



Canada Post's
Five-point Action Plan

Ready for the Future

December 2013



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Guiding Principles

Canada Post has put forward this comprehensive plan to realign how it delivers and prices postal services to meet Canadians' emerging and future needs, while reducing costs substantially.

Canadians understand Canada Post's challenges. They send and receive less mail every year and expect that trend to continue. At the same time, they are looking to Canada Post to help them save time by conveniently delivering the increasing number of goods and documents they order online. This has led to a broad consensus that the status quo is not sustainable.

Canadians expect Canada Post to continue to remain financially self-sufficient and not look to their hard-earned tax dollars for funding.

Canada Post understands the need to balance financial self-sufficiency with its public policy obligations. The company is proud to serve every Canadian address, not just in densely populated urban centres, but also in the rural and northern communities scattered across our vast country. It also understands that small businesses, the economic engine of Canada, still rely on mail as an essential means of issuing invoices and receiving payments.

This plan embraces all these principles without seeking any change to the *Canadian Postal Service Charter*. This plan is about giving Canadians the postal service they need in the emerging digital economy.



Executive Summary

The rise in digital communications has dramatically changed the postal needs of Canadians. Canada Post recognizes that this shift requires fundamental changes to the way it serves customers. However, the postal network remains an essential enabler of remote trade and commerce. Its long-term viability is crucial for the small businesses and rural and northern communities that still rely on mail, and for an increasing number of retailers across Canada who require an affordable delivery network for them to participate in the fast-growing digital economy.

Canada Post is launching a Five-point Action Plan to better serve all its customers. It reflects what the company heard from Canadians during a recent cross-country discussion with residential and business customers. These discussions confirmed many of the new patterns the company has seen unfolding at its post offices, in its processing plants and in the makeup of the mail.

The postal service of the future will reflect and serve Canadians' new postal needs. As more people began to communicate and manage their household bills online, Lettermail™ volumes declined sharply. Yet as more people shopped online, parcel volumes shot up. This dramatic shift is creating a pressing need to manage a greater number of parcels and less mail with more valuable items. (These items include credit and loyalty cards and government-issued cards and licences.) This transition also provides clear direction to Canada Post and to the many businesses looking to redefine customer experience in an increasingly digital world.

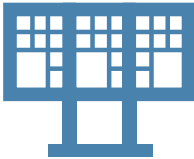
The postal service of the future will reflect and serve Canadians' new postal needs.

The initiatives Canada Post is launching form an integrated approach to support the shift. Internal operational changes to how parcels are processed and delivered will support and enable related changes in how the customer is served – changes that will emphasize convenience and secure delivery. Together, the five initiatives not only form the basis of a sustainable business model, but also help build the foundation of a new postal system.

The new system will allow Canada Post to compete in the fast-paced and technology-driven global parcel market. More importantly, it will sharpen the company's focus on the customer, providing a level of service that will have benefits far beyond Canada Post. It will level the playing field for small businesses and other emerging industries looking to embrace e-commerce and to grow. People living in underserved rural and northern communities will have significantly wider access to, and the ability to return, products from Canada and around the world.

While the volume of traditional Lettermail items, such as bills, statements and letters, is rapidly decreasing, ordering items that can now be securely bought or requested online but that cannot be sent online is gaining popularity. Examples include driver's licences, vehicle licence plate stickers, health cards and other forms of identification mail. These kinds of transactions between large institutions and Canadians facilitate Canada's digital economy. By providing secure delivery options, Canada Post can help support that economy's growth.

The integrated plan's five main initiatives are:



Community mailboxes: The one third of Canadian households that still receive their mail at their door will be converted to community mailbox delivery over the next five years. (The other two thirds already receive their mail and parcels through community mailboxes, grouped or lobby mailboxes or curbside rural mailboxes.) Community mailboxes offer individually locked mail and small packet compartments as well as larger locked compartments for securely receiving parcels.



A new approach to pricing: Canada Post will introduce a new tiered pricing structure for Lettermail, which will better reflect the cost of serving various customer segments. Those who buy stamps in booklets or coils will pay \$0.85 per stamp, with discounts for customers that use the mail most.



Expanding convenience through postal franchises:

Canada Post will strengthen its retail network by opening more franchise postal outlets in stores across Canada. The company will partner with local retail businesses that are conveniently located in their communities and which offer added benefits, such as better parking and longer hours. This will allow busy Canadians to do more of their shopping in one place. Canada Post will also streamline its corporate-run post offices.



Streamlining operations: Changes to internal operations will make for a more efficient flow of parcels and mail through the network and to the customer. These changes are driven by technology (such as faster computerized sorting equipment), consolidation (such as processing mail and parcels in a central location) and providing more delivery employees with fuel-efficient vehicles, so the same employee can deliver both mail and parcels. Improved operations will yield cost-effective and more reliable delivery to Canadians, along with better parcel tracking capabilities.



Addressing the cost of labour: With its current labour costs, Canada Post has a much higher cost structure than its competitors have. This is simply not sustainable. The company will continue to bring the cost of labour in line with its competitors through attrition and collective bargaining over time. Canada Post will also take the necessary steps to permanently address the sustainability of its pension plan. A leaner workforce will create a more flexible and competitive Canada Post, able to respond quickly to the changing marketplace.

