

# Lines of Business

The recession affected our three lines of business. However, with a recovery in business spending and a rise in consumer confidence now taking hold, we are cautiously optimistic.

## Transaction Mail

In 2009, the Transaction Mail business posted decreases in volumes and revenues. The recession hastened a multi-year decline in the amount of traditional mail received by the average point of call in Canada, as businesses continue to encourage customers to move to electronic bill payments and to consolidate their bills into single statements.

Transaction Mail volume for the year was 5.1 billion pieces, down 4.2 per cent from 5.3 billion pieces of mail delivered in 2008. Revenue for Transaction Mail was \$3.1 billion in 2009, down 2.3 per cent from \$3.2 billion a year earlier.

To address the challenge of serving more addresses each year, manage declining Lettermail volumes and invest in infrastructure, we sought and received approval for an increase in the basic letter rate, to 57 cents from 54 cents, starting in January 2010. Domestic stamp rates will increase by a further two cents per year until 2014.

To counter the decline in our traditional business, we continue to pursue initiatives such as epost™, our online mail and bill presentation and payment service, and our SmartFlow™ document management services. While some emerging initiatives delivered strong growth in 2009, overall revenues remain small. Significant growth must be achieved before they become viable sources of replacement revenue for our declining core business.

We continue to focus on building these new channels, with plans to enhance the customer and consumer experience in 2010 through new technologies and equipment.

We do not expect our volumes to fully recover. Planned rate increases, however, will help compensate loss of revenue from declining volumes.

## Parcels

The economic downturn made 2009 another challenging year for Canada Post's Parcels business. Overall, volumes were down 6.9 per cent compared to 2008 and revenue for the year was down 2.9 per cent at \$1.3 billion, as commercial customers sought to manage costs by switching from air shipments to ground delivery of parcels. A decline in the number of inbound parcels from the United States also weakened volumes.

We delivered 148 million parcels in 2009, compared to 159 million in 2008. The volume of deliveries of our Xpresspost™ service decreased by 11.7 per cent during the year.

To manage the challenges of 2009, Canada Post focused on rigid cost-containment measures and implemented initiatives aimed at improving levels of service. Last year, Canada Post added bar code scanners for smaller packet-sized products in major mail-sorting plants, and brought online enhanced tracking systems that allow for better management of delays due to weather and traffic. Through a strategic alliance with FedEx™, we supported the introduction of a northbound service launched by FedEx SmartPost for commercial shippers. The service speeds the delivery of parcels across the Canada-U.S. border.

Competition in the parcel market remains strong, with leading international players expanding their businesses in Canada. With the global recession easing, we are cautiously optimistic that the Parcels division will resume volume and revenue growth in 2010. We intend to further improve delivery service in 2010 through the application of new technologies and equipment.



## Direct Marketing

The Direct Marketing business experienced a severe downturn in 2009, as volumes for our Admail services fell to levels not seen since the mid-2000s. With consumer confidence shaken and corporate budgets slashed, many direct-marketing customers decided not to advertise in 2009 or switched to less expensive online alternatives—leading to a sharp decline in volumes for the Addressed Admail and Unaddressed Admail™ services, which fell by 13.1 per cent and 10 per cent, respectively.

The biggest impact came from decisions by financial institutions and retailers to scale back their direct marketing to Canadian households. In 2009, we delivered 5.4 billion pieces of direct-marketing mail, down 10.9 per cent from a year earlier. Revenues generated from direct marketing totalled \$1.3 billion in 2009, down 8.2 per cent from 2008. While demand for direct marketing began to pick up in the last six months of 2009, Canada Post does not anticipate volumes to completely recover to 2008 levels until 2013.

To help fuel a rebound in direct marketing, we are developing tools that will allow customers to better target advertising to Canadian businesses and consumers. We have also begun to promote the value of integrating direct mail with online media. We are enhancing our external website, canadapost.ca, to provide more self-serve options to customers at a lower cost. We also continue to focus on the environmental obligations of direct marketing.

## Subsidiaries

The Canada Post Group includes subsidiaries Purolator Courier Ltd. and SCI Group Inc., as well as Innovapost Inc., a joint venture.

Purolator is Canada's leading overnight courier company. In 2009, Purolator, which is 91 per cent owned by Canada Post, was affected by the economic downturn and resulting changes in customer behaviour as well as increased competition. Purolator segment revenue decreased by 8.2 per cent from 2008 levels and contributed \$53 million to consolidated income before taxes, a decrease of 42 per cent from 2008. In 2010, Purolator will focus on profitably growing its share of the express market.

The Logistics segment owns 98.7 per cent of SCI, one of the largest Canadian-owned logistics companies. In 2009, SCI earned \$10 million in income before taxes, a decrease of approximately 26 per cent from 2008. SCI's focus for 2010 is to maintain profitability through expansion into new markets and cost reductions.

Innovapost Inc., a joint venture between Canada Post (51 per cent ownership) and CGI Information Systems and Management Consultants Inc. (49 per cent), is responsible for the development, maintenance and operation of The Canada Post Group's computing and information systems. Innovapost revenue decreased by \$5 million in 2009, mainly due to lower infrastructure support and application development revenues. This was matched by \$5 million in cost reductions. In 2010, revenue is expected to decline, although Innovapost intends to expand its service offerings and capabilities.



  
Where business is going



