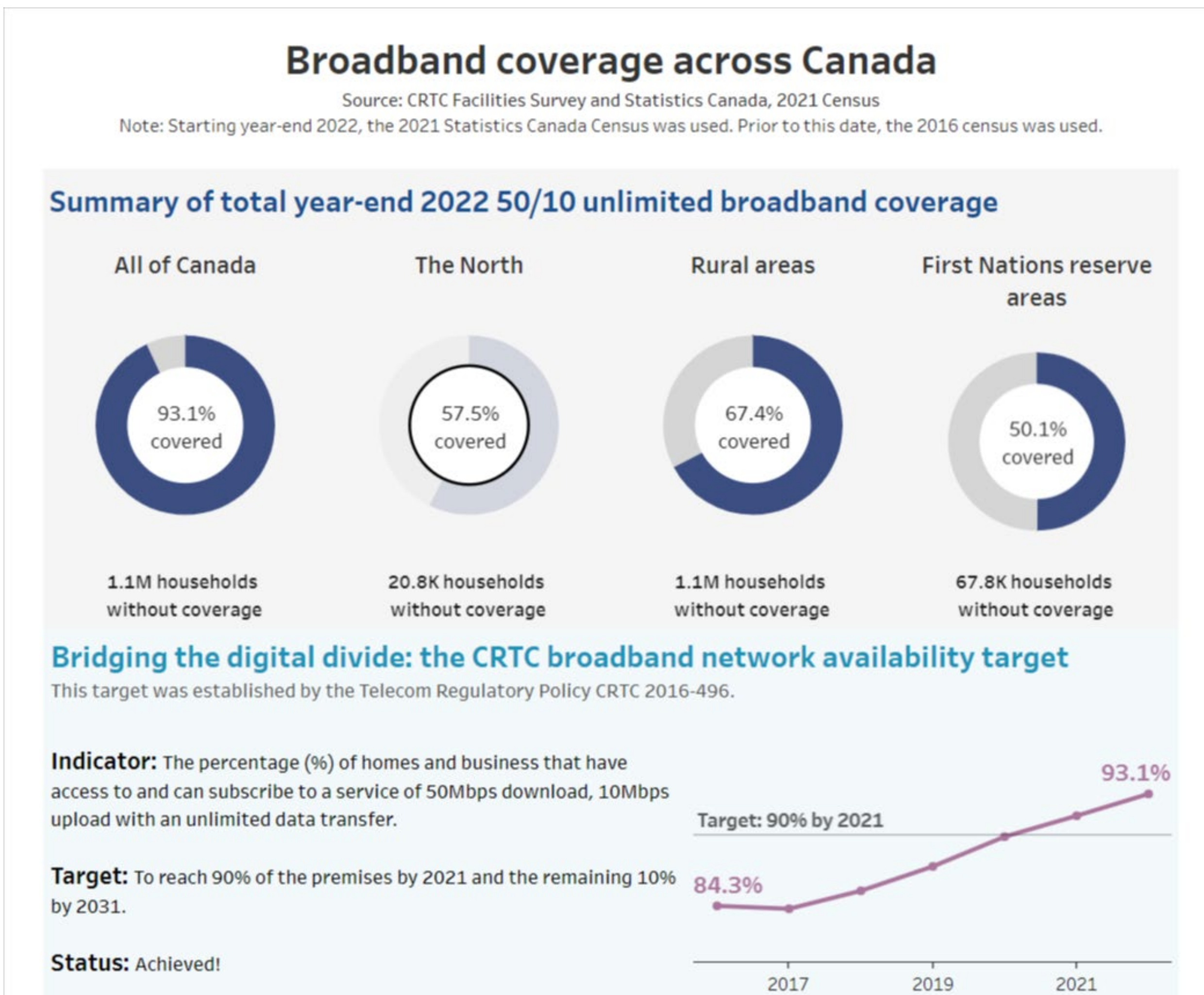


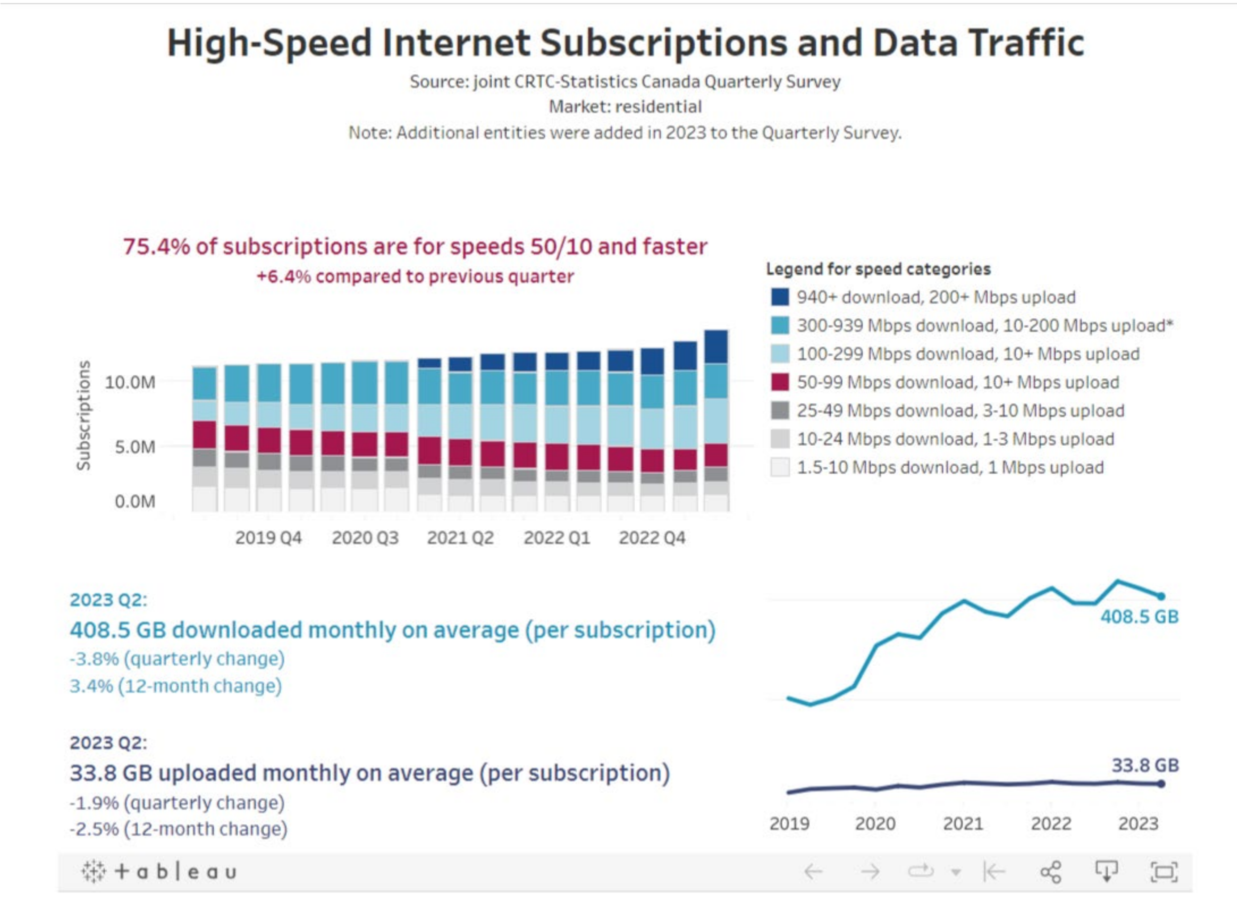
Broadband Adoption in Canada

It is critical to examine the data in Canada concerning the principal technology or medium that is displacing the post office.

Understood strategically, broadband internet is the new post office of Canada. The transmission of anything and everything informational is precisely what the post office provided for 250 years. As will be discussed below, as broadband extends from 93% of the Canadian population to almost 100% of the population of Canada – driven by markets, government policy, and subsidies to rural and remote communities to build out broadband access – lettermail will plummet within the next 5-7 years in Canada unless Canada Post takes steps to help slow the rate of decline.

The evidence of the transmission vehicle that enables digitization is provided by the CRTC: *Communications Marketing Report: Current trends - High-speed broadband* https://crtc.gc.ca/eng/publications/reports/PolicyMonitoring/ban.htm




High-Speed Internet Subscriptions and Data Traffic
Source: joint CRTC-Statistics Canada Quarterly Survey
Market: residential
Note: Additional entities were added in 2023 to the Quarterly Survey.
75.4% of subscriptions are for speeds 50/10 and faster
+6.4% compared to previous quarter
Subscriptions
10.0M
5.0M
0.0M
2019 Q4
2020 Q3
2021 Q2
2022 Q1
2022 Q4
Legend for speed categories
940+ download, 200+ Mbps upload
300-939 Mbps download, 10-200 Mbps upload*
100-299 Mbps download, 10+ Mbps upload
50-99 Mbps download, 10+ Mbps upload
25-49 Mbps download, 3-10 Mbps upload
10-24 Mbps download, 1-3 Mbps upload
1.5-10 Mbps download, 1 Mbps upload
2023 Q2:
408.5 GB downloaded monthly on average (per subscription)
-3.8% (quarterly change)
3.4% (12-month change)
408.5 GB
2023 Q2:
33.8 GB uploaded monthly on average (per subscription)
-1.9% (quarterly change)
-2.5% (12-month change)
33.8 GB
2019
2020
2021
2022
2023
+ a b | e a u

