A STRATEGIC ANALYSIS OF CANADA POST'S PARCEL ECOMMERCE GROWTH STRATEGY

By

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Abstract

Canada Post is a market leader in the business to consumer residential delivery of parcels in Canada. There is an increasing demand for residential delivery due to the worldwide growth in ecommerce sales. This paper presents a strategic analysis of the opportunity for Canada Post to increase its breadth and depth in the parcel delivery industry in Canada. The analysis will review the parcel industry, the ecommerce opportunity, an internal review of Canada Post, develop and evaluate four strategic alternatives and recommend a strategy for Canada Post.

Canada Post's current environment and capabilities suggest that to maintain its position of market leader it must put an emphasis on the development of new technologies and improve efficiencies and reliability. Investment in technology and transformation of the organization are the keys to success if Canada Post is to be successful at mitigating the risk of erosion of its competitive advantages in the marketplace.

Keywords: Strategic analysis; Canada Post; Parcel delivery; Ecommerce

Dedication

I would like to dedicate this project to my partner Karen for all of her patience and support throughout this program. I could not have done this without her insights, advice and wisdom. You are the best.

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Thank you to those involved in the EMBA program at Simon Fraser University. It has been my pleasure getting to know each of you and working together. I have learned from everyone involved. To the professors, many thanks engaging us in the classroom and imparting your knowledge and experience on us. While this program can be tough at times, I can say it was worth the time and effort and I am so glad I have completed the journey.

To my classmates in the 2010 cohort and especially Team Oculus, thank you for sharing your experience, knowledge and insights. Good luck to all of you on your future endeavours. I would also like to thank my employer, Canada Post, for their support.

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Glossary

Term	Definition
Address Validation	Validates, corrects and completes recipient addresses. Also returns if the address is residential or commercial.
Application Programming Interface(API)	An interface that programs use to communicate with other programs.
B2B	Business-to-business (B2B) electronic commerce - B2B systems exchange business documents, such as purchase orders and invoices, between pairs of partners in a supply chain.
B2C	Business-to-consumer (B2C) electronic commerce; a marketing relationship between end consumers and businesses on the Web.
International Shipping Management	Creates and submits electronic trade documents (Commercial Invoice, Certificate of Origin, etc.) for international shipping.
Multi Level Marketing	Salespeople sell products directly to consumers by means of relationship referrals and word of mouth marketing.
Portable Data Terminal (PDT)	An electronic device that is used to enter or retrieve data via wireless transmission.
Pickup Request	Request a carrier pickup.
Point-of-Sale	A facility, such as a web form, for the merchant to enter a new customer order. It is used by a merchant on behalf of the customer, who may initiate the order in person, by phone, fax, or other method.
Rating	Rate(s) for a specified or all parcel services.

Returns	Create a return. Return label can be printed, emailed, or delivered by carrier during a requested pickup.
Shipping Locations	The closest retail pick-up or drop-off locations.
Signature Image	Request and receive signature proof of delivery
Time in Transit	Delivery date for specified service(s).
Third Party Logistics (3PL)	Outsourced logistics services for part, or all of a company's supply chain management functions.
Tracking	Request and receive tracking information by tracking number, reference number, or door tag.
Universal Service Obligation (USO)	Universal service obligation to deliver mail to all Canadians.

1: Overview

Ecommerce is growing fast in Canada. In 2011, spending was expected to reach $18.5 billion, a 12% increase from 2010. It is expected that by 2015, online spending will nearly double in Canada, reaching $30.9 billion (eMarketer, 2011). The internet and the breakdown of global trade barriers created an opportunity for merchants to sell their products and services to markets that were previously out of reach. This has in turn created an opportunity for national postal institutions to complement their core letter mail delivery service with business to consumer parcel delivery.

Ecommerce opportunities present a natural strategic fit for the Canada Post Corporation's Group of Companies (GOC), particularly within the Canada Post segment (CPC). The majority of ecommerce shipments are to consumers at their primary residence, the fastest growing shipping segment within the business to consumer delivery market; CPC currently has a 60% market share of business to consumer shipments in Canada (CPC, 2010). The opportunities for growth that this evolving industry presents align with CPC's core capabilities and competitive advantages.

Deepak Chopra, CEO CPC said in September 2011: "Our single largest growth opportunity in our core business is ecommerce. It will be the pillar for our Parcel business" (Chopra, 2011). In order to fulfil the ambitions stated by its CEO, CPC needs to develop a strategy to become the partner of choice to ecommerce merchants. CPC needs to understand the composition and requirements of each key stakeholder group: the merchant, the shopper, and the supporting ecosystem, as well as its ability to deliver against these requirements versus the competition.

The purpose of this project is to develop and analyze four strategic alternatives that will enable CPC to defend its existing market share and become the delivery partner of choice in the ecommerce industry.

This paper analyzes the postal industry, the parcel delivery industry, the ecommerce opportunity, and an internal analysis of CPC. Four strategic alternatives for growth are presented and analyzed for their ability to capture the growth from the ecommerce market. Finally, recommendation and implementation plans are discussed.

1.1 Postal Industry

The postal industry comprises the largest distribution network in the world and is part of the essential infrastructure of the global economy. The three main product lines of postal institutions are letter mail, ad mail and parcel delivery. These products are distributed from business to business (B2B), business to consumer (B2C) and consumer to consumer (C2C). In the information economy, the postal sector plays a key role in the communication of information globally. According to the International Post Corporation, Postal institutions worldwide employ more than 5 million people, deliver 435 billion letters and 6 billion parcels annually and offer a range of electronic and financial services (International Post Corporation, 2010).

Parcel consumers have shifted their buying criteria to demand more value, better service and greater convenience. The postal industry must adapt the way it offers services to meet these evolving consumer needs. The postal industry as a whole is transforming and creating new value-added products and services that will affect millions of consumers. The post will continue to deliver letters, but it is also expanding its offering to banking, communication services, and collaborating with e-retailers. Postal institutions will even deliver groceries or e-statements in some countries. Postal operators are at various stages in responding to the challenges presented by these opportunities. New end-to-end solutions are challenging the traditional business model of door-to-door mail and package delivery. The changing global marketplace is placing demands on every aspect of postal operations. Regardless of their locations, postal organizations face similar business challenges including: postal transformation; capital shortfall; labour negotiations; new products and services; increased competition and ongoing economic volatility. Postal organizations and their strategic partners use information and communication technologies to improve the quality of their services and offer new products in an effort to meet commercial and consumer evolving needs.

1.1.1 Industry Trends

The postal sector is a mature industry that is experiencing declining volumes and revenue in its core product, transactional mail, also known as letter mail. From 1971 to 1996, domestic mail volume rose steadily year over year. Beginning in 1997 that trend reversed, and it is no longer keeping pace with economic and population growth, with declining volumes averaging 5% per annum (International Post Corporation, 2010). The main reasons for this decline are the substitute products available to businesses and consumers such as fax, email, electronic bill presentment and electronic funds transfers.

The shipping service industry is very dynamic. Customers' needs are driving change within this industry. Global corporations, ecommerce companies, small businesses, and individual consumers all have a need to ship packages or documents to other businesses or individuals; however, the nature of these services will vary. Traditionally postal institutions have been very successful in the B2C market, with CPC capturing 60% of the market. During the recession in 2008, B2B shipments were negatively impacted and competition increased as the courier companies turned their focus to the B2C market. This presented a major challenge for CPC to defend and grow its parcel market share.

The Internet has reshaped the postal industry and changed the world over the past 15 years. With the use of the Internet and information technology, customers do not have to drive to drop off their packages at the nearest location any more. They can simply order a pick up on the Internet or by telephone. This technology also makes it possible for customers to receive information on the shipment status at any time.

The Internet has also influenced marketing methods, as new companies and technologies such as Google and Facebook have challenged traditional media of television, radio and newspapers, which are no longer generating the same results that advertisers had once garnered. CPC has to compete for media dollars against a multitude of marketing product options available to both small and large companies. There has been growth in the direct marketing admail product line at CPC; however, it takes almost four pieces of direct marketing to replace the revenue of one piece of letter mail.

1.1.2 Postal Industry Product Trends

The table below illustrates how the current market conditions are affecting the three main lines of business for postal institutions and CPC.

Table 1: Market Condition Implications on Products

Trends	Letter Mail	Admail	Parcels
Substitute Products	3-4% decrease per year in volumes since 1997	Perception that newer marketing methods such social media and email are more effective is resulting in decline in admail volume	N/A
Increased Competition	Increased demand for electronic solutions has resulted in a decrease in the demand for letter mail	Competitors offering less expensive options, such as flyers in newspapers or email advertising	Price competition and strong demand for lower cost services due to economic crisis
Internet	Demand for online services and transactions	Email marketing and social media are new forms of advertising reducing the demand for admail	Increase demand for B2C delivery due to ecommerce growth

In order to respond to the impacts of the market trends, CPC and other postal institutions must diversify their product offerings in order to remain competitive and viable businesses in the new economy. According to research by global management consulting firm Accenture, “Diversification is the route to high performance. Postal organizations that achieve high performance are focused on growing new revenue streams. They are actively seeking new markets to compensate for loss of volumes in their core domestic markets. B2C ecommerce offers strong growth prospects in almost all markets and postal organizations are well positioned to take advantage of that growth. Service providers are delivering additional revenues from new products and services while regional diversifiers are generating growth through both geographic and product diversification" (Accenture, 2011).

1.2 Overview and History of Canada Post Corporation

Canada Post Corporation has been providing postal services to Canadians for 160 years and is one of Canada's largest crown corporations. It is wholly owned by the Federal Government, mandated to be self-sufficient and has produced a profit for its shareholders every year for the last sixteen years. Although CPC and other postal institutions around the world continue to rely on the delivery of letter mail for the majority of their revenues, offering value-added services, such as parcel delivery, are becoming a larger segment of their business. Like many other postal institutions, CPC has entered into joint ventures, and purchased private firms in complementary areas to expand its parcel delivery networks and improve its competitive position in the marketplace, creating the Canada Post Corporation Group of Companies (GOC). The organizational structure of the GOC is presented below.

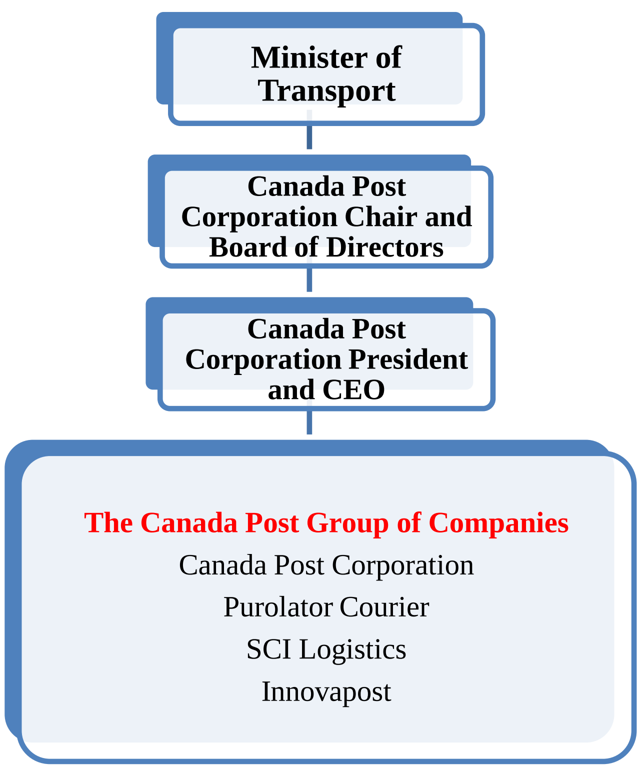

Figure 1: Organizational Structure - Canada Post Group of Companies

The GOC is one of Canada’s largest employers with over 69,000 employees. The GOC maintains the largest retail network in the country with over 6,500 retail outlets spread over the provinces and territories. In 2010, the GOC delivered 10.6 billion pieces of mail, parcels and messages to more than 15 million addresses across Canada through the CPC segment and its subsidiaries summarized below (Canada Post Corporation, 2010).

Purolator Courier is Canada's largest overnight courier company. Headquartered in Mississauga, they employ over 12,500 people and processes more than 5.5 million items weekly. Purolator also delivers to more than 35,000 destinations in the United States, and more than 220 countries worldwide.

SCI Group, through its operating entities SCI Logistics, Progistix and First Team Transport, offers logistics and transportation management solutions to help organizations develop more efficient supply chain solutions.

Innovapost provides information systems and technology services and e-business solutions for the GOC, its customers and postal administrations worldwide.

The following table summarizes the core products, revenue in 2010, percentage of total GOC revenue and the percentage of CPC ownership of each subsidiary.

Table 2: Subsidiaries of Canada Post Corporation GOC

Subsidiary Name	Core Products and Services	2010 Revenue	% of GOC 2010 Revenue	CPC Ownership
Canada Post (segment)	Letter mail, admail and parcel delivery	$ 5.9B	79.3%	100%
Purolator Courier	Express parcel delivery and freight services	$ 1.5B	18.8%	91%
SCI Group Inc.	Third party logistics services	$ 149M	1.9%	98.7%
Innovapost Inc	Information technology solutions and services	$ 209M	0.01% (Intercompany revenue eliminated on consolidation)	51% Joint venture between CPC and CGI Information Systems and Management Consultants Inc.

1.2.1 GOC Financial Results 2010

The GOC's financial performance for the most recently published financial year ended March 31, 2010, indicates the group suffered from the lingering effects of the global economic recession and continuing letter mail erosion. The key figures examined in the annual report are annual revenue, cost of operations and income before taxes compared to the annual plan. Revenue for 2010 was $7,453M, below the plan by $178M. Although the revenue rebounded slightly in 2010, increasing by 1.9% from 2009, it still remained below the 2007 level (Canada Post Corporation, 2010).

The cost of operations was $7,138M, which was an increase of 2.6% compared to 2009; however, the GOC fell short of the forecasted plan by $412 million.

The GOC's income before taxes was $307M in 2010, a decrease of 19% compared to 2009. However, the results were $227M above the plan (Canada Post Corporation, 2010).

The following table summarizes the key financial results in 2010 compared to the plan.

Table 3: GOC Financial results plan vs. Actual (CPC Annual Report 2010)

Key results	2010 Actual	2010 Plan	Achieved
Revenue	$7,453M	$7,631M	X
Cost of operations	$7,138M	$7,550M	✓
Net income before taxes	$307M	$80M	✓

1.2.2 Financial Ratios for the GOC

The ratios contained in the table below are those used to measure the GOC performance results against the financial framework targets for 2010 to 2014. These targets are outlined in the Corporate Plan approved in 2009 by the Federal Government. All results were within the target range with the exception of liquidity, which was higher than expected. The dividend payout ratio was 0%, which is the lowest possible outcome. Although it is in the target range, it is expected to increase in the future.

Table 4: Financial ratios

Ratio/Metric	Target (2010-2014)	2010 Results	Achieved
Profitability			
EBITDA Margin	5.0-7.5%	8.1%	✓
Return on Equity	0-5%	21.8%	✓
Leverage			
Debt to EBITDAR	2.5x-4.0x	2.9x	✓
Debt to Capital	45-60%	49%	✓
Liquidity			
(EBITDAR-Capex)/Interest	1.0x-2.5x	4.6x	✓
Dividend Payout			
Dividend payout ratio	0-20% (2010-2012) 15-20% (2013-2014)	0%	✓

1.2.3 Unique Positioning

The GOC has the ability to meet the needs of customers in the 21st century, particularly in the ecommerce marketplace. They can offer ecommerce customers in North America a variety of unique products and services by combining the strengths of the postal segment subsidiaries. Specifically for the ecommerce merchant, the GOC can offer unparalleled delivery options, a vast retail network for pick up and returns, and third party logistics support from its subsidiary SCI logistics as depicted below.

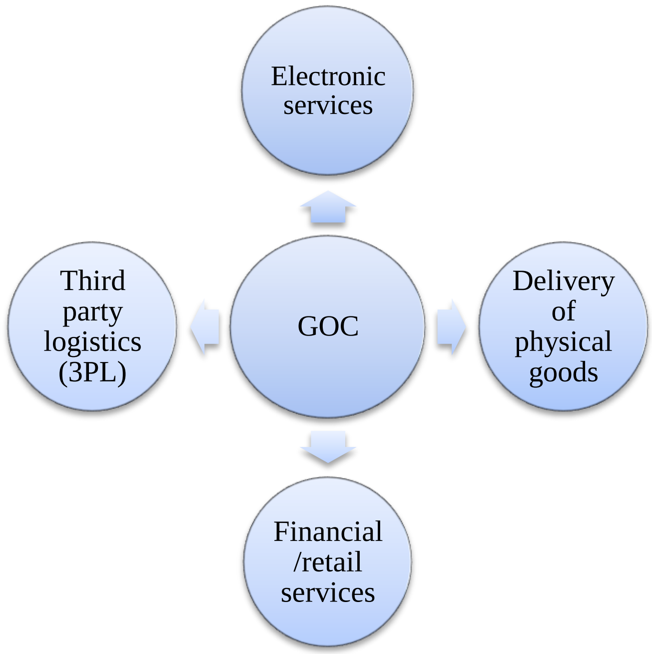

Figure 2: Unique positioning of the GOC in the new economy

The key to success and creating growth in the future is building on the core businesses that exist today. GOC must make the necessary improvements to maintain the existing base but build with future goals as a priority. It can take advantage of a trusted brand, retail and delivery network and leverage the services that it offers and develops.

1.2.4 Strategy at Canada Post Corporation Group of Companies

Deepak Chopra was appointed to the role of CEO at CPC and the GOC in January 2011 following the departure of the previous CEO Moya Greene, to assume the position of CEO of the UK's Royal Mail in July 2010. Under Ms. Greene's leadership, the postal segment CPC was restructured into three lines of business. Mr. Chopra then reorganized CPC into two distinct organizations: the physical mail and the digital mail. The physical mail organization includes the three traditional lines of business and operations for the delivery network. The digital mail organization includes new and emerging products that are delivered electronically. CPC has four corporate priorities for 2012. They are Postal Transformation, to be the ecommerce provider of choice in Canada, to maximize the GOC business opportunities and to be a digital business leader.

Mr.Chopra describes his vision for CPC as follows "to remain relevant, we must reinvent ourselves—and be nimble, competitive and courageous about it. I use "courageous" deliberately. Reinvention is demanding for any company. It is more so for a company as old and vast as the country, and whose customers—urban and rural, large and small—rightly expect quality service in the midst of massive change. I am confident that Canada Post is up to the challenge. Our modernization is gaining momentum; our focus on the customer is becoming sharper; and our embrace of innovation is generating new products and services. We have key assets in our great people and our incomparable retail and delivery networks" (Chopra, 2011).

1.3 Canada Post Segment Overview

CPC exists to serve Canadians "*from anywhere...to anyone"* (Canada Post Corporation, 2012). Its purpose is to provide Canadians with world-class postal services while remaining financially self-sufficient. To maintain this value to Canadians, CPC must evolve into a modern organization providing relevant and value added products and services that meet the market demands of Canadians and their businesses.

