

# POSTAL NEWS

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## **1. Canada Post contract talks to resume**

Contract talks are scheduled to resume Tuesday between Canada Post and the Canadian Union of Postal Workers (CUPW).

Union members recently voted 94.5% in favour of giving their negotiators a strike mandate. CUPW will be in a position to strike midnight May 24 if an agreement is not reached.

"We would expect this week to see, hopefully, more movement," said Gerry Deveau, the union's national director for the Ontario Region.

There are about 110 CUPW members in Sarnia, he said.

"The employer is proposing major rollbacks."

The union has said Canada Post wants to pay new employees 30% less, reduce benefits, weaken job security and provide "an inferior pension."

Deveau said the turnout at the recent strike vote was the highest in the union's history.

"A 94.5% strike vote sends a clear message to Canada Post," CUPW national president Denis Lemelin said in a press release.

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## **2. International trade to boost UK, says DHL**

Wednesday, April 27th, 2011

New research by DHL Express has revealed that the UK economy is to get a boost from an increase in international trade over the next three months.

Almost half (47%) of UK manufacturers which import and export expect overseas demand for their products to grow in this period and 43% expect export demand to remain constant.

These figures are supported by ONS Trade in Goods and Services data which show that in the past year exports grew by 11.5% and imports grew by 11.7%. In addition, 75% of imports and 77% of exports in the past year were manufactured goods.

While the insights from businesses revealed an overall positive outlook for UK plc internationally, six out of ten (65%) believe that keeping interest rates at half a per cent is key to economic growth.

Of those manufacturers anticipating export growth 25% expect this to come from the US and 12% expect this to come from France and Germany respectively.

Almost eight out of ten (78%) businesses across all sectors surveyed believe that the resurgence of the manufacturing industry would stimulate the economy and four out of ten (40%) believe the manufacturing sector will see growth in the next three months.

When asked about their trading confidence almost six out of ten (57%) manufacturing respondents said they were optimistic about trading conditions for the next three months.

More than six out of ten (65%) said they expect sales growth in 2011 and 59% anticipate profit growth. Half (51%) also believe that the 2012 Olympics will create a greater global demand for British goods.

Manufacturing exporters are bullish about overseas demand for their products. Half (47%) expect exports to grow and expect this demand to come from the US, France and Germany respectively.

The picture for imports is also solid. In 2010, 29% of manufacturing importers increased imports and 32% expect to import more over the next three months.

The overall picture for imports - and exports in particular - looks rosy, but manufacturing companies indicated that they aren't resting on their laurels because of ever-present competitive threats from businesses in China, Germany and the US.

While the survey revealed a positive outlook, many businesses believe that the UK could adopt a host of other key measures to further boost international trade: 80% would like to see the manufacturing sector incentivised; 62% want to see a loosening of the business tax regime; and 57% want to keep sterling weaker than it has been historically.

Phil Couchman, CEO, DHL Express UK and Ireland said: "The international express market is recovering after a turbulent period caused by the financial crisis; businesses altered their trading patterns over the past few years to cut costs which had a direct effect on shipments.

"Despite the weak economic conditions, last year saw the amount of international shipments handled by DHL Express grow strongly. This is supported by ONS Trade in Goods and Services data which show that in the past year exports grew by 11.5% and imports grew by 11.7%.

"It's extremely promising to see UK businesses are confident about their future – more than half surveyed felt optimistic about 2011; and 56 % anticipate profit growth.

"Home grown businesses are vital to the UK economy; and DHL Express provides them with the vital link to the rest of the world.

"As the market leader in shipping goods internationally, DHL Express has a wealth of local knowledge across the globe. We have the widest global network and ship more international packages than any other express supplier; working across more than 220 countries with around 300,000 employees worldwide. We offer customers superior service and provide international expertise to help businesses who are looking to begin exporting."

### **3. FedEx launches EarthSmart in EMEA**

Wednesday, April 27th, 2011

FedEx Express has bolstered its worldwide sustainability programme by launching EarthSmart in Europe, Middle East, Indian Subcontinent and Africa (EMEA).