These initiatives will help the Corporation to better serve the emerging needs of Canadians, and fulfill its mandate to remain financially self-sufficient and avoid becoming a burden on taxpayers. For instance, delivering to community mailboxes provides convenience and security, but costs significantly less than the cost to deliver to the door. Franchise post offices provide added customer benefits and opportunities for small businesses looking to grow their business, but cost far less to operate than corporate-run stand-alone post offices.

Reducing costs will benefit customers, too. Lower costs allow Canada Post to maintain a high level of service at reasonable prices. Strengthening the post office network through franchise post offices brings greater convenience to customers at a lower cost, while providing opportunities for small businesses to attract new customers.

This is an exciting time for Canada Post and the country it proudly serves. It is embracing the future by launching a new postal system designed to serve Canadians. This will open new opportunities for businesses and industries that are redefining how they connect and serve customers. Customer-centricity, enabled by streamlined operations and a more flexible workforce, will define the new era. Canada Post is ready for the challenges ahead.

Welcome to the new Canada Post.



1. Community Mailboxes

The plan

Digital communication has drastically altered how Canadians use the mail. To serve the evolving needs of customers, Canada Post will expand its use of a delivery method that is more secure, convenient and cost-effective. This method also better handles items ordered online.

While the number of bills and statements Canadians receive in the mail has been rapidly declining, digital communication is also enabling Canadians to securely buy and request more sensitive and higher value items online. These include government-issued cards, health supplements and medications, as well as retail products – items that cannot be sent electronically. It is important that these kinds of items be delivered to a place that is locked, secure and convenient to access. Community mailboxes serve this need well.

Over a five-year period beginning in late 2014, Canada Post will convert the Canadian households that receive door-to-door delivery to community mailbox delivery.

This initiative will affect about one third of all Canadian households, most of which are located in urban areas.

The other two thirds already receive their mail and parcels through community mailboxes, grouped or lobby mailboxes or curbside rural mailboxes. These roughly 10 million households will not experience any change as a result of this initiative. Likewise, many businesses will continue to receive delivery to the door.

Why this change is necessary

While Canadians are communicating and shopping more online, they often aren't home during the day to check their mailboxes for sensitive items that are increasingly sent through the mail, such as identification, credit cards or prescriptions.



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Community mailboxes are the optimal solution. They provide the security Canadians need, with the convenience they expect:

- Community mailboxes are located close to home.
- Personal mail compartments are locked and can be opened only by the keys provided to the address.
- Residents enjoy peace of mind when they are away, because mail will no longer accumulate at the front door or sit in an unlocked mailbox.
- Community mailboxes are accessible 24/7, so residents can pick up their mail or parcels when it is convenient for them.
- Each community mailbox contains locked parcel compartments, making online shopping easier for Canadians, especially those who are concerned about how they will retrieve their parcel if they are not home to receive it.

For three decades, Canada Post has been serving millions of Canadians through community mailboxes. In fact, the vast majority of residential housing developments built during that period receive mail through a community mailbox. Through various feedback channels, Canadians have said they are generally pleased with this service and understand the security and convenience that community mailboxes provide.

Cost is also a factor behind the community mailboxes initiative. Given the irreversible decline in mail, it has never been more important for Canada Post to control its costs so it can continue to provide a high level of service at competitive prices. Delivering to a community mailbox is much less expensive than delivering to the door.

The community mailbox initiative will not only allow Canada Post to provide Canadians with the security and convenience they need, but also strengthen Canada Post and the digital economy in which it operates.

Canadians have told us they are generally pleased with this service and understand the security and convenience community mailboxes provide.

What customers can expect

Over the next five years, Canada Post will convert the five million Canadian households that currently receive door-to-door delivery to community mailboxes. The first neighbourhoods to be converted will be announced in the near term once plans for this initial stage are finalized.

Conversions on this scale are a multi-step process. Canada Post is committed to keeping communities informed at every stage, and to delivering a positive customer experience. Canada Post has just concluded a comprehensive discussion with Canadians about the postal services they need now and in the future.

Canada Post will continue the dialogue with Canadians. It will communicate with all affected customers throughout the process to ensure they are informed and prepared for the transition.



When it comes to installing and delivering to community mailboxes, Canada Post is one of the most experienced postal organizations in the world.

As it has for three decades, Canada Post will work closely with municipalities to identify appropriate sites for community mailboxes. These sites are chosen according to factors such as safety, accessibility and proximity to the addresses they serve.

When it comes to installing and delivering to community mailboxes, Canada Post is one of the most experienced postal organizations in the world. It will use this expertise to ensure a smooth, transparent and informed transition.

Impact on Canada Post

This initiative will be integral to Canada Post's ability to serve Canadians the way they want and need, now and in the future. It will strengthen Canada Post's unique ability to enable Canada's digital economy by providing secure, convenient and reliable delivery solutions for items bought online. The impact on Canada Post's ability to financially sustain itself will be critical, and will help it avoid becoming a burden on taxpayers:

- The conversion to community mailboxes, once it is fully implemented, will reduce Canada Post's costs each year more than any other of the five initiatives.
- Most of the savings gained through the elimination of door-to-door delivery will result from reductions in the number of employees required for delivery.
- The staffing reduction will be managed in accordance with collective agreements, including job security provisions. Positions will be eliminated largely through attrition, as thousands of employees are set to retire in the next five years.