1.3.1 Constraints

CPC has three lines of business: letter mail, parcel delivery and direct marketing admail. They account for approximately $5.9 billion in combined revenue. CPC is subject to a number of governance and oversight processes that restrain its ability to compete and respond in a timely manner to the demand of an ever-changing marketplace. These include a universal service obligation to reach all Canadians, regulated letter mail rates, a costly unionized workforce, a corporate culture that is resistant to change and a national retail network of post offices mandated under the Canadian Postal Services Charter (CPSC). Each constraint is discussed below.

1.3.1.1 Universal Service

CPC has a universal service obligation to reach all Canadians and thus has the exclusive right to provide basic postal services, which includes the delivery of letters up to 30 grams. Many misunderstand this exclusive privilege or believe that the tax payers are subsidizing the postal service. This is not the case in Canada but it is in many countries such as in the United States where its postal service, the USPS, loses $2B per quarter (Leonard, 2011). Many have called for the Canadian Government to further review and privatize the mail service to create more competition, but if that occurred, those living in rural and remote areas would be significantly impacted. The monopoly does not extend to the other lines of business. It is prohibited by law for letter mail revenues to be used to subsidize the parcel delivery or direct admail business lines.

Letter mail is the core product, has the highest profit and accounts for half of annual revenue. However, letter mail volumes continue to decline while the number of new addresses in Canada continues to increase by approximately 200,000 per year due to population growth and the creation of new businesses (Canada Post Corporation, 2010). The cost associated with new addresses is approximately $18M annually. That coupled with the economic slowdown has put immense financial pressure on CPC. As shown in the table below, the average annual cost of "door to door" delivery exceeds all methods by 63%. This is a significant impact to operational costs as it accounts for 34% of all deliveries.

Table 5: CPC delivery methods (Canada Post Corporation, 2010)

Delivery Method	**Number of Addresses**	**Percentage of Total Addresses**	**Average Annual Delivery Cost per Address**
Door to door	5,102,466	34%	$261
Centralized point (e.g. Apt. lobby panel)	3,659,146	24%	$123
Community mailbox	3,681,977	25%	$108
Delivery facility (post office boxes)	1,807,818	12%	$56
Rural mailboxes	776,825	5%	$171
Total	15,028,232	100%	$160

While the universal service obligation provides exclusivity on letter mail delivery in Canada, the cost of delivery varies significantly depending on the delivery method.

CPC does not have the authority to vary the price based on location or delivery method. Despite exclusivity on letter mail, customers are actively pursuing substitute products.

1.3.1.2 Financial Sustainability

The GOC and the postal segment specifically are both saddled with high legacy costs. In fact, the GOC keeps less than one penny per dollar of sales. Two significant challenges to maintaining even a minimal profit are the basic letter mail rate and the population density in Canada. Both are illustrated by bar graphs below. Canada's low population density and large land mass translates into high delivery costs in Canada. They are much higher than most other countries with comparable postal institutions. The letter mail rate is Canada is among the lowest in the western world, as is the population density. These two factors result in a weak business model for profitability. The GOC is constrained by the Federal Government on two fronts, as they mandate the universal service obligation and must approve all rate increases. It should be noted that the rate increases have been lower than the annual rate of inflation during the last decade.

According to Allan Robinson's research on the price elasticity of postal products, postal products are relatively price inelastic. He concluded that elasticities remained relatively small and constant over the years and a rise in price would result in a minimal change in volume (Robinson, 2007). In order to maintain a sustainable operation and be competitive in the marketplace CPC must significantly reduce costs and strive to exceed the level of service that its competitors offer and its customers expect.

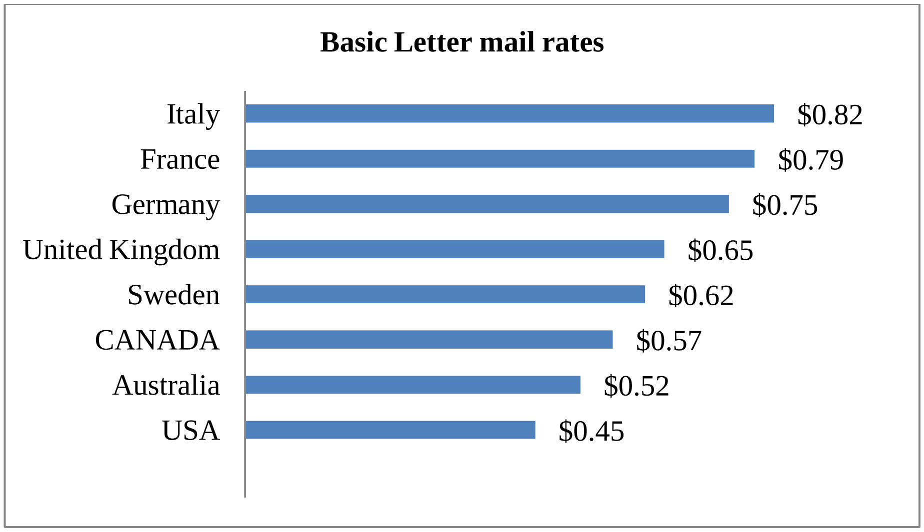

Figure 3: Basic letter rate (Canada Post Corporation, 2010)

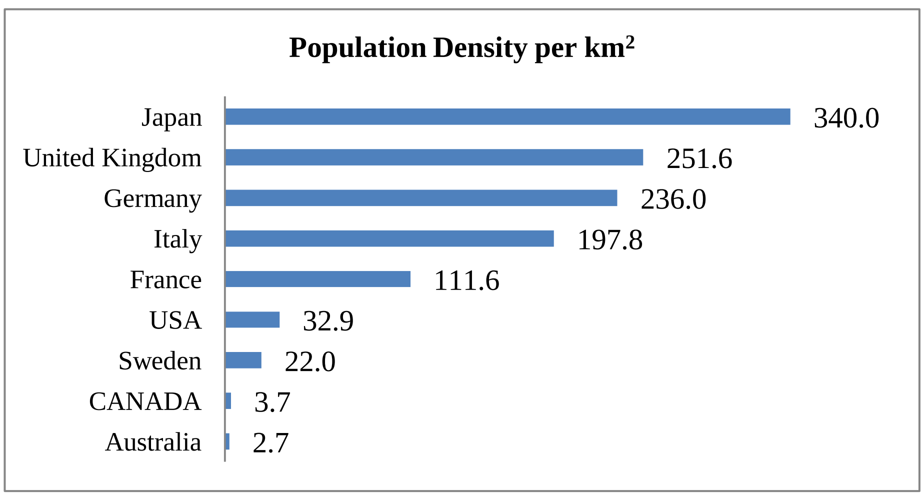

Figure 4: Population Density (Canada Post Corporation, 2010)

1.3.1.3 Workforce

One of the greatest challenges for CPC is the cost of its unionized workforce. Labour costs are 66.1% of every dollar earned at CPC. Annual compensation is 15% to 20% greater than private-sector counterparts (Canada Post Corporation, 2010). As labour is essentially a fixed cost, a reduction in volume has an immediate impact on net income. Currently CPC has 5 collective agreements, which represent 96% of the employees. CPC lost over $150M in revenue during the Canadian Union of Postal Workers (CUPW) strike in June 2011. Currently the government has appointed an arbitrator to reach a settlement between CPC and CUPW.

1.3.1.4 Corporate Culture

Going from a vision of a modern postal institution to action is not an easy task. Changing the culture in a large institution is difficult at the best of times. It is a monumental challenge with a workforce that is heavily unionized. Although CPC has undertaken more change in the past 4 years than in the previous 40 years, it is not enough. Change requires cooperation from the people in an organization and it is even more challenging since union and management relations are strained, as a result of mistrust and years of conflict. CPC has always had difficulty negotiating with its unions and gets little or no support from the union leaders when it comes to change and strategy. The union's role is to protect the workers, their jobs and their pay and benefits. Management is tasked with cost reduction, increased productivity and enhanced customer satisfaction. The perspective of the union makes it more difficult to change and shift the culture towards a competitive viable business model.

1.3.1.5 Canadian Postal Services Charter (CPSC)

In 2009, the Federal Government established the *CPSC*. This charter outlined the expectations of the government regarding the service CPC offered to all Canadians. The charter mandated CPC to maintain a network of urban and rural post offices. The expectations are as follows:

- 98 % of consumers will have access to a post office within 15 kilometres
- 88 % of consumers will have access to a post office within 5 kilometres
- 78 % of consumers will have access to a post office within 2.5 kilometres

The challenge for CPC is covering the costs of maintaining rural locations, many of which service fewer than 10 customers a day.

There are 6,600 retail locations within the CPC network, 80% of which are managed by independent contractors. Large retailers such as Shoppers Drug Mart, Jean Coutu, Sobey's, 7-11 and London Drugs manage the majority of the non-corporate locations. CPC provides Canadians with an extensive network for accessing postal services in rural and urban Canada as well as through its website and customer service telephone contact centres. There are approximately 200,000 collection points throughout Canada where postal items can be deposited, with an additional 750,000 rural mailboxes scattered throughout the country.

The retail network underwent an automation project in 2008-2009. This project upgraded more than 6,000 locations resulting in improved service, reduced wait time, elimination of manual procedures and less paperwork. This project created a point of sale network upon which CPC can offer new and enhanced products and services to its customers.

1.4 PEST Analysis

CPC is under pressure from many macro forces including political, economic, social and technological forces. These forces affect the organization's ability to meet its goals and execute on its strategy for the parcel industry. PEST is a framework described in the text Strategic Analysis and Action (Crossan, Fry, Killing, & Rouse, 2009). It is a framework commonly used to analyze the impact of these factors on an industry.

1.4.1 Political

Political factors include items such as taxes, labour law, mandated services and government influence on a particular industry. As a crown corporation, CPC is accountable to its shareholder, the Federal Government of Canada. It is mandated to provide service to all Canadians, including delivery to rural areas as defined in the USO. CPC cannot always respond as effectively as its competition might in certain scenarios because it is constrained by the government mandate and the USO.

1.4.2 Economic

Economic factors include interest, exchange and inflation rates, as well as economic conditions globally and locally within an industry or an organization. The economic challenges for CPC are directly related to the high labour costs of its existing union contracts. The aging infrastructure and high fixed costs of the network coupled with declining mail volumes and the USO make profitability an increasingly difficult challenge. The economic downturn in 2008 brought more competition into the B2C parcel delivery market. The competition has begun changing their strategies to accommodate the ecommerce opportunities. CPC must consider these economic challenges when developing similar strategies.

1.4.3 Social

Social factors include culture, demographics and social trends. CPC is an iconic brand that is well known throughout Canada. Canadians have all had personal or business experience with the company but that does not always translate to customer confidence in its ability to deliver on their needs. There is a perception that taxpayers subsidize CPC, and this can result in negative customer opinions of the company. In addition, consumers are spending more time online and are increasing the number of purchases they make online each year. Society tends to take the post office for granted, feeling it is entitled to a continued high level of service, while simultaneously showing a lack of respect for the magnitude of the operational challenges of such a large organization.

1.4.4 Technology

Technological factors include such items as level and acceptance of automation, and the degree of innovation in product development. According to the internal report *Canada Post: A Blueprint for Change*, which was written in response to a strategic review initiated by the Federal Government in 2008, “Canada Post struggles to compete due to antiquated technology and operating constraints that make it difficult for the corporation to match the speed of its competitors when sorting parcels” (Canada Post Corporation, 2008). As an organization, CPC does not have the best available technology internally, nor does it have it available externally for its customers. The report concluded that outdated technology makes it difficult for CPC to keep pace with technologically advanced competitors who invest hundreds of millions of dollars annually in new technology. This is becoming a dire situation as customers have higher expectations for the use of technology in services and solutions to their business challenges particularly in the parcel delivery industry. Technology is changing the way society lives and works. The shift from physical to electronic mail is a significant threat to the core line of business at CPC.

In order to capitalize on the expected growth from ecommerce residential delivery opportunity in Canada, CPC must address the factors discussed above. The PEST forces and the constraints on the organizations drive the need for a strategic shift at CPC.

1.5 Future Viability

The future viability of CPC is highly dependent on its ability to leverage its brand, modernize its infrastructure and technology, and maintain profitability. These three key factors are discussed in further detail below.

1.5.1 Canada Post Brand

In an independent survey by Brand Finance Canada in 2009, CPC placed ahead of other well-known and respected companies. This echoed survey results in 2007 where over 87% of Canadians reported holding a favourable opinion of CPC. (Canada Post Corporation, 2008). The survey results, contained in the "*Canada's Most Valuable Brands 2009*" report issued by Brand Finance Canada on April 30th 2009, are based on consumer research into those brands that "are seen by Canadians to represent a special part of Canadian culture" (Canada Post Corporation, 2009).

Trust is an issue for online shoppers, and CPC's brand gives it an advantage area. Consumers have concerns in regards to fraud, product quality, misrepresentation of goods and services and uncertainty in delivery standards. CPC can leverage its brand online and in the development of products and services. Since all Canadians know the

CPC brand, it is a good choice for retailers when they are selecting a partner for shipping. A partnership with CPC can signal to the consumer that they can be confident they will receive their parcel.

1.5.2 Postal Transformation

A significant challenge for CPC is its aging physical network and delivery infrastructure. In order to compete with the more modern operations of its competitors, CPC is undertaking a major program of reinvestment of $2B from 2010 to 2017 called Postal Transformation (PT). This program is comprised of a series of initiatives that will improve productivity, safety and offset the jobs of the 20% of the workforce eligible to retire between now and 2020. This will be accomplished through modernization of the delivery model, automation, and building new plants.

As shown in Figure 5, PT incorporates a new delivery model that has been deployed in several cities in 2011. PT will consolidate the two workforces of letter carriers who deliver mail on foot and the drivers who deliver parcels by truck. In the past, as many as five letter carriers and drivers could be on a single route. Through PT this can be reduced to one motorized vehicle and one employee to cover the same territory. To reduce costs and emissions, delivery agents will drive environmentally-friendly Ford Transit Connect vehicles to serve routes designed for efficiency. The new model will employ delivery agents with vehicles that will be able to deliver all products in a geographical area thus reducing the number of visits CPC makes to a typical neighbourhood.

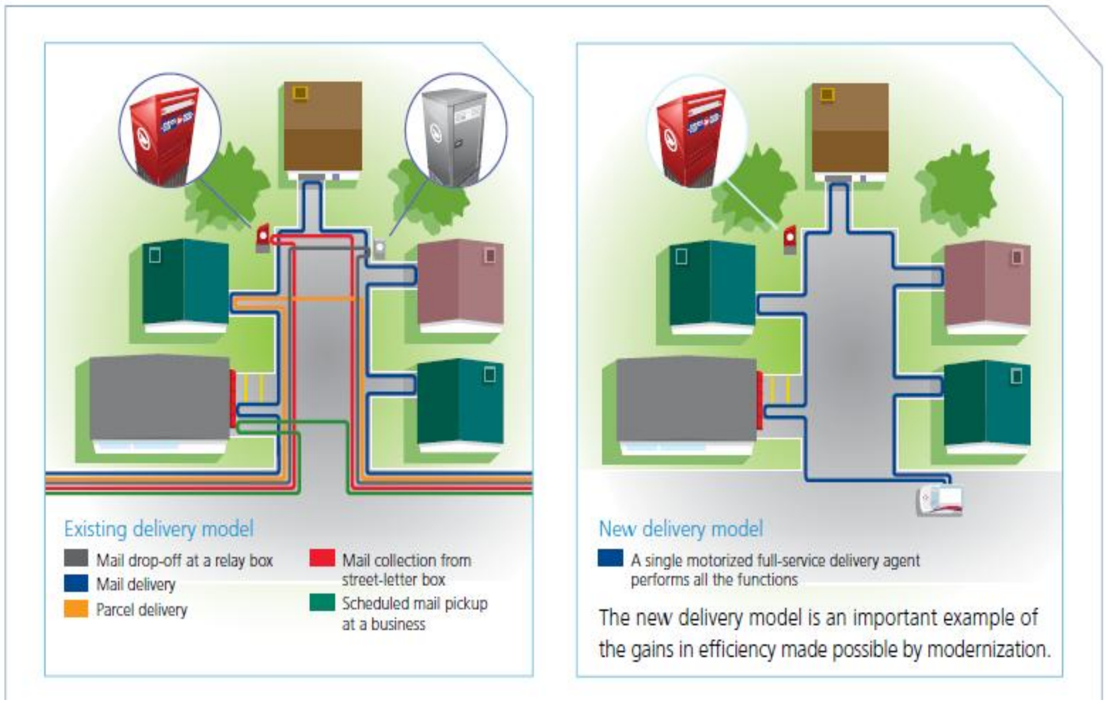

Figure 5: New delivery model (Canada Post Corporation, 2010)

Greater automation in plants will allow employees to spend more time on their routes serving customers. CPC is investing in sortation equipment and computer systems in numerous cities across Canada. This investment includes new generation mail-processing equipment and systems, and newly designed carts and containers for moving the mail safely through facilities.

A new plant was opened in Winnipeg in 2010 as part of PT. This plant was the first to sort the mail according to the new modern delivery method. The next new plant will be built in Vancouver in 2013. Other plants across the country are being retrofitted to implement the new delivery method.

PT will reduce the number of employees required per route and allow for significant operational cost savings. PT will enhance CPC's ability to compete against its competitors, offering faster and more accurate sortation and reduced overheads. The benefits of PT to the ecommerce growth strategy are improvements to the speed and accuracy of parcel delivery. In addition, reducing operating costs will allow CPC to offer low price parcel options to the ecommerce marketplace. In this strategic analysis, it is assumed that the changes planned for PT will be implemented on time.

1.5.3 Canada Post Segment Financial Performance

The key figures used to assess the financial performance of the CPC segment are revenue, volume and cost of operations. Revenue for 2010 for the GOC was $7,453M of which the CPC segment had revenues of $5,929M, with the balance earned by the subsidiaries and joint ventures (Canada Post Corporation, 2010).

Revenue of $5,929M in 2010 for the CPC segment increased $89M or 1.5 % compared to 2009, with letter mail comprising 54% of the total revenue as depicted below.

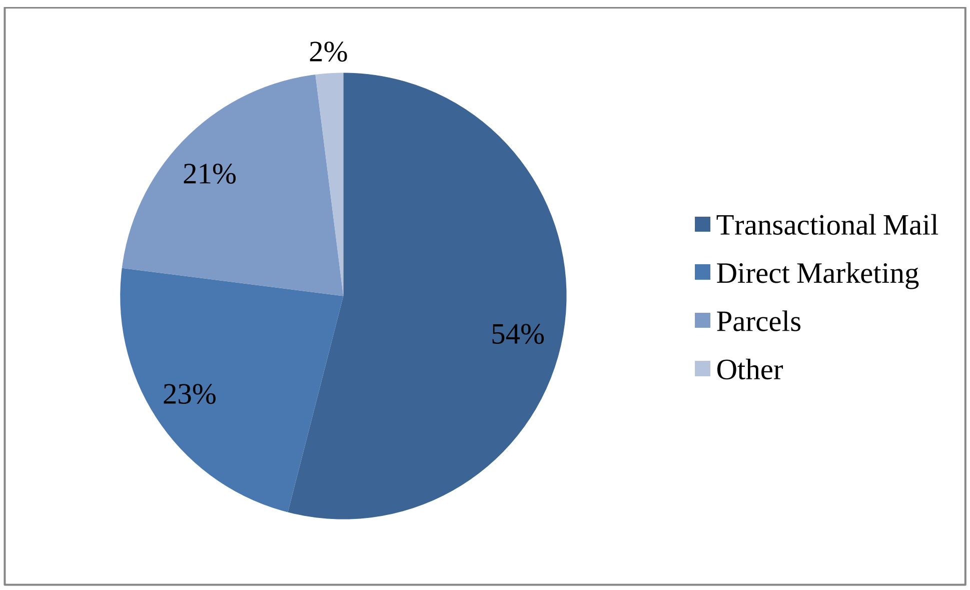

Figure 6: CPC Revenue by line of business (Canada Post Corporation, 2010)

Mail volume, which includes the three lines of business, declined by 1.8% in 2010 over 2009. The cost of operations for the CPC segment increased by $159M in 2010. Despite price increases that drove revenue upward, the decline in volumes eliminated any potential increase to CPC's net income. The challenge for CPC is that the declining volumes do not translate into operational savings as the high fixed costs of the network, pension plan and workforce cannot be significantly adjusted as volume fluctuates. Therefore the strategy for the future must address changes to the operations and product offerings to maintain its viability.

