

POSTAL NEWS

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1. Shipping rate hikes: Postal Service is out, FedEx is in

FedEx Express announced its own average hike of 5.9%.

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Lead Photo

Retail shippers got a break this week with the federal Postal Regulatory Commission's rejection of a proposed rate hike by the U.S. Postal Service. But other rate hikes are on the way. On the same day the postal rate hike got nixed, FedEx Corp. announced its own average hike of 5.9% slated to go into effect in January for its FedEx Express division, which handles packages of up to 150 pounds.

FedEx has also announced some changes to rates in its FedEx Ground unit, which includes residential deliveries of smaller packages. UPS also typically announces in the fourth quarter its rate hike for the following year.

The Postal Service had sought a new rate schedule that, effective next January, would have raised most of its rates between 4% and 6%. But some rate increases would have been higher for particular mail categories, including 23% for standard mail parcels and 5.1% for catalogs, the Postal Service says.

Walmart.com tests free shipping to FedEx locations in Boston and

The rate hike rejection cheered some business groups. "The knowledge that postage rates will not rise faster than inflation is important for the business community already operating in an extremely challenging business environment," says Lawrence Kimmel,

CEO of the Direct Marketing Association, a trade group of direct-to-consumer marketers and retailers.

Others were less convinced that the hikes would have seriously hurt shippers. "Insofar as it helps retailers maintain their own costs, especially when it comes to things like free shipping, yes, it helps," says Nikki Baird, managing partner of retail industry research and advisory firm Retail Systems Research LLC. But she notes that the planned postal rate hikes would have added a maximum of about 30 cents to most standard delivery charges. "I'm not sure that this is enough to put off an online consumer," she says.

The broader issue, Baird says, is whether the Postal Service will be able to remain a viable business at a time when it has lost much of its business to e-mail and faces huge operating costs. Without the Postal Service, e-retailers would in many cases have only two shipping choices, UPS and FedEx.

The Postal Service had sought the rate hike to generate \$2.3 billion in additional revenue for the last three quarters of the fiscal year ending next September and another \$3 billion for the full 12 months of the following fiscal year. Among other financial needs, the Postal Service faces a \$5.5 billion payment to cover retiree health benefits.

However, the rate hike by FedEx, announced Wednesday, may be even more burdensome to shippers than what the Postal Service had proposed, says Tim Sailor, founding principal of Navigo Consulting, a firm that advises retailers and other shippers on shipping strategies.

FedEx Express intends to increase its rates by an average of 5.9% effective Jan. 3, though a drop in its current fuel surcharge will result in a net average increase of 3.9%, the company says.

But FedEx Express is also changing the formula under which it figures air and ground shipment rates by package dimensions, a step that can increase the rates for some packages by more than 15%. "For a lot of shippers, that will be a significant hit," Sailor says.

FedEx Ground, which handles packages up to 70 pounds and includes FedEx's Home Delivery residential delivery service, will also implement the same change to package dimension rates. A general rate increase for FedEx Ground will be announced later this fall, FedEx says.

The FedEx Freight and FedEx National LTL units will implement a general rate increase of 6.9% effective Nov. 1, 2010, FedEx says. FedEx National LTL handles less-than-truckload shipments, which are larger than those handled by FedEx Ground and the company's other residential delivery services.

2. Posting now and into the future

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With parcel delivery and postal service seeing a global pickup, Business RT spoke with Deutsche Post DHL CEO, Frank Appel about business growth in Russia and the future of postal services.

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“We see at the moment, very healthy growth. Growth above GDP growth. Business is growing faster than GDP, at least twice, and we see at the moment, double digit growth in our business this year, in Russia. We are very strong in Asia, we are very strong in Eastern Europe, we are very strong in Latin America and Africa. Wherever, you know, the growth is, and you have tremendous growth. You know in Germany we are happy with 3% growth, you have much more growth. So we are there already in these markets. We benefit at the moment and will massively benefit in the future, from potential growth in these regions.”

RT: Do you think that postal service remains a strong business?

FA: “We think there is a future for the classical mail business. It is declining in volume, but it's an important infrastructure for the German country, and therefore I have no doubt that we will be successful. But what we are doing there is adding new services. In two ways. One is in the parcel business. Due to the mail order boom we have in the western world, which is starting now taking place in Russia, where people are ordering from distance, the goods, because they can't get access to that, and that's an interesting development possibility here in Russia. And the second is that we transfer the quality of our product in the real world, which is a confidential secured letter, into the internet world. You know, at the moment you can't communicate confidentially with a party, because, you know, in the whole internet world, everybody can catch your email and read it, and we will provide a service that nobody can catch the email, and it's just a provider, a sender, and a recipient, can read the email. The whole way – it's encrypted.”

RT: How do you see the post operating in twenty – fifty years?

FA: “Definitely the post will be different, but the fundamental will still remain. Our product – the letter – has survived five hundred years. I have no doubt it will survive at least the next hundred years, or maybe two hundred years, because there will always be a need for paper communication, even in the future. You know, I can't imagine any situation that everything will be virtual. You know there will be still paper around the world to a sizeable scale, so there will be still the old classical part of physical mail

delivery. But it will be added by a lot more volume and parcels, and I can't imagine that goods can be beamed – like in the Spaceship Enterprise. You know, that will not happen at least in our lifetime where people are able to send goods through the internet, so there will be a huge increase in volumes in that dimension.”

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