2. A New Approach to Pricing

The plan

With rapidly declining Lettermail volumes and increasing digital alternatives to mail, Canada Post is introducing a new pricing structure for letters mailed within Canada. The new pricing structure will usher in a more commercial approach benefitting those who use the mail most and that better reflects the cost of serving various customer segments.

On March 31, 2014, Canada Post plans to launch a new tiered stamp pricing structure.

- New prices will be launched for the customers that buy stamps in booklets and coils, representing 98 per cent of the volume sold in this category. The price (per stamp) will be \$0.85, up from \$0.63 today for letters 0-30 g mailed within Canada.
- Businesses that use postage meters will pay a new discounted postal commercial rate of \$0.75 (per letter 0-30 g).
- Mailers who prepare mail in such a way that reduces processing costs (known as Incentive Lettermail) will continue to benefit from prices that are lower than the proposed meter rate of \$0.75 for 0-30 g.
- Single stamps will cost \$1 each, up from \$0.63 today. Canada Post estimates that only 2 per cent of all stamps are purchased as singles. The vast majority of stamp purchases will be at the rate of \$0.85, which is available for a minimum purchase of a booklet or coil.
- With this tiered-pricing approach, most customers will pay between 15 and approximately 30 per cent less than the single-stamp price.



The new pricing structure will usher in a more commercial approach benefitting those who use the mail most and that better reflects the cost of serving various customer segments.

The pricing for U.S., international and oversized Lettermail and mail weighing more than 30 g will also increase, and will typically fall in line with the new established pricing levels. However, unlike Lettermail less than 30 g within Canada, the pricing for these products will not include a uniquely differentiated booklet or coil price.

Prices for parcels and for addressed and unaddressed advertising mail are not affected by the Lettermail increase.



Why this change is necessary

Tiered pricing is a new approach that exemplifies Canada Post's new reality of rapidly declining mail volumes and its need to price Lettermail based on the cost to serve various customer segments.

The Corporation understands why Canadians, including some of its largest customers, communicate digitally: it is faster and most often cheaper. In fact, Canada Post's epost™ service supports this shift by providing customers with a digital mailbox for business-to-consumer electronic communication. Undoubtedly, digital communication will only grow as technology evolves; the price of postage will not change this reality.

However, digital communication has not fully replaced paper-based communication. Lettermail still holds considerable value – sometimes critical value – among some sectors in Canada, and during some occasions for Canadian consumers:

- Certain Lettermail items can be requested or purchased electronically but cannot be sent electronically. They include “identification mail,” such as health cards, driver's licences, credit cards and proofs of transactions. As secure digital communication solutions expand, more of these items will be sent through the mail.
- Small businesses still depend on mail for certain critical business functions, such as sending invoices and receiving payments from their customers. This may change in the future as more small businesses shift to digital communication. However, for now and in the short term, mail remains vital to small businesses, and small businesses are vital to Canada's economy.
- Special occasions continue to generate a need for large volumes of postage for items such as Christmas cards, wedding invitations and birth announcements. Digital has yet to replicate paper's ability to convey emotion.

Lettermail still holds considerable value – sometimes critical value – among some sectors in Canada.

It is important for Canada Post to recognize the value of high-volume customers and the lower cost of serving them. It is cheaper to produce and sell a book of stamps than to produce and sell eight or 10 separate stamps. Customers will recognize a pricing model which reflects Canada Post's cost to serve and which is more of a “use more, pay less” approach. It is common for many items they purchase today, such as transit passes and magazine subscriptions.

The deeper discounts that Canada Post continues to provide for Incentive Lettermail customers will encourage more businesses to prepare their mail so that it is faster and easier to sort. This can significantly reduce processing costs. Canada Post has also introduced discounts for businesses and other organizations that use postage meters, which can drive revenue and cost savings.



The structural shift in Lettermail is also contributing to the need to adjust stamp prices. Canada's size, its geography and its low population density contribute to one of the highest cost structures for Lettermail processing and delivery among industrialized countries. However, the price of stamps has not kept pace with the rate of inflation. With the irreversible shift to digital communication, Lettermail volumes are declining at a steep rate. Meanwhile, the number of addresses Canada Post delivers to continues to climb each year: since the beginning of 2007, the number of addresses Canada Post serves has increased by 845,000. Less mail, more addresses: the number of pieces of Transaction Mail (bills and statements) per address has fallen almost 24 per cent.

Bringing the price of stamps in line with the cost of delivering mail across the country, while still offering reasonable rates that reward customer usage, is an important part of Canada Post's future. On average, Canada's discounted postage rates will remain highly competitive compared to similar industrialized countries.

What customers can expect

Canada Post recognizes that this initiative will represent an additional cost to Canadians, including small businesses and non-profits. Understanding that bearing any extra cost can be difficult, the company remains committed to fulfilling its public policy obligations by keeping the price of postage reasonable. Even with these changes, mailing a letter to anywhere in Canada will continue to cost less than a cup of coffee.

For the typical Canadian household, the new pricing model will have little impact. Canada Post estimates that the average household buys one dozen to two dozen stamps a year, so the pricing increase will add less than \$5 in annual costs per household.