1.6 Summary

There is an opportunity for CPC to complement its core letter mail delivery service with expanded B2C parcel delivery. It is constrained by a number of governance and oversight processes that restrain its ability to compete and respond in a timely manner to the demand of an ever-changing marketplace. The future viability of CPC is highly dependent on its ability to leverage its strengths.

Ecommerce in particular has created parcel delivery opportunities for CPC. As Accenture’s study concluded, “The parcels market is appealing with strong long-term growth projected in the B2C market. Postal organizations have natural strengths in the B2C segment with pervasive retail networks and relatively low-cost delivery networks. However, postal institutions often have weaknesses in their product offerings and the international competitors are adapting their operating models to focus on the B2C segment. Postal operators have a window of opportunity to strengthen their position, but this will require investments in capability to ensure market competitive products” (Accenture, 2011).

The subsequent chapters discuss the parcel delivery industry in Canada, the ecommerce opportunity, an internal analysis of CPC and present and evaluate four strategic alternatives for CPC to defend its existing market share and capture additional revenue from the growth expected in the ecommerce industry.

2: Parcel Industry Analysis

This chapter provides an overview of the parcel delivery industry in Canada. The analysis will focus on the B2C market. It will compare and contrast the competitors Purolator, FedEx, and UPS using Porter's 5 forces model and describe a matrix to identify the sources of advantage for each of the 4 firms.

2.1 Industry Overview

The parcel shipping industry can be categorized into two sectors: couriers and local messengers. Couriers offer national, United States and international delivery services and constitute the majority component as far as revenue is concerned. The courier segment is dominated by a small number of large firms which are often subsidiaries of multinationals or other companies that were formed by integrating trucking, freight and logistics services. The two significant market segments to consider are delivery for B2B and B2C customers.

2.1.1 Relevant Segments

The table below depicts the relevant segments for mapping the competitive landscape in the parcel delivery industry.

Table 6: Relevant segments with the industry

Markets	Customers	Geographies	Products	Competitors
• B2B • B2C	• Ecommerce • SOHO • SME market • Corporate • Government	• Domestic • US • International	• Express Delivery • Ground Delivery	• CPC • UPS • FedEx • Purolator

2.1.2 Industry Economics

To be successful, delivery companies must be able to deliver parcels efficiently and with reliability standards that customers can count on, at a competitive price. Parcel shipping is a global industry and its prospects are closely tied to the level of economic activity in the world. The recent recession and economic downturn has put additional pressure on courier companies to be profitable. In addition to the uncertainty in the economy, rising fuel costs are also an issue and these increases are passed along to the customers as fuel surcharges on a per package rate. The shipping market is cyclical in nature and freight rates generally tend to be volatile.

The growth in the retail industry has created a significant opportunity for the delivery industry. Retail has been growing at an approximate rate of 3% from 2001 to 2009 and is expected to keep growing at the same rate over the next 5 years (*Statistics Canada, Gross Domestic Product by Industry, 2001 to 2009).* Within the retail industry, the ecommerce market is forecasting double-digit growth in the rage of 12% to 14.3% over the next 5 years (*eMarketer Report, February 2011)*. Retailers are in need of quick forms of delivery. As a result, the parcel shipping industry has had to evolve quickly in order to meet the sudden demand for services. According to Accenture's 2010 report for CPC, the parcel delivery industry as a whole has experienced tremendous growth in recent years. Its expenses are rising at a higher rate than the revenue, therefore reducing firms' profit margins (Accenture, 2011).

2.1.3 Market Size

According to the latest information available from Statistics Canada, the courier and local messenger industry generated operating revenue of $8.7 billion in 2008

(Statistics Canada, 2011). The courier segment accounted for $7.2 of the $8.7 billion in revenue. This segment is dominated by a small number of large companies. Statistics Canada reported that the 5 largest courier businesses accounted for 79% of the operating revenue for this segment. Next-day/overnight services generated the most revenue, at 54%, while two days or more/other delivery services handled the largest number of pieces, or 49% of the total (Statistics Canada, 2010). The remainder of the market is the same day messenger service.

2.1.4 Key Industry Drivers

The four critical drivers of the parcel delivery industry are economic, consumers, industry and environmental. The impacts of these drivers and trends in the industry are summarized in Table 8, based on Accenture's report "Package and Express Industry Trends" from December 2010 (Accenture, 2010). These drivers do not vary much among the competitors within this industry. The development of new technologies and the Internet have had a profound impact on these drivers.

The parcel industry is impacted by the global economy. It grows and contracts based on the economic landscape. For example, the downturn in the economy in 2008 impacted the entire industry worldwide. Shipping volume decreased and customers selected less expensive delivery options. This was evidenced in the respective annual reports of the competitors and has since rebounded with improved revenues in 2010. The growth of ecommerce is creating opportunities for the firms but they must shift their operations to capture market share.

The firms in this industry focus on creating value for their customers and using technology to offer more efficient and reliable services. The firms must also be continuously looking for innovation in their business, to differentiate themselves from the competition. Consumers have changed the way they buy services. Their expectations are higher than ever and they desire customized solutions for their operations.

The industry is evolving from the increase in competition. There is a shift towards full logistics solutions. Firms traditionally focused on the B2B market are now competing for the B2C market, which has experienced growth due to ecommerce. There is also an increased focus on the small and medium enterprise segment, which has growth potential.

All of the firms are making efforts to reduce their carbon footprint in a response to pressure to operate in a sustainable and responsible manner. This has resulted in changes to more fuel-efficient vehicle and aircraft fleets. For example, FedEx has a goal to obtain 30% of its jet fuel from alternative sources by 2030 (FedEx, 2011). Changes in operations include shifting from paper to electronic manifests, reducing packaging and introducing recycling programs. Another example of environmental efforts at CPC is that beginning in 2008 its design process for all new buildings began to use the Leadership in Energy and Environmental Design (LEED) framework of the Canada green-building rating system (Canada Post Corporation, 2010).

Table 7: Industry Trends and the implications (Accenture, 2010)

Trends	Description	Implications of the Trends
Economic Decelerating growth and ongoing mode shift	• Shippers increasingly seeking value and continuing mode shift to ground • Express delivery growth no longer tied to GDP growth • Freight forwarders increasing express-like services • Global expansion	• Growth will come from targeting segments and stealing market share • Competitors have breadth, scale and resources • Provide minimum threshold of products and services to gain a seat at the table
Industry Shift towards full logistics-Third party logistics (3PL)	• All players driving diversification of products and services across geographies through acquisitions • All players fighting for the customer relationship – 4PLs leading to commoditization of transportation	• Rethink pricing and bundling to stay competitive • Customization
Consumers Customers buying differently	• Customer expectations higher and players improving their core value proposition • Bundling of core services determining ability to penetrate markets • Procurement increasingly centralized and scrutinized	• Focus on higher valued activities and single face for customers • Selectively innovate to address unmet customer needs • Lower prices • New delivery options
Economic Ecommerce shifting landscape, offering opportunities	• Ecommerce spend and share of retail spend is growing • Volume mix shifting towards heavier, residential packages	• B2C and deferred are growth areas – focus on Ecommerce is key
Industry Not all segments are created equal	• SMEs contribution to international sales sizeable and growing • Players shifting to vertical solutions	• Segment and differentiate by segments • Explore full solutions by verticals • Seek customers that play to your advantage
Economic Synergies, efficiencies and coopetition	• Costs growing faster than revenue – cost reduction and productivity a priority • Players sharing assets to lower costs and address customer needs	• Make a decision to facilitate trade and access to new markets • Consider synergies across all companies
Environmental Rise of social responsibility	• Push towards sustainability and giving back to the community • Sustainability as a differentiator	• Fuel efficient vehicles • Reduce carbon footprint • LEED certified new plants

2.2 Porter's 5 Forces Model

Porter's 5 forces analysis is a framework created by Michael E. Porter of Harvard Business School in 1979. It can be used for industry analysis in the development of business strategy. It evaluates any industry by rating the five forces high, medium or low, and determining the competitive intensity and potential attractiveness of a market. The five forces are:

- Threat of new entrants
- Bargaining power of suppliers
- Bargaining power of buyers
- Threat of substitute products or services
- Intensity of competitive rivalry

The illustration in Figure 7 uses Porter's 5 forces model for the Canadian Parcel Delivery Industry, and is the pictorial analysis of the parcel delivery industry in Canada.

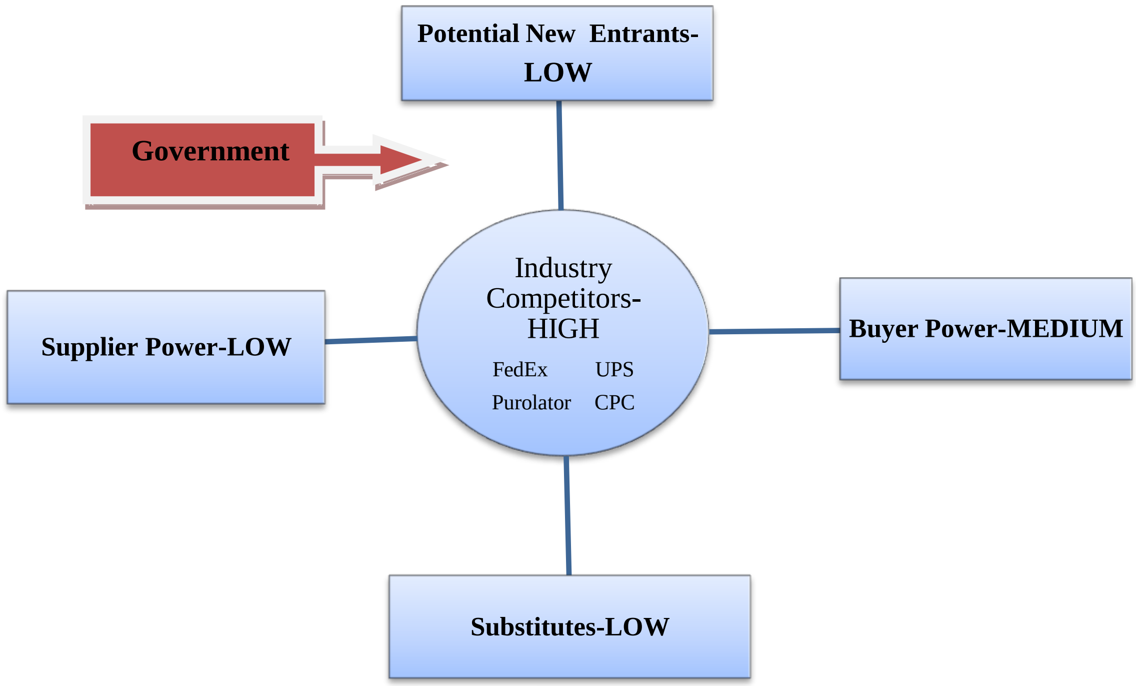

Figure 7: Porter's 5 Forces model for the Canadian Parcel Delivery Industry

2.2.1 **Threat of New Entrants: LOW**

The threat of new entrants is low in the parcel industry. It is expensive to have the services that are equal to that of existing competitors. The barriers to entry are very high, partly because of the high fixed cost associated with establishing the required international transportation network. This includes depots, plants, a retail network, ground transportation vehicles, and access to an air network. Additionally, existing companies can take advantage of the absolute cost advantage achieved by large volumes of shipments and better economies of scale.

2.2.2 Bargaining Power of Suppliers: LOW

The bargaining power of suppliers is low. It is low because when looking at the items that the delivery industry uses, such as vehicles, employee benefits, airline contracts and general goods associated with the overhead of running the business, all of the contracts are rewarded through an RFP process and are attached to multiyear service contracts. Suppliers must maintain good relations with the firms in the industry. The industry has high fixed costs and players are large enough and have substantial buying power that they can leverage against their suppliers.

2.2.3 Bargaining Power of Buyers: MEDIUM

The buyers, individually have strong bargaining power, however, the industry has mitigated against this with a broad customer base, lowering the collective bargaining power of buyers to medium. They have the ability to switch their parcel spending to other competitors in the industry at any time. Costs associated with switching from one shipping service to another can be very low; therefore, buyers can easily turn to a shipping provider that offer faster service, lower price, or service innovation. This is especially true for buyers with high annual shipping volume, as this provides a distinct advantage when negotiating better rates and preferential treatment. It generally comes as no extra cost to the buyer to switch their parcel delivery company. Players can make it more difficult for customers to switch providers by creating more custom services and integrating into their customers' supply chain.

2.2.4 Product Substitutes: LOW

There are few substitutes to shipping services. It would be difficult to find a substitute in delivering products or information. Shipping services are a commodity, and cannot be easily replaced with another service or even a similar service. If a company sells physical goods to the consumer it must have the customer pick up their parcel at a retail store location or have the goods delivered. The only other substitution would be if a company had enough volume to justify the costs of building and maintaining its own delivery network.

2.2.5 Intensity of Rivalry: HIGH

The parcel industry is an intense rivalry. There are four main players in the industry competing for market share. The features that they compete on are the speed of delivery, the quality of the delivery, and the price. If you can create a successful mix of all of the factors, you will hold the greatest market share. Established players in the shipping service industry complete rigorously for a market share, as demonstrated by the constant battle among CPC, Purolator, FedEx and UPS. The company that responds first to the continually changing environment is the company that wins. Established companies have to strive for continuous improvement in quality, lower prices, and innovation. There are very low switching costs for consumers in this industry, making rivalry even more intense. In addition, intense rivalry is also amplified because maintaining the infrastructure of an express delivery company is an exit barrier due to high fixed costs.

2.2.6 The Sixth Force - Government

The Federal Government's impact on the parcel industry is specific to CPC and cannot be overlooked. CPC executives report to a government appointed board of directors and are required to provide a five year corporate plan and one year capital budget annually for government approval. While most companies do the same, CPC’s board can take up to 18 months to have these plans approved. Following this, even when approved there are often further restrictions placed on the plan making it difficult for CPC to implement the changes; or, the market conditions may have changed since the plan was originally submitted. In addition the government restricts price increases regardless of inflation rates and mandates CPC to provide services to special interest groups at below market rates, provide five day a week service and maintain rural post offices at a loss.

2.3 Competition in the Parcel Industry

This is a fiercely competitive industry with fragmented market segments and there are competitors who have local, national and international operations. The large players in the market are CPC, Purolator, UPS, and FedEx. For the purposes of comparing the rivals we will not include same day messengers as they do not compete in this industry segment.

2.3.1 CPC Segment

CPC's operations have been discussed in chapter one.

2.3.2 UPS

UPS was founded in 1907 in Seattle Washington as a messenger service. UPS was established in Canada in 1975. According to its 2010 annual report it is the world's largest package delivery company and a leading global provider of specialized transportation and logistics services (United Parcel Service, 2010). It is a $49 billion corporation focused on enabling commerce around the globe, and their 2010 revenues grew 9% over 2009. It manages the flow of goods, funds, and information in more than 200 countries and territories worldwide.

2.3.3 FedEx

Fedex can trace its origins back to 1913 as customs broker C.J. Tower & Sons in Niagara Falls, N.Y. Today's FedEx is led by FedEx Corporation, which provides strategic direction and consolidated financial reporting for the operating companies that compete collectively under the FedEx name worldwide: FedEx Express, FedEx Ground, FedEx Freight, FedEx Office, FedEx Custom Critical, FedEx Trade Networks, FedEx Supply Chain Solutions. FedEx was established in Canada in 1987. It is the world's largest express transportation company, providing fast and reliable delivery to most addresses in Canada and every U.S. address and to more than 220 countries and territories. FedEx Express is known for its global air-and-ground network to provide high-speed delivery of time-sensitive shipments. Most parcels are delivered in one to two business days with the delivery time guaranteed. FedEx has a strong reputation and an admired brand. Its revenues for 2011 were $ 39.3B, an increase of 13% over 2010 according to its 2011 annual report (FedEx, 2011).

2.3.4 Purolator

Purolator, a subsidiary of the Canada Post Corporation, is Canada's largest integrated freight and parcel solutions provider. Established in Canada 50 years ago it continues to expand its reach to more people, more businesses and more places across the country and around the world. It had revenues of $1.5B in 2010. Its 2010 revenues grew 4.1% over 2009 (Purolator, 2010).

2.3.5 Operations

The table below compares the Canadian operations of each competitor based on the number of retail locations, size of the delivery fleet, number of employees, hubs and depots. The table demonstrates the breadth and depth of the size and reach of these firms.

Table 8: Operations in Canada (Breininger & Associates, 2011)

Competitors	Retail Locations	Delivery Fleet	Employees	Hubs and Depots
FedEx	1,300	1,610	5,311	56
Purolator	1,500	4,769	12,500	123
UPS	900	2,795	8,750	54
CPC	6,500	7,000	59,000	665

The size of a shipping company's fleet of vehicles and aircraft, as well as the number of hubs and retail locations all factor into its ability to meet the needs of the customers and how efficiently it can operate. CPC's network differs from the competitors quite significantly. First CPC is much more profitable in ground delivery and B2C delivery than its competitors. CPC operates the largest fleet of trucks in the country, creating economies of scale for ground delivery. Also the Universal Service Obligation requires CPC to go to all addresses in Canada therefore it delivers to the "last mile". CPC can take advantage of this network reach not only delivering its customers' parcels but that of the competition as well. Currently both FedEx and Purolator hand off packages destined for areas that are beyond their network reach to CPC.

2.4 Relative Competitive Analysis

The table below depicts the competitors and their sources of advantage and their cost advantages. The sources of advantage are from the customer perspective of value, which is their willingness to pay for the service, and the cost advantage a competitor has over the others in their industry. Parcel delivery services are commoditized products, and customers have few companies to choose from. The model is simple; parcels must reach their destination on time, in their original condition and to the correct recipient. In return, customers will pay a reasonable price.

Each competitor was given a score from one to five, with five being the highest score. The results are based on information gathered from three sources: the annual reports of each competitor, customer meetings and the author's industry knowledge.

