

Industry Report: Postal and Courier Services

David Goldblatt

Eller College of Management, University of Arizona

BCOM 214: Fundamentals of Business Communication

Aimee McFarland

May 4, 2020

Research was done and compiled into the postal and courier services industry, as requested by the head of Business Development, in order to help populate and increase the content on Investment Co.'s corporate website. I chose to investigate and research the postal services and courier services industry to help clients better understand the markets of that industry (for example, demographics, the competitive landscape, etc.); this will help to cut time that I and other consultants must spend educating clients and increase the time I and other consultants can talk about more specific investing strategies to help customers make better choices. In this research, I have included information about the industry as a whole in two countries (the US and Canada), as well as industry trends, target markets, the competitive landscape, and the public interest in the industry.

Industry Overview

The postal and courier services are very similar, but are slightly different in definition and practice. The postal service industry is defined by the nationally-run postal service and focuses on sorting, routing, and delivering mail and other packages (Lombardo, 2020). The courier service industry, on the other hand, is defined by a delivery network between urban centers using systems of air and ground delivery (Gonzales, 2019; Ristoff, 2020). Both industries provide the same services; the delivery of packages, goods, and mail directly to individuals or businesses.

Industry Overview

The Postal Service provides convenience for people hoping to communicate over a long distance or for shopping online with a variety of services. As Lombardo notes, the USPS provides services such as first-class mail (any letter, postcard, or mail item that weighs less than 13 ounces), USPS marketing mail (mail that weighs more than 16 ounces; primarily advertisements and merchandise), package services (such as First-Class mail, Package Services which covers mail up to 70 ounces, Priority Mail, and Priority Mail Express), international mail and periodicals to their customers (Lombardo, 2020). These services allow for customer convenience when trying to communicate long distance, as well as help them to understand how different services are distinct in nature.

Courier services provide similar services to their customers. For example, in the US, courier companies such as FedEx and UPS provide services such as ground delivery, air transit, and local deliveries directly to individuals and businesses; especially business-to-customer and especially with the rapid and continual growth of e-commerce (Ristoff 2020; Spitzer 2020). Comparatively, in Canada, local delivery services act to transport documents as well as deliver meals, beverages, and groceries to customers, mostly on a fee basis (Gonzales 2019). Courier services help to bridge the gap in delivering goods from a business directly to a customer, as well as ease long-distance communication between people.

Industry Trends

In the US, the postal service has lost severe profits due to digitization. Lombardo writes, "committed retiree payouts and a continuous shift in consumer preferences toward digitalization have posed a challenge to the US Postal Service (USPS)" (Lombardo, 2020, Industry Performance). He also makes note that the Postal Service has been experiencing loss due to the rise of mobile banking, e-mail, as well as moving traditional business practices to an online format, eliminating the need for a traditional postal service (Lombardo 2020). Thus, the Postal

service has been constantly running at a severe loss, and likely will continue to do so in the future.

Courier services have seen a steady rise in profits due to the popularity of e-commerce; in Canada, the courier service industry has had limited growth. While e-mail has decreased the demand for some industry services, e-commerce has greatly increased the demand for courier services, and thus profits have seen a steady rise in the US (Ristoff 2020), which is further exemplified in the idea that greater retail spending will increase freight shipping in the US as demand rises for out-of-state goods (Cook, 2020). In Canada, online retail has contributed to a greater volume of goods being shipped via transit services, online communication has stunted the need for services that transport professional documents; furthermore, the falling cost of crude oil has taken away the ability to create revenue via a fuel surcharge (Gonzales, 2019). Canada is expected to see growth in their courier service industry, but not as much as the United States (Gonzales, 2019). The US and Canada are both expected to see growth in these sectors.

Because of restrictions placed on it from law and stiff competition that online platforms provide, the postal industry is expected to continually operate at a loss for several years to come. Obligations to pay out healthcare benefits due to the Postal Accountability and Enhancement Act (PAEA) of 2006, the US Postal Service has had crippled profits; moreover, the increased demand for online services also continues to siphon profitability away from the Postal Service which in turn leads to a predicted shrinking of profits by an annualized rate of 8.1% (Lombardo, 2020). The postal industry can be considered in severe decline, and is therefore unprofitable for any investment.

In the US and Canada, courier services are expected to experience growth over the next several years. The courier service industry in the US is expected to see not only growth in profits, but expansions in the number of businesses because of the increased demand for their services and because of the increased demand of e-commerce sales, and growth is at a predicted annualized rate of 4.2% through 2024 (Ristoff, 2020). In Canada, the courier services are expected to see slight growth over the next couple years because of improving economic conditions at home and abroad, and are expected to see smaller players be bought out or absorbed by larger players while e-commerce sale numbers rise in the country which is reflected in a predicted annualized growth of a 2.2% annual rate (Gonzales, 2019). Courier services are both experiencing growth, and are worth both short and long-term investment.