2015 – 2022

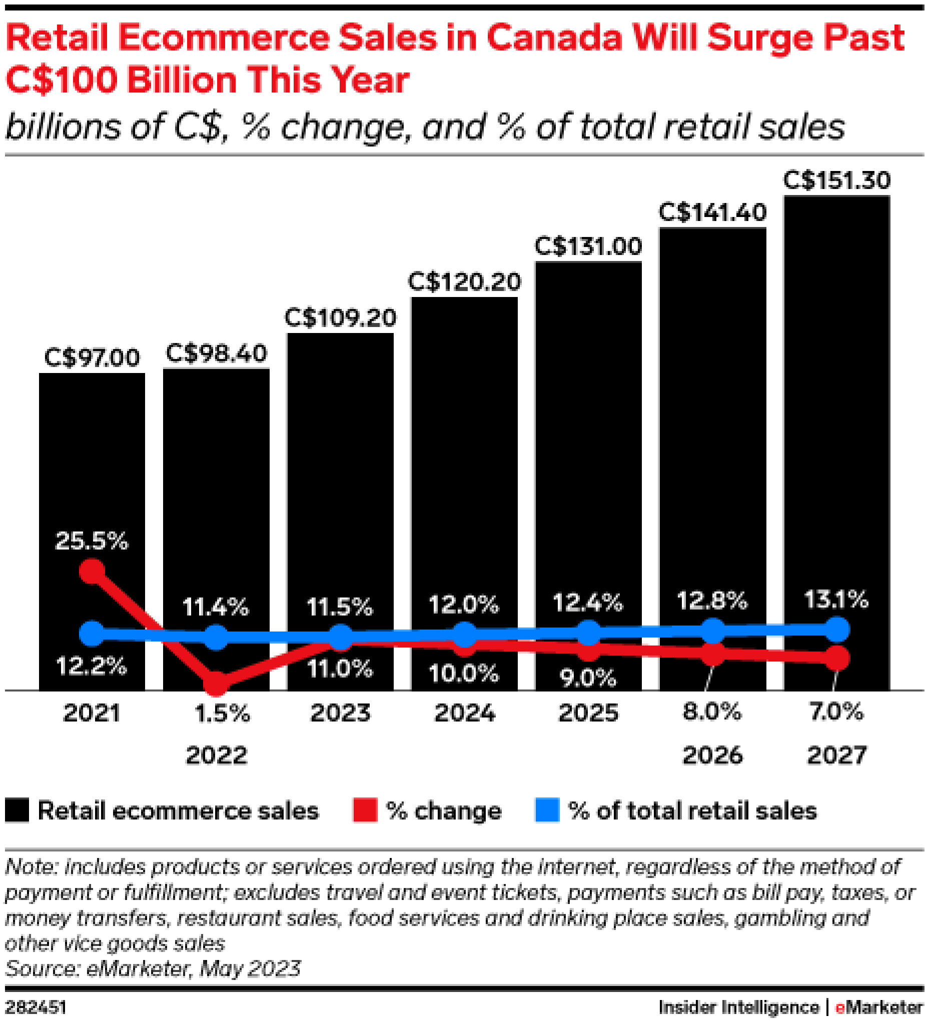
We conclude this section with an analysis of the trends of lettermail, parcels, and direct mail over the last nine years.

Lettermail is in steep decline in Canada – declining between 6% to 8% per year in volume – and the rate of decline is likely to increase as the "analogue elderly" – with the greatest emotional attachment to lettermail usage – will pass away. Millennials, Gen X, and Gen Y are existentially digital, so there can be no doubt that the rate of decline will accelerate. From these evidence-based trends, it is reasonable to forecast that lettermail will reduce to less than 1 billion pieces in the next 5-7 years' time – in the early 2030s – unless Canada Post takes steps to help slow the rate of decline.

However, parcels will continue to grow very dramatically due to the ongoing rebalancing of sales between brick-and-mortar sellers and e-commerce sellers.

This outlook is supported by an examination of total retail sales in Canada. Although it is often assumed that e-commerce sales are approaching equivalence in sales with retail brick-and-mortar sales, the empirical data completely contradicts this erroneous belief.