Table 9: Sources of Advantage

Sources of Advantage	CPC	UPS	Purolator	FedEx
1. Brand	4	3	4	5
2. Price	5	5	4	3
3. Customer experience	3	3	4	5
4. Reliability	3	4	5	5
5. Retail network	5	2	3	2
6. Portfolio of products	3	5	4	5
Score	23	22	24	25
Cost Advantages				
1. Innovation	2	5	4	5
2. Delivery network reach	5	4	4	4
3. Technology	3	4	5	5
4. Claims/Customer service/Billing	3	3	4	5
5. Global network	3	5	3	5
Score	16	21	20	24
Total Score	39	43	44	49

2.4.1 Brand

Brand is very important in this industry. It can influence the consumer's choice of carrier depending on their needs. Brand can represent speed, reliability or price in the mind of the consumer. The parcel delivery service reflects the merchant's brand values. Parcel delivery companies are therefore brand ambassadors for their customers. Often the delivery agent is the only face-to-face experience the shopper will have with this merchant and therefore the merchant must ensure the experience is representative of its brand.

2.4.2 Price

A company operating on a large scale with extensive network area is in a better position to offer discounted rates as it operates on a bulk scale. Depending on the nature of the parcel, the urgency of delivery and the destination, the companies charge varied rates.

2.4.3 Customer Experience

The parcel delivery companies aim to be supportive and provide the best service possible over their competitors. Switching costs are low in this industry, empowering the customer to move their business elsewhere with ease. For this reason, it is essential to handle complaints promptly and offer support to their clients. Merchants are able to impress their customers with efficient delivery services by using a good delivery partner.

2.4.4 Reliability

The best measure of reliability in this industry is on time delivery results. The firms are able to ensure reliable deliveries by maintaining well-designed delivery networks, innovative technology and organized transportation fleets. Many firms offer on time delivery guarantees on their products.

2.4.5 Retail Network

In the parcel delivery industry, the more points of access for parcel pick up and drop off that an organization has, the more convenient the customer experience. Establishing and maintaining a retail network has high fixed costs, so many of the firms have partnered with retailers and have drop off points located in their premises. Examples of such partnerships are FedEx and Kinko’s, UPS and Mailboxes etc. and CPC and Shoppers Drug Mart.

2.4.6 Portfolio of Products

A wide range of products to cover the needs of consumers and commercial customers is essential. Product categories are based on speed of delivery and destination. The delivery options also have a number of add-on features and surcharges that are very profitable for the delivery company. Most of these additional features, such as insurance or signature capture, cost very little to provide. Residential or rural delivery surcharges can also contribute to the bottom line. All of these additional charges vary by carrier, product and by customer contract.

2.4.7 Innovation

Due to intense competition, the delivery companies must continuously look for ways to be innovative both internally and externally. Innovation must encompass transportation networks, plant modernization, differentiated product options, parcel visibility, web services and data integration with the management systems of the customers.

2.4.8 Delivery Network Reach

Access to as many addresses in a given geographic region is ideal. A network with the most points of call is a distinct competitive advantage. Most delivery partners cannot reach all of the addresses in Canada. All of the competitors have an agreement with CPC to deliver the "last mile" in rural areas or to post office boxes.

2.4.9 Technology

Visibility to the customer is a requirement in the parcel delivery industry. All of the competitors provide web-based or desktop shipping software to customers so they can efficiently prepare waybills and manifests for shipping; however, not all systems are created equal. Carriers provide parcel track and trace software to customers so they can see the progress of the delivery of a parcel. The more user-friendly the system design, the better the customer experience becomes. Many of the firms offer a web services application programming interface (API) which allows the transfer of data electronically.

2.4.10 Customer Service, Claims and Insurance

The companies that can resolve customer issues on the first call and to the customer's satisfaction will reduce their overall operating costs. Billing issues, multiple calls to the call centre and lost packages all increase operating costs. All delivery companies offer insurance for parcels. If a parcel is damaged, lost or not in its original condition, the insured can claim compensation for the same.

2.4.11 Global Network

In a globalized marketplace, the whole world is a potential market for many firms. Maintaining a global network will give a firm a competitive advantage over its rivals.

2.4.12 Analysis of the Results

There are 4large players in Canada, competing fiercely for a $7.2B market. CPC has some advantages, such as its retail network, price and delivery network reach, but overall lags behind the others in its technology, portfolio of products, reliability, global network and innovation. In summary, the table above suggests that a high score in brand, customer experience, reliability and portfolio of products will overcome the competitive advantages of a low price and a broad retail network, however, this has not proved to be the case, as evidenced by the fact that while FedEx scored higher than the other firms, they do not have the largest market share in the B2C or B2B in Canada.

2.5 Summary

Businesses across Canada rely on the firms to deliver their goods to their customers and employees. Innovative competitors are challenging the traditional business model of parcel delivery. Globalization and integration of economies have contributed to the growth in volume and distances travelled by parcels. To maintain a position as a market leader in parcel delivery, companies focus on price and network reach. To maintain a leadership position a firm must focus on the relationship with the consumer, its transportation and retail network and its trusted brand.

3: Ecommerce Opportunity

This chapter provides an overview of the retail market, the ecommerce industry, value chain, and the opportunity created by the growth in ecommerce for parcel delivery companies. Parcel delivery companies have an opportunity to capture the growth in the B2C residential deliveries resulting from the increase in ecommerce in Canada and globally.

3.1 Retail Market Size

In Canada, the total revenue for the retail industry reached $437.6 billion in 2009, a decline from $454.8 billion in 2008 (Industry Canada, 2011). According to the latest annual report from the U.S. Census Bureau (calendar year 2009), the total amount of sales for the U.S. Retail Industry (including food service and automotive) was $4.13 trillion (US Census Bureau, 2009). This was the second consecutive annual decline for the retail industry, and was both an effect and cause of the U.S. economic recession overall.

A Globe & Mail article from May 2011 reported “Canada's retail market now equals the American market on a per capita basis, according to Colliers International, as a surging Canadian dollar and increased spending draws U.S. retailers north” (Ladurantaye, 2011).

3.1.1 Growth in Canada

The Retail Industry has been growing at an approximate rate of 3% from 2001 to 2009 and it is expected to keep growing at the same rate over the next 5 years (Statistics Canada, 2010).

3.1.2 Types of Retailers in the Industry

There are two major types of retailers: those with and without physical locations. The “Brick and Mortar” store retailers are engaged in the sale of products from physical locations, and they warehouse and display merchandise with the intent of attracting customers to make purchases on site. While the brick and mortar retailers will vary significantly from one another on store size, design location and type of merchandise, they all share a common trait of a physical location. The other types of retailers are non-store retailers. They are engaged in the sale of products using marketing methods, which do not include a physical location. These retailers do not operate in a common manner. These non-store retailers are natural partners for the parcel industry, as they must use alternative methods to fulfil their customers’ orders.

Examples of non-store retailing include:

- Ecommerce
- Infomercials
- Catalogue Sales
- In-Home Demonstrations
- Vending Machines
- Multi-Level Marketing

Ecommerce in particular is growing, while many of the other non-store retailers are declining or have shifted their business model from catalogue or direct response to the Internet. Consumers are becoming familiar and friendly with the idea of buying online, saving time and money. For brick and mortar businesses, many are utilizing a multi-channel strategy for sales. Almost all large traditional retailers have online stores to take advantage of the revenue opportunities that the Internet offers.

3.2 Ecommerce Market

While the retail industry may not be growing, according to eMarketer, within the Retail industry, the ecommerce market is forecasting double digit growth in the rage of 12% to 14.3% over the next 5 years (eMarketer, 2011). Online retailing is growing rapidly, from about $150 Billion in 2008 to an expected $210 Billion in 2012. While still only 8-9% of total retail sales, the amount of retail business conducted on the Internet is rapidly growing every year as consumers' trust in online shopping increases. It is forecast to increase to 11% by 2015 (eMarketer, 2011). For most large retailers, online sales are only generating single-digit sales as a percent of total sales, but it is growing and it allows them to reach customers outside of the geographic areas their store serves and offer additional product selection to existing customers.

Two years ago Forrester released its 2009 US report, which originally predicted $248.7 billion in global ecommerce spending in 2014. Analysts increased their forecasts for ecommerce spending predicting it will reach $259 billion in 2014 and $278.8 billion by 2015, a 4% change to their current 2014 forecast. The main reason for their forecast change is the better than expected recent results in the ecommerce industry. In 2010 ecommerce grew 12.6% to $176 billion.

We will see continued growth in online retailing fuelled by computer-savvy consumers, almost universal access to the Internet and increased consumer confidence and trust in on-line merchants. This growth translates into a huge demand for delivery and return options for the retailers and their customers. For those in the parcel delivery and logistics industry there are plenty of opportunities. It depends on which competitor moves the quickest to adapt their business to the opportunity that ecommerce presents.

3.2.1 Ecommerce Value Chain

The ecommerce value chain as illustrated below in Figure 8 shows how access to the Internet and the World Wide Web are used to meet the needs of the stakeholders in the ecommerce industry. The merchant must meet the needs of the consumer. The technology must provide the merchant with the necessary information and data in a timely and user-friendly format. Internet and Web have changed the business environment, including industry structures, business strategies, and industry and firm operations. The merchant must be as efficient as possible to maintain its margins.

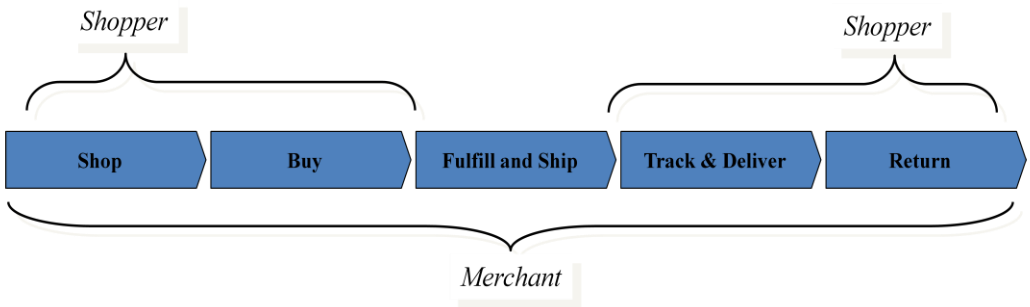

Figure 8: Ecommerce value chain

3.2.2 Key Stakeholders

The key stakeholders within the ecommerce ecosystem are the shopper, merchant and the technology platform providers.

3.2.2.1 Shopper

The shopper's experience not only includes shopping online, but all the processes that deliver the purchased items to them and allow returns should the products be unsatisfactory. The ecommerce consumer is growing savvier and demanding more from the retailers. Not only are the shoppers better educated, they are becoming more familiar with online purchasing and want to make decisions about the shopping and delivery experience. In a study conducted by ATG in 2010, they found that most customers felt that the online shopping experience could be improved (ATG, October 2010). The shoppers indicated that they wanted online shopping platforms to:

- "Provide more detailed product information": •45%
- "Provide better search capabilities": • 36%
- "Provide customers with live help options": • 29%
- "Enhance the design and navigation": • 26%
- "Make it easier to find out how to contact the store": • 25%
- "Improve checkout process": • 22%
- "Give more offers that are personalized to my interests or needs": • 16%
- "Provide more relevant FAQs": • 16%
- "Provide a better site for access via a mobile device": • 5%

- "Provide more ways to interact through social networks like Facebook or ratings by others": • 3%

The second excerpt from this study, which is of particular interest to the parcel delivery industry and the merchants, gives the reasons customers abandon their shopping carts during the purchase process.

- 70% abandoned their carts because they learned that shipping charges were more than they expected
- 32% said they add multiple items to their carts to figure out costs before ultimately deciding what to purchase
- 24% said the checkout process was too confusing or took too many steps
- 23% wanted to save their carts for a future visit so they did not need to find the same products again

The parcel delivery industry needs to work closely with the merchants and their technology providers to create a choice of delivery options and accurately compute the shipping charges earlier in the checkout process.

3.2.2.2 Merchant

The retailer will have a variety of needs depending on their business model. The Merchant must provide the shopper with the information they need to make an informed purchase decision, including all related costs and service policies, and have the capabilities to fulfil and have the order delivered, and potentially returned. There are common challenges amongst all on-line retailers. One of the biggest challenges for merchants is merchandise returns. This has created a demand for reverse logistics and a large opportunity for the parcel delivery companies. The need for returns can be attributed to two main causes. First, the customer has changed their mind and they do not want or do not like what they ordered. Second, they received defective merchandise or goods damaged during transit. The next step is to determine who is responsible and will pay for the damage and the additional transport requirements and transport cost to remove the goods and then deliver replacement goods, and the inconvenience caused to the customer in achieving a resolution.

As seen in the figure below, reverse logistics is concerned with managing the movement of goods back to manufacturers, distributors, and retailers. The opportunity to manage the return of goods is growing with the growth of ecommerce. According to feedback from retailers in British Columbia, the rate for returning merchandise is about 5% depending on the products. However, it can be much higher in ecommerce with some estimates suggesting the return rate can be up to 25%, which significantly affects the merchants. Although the market for forward logistics is much larger than that of reverse logistics, the market opportunity for reverse logistics is increasing.

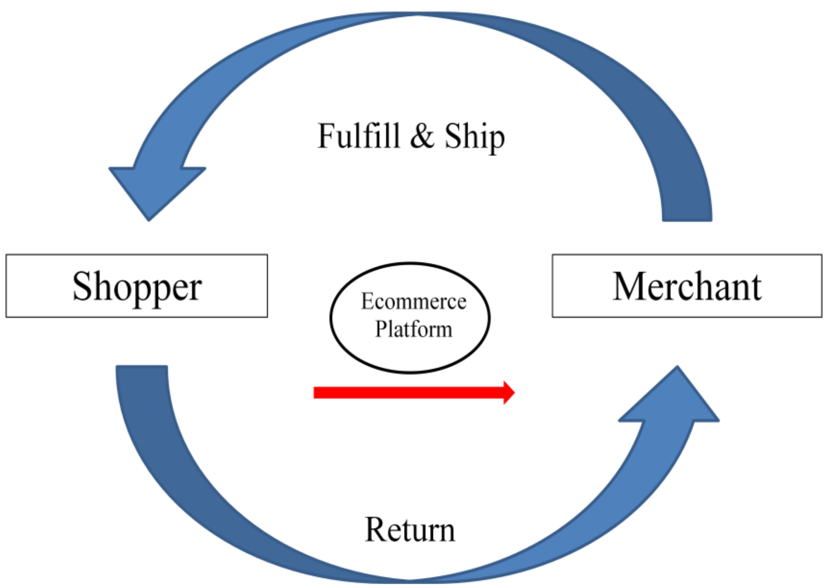

Figure 9: Reverse logistics

3.2.2.3 Technology Platform Providers

Ecommerce platform providers, integrators and developers provide the technology infrastructure necessary for merchants to build and operate online stores. The parcel delivery industry must be integrated through web services to these technologies. Gartner, AMR and Forrester Research released a report on the leading off-the-shelf and Open Source ecommerce platform vendors, which said there are approximately 200 system providers that in turn have over 115,000 ecommerce merchants using their services in North America (Sherlock & Fletcher, 2009) (Walker, 2010).

3.2.3 Five Key Factors Driving Ecommerce Growth

There are five key drivers that are fuelling the growth in ecommerce: technology, price, convenience, payment options and logistics. Merchants continue to improve in all of these areas and the results are evident in the growth of online sales worldwide. The list below includes examples of the drivers within each category.

Technology:

- Smartphones and tablets continue to drive more mobile commerce
- Increased access to the Internet provided by enhanced technologies
- Improved websites and technology platforms

Price:

- Free shipping and better discounts online than in-store
- Larger e-retailers stealing share from smaller retailers
- Comparison shopping sites

Convenience of online shopping versus in-store:

- Shop anywhere, any time
- Ease of product comparison, customer reviews
- Faster – no store visit required
- More information available and better selection
- Access to merchandise previously not available

Payment security:

- Services such as PayPal and Verified by Visa are making customers feel safe in purchasing online.
- Enhanced online security

Shipping and logistics:

- Customers demanding free or discounted shipping based on order value
- Many e-retailers offer free shipping and returns
- Enhanced tracking and delivery options

3.3 Ecommerce Opportunity for the Parcel Delivery Industry

Retailers are optimizing their online storefronts to better understand their customers. For instance, free shipping is a somewhat new phenomenon that dramatically increases average order value. According to an Internet Retailer report, “Retailers are offsetting the margin loss from offering free shipping, because the average order value for transactions with free shipping are an average of 30% higher than those without” (Stambor, 2010). The more the customer orders at one time, the heavier and larger the parcel. According to Internet Retailer, nearly three quarters of the top e-retailers offered free shipping during the holiday season (Stambor, 2010). Other retailers lowered their minimum order size to qualify for free shipping. This translates into additional revenue for the parcel industry. The downside to free shipping is that the retailer will choose the least expensive method of delivery because it is absorbing the cost into its bottom line. It should also be noted that Canada is the natural expansion market of choice by US based retailers who are considering international expansion. Canada is a safe market for US merchants to test their products, services and processes before venturing overseas. It is an attractive option because of its geographic proximity to the US, the dominant English language, and the fact that 60% of the products purchased on line by Canadians are from US retailers.

3.3.1 Ecommerce Shipping Market in Canada

The graphs below illustrate the estimated size of the retail industry shipping market in 2009, which is worth approximately $679M. The ecommerce portion of the retail industry shipping market was estimated to be 38% or $255M in 2009. These estimates are based on several research reports internal to Canada Post Corporation.

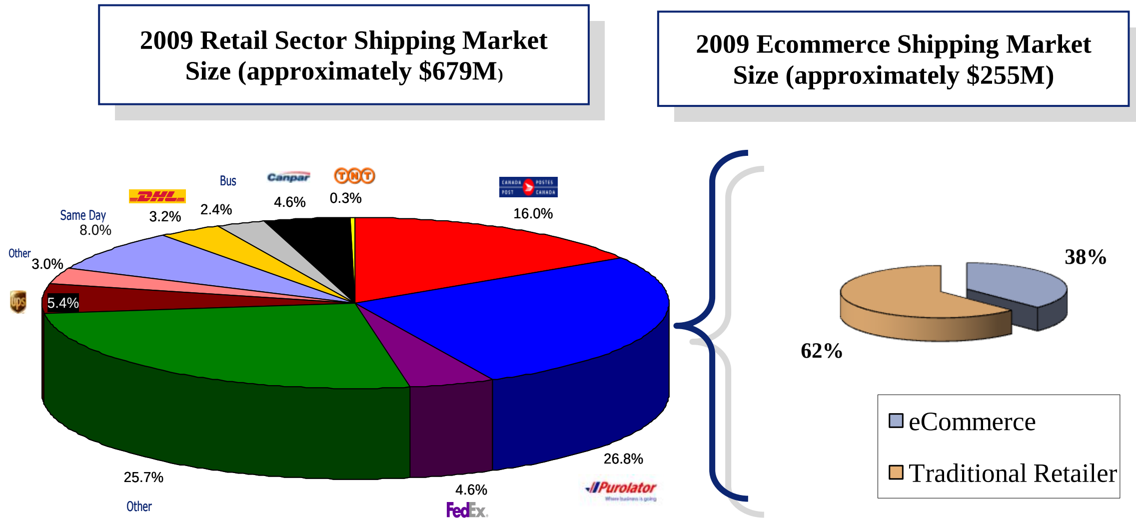

Figure 10: Retail shipping industry in Canada

3.3.2 Demand for Residential Delivery

The growth in ecommerce has driven up the demand for home delivery. This poses some challenges for the companies in this industry. Table 10 compares the attributes of traditional B2B delivery with that of ecommerce B2C delivery as the industry was emerging. Traditionally parcel companies sought out the B2B market because it was so large. However, after the recession in 2008, there was a decline in the B2B market and customers chose to use less expensive delivery methods. This caused the competitors to look more closely at the B2C market.