For small businesses, which on average purchase fewer than 250 stamps annually, the increase will amount to less than \$55 a year, assuming they take advantage of the bulk discount.

Small- and medium-sized businesses that use meters to process their mail buy, on average, 1,800 stamps per year. These customers will incur roughly \$200 in extra costs per year.

For commercial large-volume mailers, Canada Post will continue to offer discounted rates, known as Incentive Lettermail Pricing. This discount is offered to commercial customers that prepare their mail according to Canada Post standards, for quicker and easier processing. The new Incentive Lettermail Pricing rate will be calculated off the base of the new discounted meter rate of 75 cents per piece.

The proposed changes will have an implementation date of March 31, 2014, after the regulatory process and allowing for a transition period.

Bringing the price of stamps in line with the cost of delivering mail across the country, while still offering reasonable rates that reward customer usage, is an important part of Canada Post's future.



To assist in minimizing the effect of successive Lettermail rate increases, the basic domestic letter rate will be offered at \$0.63 until March 31, rather than the regulated rate increase to \$0.65 in January 2014 as per the five-year pricing plan that took effect in 2010. Other Lettermail and USA/international letter rates will also remain at 2013 levels during the same period.

Canadians who already have Permanent™ or “P” stamps will be able to continue to use them without needing additional postage. However, the sale of new Permanent or “P” stamps will be suspended until the transition is successfully completed.

Impact on Canada Post

This initiative will help Canada Post transform and strengthen in several ways:

- It will allow the company to recognize the value of customers who will continue to rely on mail and lower costs of bulk purchases.
- It will ensure that Canada Post can provide a high level of service, at prices that still remain reasonable for customers.
- It will help offset declining mail revenues, contributing to the Corporation’s financial self-sustainability so it does not become a burden on taxpayers.

Regulatory process

Lettermail pricing is subject to a Government of Canada regulatory approval process. This process requires the proposed package to be submitted to the Government for pre-publication in the *Canada Gazette*, Part I, where representations can be sent for a period of 30 days.

Rate action proposals follow a standard series of reviews and considerations related to regulatory changes. The process is expected to take several months.



3. Franchise Post Offices

The plan

With close to 6,400 postal outlets (as of December 31, 2012), Canada Post has the largest retail network in Canada. It is bigger than Tim Horton's and McDonald's combined. As more people have begun to shop online in recent years, Canada Post has recognized that its retail network is a key to fulfilling Canadians' desire for improved e-commerce parcel services. By providing more convenient locations for parcel pickup and returns, especially in rural and northern communities, Canada Post helps Canadians shop online more confidently.



As more people have begun to shop online in recent years, Canada Post has recognized that its retail network is a key to fulfilling Canadians' desire for improved e-commerce parcel services.

To enable online shopping and provide Canadians with more of the postal services they increasingly want, Canada Post plans to optimize its retail network by leveraging greater use of franchise post offices. Franchises are conveniently located as a "store within a store" in shopping hubs of the neighbourhoods they serve. Canada Post will be seeking new partnerships with retail businesses across the country that would benefit from offering postal and parcel services within their stores.

Canada Post will also streamline the network of its traditional corporate post offices. Some of these post offices are in locations that are no longer convenient for customers. The company will look at making adjustments where customer traffic patterns warrant. This review may result in changing the hours of operation, reducing inventory, or installing self-serve parcel lockers or automated kiosks.

Alternatives to post offices, such as kiosks and additional stamp shops, will also be tested in convenient locations that support the wider retail network.

All changes will honour the *Canadian Postal Service Charter* and the moratorium on closing rural post offices.



Why this change is necessary

Canada Post has been listening to Canadians about the kinds of services they want from their post office. They say they are more comfortable and confident with online shopping and plan to do more in the future. They say it is important to have more choices for picking up parcels and for returning them when they need to. Conveniently located post offices serve this need in several ways:

- for parcels too large to fit in a community mailbox
- for high-value items that have to be signed for
- for sensitive items that need to be kept at room temperature
- for customers who want to receive their parcel near work
- for a gift to surprise a member of the household.

However, strengthening Canada Post's retail network is not just about adding more franchise post offices. It is about adding **more convenient** post offices. While franchise post offices can offer the same high level of service as a corporate post office, they have added benefits that customers appreciate. Many are open longer into the evening, and on weekends. Most have better parking. Of course, franchises are in stores, plazas or malls that also offer other retail products. This allows busy Canadians to save time and to get more of their shopping done at one place and in one trip.

In contrast, the locations of corporate post offices were often chosen decades ago, when the use of mail and the demographics of the community were quite different. Before the digital era, the post office was a key destination that many Canadians frequented. Those times supported a single-purpose postal store that did not offer other kinds of retail products. Today, many of these locations are no longer convenient and customer traffic has fallen off. In fact, many corporate-run post offices do not generate enough revenue to support their own costs, let alone cover the cost to sort, transport and deliver the mail to and from that low-traffic location.