The launch coincides with Earth Day that has just been celebrated in more than 175 countries around the globe.

“EarthSmart represents the next evolution of environmental sustainability at FedEx”, said Beth Galetti, vice president, Planning and Engineering, FedEx Express EMEA. “Our track record demonstrates a winning combination of innovation, leadership, and collaboration in implementing initiatives with tangible business and environmental benefits. With EarthSmart, we’ve expanded and deepened the breadth of our commitment by creating formal avenues to engage our team members, customers, and community stakeholders in achieving shared environmental goals.”

A FedEx statement said: “EarthSmart is designed to encourage innovation that makes our business – the way we work and services we offer—more sustainable, both economically and environmentally. Specifically, EarthSmart covers three areas: business, culture and community.”

EarthSmart achievements include:

**FedEx Boeing 777F Fleet:** The introduction of new Boeing 777s enables more freight to be delivered further offering 18 percent less emissions and 18 percent fuel reductions in comparison to MD-11.

**FedEx all-electric delivery vehicles:** These zero emission vehicles operate in London and Paris allowing couriers to make a full eight-hour shift of deliveries before their vehicles need recharging.

**FedEx Electronic Trade Documents (ETD):** An automated shipping tool which reduces the need to print and sign multiple copies of trade documents, saves customers time and money and helps them reduce their environmental footprint. EarthSmart was developed in collaboration with Esty Environmental Partners, a leading sustainability consultancy.

“We cannot underestimate the contribution of our people. We know change starts here”, added William Martin, managing director, UK Operations. “We are heavily indebted to our employees who have undertaken the commitment of environmental stewardship with unwavering resolve, dedication and enthusiasm.”

To celebrate team efforts, FedEx Express will be donating a tree in honour of each employee. The tree donation program, organised in collaboration with Plant-for-the-Planet, will result in at least 16,000 trees being planted across the region.

The company is inviting employees to join its philanthropic efforts with the aim of collectively donating 20,000 trees to EMEA. Plant-for-the-Planet is a grassroots children’s organisation operating in 99 countries with the goal of empowering children to shape their future by raising youth awareness of sustainability issues and by planting one million trees in each country worldwide.

### **4. Postea and Skillweb to deliver tracking system for Singapore Post**

Postea, technology solutions provider for the postal, mailing and logistics industry, has teamed up with Skillweb to develop a next-generation item-tracking solution.

Under the agreement the PostMarque system will use Skillweb’s proven solution Houndit, hosted in a cloud computing environment, to replace business-critical item-tracking systems for Singapore Post before being offered to other postal operations.

Skillweb and Postea have worked closely to successfully complete the first-phase deployment of PostMarque into Singapore Post, replacing the first of three existing track-and-trace systems previously used by the postal organisation to track registered articles and international parcel shipments. The remaining phases of the rollout will see PostMarque completely replace all legacy systems.

The system is designed to increase productivity, support customs compliance and improve efficiency through greater visibility and control of the post and parcel operation, while enhancing customer engagement with the aim of boosting service levels.

The PostMarque solution is hosted in a cloud computing environment and uses advanced CN50 handheld mobile devices from Intermec. It will provide a range of added functionality to support the delivery, collection and returns process including automated SMS text and email, GPS tracking, image capture and job allocation. In addition PostMarque will enable post offices to offer web-based customers self-service transactions, physical digital transfers and also implement transactional fees where applicable.

“PostMarque supports our vision to be the premier provider of mail, logistics, e-commerce and retail solutions in the region,” said Ng Hin Lee, Singapore Post’s CEO for Postal and Corporate Services. “This innovative system will enable us to gain efficiencies throughout the distribution process, offer a wider range of products and services, and enhance the customer’s overall experience with Singapore Post.”

Michael J. Murphy, CEO at Postea, said: “We selected Skillweb as a platform for the PostMarque solution because of its proven track record in delivering leading-edge tracking solutions within the post and parcel sector and the breadth of functionality found in the Houndit product.”