Table 10: Characteristics of Ecommerce Delivery (Park & Regan, 2003)

Attributes	Traditional Delivery	Ecommerce Delivery
Distribution chain	Producer/Wholesaler /Retailer	Online Retailer /Customer
Shipment size	Large	Small
Shipment type	Homogeneous	Heterogeneous
Number of loads (density)	High	Low
Number of delivery stops	Few	Many
Delivery failure	Few	Many
Delivery frequency	Low	High
Delivery time sensitivity	Low	High
Number of vehicles required	Low	High
Delivery cost per shipment	Low	High
Vehicle size	Large	Small

Changes to the delivery model and operations of the parcel companies are necessary to meet the demands of the merchants and consumers. The results of the table above illustrate the shifts in the attributes associated with the parcel delivery industry. The shipment size has decreased and delivery cost per shipment has increased with the shift to B2C. To be successful in this new market delivery companies must find ways to keep the costs of shipping low for the merchants while still generating a profit.

3.3.3 Demand for Technology

The growth in ecommerce has driven the demand for residential delivery, low prices and technology. The parcel delivery firms must provide the following technology: track and trace software, shipping tools and more recently web services. Web services are an application programming interface (API) that connects the parcel delivery company to its customers and their technology partners. Web services provide the necessary data for merchants and their technology partners to integrate shipping into their business processes and systems. Web services are essential to the stakeholders in the ecommerce ecosystem.

Web services consist of the following features:

- Rates – access to customer specific or general shipping rates
- Service standards –delivery time estimates for shipments
- Shipping – access to shipping services
- Labels – print self service outbound labels
- Returns – print labels for reverse logistics
- Tracking –parcel tracking and exception reporting
- Pick up locations – locations of local offices and stores
- Pick-up – determine if pickups are available for defined FSAs
- Address validation – verify correct postal codes and address information

The table below indicates the various web services offered by the firms in the parcel delivery industry. This comparison indicates that CPC lags behind the other firms in its industry in offering web services for ecommerce platform and customer integration.

UPS, FedEx and Purolator already offer web services to their customers and technology partners.

Web Services	CPC	UPS	FedEx	Purolator
Shipping	×	✓	✓	✓
Tracking	×	✓	✓	✓
Signature image	×	✓	✓	✓
International shipping management	×	✓	✓	✓
Shipping locations	×	✓	✓	×
Rating	×	✓	✓	✓
Time in transit	×	✓	✓	✓
Pick up request	×	✓	✓	✓
Returns	×	✓	✓	✓
Tracking by account #	×	✓	✓	✓

Figure 11:Web services comparison (Accenture, 2011)

3.4 Competitive advantage

Competitive advantages lie in meeting the shipping data needs of the players in the ecosystem. Ecosystem participants for in-bound ecommerce will reflect the need for customs clearance and smaller shippers' requirement to aggregate volumes; key influencers may include, but are not necessarily limited to, parcel consolidation companies and customs brokerage firms.

3.5 Summary

Canadian and foreign shoppers generate three types of transactions that together represent the total market opportunity for the Canadian parcel industry. First, Canadian merchants sell goods on-line to domestic and international shoppers, creating a need for both domestic and international outbound parcels. Second, Canadian shoppers purchase goods online from foreign merchants and this international ecommerce or northbound market translates to international inbound parcels. Third is the need for reverse logistics for the returns process. This process is further complicated for the merchant and shopper if it includes a cross border transaction that will have duties and taxes associated with it.

Parcel delivery companies must understand the needs of the stakeholders in the ecommerce market to be successful. They must create products and services that will help retailers address the challenges of delivery and return of goods. The merchant must improve their access to information through their technology platforms. Speed is essential, the market is growing rapidly and firms must respond with delivery and technology solutions specifically designed for ecommerce to capitalize on this opportunity before their competitors.

4: Internal Analysis

This chapter analyzes CPC's ability to defend the existing B2C market share in the Canadian parcel delivery industry using the established frameworks Performance Matrix and SWOT analysis. As well, it examines what is required and what capabilities, competencies and commitment exist to be able to compete for further market share.

4.1 CPC's Strategy in the Parcel Industry

The parcel business represents 37% of CPC's 2010 annual revenue for a total of $1.3B (Canada Post Corporation, 2010). As noted earlier, there are two main markets in this industry B2B and B2C. CPC has been able to maintain a leading position in the B2C market place owning approximately 60% market share (Canada Post Corporation, 2010). The strategy for the parcel line of business has four goals, which are to defend the existing B2C market share, grow the business with a focus on the ecommerce industry, compete in new markets and finally, to improve the overall profit contribution margin through efficiencies in the network. This will be achieved using a multi-pronged approach. First, CPC will focus selling efforts on the small and medium enterprise markets and the ecommerce market. Second, CPC will make infrastructure upgrades through Postal Transformation. CPC is undergoing many operational changes, and through PT CPC is improving its ability to better serve customers and meet its commitment to on-time delivery of parcels. The third and most critical approach is improvement to customer responsiveness and reliability through the development of web services, better tracking services, new shipping tools and other technologies.

4.2 Performance Matrix

The performance matrix is a business analysis tool described in the text Strategic Analysis and Action, which is based on two sets of measurements (Crossan, Fry, Killing, & Rouse, 2009). The first set is operating performance, which looks at an organization's quantitative performance. The second is the organizational health, which are the qualitative aspects of performance. The results of mapping an entity's operating performance against its organizational health using a positive or negative rating can be viewed in four quadrants, as illustrated in Figure 12.

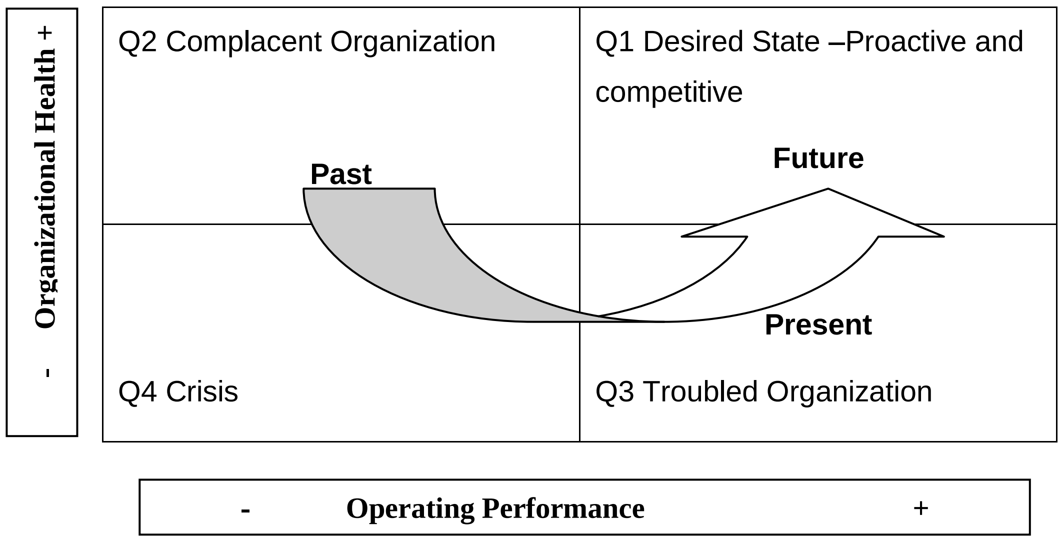

Figure 12: The performance matrix (Crossan, Fry, Killing, & Rouse, 2009)

In 2008, the Federal Government of Canada initiated a strategic review of CPC by an independent advisory panel. The report concluded that CPC's ability to meet its financial targets had eroded since 2002 with consolidated earnings declining from $156M to $128M in 2007. Lettermail volumes began to decline in 2003 from 49.9% of total corporate volumes to 45.9% by 2007. CPC's employees rated the organization as a great place to work, and this is evidenced by a decade of labour peace. In 2009, CPC was named one of Canada's Top 100 Employers by Mediacorp Canada Inc. for the fourth consecutive year. Based on the results of satisfactory organizational health and poor operating performance, CPC would be categorized as a complacent company prior to 2008, residing in quadrant 2, existing on the traditional postal institution model and its status as a crown corporation.

In 2008, the recession hit the global economy. CPC, like many of its counterparts, reacted slowly to the decline in revenue and profits. Two labour disruptions occurred over two and a half years: one with the Public Service Alliance of Canada (PSAC) union in December 2008, and the other with a major lock out of CUPW in June of 2011. These labour disruptions compounded the negative effects of the recession. According to the CPC Strategic review, structural and competitive changes in the market weakened the demand for mail products. These factors shifted CPC into Q4 in the Performance Matrix, where they are struggling as an organization.

A strategic approach to managing these uncertain times is urgently needed to shift CPC into Q1. It will be difficult if not impossible to transition back to Q2 by simply maintaining revenue and profit levels of the previous decade, without addressing organizational health. Therefore to be successful in the future a major transformation in both strategy and culture must occur.

4.3 Relative Competitive Advantage

With the growth of ecommerce, parcel delivery for retailers is a requirement. It is CPC's objective to be the main provider in this sector as stated by the CEO Deepak Chopra. The B2C segment is most advantageous for CPC and other postal institutions primarily due to three key sources of competitive advantage. The first source of competitive advantage is that CPC delivers to every address in Canada. This is referred to as the "last mile" delivery. The competition cannot reach all addresses and they must pay CPC to do the final delivery in some rural areas and to post office boxes. Second, CPC has the largest retail network among all players, which is comprised of approximately 6,600 retail post offices (RPO) in the country. This is beneficial for both the consumer and the merchant. Utilizing the extensive network is an asset for convenient locations for pick-up and drop off parcels, and also for making returns simple for the merchant's customers. Finally, CPC has a brand that is well known and trusted by Canadians. The CPC brand has been an integral part of Canadians' lives for over 100 years.

4.3.1 CPC’s Current Performance

CPC’S value proposition to the ecommerce market is strong in that it provides delivery to every shopper in Canada, while offering the convenience of the most extensive retail network of RPOs in Canada. In addition to financial performance (described in section 1.3.8 of this report), CPC also measures its customer satisfaction.

CPC conducted Customer Value Management (CVM) surveys to measure customer satisfaction for its large parcel customers. The data was gathered between 2007 and 2010. The results of the survey are depicted in the figure below.

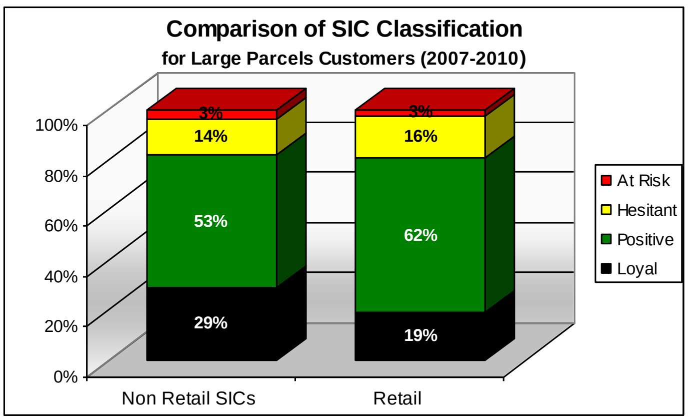

Figure 13: Comparison of SIC classification (Source: CPC -Web Service & eCommerce) Market Assessment, March 2011)

The internal survey conducted by CPC concluded that retail merchants were less satisfied than customers in other industries. The lower scores for merchants could translate to loss of existing business and hinder ability to grow beyond the existing base of revenue. Further internal analysis as reported to the executive committee in October 2011 indicated that year-over-year volume and revenue is declining for retail customers at a faster rate than the rest of CPC’s customers.

4.3.2 Implications of Parcel Industry Trends for GOC

Chapter two identified the four critical drivers of the parcel delivery industry as economic, consumers, industry and environmental trends. This section will discuss the implication of these trends on CPC as an organization. The table below summarizes these implications to CPC, as well as potential opportunities.

Table 11: Impact to CPC (Accenture 2010)

	Economic	Industry	Economic	Consumer
Industry Trend	• Decelerating growth in B2B	• Ecommerce merchants looking for full logistics	• Synergies, efficiencies and competition	• Ecommerce is shifting the landscape • Customers are buying differently
Impact on CPC	• Threats to core business • Must catch up to the competition	• Financial pressure • Difficult to maintain profitability	• Competition is increasing • Current competitive advantages are threatened	• Demand for convenience • Speciality products • New technology needed • Customer satisfaction declining
Potential Opportunities	• PT • Web services • GOC solutions	• Offer ecommerce specific bundles from the GOC	• Leverage the "last mile" • Leverage the GOC • Efficiencies from PT	• Web services • GOC • Bundled LOB solutions

While CPC attempts to address lagging behind the competition in terms of technology and reliability, it is investing in certain aspects of the business to maintain its share in the B2C Market, grow in the retail segment and capitalize on the ecommerce opportunity. Initiatives that include modernization through PT are underway and technological offerings are being evaluated. These initiatives will combine to improve the overall customer experience for merchants and shoppers and should address some of the organization's challenges. More importantly CPC needs to work with its subsidiary companies to create product offerings and unique third party logistics (3PL) solutions that the ecommerce market requires.

4.4 SWOT Analysis

SWOT analysis is a method of strategic analysis developed by Albert Humphrey in the 1960s at Stanford University. It evaluates the strengths, weaknesses, opportunities and threats to an organization. Strengths and weaknesses are internal to the organization, whereas opportunities and threats are external in nature.

The following table summarizes the strengths, weaknesses, opportunities and threats identified in this strategic analysis of CPC. Discussion of the SWOT will determine the strategy and initiatives required for CPC to succeed in the future and attain its goals as an organization.

Table 12: SWOT analysis

Strengths	Weaknesses
• Established relationships with every Canadian household & business that receives mail • Crown corporation status generally creates trust with customers • CPC brand is over 100 years old • Network Reach (Retail Network, Feet on the Street, Fleet & Distribution Network) • Extensive customer data base that includes all households and business addresses • Economical ground delivery service	• Culture (inflexibility, bureaucracy, risk aversion, inability to respond to market changes quickly, not seen as innovative) • Internal communication challenges associated with the size and magnitude of the organization • Multiple collective agreements with five unions impede ability to make certain changes to operations and products • Threat of labour action is prevalent • High paid, aging labour force • Lack of technology equivalent or better than the competition is a barrier to entry in growth areas such as ecommerce • Universal service obligation • Lag behind the competition's technology • Mandated to have positive profit margin on all sales • Aging infrastructure nationally impacts CPC's ability to match the speed and reliability of its competitors
Opportunities	**Threats**
• Growth in ecommerce is increasing residential parcel delivery • Exploit existing physical delivery network • Utilize national retail network to capitalize on ecommerce opportunities • Ability to implement change may improve due to new CEO, Conservative Majority, current attrition and possible labour reshaping • Solve the merchants challenges	• Political and social pressures affecting its ability to be profitable • No agreement with CUPW • Competition is shifting their business model to ecommerce and residential delivery

4.4.1 Strengths

CPC has a trusted and recognized brand and is financially sound. It has a relationship with most businesses and consumers in Canada. It has a retail network that reaches the entire Canadian population. Perhaps its greatest asset is the "last mile" reach of the delivery network. While the competition can reach the urban population in Canada, they cannot reach the rural areas. The options for the competition are to use independent contractors or use CPC. CPC has an extensive address database that could be monetized by making it available to merchants and marketers for a fee. CPC has also been dominant in the B2C market because of its economical pricing for shipping single package by ground. This is a competitive advantage as most of the competition has networks that are structured for express delivery.

4.4.2 Weaknesses

The primary weaknesses for CPC stem from several major issues including a disengaged workforce, union negotiations, aging infrastructure and technology.

One of the greatest challenges within the CPC organization is communication. Communicating the vision of a modern postal institution to the organization is extremely challenging and it involves overcoming the objections to change. It is particularly difficult to effect change in a large bureaucracy, especially with an aging workforce. CPC has an aging workforce with an average age of 49 years old and retirement looming on the horizon. This has contributed to a risk averse culture that is disengaged by the threat of change. Many employees have spent their entire careers at CPC. There are many employees who do not retire even once they reach eligibility for their pension. The notion of change makes many sceptical, nervous and difficult to manage. In order to have any chance at changing the culture, senior management must have a plan to communicate the growth strategy with urgency.

The majority of CPC's workforce are members of one of five unions. Negotiations have not been easy with any of the unions and the one of most concern is CUPW, which has been without a contract for over a year. The CUPW agreement is inwardly focused and has no view of the customer, service or quality.

The threat posed by the lack of competitive technology is highlighted in a business case written by two professors of the Queen's School of Business. Approximately 85% of CPC's revenue comes from large commercial and mid market mailers, such as banks, utilities and retailers. CPC's top 20 customers are organizations like RBC, Rogers and Sears and the top emerging customers for CPC include Amazon, eBay and Dell. The support of these customers could decrease or disappear if the corporation does not modernize its plants and technology infrastructure. The feedback from these large customers have indicates that CPC's systems are difficult to use compared to its competitors. The aging infrastructure and technology used for sortation and delivery is being addressed with PT; however, the technology available for customers and for product development is not competitive in the current marketplace. The competition has better technology available and is more responsive to market demands and changes.

Both the labour issues and outdated infrastructure and technology make it very difficult to control costs. According to the *CPC Blueprint for Change Report* CPC's operating performance is lower than the leading postal peers for the last five years (Canada Post Corporation, 2008). CPC has an operating profit margin range of 2-4% and its best in class performance by its peers is 11-13%.

4.4.3 Threats

The most significant threats to CPC are its relationships with the Federal Government and the union (CUPW) representing the majority of its employees, and overall increased competition in the market.

Government can slow CPC's ability to capitalize on opportunities or enter new markets by enforcing existing mandated obligations. The government controls the postage rates that CPC can charge, regardless of inflation or rising operating costs. As well, the CUPW agreement is considered by many in the industry as one of the most onerous in North America, containing 553 pages that include 56 articles and 34 appendices. Being without a renewed and simplified agreement for more than a year has created external pressure from customers whose business relies on CPC operating without labour disruption.

The threat of new entrants into the B2C market is being driven by the downturn in the economy discussed in this paper. The impact of the recession in 2008 forced the competition to search for growth opportunities in markets that were traditionally dominated by postal service, specifically the B2C market.

4.4.4 Opportunities

The main opportunities for CPC are to leverage its dominance in the B2C parcel delivery in Canada and to expand to become the market leader in the ecommerce industry. If CPC could capitalize on its competitive advantages of delivering to every address in Canada and its retail network, it could maintain its market share. The single greatest opportunity is to solve the merchant's challenges. The table below summarizes these challenges.