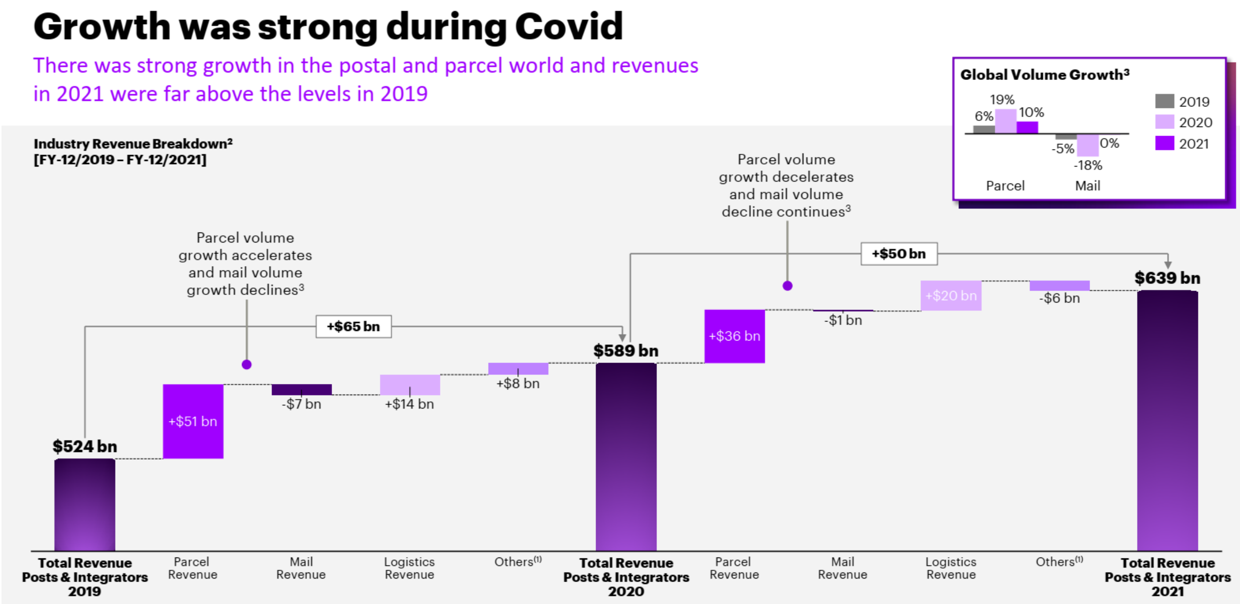
Brick-and-mortar sales are 87% of total Canadian retail sales while e-commerce is only 13%, which suggests that e-commerce has a great deal of room to expand in Canada.



Source: https://www.insiderintelligence.com/content/canada-ecommerce-forecast-2023

III. State of Postal and Parcel Nation

The following graphs and charts from Accenture, *Post and Parcel Industry Trends, 2023* are worthy of closer examination, for they reveal similar trends in other OECD countries.



While Canada Post suggested in the annual report for 2022 that volumes were down due to COVID-19, this claim is not supported by the trend evidence in the graph above.

Nonetheless, the COVID pandemic did drive change in the industry as the graph below reveals.

The Accenture research reveals that postal operators – including Canada Post – are facing declining revenues. Indeed, the graph below reveals that Canada Post is doing very poorly relative to other postal administrations.

As an industry, posts have struggled to grow

A majority of the postal operators have faced stagnant or declining revenues; postal operators with growth above 2% have grown largely inorganically

CEP Players smaller today than in 2007
2007-21 CAGR: <0%

Player	2007-2014	2014-2021	2007-2021
Correos - Spain	-3.9%	2.7%	-0.7%
Posten Norge	-1.6%	0.2%	-0.7%
Swiss Post	-0.4%	-2.9%	-1.7%
NZ Post	4.3%	-7.6%	-1.8%
SAPO	-1.3%	-3.1%	-2.2%
PostNL	-12.7%	-2.9%	-7.9%

CEP Players treading water
2007-21 CAGR: 0-2%

Player	2007-2014	2014-2021	2007-2021
DP DHL	-1.6%	5.4%	1.8%
Japan Post	5.1%	-2.8%	1.1%
Austria Post	0.3%	1.0%	0.7%
CTT	-0.6%	0.8%	0.1%
Poste Italiane	-0.7%	0.9%	0.1%
AN Post	-1.1%	1.2%	0.1%

Moderate growth
2007-21 CAGR: 2-5%

Player	2007-2014	2014-2021	2007-2021
UPS	2.3%	7.6%	4.9%
Bpost	1.1%	8.4%	4.7%
La Poste	0.9%	8.4%	4.6%
Australian Post	4.9%	3.7%	4.3%
Yamato	1.9%	2.8%	2.3%
Canada Post	0.9%	3.4%	2.2%
Royal Mail	0.1%	4.3%	2.1%