Target Markets

There is a broad number of people who use these industries for different reasons. For the Postal Service, 91.9% of profits come from average households and residential areas simply getting the mail they need (Lombardo, 2020). For the courier service in the US, 95.4% of profits come from business-to-business transactions or from business-to-customer transactions (44.2% and 51.2% respectively); business-to-business transactions includes transporting of medical equipment, paperwork, and specimens to doctors, hospitals, and patients mostly, while business-to-customer transactions include the shipping of items or documents directly to customers upon their transaction (Ristoff 2020). In Canada, the domestic market- mostly wholesalers, manufacturers, retailers, and government agencies- made up around 75.4% of revenue in 2019 (Gonzales, 2019).

Both industries work to provide conveniences to a wide array of customers with many different applications.

As e-commerce sales increase, there is an increased demand for the courier service industry and an increased need to move goods around the country. The US is expecting to see a growth in e-commerce and online sales by an annualized rate of 5.1% over a five-year period (Spitzer, 2020). This will, in turn, lead to an increased demand for courier services, as previously stated. Because of an increased demand for courier services, we can expect to see growth in long-distance trucking and freight services, which is closely tied to courier services; increased consumer spending will also lead to an increase of revenue at a predicted 2.4% annual rate over a 5-year period (Cook 2020). As Cook points out, “more goods have been purchased, increasing the need for manufacturers, retailers and distributors to move cargo, thereby increasing demand for industry services. US manufacturing is heavily consumer-oriented, so rising consumer spending prompts greater demand for the transportation of all goods...” (Cook, 2020a, Industry Performance). As the world moves towards being more digitized, and as customer spending increases, the need for long-distance freight and courier services will rise with it, leading to higher profits overall.

Competition

However, there is heavy competition in both the postal industry and the courier service industry. While the USPS runs a government-mandated monopoly, it competes directly with online services such as email and the digitization of business (Lombardo, 2020). In the US, the two major competitors are the UPS and FedEx, and they deal mostly with each other; however, with only two major competitors, competition is low and the two companies mainly compete with each other to do other services for the USPS (Ristoff, 2020). Overseas in China, however, the two major competitors have to deal with other large corporations such as TNT and DHL for their international profits (Yang 2019). In Canada, there is high internal and external competition, and its major players are UPS and Fedex, but also Canada Post Corporation (Gonzales, 2019). This high competition has, in turn, led to lower prices, better services overall, and has led to advancements in quality control, technology, and capacity (Gonzales, 2019; Lombardo, 2020; Ristoff, 2020; Yang, 2019).

This competition is mainly driven through marketing campaigns. Marketing campaigns across both the postal and courier services industry are largely the same, and include TV ads, online ads, taking out billboards, and sponsoring events; marketing equates for about 1.6% of the postal service’s annual budget, and 0.3% and 1.1% of the annual budget for courier services in the US and Canada, respectively (Gonzales, 2019; Lombardo, 2020; Ristoff, 2020). Some smaller companies will use personalized ads, such as ad space on Google in the US as well to try and appeal to customers (Ristoff, 2020). Marketing helps to keep stiff competition between these companies, as well as help to drive massive profits.

Regulation

The postal and courier services industries provide many of the same services, but are treated differently. For example, the USPS has been the constant subject of laws and regulations since the 1970s, the most recent being the aforementioned PAEA of 2006 which has largely contributed to the staggering losses the USPS has experienced over the last 5 years (Lombardo

2020). On the other hand, in the US, there is largely little regulation on the industry outside of licensing laws, contract laws, and obeying traffic laws; in Canada, courier services must obey the Canada Post Corporation Act, the Transportation of Dangerous Goods Act, work in accordance with Air Cargo Security Program, abide by laws set forth to protect the environment and work alongside Unions, as three of the four major players in Canada are largely unionized (Gonzales, 2019; Ristoff, 2020). While both industries provide essentially the exact same service, at least in the US, the USPS is regulated much harsher.

Conclusion

The postal and courier services industry provide many of the same services: delivery of packages, goods, and mail between individuals, companies, and corporations. They use many of the same methods of transporting these goods, such as in the air and via ground transport. However, there are differences between the two industries. The postal industry has largely struggled in the past five years due to the digitization of communication and because of e-commerce sales; this, alongside regulations that have been in place since the 1970s, have crippled profits and has decreased expected profitability over the next five years. Comparatively, the courier industry has thrived as a result of increased e-commerce sales, and is actually predicted to grow rapidly as a result of it; coupled with fewer regulations and better adoption of digitalization, speed of shipping, and competition has led to a strong and healthy industry. While the postal industry is expected to run at a loss for the next five years, the courier industry is expected to grow; as consumer spending grows, it will likely grow as well. They are essentially the exact same, but also vastly different.

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