Shop and Buy	Fulfil & Ship, Deliver and Returns
Increase traffic to their website	Match supply and demand
Manage captured information	Where to warehouse products
Improve the online experience	Minimize shipping time and costs
Reduce fraud	Vendor direct fulfilment
Handle exceptions	International orders
Reduce shopping cart abandonment rate	Return policy and procedures

Figure 14: Merchant challenges

4.5 Summary

As discussed in the previous sections, the opportunity for growth in the B2C market depends on meeting the needs of the stakeholders in the ecommerce system. Ecommerce is a strong strategic fit for CPC. Online shopping typically requires that the purchased items be delivered directly to the shopper, normally at their residential address. The growth of ecommerce translates to the fastest growing shipping segment within B2C delivery and strategically aligns with CPC's core capabilities and competitive advantages; however, the results of the performance matrix and SWOT analysis indicate that a major strategic shift is required to capitalize on this growth opportunity. CPC must improve service, build technology required for the ecommerce market and change its corporate culture to one of innovation and efficiency.

5: Strategic Alternatives and Evaluation Criteria

There is a sense of urgency at CPC to defend its current B2C market share and create growth opportunities within the ecommerce marketplace. CPC must win the business now rather than try to take it from the competition in the future. This chapter provides an overview of the vision for CPC and links the development and use of technology to the business processes that impact achieving that vision. It then describes the strategic alternatives for CPC and the evaluation criteria used to determine the viability of each option. Four alternatives will be discussed and measured using selected criteria.

- Ecommerce Integration Strategy
- Cost Leadership Strategy
- Line of Business Synergy Strategy
- GOC Strategy

5.1 Corporate Vision

CPC has a corporate vision to be the ecommerce delivery partner of choice. A strategy to transform the vision into reality is needed to identify how CPC will capture ecommerce growth in Canada. A strategy must be chosen that meets specific criteria: CPC must maintain profitability, meet its duties of the Universal Service Obligation, and finally, the selected strategy must generate net new revenue in the next five years. To succeed in this market CPC must provide cost effective and reliable delivery services as depicted in the following figure from the IPC Cross Border E-Commerce Report 2010. Technologies, reliability and price must be considered in the development of a strategy for the ecommerce marketplace. An awareness of the drivers for success depicted in the

Delivery Partner Model will assist in achieving the corporate vision of being the ecommerce delivery partner of choice.

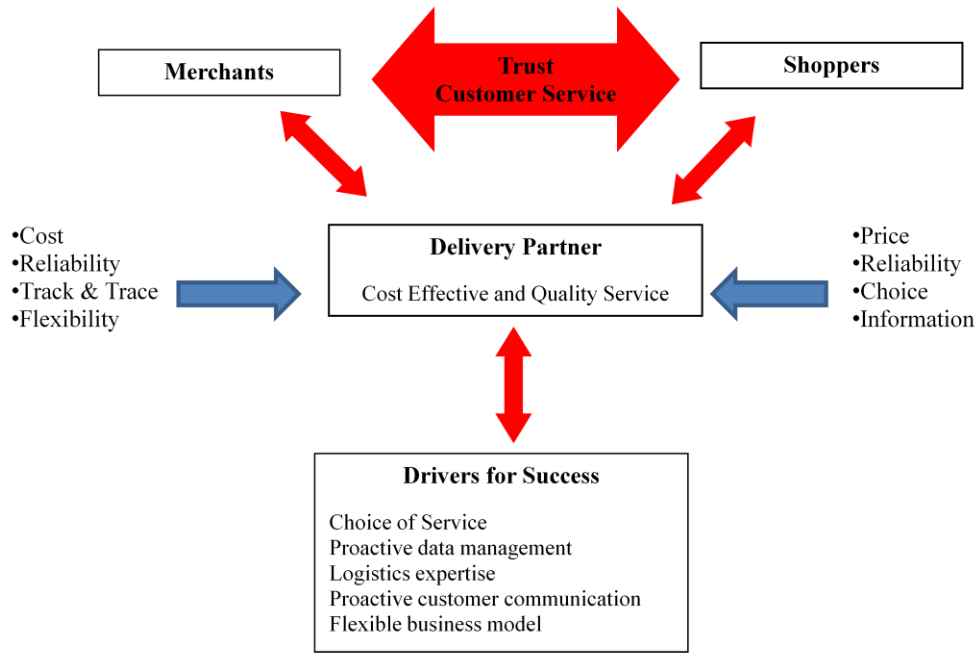

Figure 15: *Delivery partner model (IPC, 2010)*

5.2 Benefits Dependency Network

The Benefits Dependency Network (BDN) model links IT projects to the business processes being changed and the rationale behind those changes. It is one part of the benefits- management approach developed by three professors, John Ward, Joe Peppard and Elizabeth Daniels from the Information Systems Research Centre at Cranfield University School of Management in the U.K. Their research concluded that the process of constructing the BDN varies depending on whether a problem-based or innovation-based investment is being considered. In their article, *Managing the Realization of Business Benefits from IT Investments,* they describe the two types of IT investments. Problem based investment BDN is used to identify the most cost effective and lowest risk combination of IT and business changes that will achieve explicit quantified improvements required by an organization (Ward, Peppard, & Daniels).

Innovation based investment BDN is used to understand how a combination of organizational changes and technology deployment will create a worthwhile advantage when pursing an opportunity, and what the organization has to do to gain that competitive advantage.

The innovation-based BDN model in the figure below links the development and use of five different technologies to the business processes that impact the goals of CPC. CPC must adopt new ways of doing business. Regardless of the strategy chosen by CPC to capitalize on the growth opportunity in ecommerce, technology will be a component of each strategy. To gain any advantage in the market it must offer its existing and potential customers a competitive level of technology to support their products and services. New technology could be deployed to improve efficiency, develop solutions specific for ecommerce, and create GOC bundled solutions. The deployment of these technologies will make it possible for CPC to defend its existing parcel customer base and capture new market share while helping to control costs and find efficiencies.

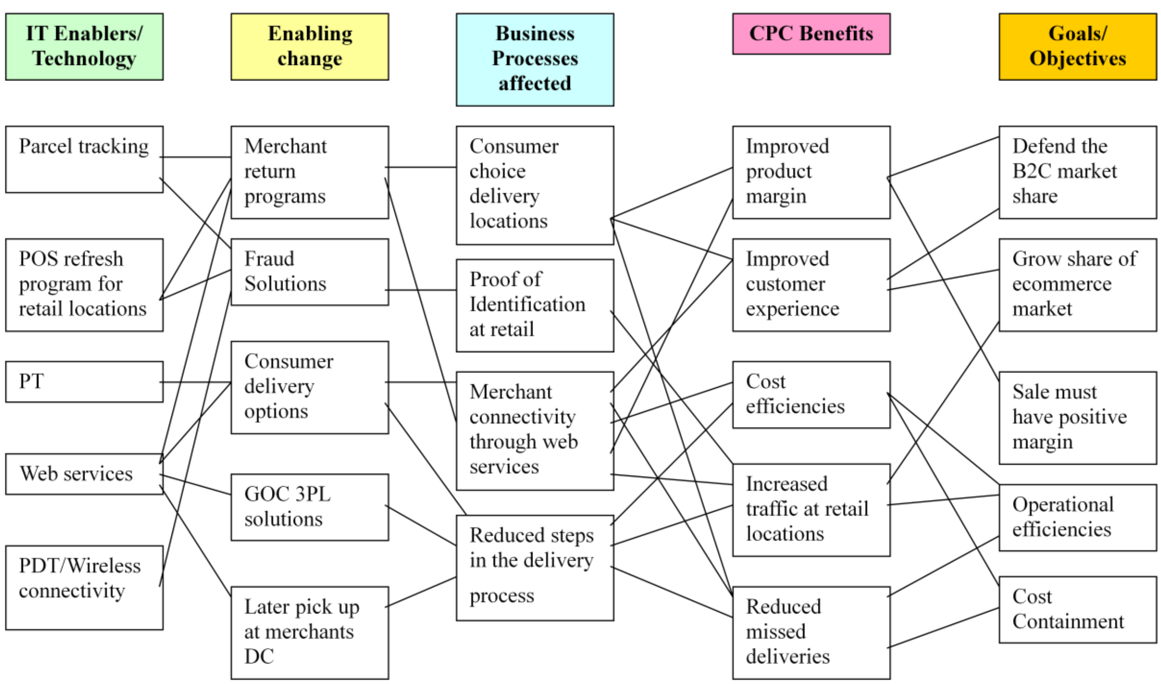

Figure 16: Innovation based BDN for CPC strategies

The five IT enablers and their impact on the business process are:

- Parcel tracking;

Improvements in parcel tracking technology would enhance the merchant return program by offering the merchant visibility on their customers' returns. As well, improvements to tracking could be used in conjunction with fraud solutions to address theft and lost goods by having an increased number of scans, thus minimizing the opportunity for theft.

- Point of sale refresh program for retail locations;

A newly refreshed uniform national point of sale system could be used to scan and capture proof of identification, presented upon collection of high value goods, thus reducing fraud.

- Postal transformation;

The modernization of plants and depots, combined with new automated sortation equipment will enable faster and more accurate delivery of parcels. The benefits of faster and more accurate delivery of parcels include shortening the length of time that a parcel travels through the delivery network, reducing opportunities for loss, damage or theft.

- Web services application programming interface;

The deployment of a web services API will allow CPC to connect with its customers and ecommerce platforms deriving a multitude of benefits that will be discussed further in this chapter.

- Portable data terminal with wireless connectivity

Letter carriers and drivers scan receipt and delivery of parcels in the field in real time wherever wireless service is available to provide end to end visibility on parcels.

As discussed in the previous chapter, CPC lags behind the competition in investment and development of new technologies to enhance the customer experience. The four strategies presented in this chapter will all include a technological component, essential to successful implementation.

5.3 Ecommerce Integration Strategy

In this first strategy, CPC would attempt to increase its current B2C market share and gain new ecommerce customers by creating a suite of ecommerce focused applications for the web services application programming interface (API). These new applications would meet the needs of the two key stakeholders discussed in Chapter three, the merchants and the ecommerce technology partners. These applications would be competitive differentiators for CPC because they would offer new services that the competition could not. These applications could impact the stakeholders at various steps in the value chain in very positive ways.

Implementing this strategy effectively could create a deep integration to ecommerce merchants and the technology platforms they use. According to the Vice President of Endeca, John Andrews, "Consumers are demanding content driven, multi channel commerce" (Endeca Technologies, 2011). This creates both a challenge and an opportunity for ecommerce merchants and technology partners. According to the results of the survey of ecommerce professionals they believe that "eCommerce organizations have a unique opportunity to capture consumer wallet share if they can deliver consistent experiences and enable multichannel ecommerce behaviours before their competitors. Success will be reliant on honing efforts around a user-centric customer experience, narrowing focus to the most valuable programs, and electing the right technology strategy that will allow internal teams to deliver optimized experiences in a scalable way."

5.3.1 Applications for the Shopper

Applications for the shopper would impact the shopping and buying steps in the value chain. Shipping estimates would be available while browsing. Once the shopper has made the decision to buy then there will be several applications available that will enhance the shopper's experience. First the customer would have a choice of regular ground or express air shipping options. Second they would get an accurate total cost for their shipment which would include shipping and handling fees, customs, duties, tariffs and taxes that are applicable. Third, they could select the delivery location options of their choice. This would include a new application called “Direct to Post Office” that would allow the shopper to choose the pickup location of their choice. Web Services would update the pickup locations available to the individual shopper based on their address and postal code. The system would monitor capacity levels at each individual retail post office (RPO) to ensure they have space to store the packages. The shopper selects from the list of available locations and selects the RPO of their choice. The shopper may choose a location closest to home, work or school. They may want a parcel to go to an RPO if they are purchasing confidential or sensitive items or simply because they know they will not be home to receive it during the day. A merchant may choose the direct to post office options for all residential deliveries to reduce fraud or theft. Then, they would be given an estimated delivery date based on the shipping and delivery option they selected. Finally their address would then be validated and the transaction would be completed.

5.3.2 Applications for Order Fulfillment and Shipping

At this stage in the value chain the merchant has received, approved and validated the shopper’s order. In some cases the merchant may choose the shipping options based on their own internal criteria. Some merchants may choose to add an integrated return label that can be included with each outgoing order allowing for a simplified customer experience. Merchants can integrate their ecommerce orders into their existing inventory and warehouse management systems which will enhance the accuracy of their inventory on hand and their ability to fulfil orders efficiently. The final application for web service at this stage is the induction of their parcels into the CPC delivery network. Web services will allow the distribution centre or warehouse to choose from various pick up options that would include the frequency of pick-up, sortation of parcels based on destination and later induction time based on the CPC network capacity.

5.3.3 Tracking and Delivery Applications

The applications at this stage in the value chain will be used by the merchant and the shopper. Both parties will be interested in monitoring the progress and tracking delivery. The experience for both stakeholders is enhanced through the frequency of updates and accuracy of the tracking data. A variety of options to access this data are necessary to satisfy the customers. Tracking data must be available by the web, mobile devices and pushed to the merchant's internal order management or client relationship management (CRM) system.

5.3.4 Returns Management Applications

Return policies and the management of these transactions are extremely important to both stakeholders. First the shopper will want the assurance that they can return an item purchased online. Often the customer will return an item to the retailer's physical store location, but that is not always an option. There are several reasons for returns, as discussed in Chapter three. CPC will create applications to meet the merchants return policy while at the same time offer the shopper convenient retail locations for parcel induction. Reducing the time for returns benefits both the merchant and the shopper. Efficiencies in the returns process (in terms of reduced time spent approving and processing returns) reduces the merchants' overhead and allows the goods back into inventory quicker so they can be resold faster. More importantly the faster and easier the return process is for the shopper the faster they receive their refund and the better the customer experience.

5.3.5 Value Chain Benefits

Table 13 summarizes the applications that could be created and offered to the stakeholders throughout the value chain.

Table 13: Summary of web services for each step of the value chain

Shop	Buy	Fulfill & Ship	Track & Delivery	Returns
Shipping estimates while browsing	Choice of shipping options	Choice of shipping options	Complete accurate and timely order tracking	Solutions to meet the merchants return policy
	Accurate total landed costs	Integrated return label solution	Options to access tracking data	Faster returns to the merchant
	Expected delivery date	Integration of ecommerce orders in inventory and warehouse management systems of the merchant	Delivery options	Return induction options for the shopper
	Delivery options	Induction options		Payment options for returns
	Address validation			

5.4 Cost Leadership Strategy

According to *Multichannel Merchant* on-line magazine, transportation and fulfilment/logistics costs generally represent 7%-15% of costs of goods sold or 3%-9% of revenue for merchants (Li & Kline, 2006). CPC could attempt to take a cost leadership position in the ecommerce marketplace to grow its ecommerce market share. Currently CPC and UPS offer on average the lowest cost delivery options for B2C. Low cost options are critical to the ecommerce marketplace as the majority of the large ecommerce merchants offer free shipping on all orders over a certain value. Many merchants also offer free returns. The costs of shipping therefore directly reduce the merchants' net margin. The merchants strive to maintain a balance between low cost shipping options and maintaining brand reputation, which can be impacted with poor or inconsistent delivery experiences for the shopper. As discussed in Chapter two, there are seven criteria that are considered important when choosing a delivery partner, and tracking, delivery and rates are considered the most important. The challenge is to be more efficient and innovative while improving service quality. For CPC, this strategy coincides with the timing of PT. As the network and plants are updated and employee headcount is reduced by attrition, resulting cost savings could be passed onto the customer. Particular areas of focus that would benefit the ecommerce merchant are zone skipping and other operational initiatives.

5.4.1 Zone Skipping

Parcel shipping rates are defined by zones, based on the distance between origin and the shipment's destination. "Zone skipping" is a practice whereby parcels are shipped part of the way to their destination by the shipper and then dropped at a delivery partner's plant or hub to complete the end delivery. Merchants would "skip" zones to improve delivery times and reduce costs. For this practice to be successful a shipper requires enough volume and frequency of shipments to justify the costs of transporting the goods between major hubs independently of the parcel delivery network. PT could potentially allow for changes to induction points, time of induction and zone skipping this could reduce transportation costs. Zone skipping is very attractive to large ecommerce merchants but does not work for the smaller retailers due to lack of volume and frequency of shipments.

5.4.2 Operational Initiatives

In order for this strategy to be successful, changes to the current processes are required. The operational initiatives that would specifically benefit the ecommerce industry are as follows:

- Segregation of duties, separating sortation and delivery job functions to ensure security of the parcels
- Improved security of the mail, video surveillance in major plants and depots

- Enhanced pick-up solutions
- Enhanced parcels returns solutions
- Improved on-time delivery performance
- End-to-end parcel visibility within CPC facilities and tracking for customers

These initiatives will significantly reduce calls to customer service and claims paid, both of which are costly and decrease customer satisfaction.

5.4.3 Value Chain Benefits

This strategy impacts the shopper if they have the choice of delivery options. It has more value for the merchants as they are bearing the bulk of the shipping costs as free or subsidized shipping becomes a standard offering to online shoppers. These and other benefits are listed in the table below.

Table 14: Summary of Value Chain Benefits

Shop	Buy	Fulfill & Ship	Track & Delivery	Returns
• Potential cost savings passed on by the merchant resulting in lower priced goods	• Low cost or free shipping options	• Low cost shipping options • Zone skipping options	• Improved on time delivery • Reduction in claims	• Solutions to meet the merchants return policy

5.5 Line of Business Synergy Strategy

CPC is focused on three lines of business: letter mail, admail and parcel delivery. The line of business synergy strategy is focused on leveraging the value of admail to increase the volume of the parcel delivery business, thus creating a competitive advantage for CPC. Currently CPC and the competition are focused on the shipping and delivery stage of the value chain. If CPC was to create two additional steps involving customer acquisitions and retention in the value chain, it could separate its offering from the competition. The recommendation would be to offer a discount for direct marketing services to merchants for new campaigns directed at ecommerce specific offers. The additional steps in the value chain are described below.

5.5.1 Customer Acquisition

To drive sales a retailer needs to attract consumers to their website. Prior to a potential customer going to an online store they must be aware of the merchant. Traffic to their website is paramount. They also need to build an "interest group" database of potential customers and existing customers to target. CPC can offer direct marketing and targeting services to retailers. The use of targeted direct marketing campaigns coupled with email communications can be very effective at driving new sales online. CPC's admail solutions include the following services:

- New customer acquisition
- Catalogue and DM (Direct Marketing) solutions
- Database mining and management
- Expansion into new markets
- Promotion of loyalty programs

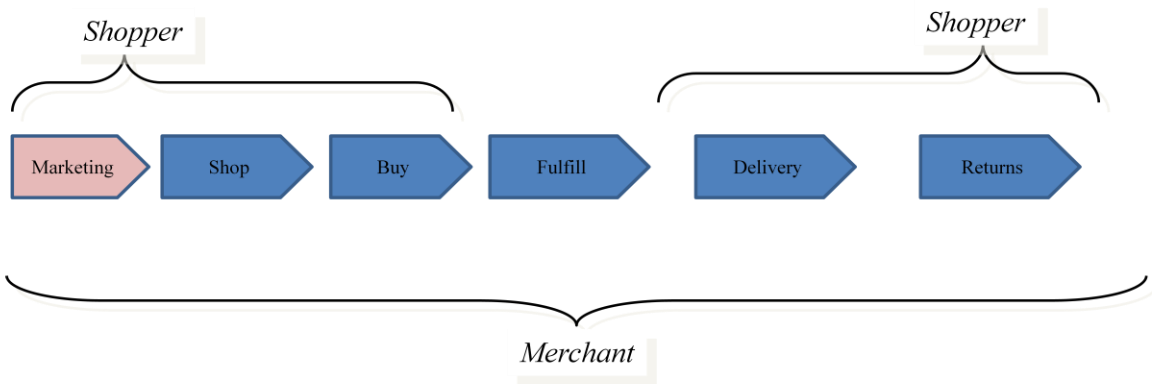

Figure 17: *Expanded Value Chain #1*

5.5.2 Customer Retention

CPC could also implement an additional step at the end of the value chain as illustrated below, supporting merchants who have loyalty programs. Merchants that offer loyalty programs to their customers could use CPC for mailing promotions, samples, coupons and incentives as well as transactional mail for monthly statements.