High single digit growth
2007-21 CAGR: >5%

Player	2007-2014	2014-2021	2007-2021
Posti	22.2%	-1.9%	9.5%
SingPost	10.0%	8.9%	9.4%
Aramex	10.8%	7.5%	9.1%
Pos Malaysia	7.5%	6.3%	6.9%
FedEx	3.8%	9.1%	6.4%

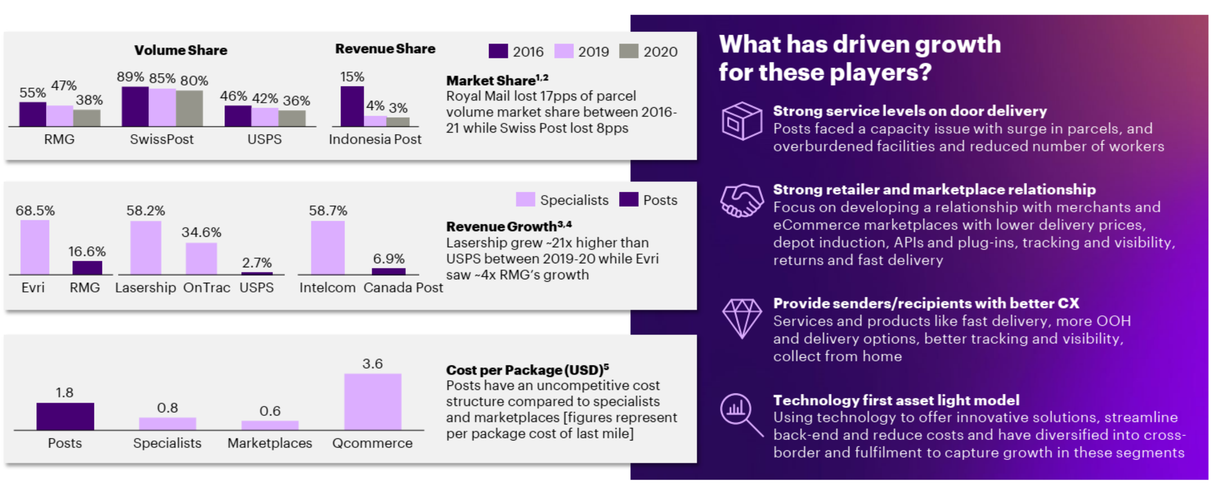
CAGR: <0% | 0-2% | 2-5% | >5%

It must be noted that Canada Post is second from the bottom in this comparison of postal administrations.

Equally importantly, not only are the postal operators facing a decline in letters, but postal operators are losing market share in the parcels market to more nimble private competitors.

Of greater concern, postal players losing the parcel market

In some countries, we are seeing postal players losing market share to smaller B2C, asset light players that offer ease of doing business and reliability at lower costs



The postal operators are losing market share as they are not responding to the demands of the market concerning the last mile.

IV. Seven Recommendations

We will summarize the empirical research findings in this report before discussing our seven recommendations for saving Canada Post.

1. Lettermail has declined from 450 pieces per household per year in 2006 to 130 pieces per household per year in 2022 or a 71% decline or approximately ¾ of total mail volume has vanished. The core and most profitable product line of Canada Post – lettermail, with a profit margin of 50% – will likely reduce to less than 1 billion pieces within five years, as remaining commercial users will switch to parcel express to deliver passports, credit cards, and other sensitive physical documents that cannot be digitized but must be delivered.
2. The parcel post market is undergoing a fundamental transformation concerning the delivery and costs of the last mile.
3. Canada Post is uncompetitive in parcels due to cost structures approximately triple that of the gig operators and 50% higher than the legacy parcel firms due to highly restrictive labour agreements that, *inter alia*, require time and a half pay on weekends, which is when much of e-commerce deliveries take place.
4. The national retail postal office network is no longer a source of competitive advantage but a costly competitive disadvantage, servicing a very small and dwindling number of mostly older users, as millennials and people under approximately 50 years of age, the most digital and digitized generation in history, have abandoned the postal system.

Revise the Canadian Postal Service Charter to address costs, service, and pricing

The Canadian Postal Service Charter was introduced in 2009 to update the Universal Service Obligation (USO) adopted by most or all postal administrations over a century ago.

It has been succinctly summarized by the USPS Office of the Inspector General: https://www.uspsoig.gov/focus-areas/focus-on/focus-on-universal-service-obligation.