Paul Ridden, MD of Skillweb, commented: “Our partnership with Postea will enable us to take the extensive range features found within the Houndit product into a global market place. Furthermore it allows us to extend our development of innovative and valuable business tools focused on post and parcel operations, which will help customers such as Singapore Post to achieve increased profitability, productivity, efficiency and customer service.”

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TUESDAY, APRIL 26, 2011

#### **4. United Parcel Service Volume Down in First Quarter**

United Parcel Service reported that it earned \$885 million its first quarter of 2011. Its earnings were up 66 percent from a year earlier when it earned \$533 million. UPS projected earnings are stronger than previously forecast. It now projects that its earnings will be between 17 to 24% higher in 2011 than 2010.

UPS's earnings growth came in all three of its operating segments, U.S. domestic package, international package, and supply chain and freight. UPS's increases in revenue reflects both rate increases and increased fuel surcharges. Its increases in profits reflect margin improvements in its U.S. domestic package and Supply chain and freight businesses.

UPS's parcel volume as illustrated in the following chart was down on a year to year basis. UPS reported that "Premium product growth outpaced ground as UPS Next Day Air® package volume grew at a mid-single digit rate." The overall decline in volume most likely reflects a decline in UPS ground volume. It is unclear how much of the decline was due to weather, which held down total parcel shipping volume and may have shifted some volume to UPS Next Day Air®, how much was due to the continuing shift from domestic to global supply chains, how much was a shift in marketing and pricing strategies to expand sales of sales of higher margin next-day air services, and how much was due to loss of market share due to competition from FedEx Ground, Postal Service joint-line services (including UPS SurePost), and regional carriers.

| U.S. Domestic Package  | 1Q 2011         | 1 Q 2010       | Adjusted 1Q 2010 |
|------------------------|-----------------|----------------|------------------|
| Revenue                | \$ 7.54 Billion | \$7.10 Billion |                  |
| Operating Profit       | \$ 849 Million  | \$ 562 Million | \$ 610 Million   |
| Operating Margin       | 11.3%           | 7.9%           | 9.3%             |
| Average volume per day | 12.67 Million   | 12.73 Million  |                  |

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WEDNESDAY, APRIL 27, 2011

### 5. The US Parcel Market: Highlights from the UPS Conference Call

In its conference call yesterday, United Parcel Service provided a number of insights on the parcel shipping market and the customers that use UPS, FedEx and the Postal Service.

## Revenue Generated Per Shipment is Rising

Kurt Kuehn, the CFO described the improvement in revenue as follows:

Revenue per piece grew 5% with the biggest driver being increases in base rates, as we get our prices back in line with the value we provide.

Higher fuel surcharges and package characteristics also contributed to the yield improvement. We are executing our strategy of focusing on the quality of revenue. The key objective of this strategy is to ensure that we are properly compensated for the value we provide customers. And this is paying off as evidenced by our strong yield gains.

Mr. Kuehn's statement suggests that customers have had limited leverage in resisting the 4.9% rate increases implemented January 3, 2011.

Scott Davis, in response to a question of Ed Wolfe of Wolfe Trahan & Co. noted that UPS is taking a firm stance in pricing negotiations in order to get prices up to levels that they want. The impact of this change in negotiating posture impact may be modest as many customers have multi-year contracts.

The shift in package characteristics that Mr. Keuhn mentioned that would yield more revenue per package most likely reflects an increase in the proportion of shipments that are delivered to a homes that which include delivery surcharges. Mr. Keuhn later commented in questions that weight per package was stable so increasing package weight is less likely to be the source of the increase in revenue per package.

## Package Market and GDP

In response to a question by Garrett Chase of Barclays Capital, Scott Davis noted a disconnect between industrial production levels and demand for parcel shipping. Parcel shipping demand did not decline as much as industrial production during the recession and is not rebounding as fast after. This may be another indication of the importance of the link between parcel shipping and retail markets.