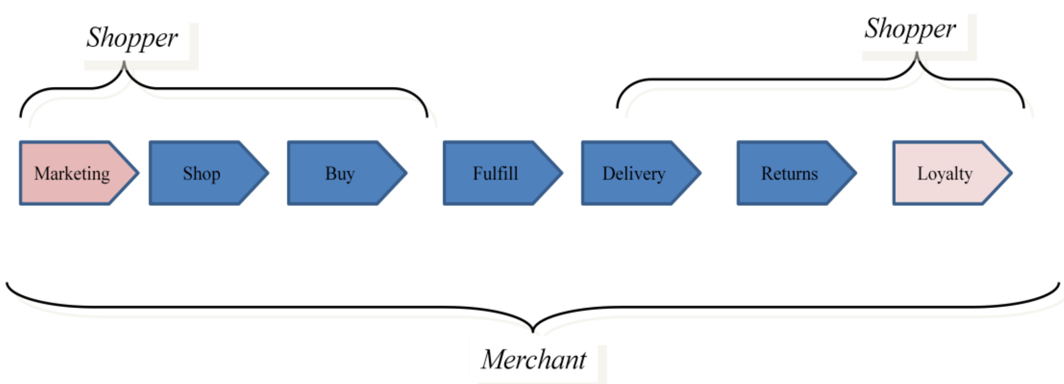

Figure 18: *Expanded Value Chain #2*

5.6 GOC Strategy

The GOC strategy is based on offering end-to-end logistics solutions, from order creation, through the delivery process, to returns management. This strategy would leverage the strengths of the GOC subsidiaries to create differentiated products and services available to the ecommerce industry. As well this strategy could leverage the collective strengths of the subsidiaries to increase cost-effectiveness and efficiency through economies of scope and scale. The subsidiaries provide additional competencies, capabilities and market reach, which would enable the GOC to provide broader product and service offerings. The synergies that the subsidiaries bring create a strategic alternative that could form an integral part of future growth.

The recommendation would be to create a single point of contact for the GOC bundled solutions that would include support from customer service, billing and sales within each subsidiary. This would simplify the process for the customers and reduce costs to the GOC. The strategy would include a plan to build a GOC offering comprised of bundled ecommerce solutions. The services and products that be offered are grouped together based on the ecommerce value chain illustrated below. Efforts are made by the organizations to complement each other and to avoid directly competing against each other. In the last year significant efforts have been made to work together to create more compelling offers to potential clients and propose a group of companies (GOC) offer that is more difficult for the competition to match.

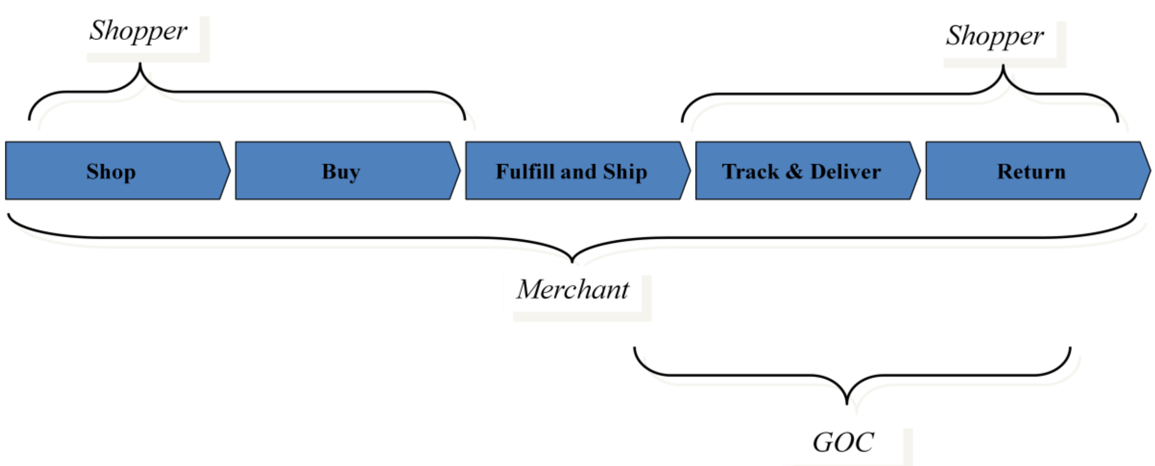

Figure 19: Ecommerce Value Chain # 3

Key areas of focus to leverage the strengths of the GOC subsidiaries are warehouse, pick, pack, fulfillment, delivery and reverse logistics as described below.

5.6.1 Warehousing, Pick, Pack and Fulfillment-SCI

The logistics segment will be supported by SCI, which designs, implements and operates efficient supply chain solutions through its operating entities, SCI Logistics, Progistix and First Team Transport. They help companies reduce costs and improve service through the design, implementation and operation of more efficient supply chain solutions. Therefore, the GOC can leverage the core competencies of SCI and offer add-on or bundled solutions to ecommerce customers. These services would include:

- Order Management: Online approved orders paid and in stock, will be sent to the warehouse to be packed as soon as possible.
- Warehousing: Knowledge with and experience in various products and sectors.
- Picking & Packing: Design optimized stocking and routing to reduce error margins, using custom made packing materials and offering possibilities to add bills and/or marketing items.
- Delivery Preparation: Making address labels, delivery agent selection and preparing for transport.

5.6.2 Delivery-CPC and Purolator

Purolator competes within the same shipping and delivery market as CPC, but focuses on the B2B market segment. The majority of Purolator's revenues are earned from the provision of courier services, with other revenues derived from air cargo and less than-truckload (LTL) services. Therefore, this strategy would include separating delivery within the B2B and B2C segments to eliminate duplication of services provided by CPC or Purolator. Delivery services are listed below and will be segmented by subsidiary.

- B2C ground economy delivery-CPC
- B2C express delivery-Purolator
- B2B delivery-Purolator
- Multi piece shipments and LTL-Purolator
- Northbound solutions for US based retailers-GOC

- Zone skipping- Purolator

5.6.3 Reverse Logistics

Returns are an increasing challenge and concern for merchants. As they sell more goods online the number of returns grows. The implications of these issues are an opportunity for the GOC to solve an industry problem. The list below describes the different types of returns:

- Domestic Returns: Returned items can be sent back to the fulfilment centre or retailer where products are tested or refurbished.
- Warranty claims and repairs: Goods are repaired or replaced according to the merchant's policy.
- Recall: Unsold products or seasonal products can be sent back to client's central warehouse, or any other location.
- Cross border returns: International return shipment solutions.

The GOC can offer customized return solutions to the merchant's facilities or outsourced return management program through SCI.

5.7 Evaluating the Strategies

Two techniques will be used to evaluate the four strategies, the Diamond E Framework and the Weighted Option Evaluation Matrix.

5.7.1 Diamond E Framework

The Diamond E framework, as presented in Strategic Analysis and Action, (Crossan, Rouse, Fry and Killing, 7th Edition 2009) identifies and relates the broad forces that must be considered when creating and evaluating strategies. The illustration below demonstrates the relationship between the organization, its resources, the preferences of management and the environment in which it operates. For any strategy to be effective it must be aligned with the capabilities and resources within the organization; meet the preferences of the management; and meet the demand of the market.

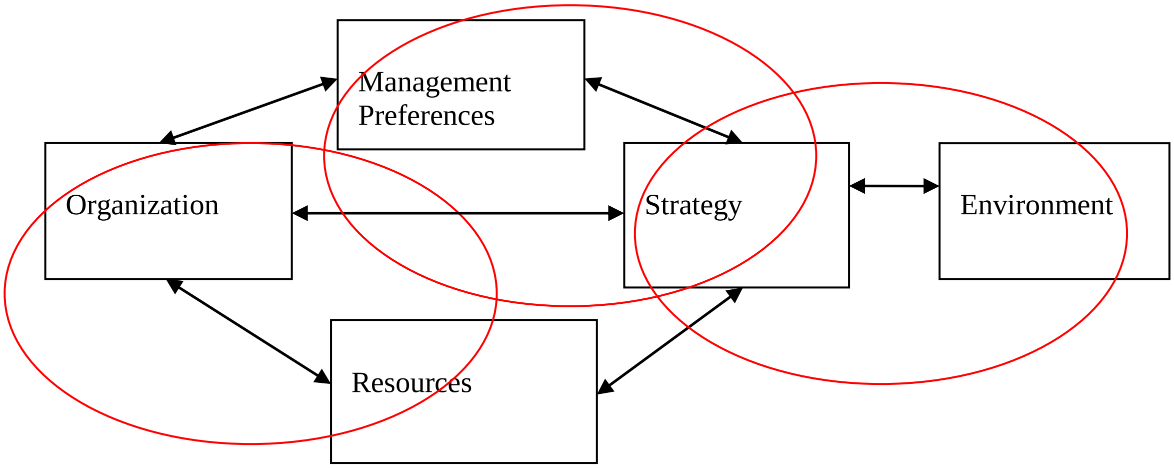

Figure 20: The Diamond E Framework

The circles indicate that strategic tension exists between the capabilities of the organization; management preferences and the environment. It can be simply explained that the environment is the "need"; management preference is the "want"; and finally resources and organization are the "can". The challenge for any strategy to be successful is that management must clearly understand what the market needs and be aware of what their firm is capable of delivering.

The model below depicts the viability of each strategy discussed in this chapter from the perspective of CPC, its management's preferences, its available resources, its over-arching strategy and its environment. Each strategic option was given a rating of one to four, four being the likely preferred choice based on the understanding of the internal and external factors impacting CPC from the perspective of each force. The rating will identify which strategic alternative is most feasible based on the core competencies of CPC, the preference of its senior management, the resources it has and the environment in which it operates.

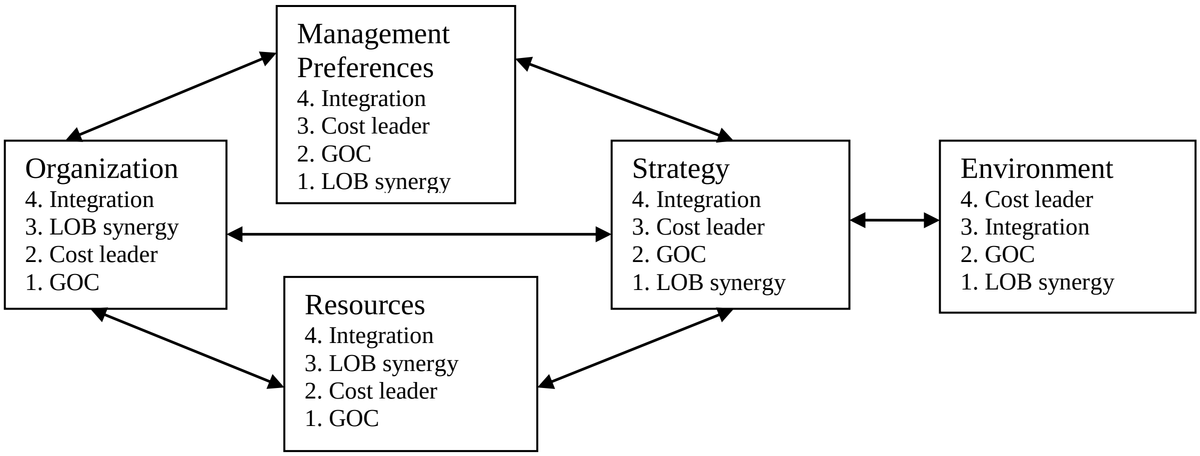

Figure 21: Diamond E Framework for CPC strategies

As mentioned earlier, the environment is the "need"; management preference is the "want"; and finally resources and organization are the "can". The ecommerce market environment has a growing need for low cost reliable delivery to its customers. It also requires technology and integration with its delivery partner to effectively manage its ecommerce business. Therefore both the cost leadership strategy and the integration strategy would be preferred by the market. Management wants to be the delivery partner of choice in the Canadian ecommerce market. By focusing on the integration strategy, they create the opportunity to match the offering of the competition. The organization and what it can achieve with its resources favours the integration and line of business synergy strategies based on its existing competencies to execute and an attractive timeline. In conclusion the Integration strategy and a focus on efficiencies would align with the corporate priorities of CPC and the goals of the parcel line of business.

5.7.2 Weighted Option Evaluation Matrix

An evaluation matrix is used to evaluate a number of options against specific criteria. The criteria are prioritised before the evaluation is made with greater weighting to those items of most importance. This process is relatively simple to apply and assists in making decisions.

5.7.2.1 Evaluation Criteria

CPC has four corporate priorities which are PT, ecommerce provider of choice, maximize the GOC opportunities and be a digital business leader. The parcel line of business has four goals: to grow the ecommerce business; defend the base; compete in new markets; and be an efficient and reliable delivery network. The strategy chosen must align with the corporate priorities and achieve the parcel line of business goals, which are the criteria being used in the matrix. The recommended strategic alternative must deliver net new revenue to CPC in the next five years. In order to evaluate the four strategies against the goals of the parcel line of business the author has assigned each goal a weighting based on the importance of the goal to the success of the parcel line of business. A rating of one to four, four being the highest has been assigned to measure how each strategy would contribute to achieving the goal. This weighting has been multiplied by the ranking of each strategic alternative in the matrix resulting in an overall score.

Table 15: Strategic Option Evaluation Matrix

	Weight	**Ecommerce Integration Strategy**	**Cost Leadership Strategy**	**LOB synergy Strategy**	**GOC Strategy**
Goal 1-Growth in ecommerce	35%	3	4	1	2
Goal 2 –Defend the B2C base	30%	4	3	2	1
Goal 3-Compete in new markets	15%	3	4	1	2
Goal 4- Efficient & Reliable delivery network	20%	4	3	1	2
Weighted Score	**1.00**	**3.5**	**3.5**	**1.3**	**1.7**

5.8 Summary

Each weighted option evaluation matrix score is compared to the results of the Diamond E Framework, their alignment with corporate priorities and ability to deliver net new revenue within five years in the table below.

Table 16: Evaluation Matrix

	Ecommerce Integration Strategy	**Cost Leadership Strategy**	**LOB synergy Strategy**	**GOC Strategy**
Weighted Score	3.5	3.5	1.3	1.7
Diamond E Framework	4	3	1	2
Aligns with Corporate priorities	High ✓ Ecommerce ✓ Digital ✓ PT	Medium ✓ Ecommerce ✓ PT	Medium ✓ Ecommerce ✓ Digital	Medium ✓ Ecommerce ✓ GOC
Delivers net new revenue within 5 years	High	High	Low	Medium

5.8.1 Ecommerce Integration Strategy

This strategy scored 3.5 out of 4 in its ability to meet the criteria of the evaluation matrix. It was ranked the top choice based on the Diamond E Framework. It was rated high for both alignment with corporate priorities and its ability to deliver net new revenue within five years.

The web services applications created within this strategic option would deliver benefits to the three stakeholders in the ecommerce ecosystem, as well as potentially create cost savings to CPC at various steps in the delivery process. The web services applications will enhance CPC's existing competitive advantages in the market by further utilizing the retail network and increasing the B2C market share. The timeline to execute on this strategy is approximately fourteen months to be operational on all features discussed according to the internal product management team at CPC.

5.8.2 Cost Leadership Strategy

This strategy scored 3.5 out of 4 in its ability to meet the criteria of the evaluation matrix. It was ranked the second choice based on the Diamond E Framework. It was rated medium for alignment with corporate priorities and high for its ability to deliver net new revenue within five years.

While the market place would embrace this strategy as customers are looking for low cost solutions, it will be a challenge to execute on this strategy quickly. The timeline for this strategy would be a minimum of thirty-six months. It is important to continuously find ways of reducing all costs. The single largest expenditure for companies is their labour and associated costs. The challenge for CPC is that its labour and associated costs are the highest in the industry. Labour contracts are negotiated in five-year terms and therefore cannot be changed quickly. This challenge cannot be overlooked as CPC has the largest workforce and the majority is unionized. PT will have positive effects on the network and reduce labour required over the next five to seven years but it does not guarantee this strategy will be successful or long term. The greatest risk in pursuing a cost leadership strategy is that the sources of cost advantage are not necessarily unique to CPC, and other competitors could copy the cost reduction strategies.

5.8.3 Line of Business Synergy Strategy

This strategy scored 1.3 out of 4 in its ability to meet the criteria of the evaluation matrix. It was ranked the fourth choice based on the Diamond E Framework. It was rated medium for alignment with corporate priorities and low for its ability to deliver net new revenue within five years.

The risk of this strategy is that merchants who currently use CPC for traditional marketing services for their physical locations may want the discount extended to other mailings. The discount would only be available to customers who use CPC for their fulfillment and delivery services. Ecommerce merchants may not use any physical means of communication with their customers, nor support loyalty programs. Therefore, this strategy may not offer additional value to large ecommerce customers, such as Amazon and eBay. The timeline to implement this strategy would be less than three months.

5.8.4 GOC Strategy

This strategy scored 1.7 out of 4 in its ability to meet the criteria of the evaluation matrix. It was ranked the third choice based on the Diamond E Framework. It was rated medium for alignment with corporate priorities and medium for its ability to deliver net new revenue within five years.

The GOC strategy would offer the GOC a unique position in the industry creating a distinct competitive advantage through a broad portfolio of products and wide network. The GOC has been somewhat successful in the last two years at partnering together with its subsidiaries to win new business, however it could be more successful in leveraging the competencies of each subsidiary to offer integrated solutions to the ecommerce industry.

5.8.5 Conclusion

After evaluating the corporate priorities and line of business goals it is evident that to maintain the status quo at CPC is not an option that would deliver success in the long term. The organization cannot remain viable in the future without modernization and transformation. Four alternative strategies have been weighted and ranked and a recommendation will be discussed in the next chapter. CPC will have to execute on its strategy to prove to the marketplace that it is the delivery partner of choice.

6: Recommendation

This chapter presents the most appropriate strategic alternative for CPC. In the previous chapter, four strategic alternatives were assessed for their ability to contribute to the parcel line of business goals and their alignment with the corporate priorities. The selected alternative will be discussed in terms its synergies with CPC's ability to implement the option based on management's preference, the organization, its resources, and the environment. Gaps are identified and the return on investment and its contribution of net new revenue in the next five years is analyzed. Finally, an implementation timeline for the recommended strategic option is outlined.