The USO is generally thought to cover six attributes:

- Geographic scope
- Range of products
- Access
- Delivery mode and frequency
- Pricing strategy
- Service

The USO was an important innovation in the late 19th century to enable efficient mass communications available to everyone in the emerging modern market economy. The USO was uniquely suited for the analogue economy of the 19th century when it was developed as a policy to enable a communications infrastructure based on paper-based communications, including all financial settlement transactions.

In the last 20 years, however, the USO has prevented innovation and competitive responses to emerging, nimble, innovative, and efficient private competitors.

The evidence provided herein documenting the decline of lettermail and Canada Post's resulting escalating annual financial losses demonstrates that major surgery is required to reform the USO, i.e., the Canadian Postal Service Charter.

It is recommended that the obligation or commitment to deliver mail to every business and household in Canada five days a week for 52 weeks every year be revised. This will permit the adoption of the further recommendations below concerning dynamic route scheduling.

Why? Because individual and commercial customers do not use the post office to achieve rapid delivery times. There is a reason that popular culture refers to postal mail as “snail mail”. Restated, the empirical trend data demonstrates that time-sensitive documents are transmitted electronically – at the speed of light – or by parcel delivery which typically delivers the following day. The competitive advantage of the post office is not timeliness or rapid delivery but the ability to deliver to the door or community mailbox of every household in Canada, i.e., the last mile.

It is recommended that the service standard of 2-3-4 delivery commitment for local, regional and national delivery commitments, be eliminated or possibly replaced by 3-4-5 day or even 3-5-7 delivery. This will allow Canada Post to economize by eliminating very costly air transportation of heavy bags of mail to meet an obsolete and unnecessary efficiency commitment for national delivery.

Moreover, relaxation of overall delivery standards will facilitate dynamic route scheduling as recommended below.

Finally, Canada Post’s unrealistic and unsustainable pricing model must be reformed. The universal “penny post” model of Rowland Hill from the 19th century– one penny no matter the distance delivered – was admirable for pre-Victorian Georgian England, but it is a profoundly destructive and anti-innovative business model today.

Canada Post should have the freedom to adjust regulated pricing of lettermail on a regular basis without being disruptive to Canadians and the mailing industry. Canada Post must be granted complete discretion to develop commercial-based pricing models based on cost-to-serve while recognizing clients who use the postal service most. Pricing must consider how mail/parcels are prepared by the client, distance, size, weight, and service level – so long as it is based on break-even pricing.

As currently structured, Canada Post loses money on every letter delivered, clearly pointing to the combined effects of failing to control costs, underpricing, and the need for overdue but responsible price increases. These pricing actions, however, must be predictable, stable, and affordable in order to optimize outcomes with the steadily declining lettermail business. The recently proposed 25 cents per piece rate increase[3] for lettermail is not responsible and will hurt the jobs, businesses, and consumers who rely on lettermail the most and hurt Canada Post financially by accelerating the decline in business and household mail volumes. Canada Post must strike a balance to maximize profitability through pricing in this declining market without accelerating the shift to electronic alternatives.

[3] Canada Post's proposed rate increase amounts to a 64% price jump on high-volume business mailers since 2014 and a 44% increase on household mailers.

Adopt dynamic route scheduling of letter carrier routes

In a *Globe and Mail* op-ed in 2018, the author noted the increasing risk of a "Potemkin Post Office" emerging with 50,000 postal employees marching down all the streets of Canada with no letters to deliver. With the ongoing decline of lettermail in the last six years, that risk has grown.

Dynamic routing attempts to avoid the emergence of a Potemkin Post Office through route optimization. The purpose is to reduce labour costs and transportation costs by rationalizing delivery to reflect and adjust for shrinking demand for lettermail.

However, the savings will likely be in the billions of dollars over time because there will be no need for 50,000 letter carriers to visit over 17 million addresses five days a week due to the decline in lettermail volumes. Dynamic routing will incrementally adopt and reduce delivery through route consolidation and, in conjunction with reduced service standards of delivery, will substantially reduce the number of postal workers walking down the streets of Canada with nothing to deliver.

Adopting dynamic routing to replace the archaic and obsolete route measurement system can achieve cost savings similar to those that alternate-day delivery would yield. Moreover, as dynamic routing is based on demand, it is preferable to arbitrary alternate-day delivery that ignores demand.

While lettermail has declined by 50% in the past 17 years, the number of letters per address has dropped by 2/3 in the same period. It is simply not possible for a fixed-route system to adapt efficiently and sustainably to these substantial physical declines of lettermail.

End all door-to-door delivery

In 2015, the Government of Canada imposed a moratorium on the installation of community mailboxes for the approximately 25% of (mostly high-income) residences in urban cores across Canada that still receive door-to-door delivery.