Franchise post offices cost less to operate. About 60 per cent of post offices are corporate owned and operated, yet they generate less than half the revenue of the retail network. Strengthening the Canada Post network through franchises will allow the company to better serve its customers and to control costs at the same time. In addition, franchise post offices support the small businesses that host them within their store. In many smaller communities, Canada Post often heard during its consultations on the future of postal services that it is better to have a busy convenience store or card shop helped by hosting a post office than an empty corporate post office.

What customers can expect

While several postal administrations around the world are only now looking at a franchise model, Canada Post has 25 years of experience. For this reason, Canadians should benefit from a smooth transition.

Strengthening Canada Post's retail network is not just about adding more franchise post offices. It is about adding more convenient post offices.



Canada Post's vast retail network is one of the company's greatest strengths and a key competitive advantage.

Canadians will have an easier time shopping online, confident in the knowledge that they will be able to pick up or return their parcels at a nearby post office if need be. As Canada Post partners with more online retailers to offer its Deliver to Post Office™ service, more Canadians will have the option at the online checkout to route their parcel to a post office. One of Canada's biggest online retailers is the latest to offer this Canada Post service.

Canadians can also expect to have more options for accessing postal services. Already, about 15,000 stamp shops can be found in grocery or convenience stores and gift shops. As well, Canada Post will continue to invest in its virtual post office, canadapost.ca, offering a greater number of postal products and services online, allowing customers the added convenience of 24/7 postal service.

This initiative also presents an opportunity to Canada's small business owners as the company plans to seek new partners that can offer postal counters in their stores across Canada. Adding postal services into their store's offering can help drive customer traffic, and strengthen their local business. This will allow Canada Post to continue its long-standing tradition of supporting and enabling small businesses in communities across Canada.

For rural Canadians, the 2009 *Canadian Postal Service Charter* includes the moratorium on closing rural post offices. Currently, rural areas are served by more than 3,700 post offices, or about 60 per cent of the retail network. Still, some low-traffic rural post offices, along with low-traffic urban post offices, can be better adapted to the customer traffic patterns they generate. Such changes may include:

- realigning the hours of operation
- adjusting inventory, such as commemorative coins and specialty philatelic products (which will remain available 24/7 at canadapost.ca)
- reconfiguring space so that employees can complete other tasks when not serving customers and aligning staffing levels with customer traffic
- installing secure parcel compartments so customers may pick up their parcels without waiting in line during busy periods.

Impact on Canada Post

Canada Post's vast retail network is one of the company's greatest strengths and a key competitive advantage. Optimizing the network through franchises and by aligning some of its corporate-run post offices with customer traffic patterns will allow Canada Post to strengthen its Parcels line of business and provide postal services at a reasonable cost.

Policy implications

Canada Post will continue to meet its service obligations as set forth in the 2009 *Canadian Postal Service Charter*. These obligations include abiding by a moratorium on closing rural post offices and ensuring that 98 per cent of Canadians are within 15 km of a postal outlet, 88 per cent are within 5 km and 78 per cent are within 2.5 km.



4. Streamlining Operations

The plan

As more Canadians opt for the convenience of shopping, communicating and managing their bills online, they are drastically changing the mail stream: less mail, more parcels.

Decades of growth in Lettermail volumes required Canada Post to build and maintain a processing network capable of sorting the billions of envelopes destined for Canadians each year. For many years, there was enough mail destined for local addresses that it made sense to sort it by hand for delivery within the community. That is no longer the case.

Steady growth in mail volumes quickly turned to dramatic declines as people shifted to digital alternatives to mail. Canada was no different than the rest of the world. The International Post Corporation reported in 2012 that among the 32 postal administrations that account for 90 per cent of the world's mail, volumes declined by 15 per cent from 2006 to 2011.

Canada Post has been preparing for a future with less mail and more parcels for a number of years. Starting in 2010, Canada Post launched an aggressive plan to invest in replacing its aging processing infrastructure and delivery processes with more modern and cost-effective approaches driven by technology.

The sorting equipment in place today is incredibly fast and accurate. It can sort mail in sequence along the delivery personnel's line of travel for each delivery route. From a delivery perspective, it has meant a massive shift toward motorization. In many urban areas, Canada Post has moved away from letter carriers delivering mail by foot to carriers who leave their depot every morning with a fuel-efficient van containing the mail and parcels for delivery to their route. Putting mail and parcels in one truck for delivery provides a better end-customer experience, especially in the parcel business, at a much lower cost to the Corporation.

As Lettermail volumes continue to decline, Canada Post is well-positioned to take advantage of the new machinery to consolidate mail sortation and distribution across its network.

The annual cost-savings targets put in place with these investments are already being surpassed, mostly due to attrition. Canada Post expects to surpass its goal of end-state annual savings of \$250 million in 2017.



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**Again and again,
Canada Post
has adapted its
operations to meet
the changing needs
of its customers.**

Canada Post will continue to leverage these investments. Doing so will further reduce the cost of processing the mail. It will also allow the company to better serve the growing parcel market and provide the services Canadians will need in the future.

Declining Lettermail volumes require processing to continue to be consolidated into major plants. This will increase the use of cost-effective, high-speed automated mail processing equipment. This creates an opportunity to rationalize the plant network.

With the rapid decline in local personal mail, and commercial mail largely moving to and from major centres, the company will also continue to eliminate the “twin box” system that had customers depositing local mail in one street letter box and non-local mail in another. Instead, a single box will increasingly be used for all destinations, with all mail directed to a larger plant for sortation. This change was successfully implemented in over 100 communities in 2013.