6.1 Recommended Strategic Alternative

It has been identified that the main opportunities for CPC are to leverage its dominance in the B2C parcel delivery in Canada and to expand to become the market leader in the ecommerce industry. It is critical that CPC offer the same or better services than the competition. As discussed in chapter two all of the major competitors in the industry offer web services. Therefore, the Ecommerce Integration Strategy is the best alternative for CPC as it scored the highest of the four alternatives based on the measurement criteria.

Based on CPC internal analysis on revenue in the parcel line of business, the product management team believes that ecommerce parcel delivery revenue is at risk if CPC does not improve the services that are currently offered to ecommerce merchants. The risk is estimated at $12.7M to $18.6M of lost revenue over the next 5 years. This estimate is based on the average revenue decline over the last 5 years between 2% and 3% year over year (CPC, 2010). In order to defend its existing market share and create an opportunity for growth, CPC needs to capitalize on its competitive advantages of delivering to every address in Canada and the breath of its retail network. However, that cannot be accomplished without upgrades to the technology.

CPC can leverage its relationship with consumers and businesses. CPC has a trusted brand that Canadians are familiar with and that could be an advantage when selecting a shipping partner. CPC has been dominant in the B2C market because of the economical pricing for shipping single package by ground. This is also a competitive advantage as most of the competition has networks that are structured for express delivery.

6.2 Synergy between Recommended Alternative and CPC

CPC's ability to successfully implement the recommended strategic alternative will depend on the preferences of management, the inherent abilities of the organization, its resources and the environment in which it operates. The successful implementation of this strategy will require overcoming gaps in existing internal resources and skills.

6.2.1 Management Preferences

This strategic alternative is aligned with the CEO's vision to position CPC as the ecommerce delivery partner of choice in Canada. It aligns with CPC's corporate priorities which are postal transformation, ecommerce provider of choice, maximize the GOC opportunities and be a digital business leader. It also contributes to attaining the goals in the parcel line of business for the CPC segment, which are growth in ecommerce, defend the existing B2C market share, compete in new markets and improve the overall profit contribution margin by maintaining an efficient and reliable delivery network.

6.2.2 Organization

For the web integration strategy or any new strategy to be successful, an organization must change its behaviour. New resources and technology cannot create change or new results without adopting new ways of doing business. It was discussed earlier that CPC has a culture that is risk adverse and does not embrace change. The biggest challenge for CPC is the speed of its processes. Ecommerce is growing and changing rapidly and therefore to collaborate with these technology partners and merchants CPC must quickly learn to be more decisive and responsive to customers' needs and process changes if it is to be successful.

6.2.3 Resources

This alternative has synergies with the existing resources. CPC has gained experience through previous service offerings that have used web services or similar technology for application-to-application interactions with merchants. These have provided some lessons about existing limitations, including the need for more formal web services. For this initiative to be successful, dedicated project management and development resources are required. To launch the web services to deliver additional revenue, a number of support activities are an essential part of the solution. The following departments will support web services with existing and additional resources:

- Sales
- Marketing
- Business Development-new markets
- Customer Service
- Technical Support

6.2.4 Environment

This alternative has synergies with the environment in which CPC operates. Merchants, technology partners and potential customers have requested web services integration from CPC. CPC parcel customers, partners and Internet (ecommerce) integrators need online access to CPC data in order to integrate shipping into the business processes and systems that support shipping operations and subsequently track the progress of shipments. Shipping systems supporting business processes range in size and complexity to include ecommerce platforms and shopping web sites, customer developed shipping systems and third party shipping systems, meters, as well as smaller task-specific applications web sites or mobile devices. Simplifying the systems integration process will result in higher adoption of CPC services and reduced cost for customers and other shipping-related data users.

Interviews with customers and partners have revealed that they could not accomplish some of their business goals with existing CPC capabilities. Currently, integration with CPC is complex, lengthy and costly. In the worst-case scenario, CPC is not considered for shipping because of the lack of integration capabilities. FedEx and UPS introduced web services in 2007 and Purolator introduced web services in 2009.

6.2.5 Gaps

Potential gaps must be overcome to successfully realize the full benefits of web services to meet CPC's objectives for the ecommerce market. CPC has built strong relationships with its existing customers; however, relationships with technology providers will need to be fostered. This strategy will introduce a level of technological expertise that does not currently exist within the sales or customer support resources.

6.2.5.1 Partner Support

Integrating CPC's web services into existing ecommerce websites or into new products offerings by vendors and integrators is a key to the success of this strategy, as it will allow them to integrate CPC's shipping capabilities into their existing ecommerce software systems. However, CPC does not have experience or existing relationships with ecommerce platform vendors, integrators and developers. CPC must demonstrate value to these stakeholders in order to become the delivery partner of choice for the ecommerce market. As these relationships will be new to CPC, it must develop internal resources and capabilities to conduct business development activities with these stakeholders in the ecommerce ecosystem.

6.2.5.2 Sales Support

Customer automation and support is a key success factor in the competitive shipping industry today. CPC's existing customer automation capabilities are adequate for the deployment and configuration of CPC shipping systems, but may not meet the requirements of ecommerce platform vendors and integrators. Once this technology is developed and web services become available to merchants, new resources for technical sales support will be required to accelerate technical integration. Resources for the customer service and automation team will be required to ensure customer setup and on boarding processes are quick and efficient and that shipping revenues are realized as quickly as possible. By filling these gaps, an excellent technology offering and dedicated support structure will combine to provide a positive experience to all customers.

6.3 Return on Investment

Based on information gathered by the CPC's parcel product management team, this initiative will require an investment in infrastructure, services and support structure to launch and support web services technology.

6.3.1 Canada Post Share of Ecommerce Shipping and Projected Growth

Based on information contained in a 2010 internal report from CPC's product management team, estimated revenue generated from the implementation of web services is illustrated in the figure below.

- The ecommerce shipping market is expected to grow to $584M by 2016, and have a total 5 year value of $2.3B from 2012 to 2016.
- CPC's market share within the retail industry was approximately 16% in 2009. Given the current market growth trends, CPC forecasts total revenues of $225M for the same 5 years without the introduction of the web services.
- Incremental revenue from the introduction of web services is estimated at $52M over the 5 years.

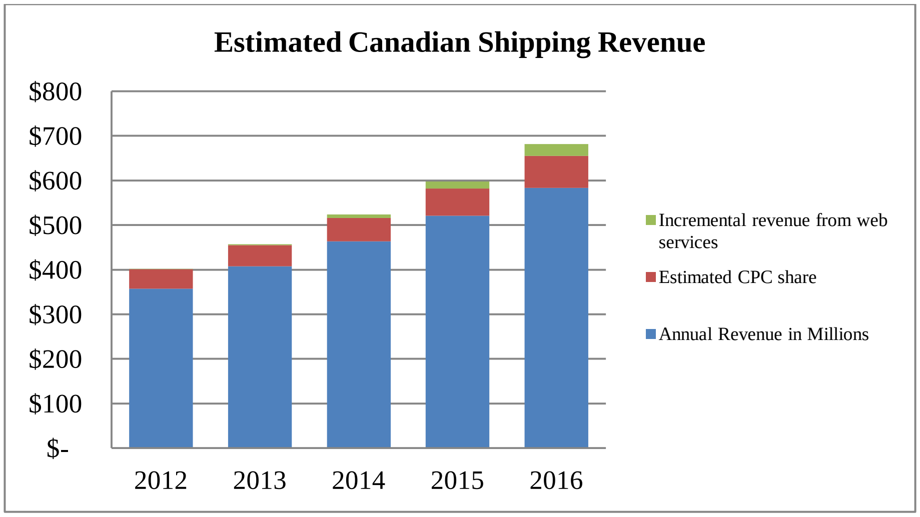

Figure 22: Projected growth for CPC (Canada Post, 2010)

This report assumes CPC's 16% share in ecommerce shipments is approximately $41M in shipping revenue in 2009. Taking into consideration the growth forecasted above, CPC's value proposition for the ecommerce market, and CPC's ability to develop and launch the web services applications, the forecasted incremental revenue to be generated by web services over the next 5 years is estimated to be approximately $52M. CPC's ability to generate more revenue would require improvements to customer service, reliability and delivery performance.

6.3.2 Cost Benefit Analysis

To achieve the associated benefits, this project requires an investment of $1.4M in programming, $4.5M in capital, $6.5M in ongoing support costs for a total of $12.4M over 5 years. The investment presents a revenue opportunity of $52M for CPC over the next 5 years, resulting in a gross return on investment of $39.6M as shown in the table below.

Table 17: Cost Benefit Analysis Summary

	Year 1	Year 2	Year 3	Year 4	Year 5	Total
Programming	$ 1.4M					$ 1.4M
Capital Costs	$ 4.5M					$ 4.5M
Ongoing Support	$ 1.3M	$ 1.3M	$ 1.3M	$ 1.3M	$ 1.3M	$6.5 M
Total Investment	$ 7.2M	$ 1.3M	$ 1.3M	$ 1.3M	$ 1.3M	$ 12.4M
Additional Revenue	$ 250K	$ 2.5M	$7.5M	$ 15.5M	$ 26.3M	$ 52M

Payback time: $52M / $12.4M = 4.2 years (within goal of net new revenue in 5 years)

6.4 Implementation Plan

The scope of this project is to plan, develop and launch a new externally facing web services solution in response to competitive and customer requirements that will feature parcel shipping and delivery informational web services available through a self-service developer resource centre fully supported by CPC. This initiative will build the infrastructure necessary to register developers, manage access, control traffic and host the web services themselves.

The web services infrastructure built as part of this project will provide a foundation for all future web services offerings required by any line of business to take advantage of market opportunities offered through online applications.

6.4.1 Timeline for Implementation

The estimated timeline for development of the web services platform to commercial availability of applications is approximately 14 months. The figure below depicts the implementation timeline for this strategy. The timeline consists of eight initiatives and deliverables being considered by the CPC parcel product management team as described below.

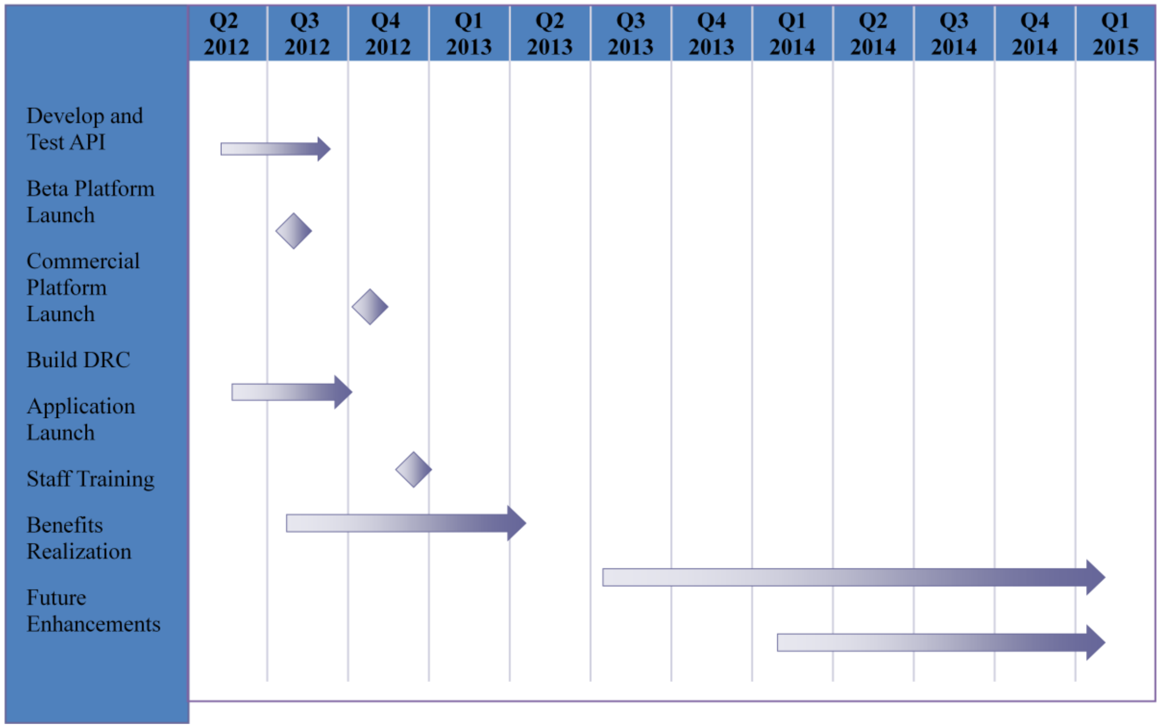

Figure 23: Implementation Timeline for Ecommerce Integration Strategy

6.4.1.1 Develop and Test the API (Q2-Q3 2012)

Innovapost, a subsidiary of CPC, will be responsible for the development of an API for web services. An API is an interface that contains a set of programming instructions and standards for accessing data between CPC and ecommerce ecosystem stakeholders.

6.4.1.2 Beta Platform Launch (Q3 2012)

Limited release targeted at ecommerce technology developers in order to obtain feedback and ideas for future enhancements prior to commercial launch. A beta web site and support tools will be developed based on developer feedback. A beta launch is used to ensure quality of the commercial release.

6.4.1.3 Commercial Platform Launch (Q4 2012)

Commercial release of web services API to the marketplace. Web services API will be available to merchants with CPC accounts and parcel agreements. New merchants with no prior commercial relationship with CPC will be able to quickly register for a CPC credit card account or merchants can be upgraded to a commercial agreement.

6.4.1.4 Build Developer Resource Center (DRC) (Q2-Q3 2012)

A DRC will be designed and built which will provide access to web services through a self-service web portal. The DRC will provide access to development tools, sample code, documentation and other online resources to customers wishing to integrate CPC functionality into their website or software. The portal will be the primary point of access and will follow the same standards that exist today for canadapost.ca. The self-service capability intends to minimize the requirement for commercial customers to contact CPC support staff, and to follow industry standard and best practices employed by its competitors.

Key elements of the DRC would include:

- Merchant registration
- Documentation that explain business value
- Technical instructions for implementation
- Sample code and tutorials
- Access to testing environment
- Terms and conditions
- Online forum for developers to communicate
- User authentication, access control, and data traffic management

6.4.1.5 Application Launch (Q4 2012)

Launch applications for merchants and shoppers. This consists of nine applications listed below.

- Rates – access to customer specific or general shipping rates
- Service standards –delivery time estimates for shipments
- Shipping – access to CPC shipping services
- Labels – print self service outbound labels
- Returns – print labels for reverse logistics
- Tracking –parcel tracking and exception reporting
- Post office locations – locations of local post offices and other CPC locations
- Pick-up – determine if pickups are available for defined FSAs
- Address validation – verify correct postal codes and address information.

6.4.1.6 Staff Training (Q3 2012-Q2 2013)

Customer facing employees (sales, product specialists, customer service and automation teams) will need training and the supporting documentation to manage customers and their expectations. Training plans will be developed and administered by the learning and development team.

6.4.1.7 Benefits Realization (Q3 2013 Forward)

The incremental revenue growth to be realized from web services as stated earlier is $52M over the next five years. The product management team can measure the success of this initiative based on the available sales reports.

6.4.1.8 Future Enhancements (Q1 2014 Forward)

The following table outlines the future enhancements to web services that could be developed to further support the ecommerce value chain. These features will not be included in the first release. Although they have benefits, they are lower priority from the merchant's perspective and given resource and time constraints, they would be delayed to a later release. The table below offers a number of considerations as a roadmap for future enhancements.

Table 18: Future Enhancement Ideas

Shop	Buy	Fulfil & Ship	Delivery	Returns
• GOC web services interface • Total landed costs • Worldwide shipping service	• GOC web services interface • Total landed costs • Alternative delivery destination	• GOC web services interface • Automatic address correction • Online submission of customs documentation & payment	• GOC web services interface • Scheduled pickup • Alternative delivery destination	• GOC web services interface • Cross border returns with total landed costs • Online submission of customs documentation & payment

6.5 Complementary Strategic Alternative

The market place would support a cost leadership strategy above all others because of the intense competitive pressure in the ecommerce industry. As discussed previously, it is increasingly the common practice to offer shoppers free or subsidized shipping and returns. These costs directly impact the bottom line of the merchants. Therefore, a quality reliable service at the lowest price is the preference of most retailers. However, a firm only achieves low-cost leadership when it becomes the industry's lowest-cost provider rather than just being one of several competitors with comparatively low costs. The parcel delivery industry tends to offer similar prices to customers based on the services selected and the volumes of shipments.

If CPC is to employ a low-cost provider strategy, it needs to achieve its cost advantage in ways that are difficult for rivals to copy or match. This would be difficult to accomplish in the parcel delivery industry as companies have high fixed costs. In the case of CPC, it has the highest labour costs which cannot be reduced significantly. A low-cost leader's basis for competitive advantage is lower overall costs than competitors. Successful low-cost leaders must be exceptionally good at finding ways to drive costs out of their businesses. While CPC strives to be more efficient and improvements have been made in operations, it is not achieving the desired results. Postal transformation will offer improvements and efficiencies in the future however, these enhancements do not translate into results immediately.

The recommendation is to make efforts to maintain the lowest cost ground services and make adjustments to the delivery network that reduce operational costs which then can be passed on to the merchants through lower prices.

6.6 Conclusion

The main opportunities for CPC are to leverage its dominance in B2C parcel delivery in Canada, and to expand to become the market leader in the ecommerce industry.   To capitalize on these opportunities, CPC must implement the ecommerce integration strategy, which comprises launching an API and developing web services applications that would benefit the stakeholders in the ecommerce eco-system: the merchant; the shopper; and the technology platform providers. The shipping industry has become increasingly competitive, with firms competing for the attention, business and loyalty of merchants and online shoppers. CPC is beginning to invest in technology and modernization through postal transformation, with a focus on reducing costs of operations. In order to drive revenue growth, this focus must expand to the external stakeholders, through implementation of the technology developed within the ecommerce integration strategy.

In the short term, to maintain and grow share in the B2C market and capitalize on the ecommerce opportunity, the development of web services, in partnership with Innovapost, must be treated as a priority for both organizations. The strategy must be implemented within the allotted budget and timeline. The risk of missing the target budget and implementation date for beta launch would have a profound negative impact on its customers, the market and the confidence of its internal stakeholders in the organization’s ability to execute and compete with competitors in the parcel delivery industry.

In the longer term, in order to fulfil the ambitions as stated by the CEO, CPC needs to clearly, quantitatively understand its position and performance in the evolving ecommerce market. CPC needs to understand the future requirements of each key stakeholder group: a) the merchant, b) the shopper, and c) the supporting ecosystem as well as its ability to deliver against these requirements versus the competition. As the competition finds ways to reduce the relative competitive advantages the CPC has traditionally been successful at leveraging in the market, it is essential to build new advantages. CPC must meet the needs of the most important players by market share in the Canadian market in order to prioritize partnership and integration efforts for maximum benefit. Integration with leading players will allow CPC to be a market leader and should accelerate sales cycles. CPC needs to invest in research of emerging technologies in ecommerce to better anticipate the future needs of the marketplace. This would allow CPC to be ahead of the curve as opposed to the laggard position that it has traditionally held.

CPC must also maximize the strategic benefit in alignment with Purolator and SCI. One of the elements that must be aligned is a common interface for ecommerce technology platforms and merchant integration into the GOC. Web services could form the foundation for such integration in the future.

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