Not only was this expensive – estimated by Deloitte to cost $500 million annually by Deloitte – but the Statistics Canada CMA data reveals that households in the urban core have some of the highest average incomes and home values. This means that the moratorium provided benefits to some of the most privileged members of Canadian society.

Due to wage, energy, and overall inflation increases during the last decade, the savings will be significantly higher than the $500 million estimate in 2016 by Deloitte.

19. In addition, Canada Post will present in its Annual Report an overview of the delivery methods it uses, indicating the number of addresses served with each delivery method and the financial costs associated with each method of delivery.

Our compliance:

Delivery method	Number of addresses*	Percentage of total addresses	Average annual cost per address
Door to door	4,197,503	24%	$284
Centralized point (e.g., apartment lobby lockbox)	4,865,553	28%	$130
Group mailbox, community mailbox, kiosk	5,967,221	34%	$162
Delivery facility (postal box, general delivery)	1,662,259	10%	$63
Rural mailbox	704,543	4%	$281
All methods	17,397,079	100%	$178

* As at December 31, 2023

Franchise all 3,600 corporate outlets

The fundamental structural problem facing Canada Post is that most post offices – due to the decline of lettermail – are losing more and more money as revenues decline. The daily traffic to the average post office has declined precipitously as fewer and fewer people send letters or receive letters or financial statements or invoices in the mail.

The annual expenditures spent to maintain 3,600 offices – that could be delivered at no cost through franchises – represent millions annually being squandered that are needed to reinvest in the transformation of the post office to focus on parcels.

More importantly, there are thousands of retail operators who offer long retail hours open to the public seven days a week, e.g., pharmacies, grocery stores, and convenience stores, that will embrace postal franchises, as it builds foot traffic to the store for the myriad of other products sold. These retail operators will provide superior customer service to the community.

The 2016 Postal Task Force identified savings of $166 million annually with the conversion of 500 corporate outlets to franchises. These numbers suggest approximately $333k in potential savings per outlet. Extrapolating to 3,600 outlets suggests annual savings approximating $1.2 billion annually.

If the government insists on maintaining the moratorium on post office conversions to franchising, then it should finance the cost of maintaining 3,600 offices for the costs of the alleged[4] social cohesion. This significant cost should not be passed on to business customers as cross-subsidization of a policy objective that is not evidence-based.

[4] "Alleged," because the empirical trend data of usage of postal services across Canada completely contradict this claim as fewer and fewer people use the post office.

Maintain and invest in Smartmail Marketing

The research undertaken by the USPS concerning the relevance of direct mail has been illuminating. (https://www.uspsdelivers.com/2020-2021-generational-research-report/pdf/USPS_2020_2021_Generational_Research_Report.pdf)

Contrary to earlier forecasts predicting its demise, several major studies of American consumers by the USPS have consistently found much higher degrees of trust in physical direct advertising mail. By contrast, digital advertising is increasingly corrupted by spam and fraudulent operators, which has steadily reduced confidence in digital consumer marketing.

Direct mail was and is a niche market relative to lettermail and parcels. But in a struggle for survival, even niche markets can contribute.

Develop partnerships with courier and parcel firms

Increasingly, the USPS is developing partnerships with private courier firms to leverage the USPS's competitive advantage over the last mile.

For example, the USPS has developed policies that enable induction[5], workshare[6], and zone skipping[7] by offering price reductions to firms that complete some of the logistics services. These policies encourage firms to pre-sort and deliver to the ultimate local postal zone to where the mail is to be delivered.

Many private providers, such as UPS and Purolator, focused their network on business-to-business deliveries (B2B), which have more parcels per delivery stop and heavier parcel weights, which resulted in more revenue per stop.

Canada Post could not compete in this segment because its sorting and transportation costs were too high. As well, postal depots did not have the set-up to support that type of delivery operation.

With the arrival of the COVID-19 pandemic, the business-to-consumer (B2C) delivery market grew rapidly, while B2B declined. The legacy parcel companies entered the B2C market space by changing their delivery process from requiring a signature to drop and go but continued to focus on higher weights for higher revenue.

The cost structure of private competitors is lower than Canada Post. Confidential conversations with industry observers indicate that Canada Post's cost is approximately $60-65 per hour for the truck, driver and fuel, contrasted with estimates of $40 per hour for trucker, driver, and fuel for the private parcel firms. However, the new gig entrants, e.g., Intelcom, are estimated at $25 per hour for car, driver and gas. The competitive advantage of the new gig entrants is achieved via the provision of the gig driver's own vehicle.

The integration of lettermail, direct mail, and parcels will provide Canada Post with more revenue per stop and should be continued under the significantly more flexible processes recommended herein.