## The Impact of Oil Prices on GDP

Scott Davis in response to a question by Nathan Brochmann of William Blair & Company provides the rule of thumb that UPS may be using to estimate the impact of rising oil prices on GDP.

I think the rule of thumb for economists are that if oil prices go up \$10 a barrel, it's going to knock down GDP about 0.02% in the year 1, about 0.5% in year 2. We've seen about \$30 run in crude oil, so that could certainly have an impact in 2012, knock out about half the growth.

## UPS and Labor Costs

UPS delivery drivers are extremely expensive. Kurt Keuhn states that 90% of UPS drivers are paid at the maximum contract amount. Normally, that would be between 80 and 82%. The increase in drivers at maximum reflects the streamlining of the

delivery network and limited delivery volume growth. UPS has lower cost options for new drivers but hiring new drivers would take significant economic growth for that to happen.

UPS also indicated that its head count was likely to remain steady if economic growth continues at the current forecasted pace. If it stalls, it could see some reductions as efficiency improvements reduce demand for drivers and parcel sorters.

#### Large versus Small and Medium Sized Shippers

Both Scott Davis and Kurt Keuhn noted that large global enterprises have recovered faster from the recession than small and medium sized enterprises in response to a question from Jon Langenfeld of Robert W. Baird. They indicated that the real challenge facing these firms is access to credit which they expect to improve later this year.

Improvement in shipping volumes from small and medium sized enterprises is important for the parcel and express carriers as these firms are offered smaller discounts off of list rates than larger firms. Increases in the share of business from this market segment should help improve carrier yields (revenue per package) and profitability.

#### B-2-B and B-2-C Markets

In a response to a question from Bill Greene of Morgan Stanley, Kurt Keuhn stated that B-2-C now represents one-third of United Parcel Service's volume. He further stated that B-2-C is growing faster than B-2-B volume.

This response provides a further indication that 1) the increase in yield is driven by home delivery surcharges, and 2) UPS's business success is increasingly tied to the success of e-commerce.

#### Market Competition

Kurt Keuhn described the parcel and express market as "extremely competitive." He went on to state:

Customers have multiple choices, and so we're out there competing like crazy. The comparisons to our competitors are a little confusing because some of them use a different calendar. FedEx, for example had the December in their last quarter, which makes comparisons a little unusual. And we haven't heard yet from the post office, which is another very large player. We suspect they'll show negative results.

UPS clearly is concerned about competition from FedEx. It looks at the Postal Service as a less significant competitor. No mention was made regarding competition from regional and local parcel carriers or foreign-owned operators like Purolator International.

The problems that the Postal Service is having competing in the parcel market are worth studying. It is unclear whether the Postal Accountability and Enhancement Act provided the Postal Service with sufficient commercial freedom to set rates and

negotiate with customers to allow its parcel business to grow at a rate equal to market growth.

United Parcel Service's most recent quarterly results show the increasing linkage between traditional delivery services and e-commerce. The future of the United Parcel Service, FedEx and the United States Postal Service will increasingly be linked to how well they serve retailers selling services through broadcast, direct marketing, web-based and social media. Recent reports by the Inspector General of the Postal Service suggests that there may be a digital role within the postal ecosystem that could improve the efficacy of web and mobile based communications for commerce that could improve the prospects for the parcel delivery industry. It is for this reason that an upcoming conference, Postal Vision 2020 will be bringing together some of the greatest minds in e-commerce, social media, digital and print communications to discuss the future of print and digital communications. The symposium to be held June 15, 2011 and the Marriott Chrystal Gateway Hotel in Arlington, VA. To learn more check out Postal Vision 2020 .

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*Collected by Chairul Anwar, Bandung, Indonesia.*

*E-mail address : [chairulanwar49@operamail.com](mailto:chairulanwar49@operamail.com); [chairulanwar49@myopera.com](mailto:chairulanwar49@myopera.com)  
[uyungchairul@plasa.com](mailto:uyungchairul@plasa.com); [chairulanwar49@gmail.com](mailto:chairulanwar49@gmail.com)*