Canada Post plans to continue to transform its operations. This will involve reducing the number of hours required to operate its processing network, yet have minimal effect on service. It will continue to strengthen its leadership position in the business-to-consumer parcel market.

Why this change is necessary

Canada Post has been transforming its operations since it began more than two centuries ago. Again and again, it has adapted its operations to meet the changing needs of its customers, from adopting postal codes to implementing new kinds of transportation.

Today, the shift is from mail to parcels and from a monopoly position to a competitive market.

The popularity of online shopping is increasing parcel volumes steadily and significantly. Canadians ordered \$9 billion worth of physical goods for residential delivery in 2012 – up \$1 billion over the previous year. All kinds of parcels are flowing through the plants, including items that depend on fast and accurate delivery, from health care products and gourmet food to live bees and baby chicks. Globalization has more parcels coming in to Canada to be processed to the same high standard.

The highly competitive parcel delivery market adds to the need to modify operations. Canada Post must continue to win and retain customers with the quality and reliability of its service. In the business-to-customer parcel delivery market, that means providing fast, reliable and convenient delivery, excellent tracking options and reasonable prices.



Customers can expect the operational changes to maintain a high standard of delivery for Lettermail and result in a continuously improving parcel delivery experience.

What customers can expect

Customers can expect the operational changes to maintain a high standard of delivery for Lettermail and result in a continuously improving parcel delivery experience. Beyond that, any changes to the processing network will have minimal impact on service to Canadians.

Canada Post has already begun to launch new services that rely on efficiencies achieved through its operational transformation. For example:

- The Delivered Tonight™ pilot program was launched in September 2013 in the Greater Toronto Area and will run to February 2014. Customers are able to order their items by the afternoon and receive them that evening between 5:30 and 9. The pilot involves some of Canada's most popular online retailers: Best Buy, Future Shop, Indigo, Mastermind Toys and Walmart.ca.
- The Deliver to Post Office service allows customers to direct their online orders to the post office of their choice if that would be more convenient for them.
- Collaborations with e-commerce solution providers are improving cross-border online shopping, providing Canadians with shipping times, rates in Canadian dollars and tracking numbers before they check out.

These kinds of improved customer-oriented services are just the beginning. Canada Post is the country's leader in business-to-consumer parcel delivery, and it intends to build on that role.

Impact on Canada Post

Streamlining operations will help Canada Post compete in the highly competitive and fast-paced parcel market. It will also allow Canada Post to build on its leadership position. Already, online shoppers prefer Canada Post for business-to-consumer parcel delivery by a margin of two-to-one over its closest competitor.

Streamlining operations will also allow the company to reduce costs. Canada Post already expects to surpass projected end-state annual savings of \$250 million by 2017 from the investments and changes begun in 2010. These investments will be further leveraged to drive additional savings across the network.

The substantial costs savings this initiative creates are integral to Canada Post's financial viability, but will allow the company to continue to offer customers a high level of service at reasonable prices.



5. Labour

The plan

Canada Post is ready to pursue the initiatives that will ensure it is prepared to serve the future needs of Canadians. However, it recognizes that success will hinge on its ability to address labour costs across the organization.

The future health of the business depends on its ability to be as cost-competitive and operationally flexible as possible. This is essential in an increasingly digital world and in a highly competitive parcel market. Canada Post's labour costs are higher than those of its competitors, which is no longer sustainable. A realignment of labour costs to reflect the changes to the business is crucial to its future success.



A realignment of labour costs to reflect the changes to the business is crucial to Canada Post's future success.

The average age of current employees is 48 and Canada Post expects nearly 15,000 employees to retire or leave the company over the next five years. This provides the Corporation with a unique opportunity to reduce its workforce. Implementing the changes in this plan will enable Canada Post to leverage this attrition. While serving all Canadian addresses will remain a labour-intensive business, Canada Post expects to continue to reduce its unionized workforce by at least 10 per cent over the next 10 years. In addition, Canada Post plans to reduce the number of non-unionized and management employees in line with the changes to its operations and unionized workforce. Canada Post has already reduced management positions by 18 per cent since 2008.

Canada Post respects the collective bargaining process. In this plan, there are no imminent or unilateral changes in areas traditionally addressed by collective bargaining. Indeed, Canada Post's approach to negotiations has a guiding principle: to strengthen the company's competitiveness and sustainability yet, at the same time, try to minimize the impact of any changes on existing employees.

The company will continue to work with its unions in that spirit, believing that employees as well as retirees benefit from a competitive and sustainable Canada Post. In fact, only a competitive and sustainable Canada Post can continue to provide employment, wages and benefits and both fund and meet its responsibility for any deficits in the pension plan that employees count on.



The company will also continue to take the necessary steps to permanently address the sustainability of its pension plan.

Within this context, the Corporation will approach future rounds of collective bargaining with the intent to build on the cost savings achieved in the most recent round of negotiations with its largest union, the Canadian Union of Postal Workers (CUPW). Canada Post's objectives in all collective bargaining are to permanently address pension volatility, align its costs more closely with those of its competitors and improve operational flexibility. This transformation has been an ongoing focus at Canada Post, and it took a big step forward in negotiations with CUPW in 2011. It will continue in future rounds with all bargaining agents until the company reaches a more sustainable footing in its financial results.