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[5] https://facts.usps.com/einduction-process/
[6] https://www.uspsoig.gov/reports/audit-reports/procedures-calculating-workshare-discounts-letters
[7] https://www.staciamericas.com/blog/zone-skipping-for-parcel-shipments

However, if Canada Post is to succeed in the parcel business, negotiations with CUPW are absolutely necessary for the survival of Canada Post, to at least achieve competitiveness with the private parcel firms.

Additionally, partnerships with private firms can be developed to offer parcel storage lockers to reduce last-mile costs.

Canada Post must develop deeper and more strategic partnerships with private firms in its core business.

Terminate diversification into non-core markets

Some analysts and CUPW have advocated entry into the banking industry, claiming Canadians are "under banked". This is repudiated empirically by FCAC and CBA data that show that 99% of Canadians have bank accounts: https://cba.ca/banks-and-consumers.

Moreover, the banking industry is facing many of the pressures facing Canada Post, namely declining usage of physical branches as more and more financial transactions occur online with a concomitant decline in cash used and ATM visits (see Payments Canada annual statistical report documenting this decline). Consequently, the Canadian banking industry is quietly and incrementally consolidating and closing bank branches.

Finally, diversification into banking would require an investment of billions to install very high-speed computers, dedicated data transmission lines between every post office, and a massive retraining program to retrain CUPW employees into commercial bankers with skills common to MBA programs.

This is not credible or realistic.

Conclusion

Canada Post – indeed USPS, Royal Mail, Australia Post and other postal administrations – are at a tipping point. Lettermail volumes – the traditional core and most important and most profitable product line – will significantly decline in the next 5-10 years, and the remaining "statistical tail" of credit cards, passports et al. that must be physically delivered, will migrate to parcel delivery.

The postal network in Canada was financed and sustainable in the days when 7 billion pieces of lettermail were sent per annum. In an era of 2 billion pieces per annum – declining by 6% to 8% annually and expected to decline even more rapidly with the passing of the older generation – Canada Post must fundamentally restructure its operations, to become sustainable financially.

This will require major revisions to the archaic, obsolete, and unsustainable Service Charter grounded in the analogue, paper-based 19^{th} and 20^{th}-century economy. Mail volumes simply no longer support delivery every business day, every week of the year, to every address in Canada.

Moreover, the aggressive and unnecessary service standard commitment of 1-2-3 is very costly and not required by postal users. Liberalizing the standard to 3-4-5, or preferably 3-5-7, will eliminate the need for very costly air transportation.

Finally, concerning revisions to the USO, the pricing model must be completely revised and employ commercial-based thinking, to ensure financial break-even is achieved.

Once the Service Charter is revised, Canada Post must adopt dynamic scheduling to address the emerging "Potemkin Post Office" problem of large numbers of postal workers visiting every household in Canada with less and less mail including no mail at all.

Once the Service Charter is revised and the rural moratorium is ended, the government must ensure the immediate franchising of 3,600 postal outlets, as they are very costly and increasingly unsustainable. The declining revenue stream per outlet driven by the decline in demand for lettermail, cannot cover even a fraction of the salary and overhead of each post office. The estimated savings are over $1 billion annually. If the Government of Canada refuses to replace rural post offices with community franchises in local grocery, pharmacy or convenience stores, the

Government should reimburse Canada Post annually for the costs of the alleged social cohesion and benefits to the community.

The Government must reverse its unsustainable and unjustifiable decision to prevent the termination of all remaining door-to-door delivery across Canada. The estimated annual savings of the end of delivery to the door of the most privileged households in Canada will be greater than $500 million annually.

Reductions in service standards and dynamic scheduling are the innovative and incremental solutions – for now – for Canada Post to deal with shrinking lettermail volumes. However, within 5-10 years, these strategies will not be sufficient to manage the continued decline of lettermail.

Canada Post is currently uncompetitive in parcels and is losing market share as more nimble private competitors cherry-pick the most profitable aspects of the business. Canada Post must refocus on its sole remaining competitive advantage – which is the last mile to every household and business in Canada.

Fortunately, for Canada Post, private parcel firms have demonstrated a reluctance to service the last mile. This reluctance has been revealed by the USPS adopting "induction" in partnership with parcel firms as the business model for parcels. With induction, private firms pre-sort and then deliver mail to the local post office for delivery to the last mile.

In summary, Canada Post must be restructured in order to survive. Some recommendations will require the approval of the Government of Canada as the sole shareholder of Canada Post. Some of the recommended changes can be adopted internally by Canada Post.

The future lies with parcels and reorganizing Canada Post to become sustainable in the future. Otherwise, Canada Post could go the way of Blockbuster Video and disappear.