To improve the company's financial sustainability and narrow the gap of labour costs and productivity compared to its competitors, the company will propose changes in the next rounds of collective bargaining in specific areas that include:

- pensions and benefits
- payment for time not worked
- wages
- eliminating rules that undermine competitiveness
- the need for greater flexibility to help the company better commercialize its products and respond to market forces.

In helping the company make much-needed progress in these areas, employees will make a major contribution to the success of this plan and of the company. Even with such measures, employees will still perform high-value work and be well-compensated compared to people doing similar work in this industry.

The company will also continue to take the necessary steps to permanently address the sustainability of its pension plan. Again, the company will make every effort to achieve sustainability for the pension plan by working respectfully with its unions while recognizing there is an urgent need for results. In recent years, it has already negotiated and implemented several changes:

- The defined benefit plan has been closed since January 2010 to new non-unionized employees. They are now eligible for a defined contribution plan.
- The most recent agreement with CUPW increased the age at which new employees qualify for an unreduced pension by five years from age 60 (or 55 with 30 years of service) to age 65 (or 60 with 30 years of service).
- Pension contributions of employees have increased, moving to a 50/50 cost-sharing with the company.

Canada Post's employees understand that the status quo is not an option in an ever-changing world. That is why Canada Post will continue its ongoing dialogue with employees. The objective of sharing its transformation plan will be to explain to them the role they can play in turning Canada Post into a customer-focused organization.



Why this change is necessary

What Canadians expect from their postal system is changing dramatically. That requires an equally dramatic change in the size, structure and direction of Canada Post. Future success will require a leaner workforce, more competitive wages and benefits and greater flexibility to offer customers the types of services they want and need.

Impact on Canada Post

Canada Post will manage this change in its workforce in accordance with collective agreements and through attrition where possible, as thousands of employees will be retiring in the coming years. Relief from pension solvency payments will allow the Corporation to transform the business while evolving the Pension Plan to ensure its future sustainability.

Future Options Under Consideration

Canada Post has been delivering mail to residential and business addresses five days a week, Monday to Friday, for more than 40 years. This expectation is spelled out in the *Canadian Postal Service Charter*.

In the five months of consultations with Canadians earlier this year, residential customers often stated that reducing home mail delivery to less than five days a week or relaxing the performance standards (i.e. speed of delivery) would be acceptable. While these options may result in significant cost savings for Canada Post, the reduction in frequency may further accelerate declines in mail volumes, thereby eroding revenues.

As the Corporation moves forward with the changes in this plan, it will determine the best overall approach to further reducing costs in the network.

However, in the same consultations, small businesses overwhelmingly stressed the importance of both daily and timely delivery. They rely on daily delivery to maintain the cash flow that keeps them viable. They also rely on it to deliver their local advertising on a specific day to coincide with a time-sensitive promotion. For small businesses, Admail™ remains one of the most effective ways to connect with customers. For some small businesses, it is the only advertising they can afford.

Small business remains the economic engine of Canada. Accordingly, at this time, Canada Post will maintain daily delivery of Lettermail and parcels, as well as maintain its existing performance standards.

As the Corporation moves forward with the changes in this plan, it will determine the best overall approach to further reducing costs in the network. Volumes and uses of mail will be monitored to best determine if and when a change in the frequency or speed of delivery makes sense.

Changes of this nature would require changes to the *Canadian Postal Service Charter*.

A Word About Pension Relief

With approximately \$17 billion in assets at fair market value, the Canada Post Pension Plan (the Plan) is one of the largest single-employer-sponsored pension plans in Canada. As of December 31, 2012, the Plan is fully funded on a going-concern basis, which means it is currently able to pay all benefits as they become due. However, the Plan has a solvency deficit of approximately \$6.5 billion on a market-value basis, as of December 31, 2012. In normal circumstances, solvency deficits are reduced over five years by special payments.

The temporary relief gives Canada Post a brief window in which to transform.

The Government of Canada has informed Canada Post of its intent to provide temporary pension relief from making special payments, including solvency payments. The temporary relief gives Canada Post a brief window in which to transform. During this time, Canada Post will act with urgency to restructure the Plan in order to ensure its long-term sustainability.

Pension plans across the country are struggling to deal with changing demographic and economic realities that can no longer be managed by investment returns alone. Chronically low long-term interest rates and the simple fact that people are healthier and living longer in retirement put tremendous pressure on pension plans designed decades ago and in different circumstances.

Our Consultation With Canadians

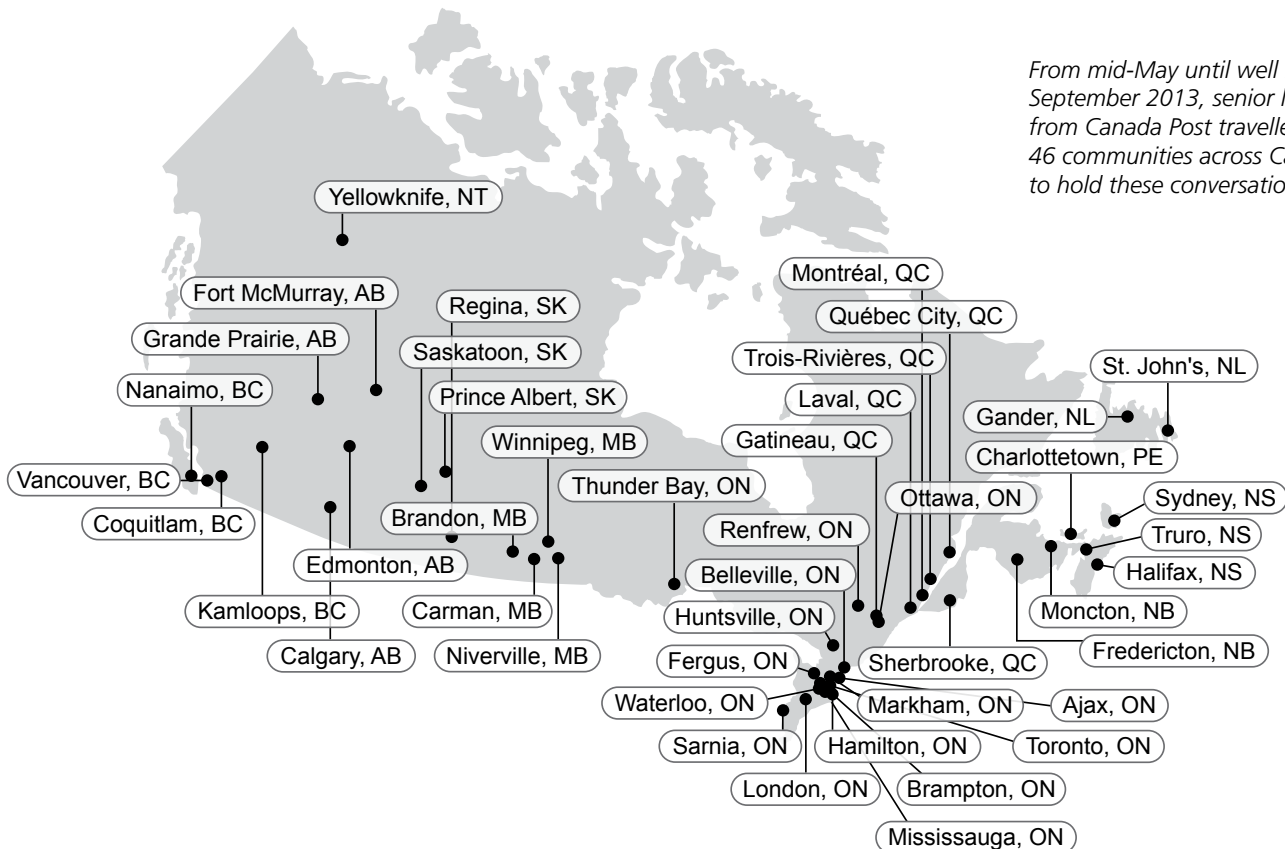
In its April 2013 study, *The Future of Postal Service in Canada*, The Conference Board of Canada projected that Canada Post could lose roughly \$1 billion a year by 2020.

Canadians clearly recognize that their choices are driving dramatic changes in the need for postal services.

In May 2013, Canada Post began a five-month conversation with Canadians about the postal services they need now and will need in the future. In order to have an informed dialogue, Canada Post invited a cross-section of Canadians to speak directly to its senior leaders. From mid-May until well into September 2013, these senior leaders travelled to 46 communities across Canada to hold these conversations. Canada Post also invited Canadians to comment online or in writing, and thousands did.

Canadians clearly recognize that their choices are driving dramatic changes in the need for postal services. As consumers, their use of postal services has shifted from a heavy reliance on Lettermail to a growing need for parcel delivery. Canadians are shopping online in greater numbers, and ordering more items, and they see community mailboxes as a secure and convenient way to receive their parcels. They also see the value in local advertising mail.

From mid-May until well into September 2013, senior leaders from Canada Post travelled to 46 communities across Canada to hold these conversations.



In these consultations, participating Canadians said they would support:

- converting the remaining one third of Canadian addresses that still receive door-to-door delivery, most of which are in urban areas, to community mailboxes.
- further expanding franchised postal outlets because they are more conveniently located yet offer service that is as good as or better than corporate post offices.
- preserving a postal presence in rural Canada as a vital connection with the rest of the country.

Canadians also said they would accept, within reason, higher stamp prices, given that most households mail letters infrequently. They would also accept reduced speed of delivery for Lettermail as long as delivery performance was reliable, and alternate-day delivery for mail, but not for parcels.

However, small- and medium-sized businesses continue to rely heavily on daily delivery of mail to send their invoices and to supply them with a steady flow of payments by cheque. They also need daily delivery to send effectively timed local advertising. Businesses also said that a significant increase in the price of stamps would likely accelerate their efforts to move their invoicing and payments to electronic alternatives.

Finally, Canadians expect Canada Post to address its challenges decisively and avoid becoming a burden on taxpayers. Canada Post is grateful to everyone who took the time to offer their opinion and insight.

A report entitled *Our Consultation With Canadians* summarizes the results of this five-month consultation and can be accessed online at canadapost.ca.

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