# Canada Post and the Innovapost Start-up Division

Managing Strategic & Effective Information Systems

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**Executive Summary**

The Canada Post Corporation (CPC) is a large Crown Corporation of the Canadian Government that supplies necessary and mandatory services to the public right across Canada. Since the start of the millennium, CPC has seen a steep drop in letter mail volumes mostly due to newer disruptive technologies that the public desires. CPC also had disparate out-dated information systems across The Group with encompassing inconsistencies. Through various stakeholders such as customers, suppliers, the government and the Ombudsman, they realized it was time to form a dedicated group to support and standardize all IS/IT functions. In 2002, a joint venture with CGI was formed where CPC controlled 51% of the new *Innovapost Group* for ten years. In 2012, CGI's remaining portion was acquired for $26 million.

Some major catalysts for Innovapost was the desire for increased customer service, quality, reduced costs and the new online channel. CPC wanted multi-channel services with market intelligence and a direct customer channel to enable new business. Management knew that to foster an increase in the client base and generate new business revenues they had to improve the reach and speed of communications, give increased access to their services and allow for more open collaboration. By implementing several new technologies they could attract skilled people from within the industry, helping to bridge their skills shortage gap.

Workplace implementation issues included: making the transition from separate groups to just one supporter for all IS/IT systems for 750 employees, creating subsidiary synergies, and managing, extending, and integrating the complicated systems and online properties throughout CPC. Innovapost also implemented one of the largest ERP systems in North America. One financial challenge was in trying to control the implementation costs while struggling with revenues from 2005-11 since they operate on a cost recovery basis, also, the different tax rates across the Canadian provinces were very challenging to implement into their eCommerce sites.

In 2002 they estimated the 10-year JV would bring in revenues of $3.5 billion but in reality this ended up being way over-exaggerated along with costs needing to be controlled. To date, Innovapost has provided more than $820 million in operational cost savings to CPC with greater synergies among The Group, giving them more business value from their IT investments. The Group benefits overall from Innovapost's unparalleled concentration of postal and eCommerce skills and knowledge. Areas for improvement include: a Windows Mobile App, integration of their shipment tracking system, and development of a separate business architecture group.

**1. Critical Evaluation for the New IS Business Case**

Canada Post Corporation (CPC) is a corporation where decisions are made centrally at the head office but deployed across the country. The company is enormous with thousands of employees being spread out across a large geographic footprint, hence, the integration of technology was and still is, very challenging. For instance, CPC developed ROSS (retail operating support system) that was installed and used in every CPC outlet, which needed to be maintained individually (Charland, B., Interview, 2015) and they were facing a problem with information inconsistency from the majority of their outlets (Ombudsman, 2012). Along with these issues, technology is always changing and the customer needs are changing with it. For example, in 1996 a huge erosion in the number of letter mails had started and it became increasingly difficult for CPC to compete and provide better customer services. The result was that CPC needed to form Innovapost to address these challenges (Charland Interview, 2015).

1.1 Financial

The decision to start a Shared Services Group was made for enabling world class IT services and to reduce costs. Innovapost contributes to the success of CPC's bottom line by lowering costs and providing advanced technology services to their clients. Since inception, they continuously managed, extended and integrated hundreds of complex systems and online properties to provide Group services, while saving $820+ million in operational costs. Infrastructure and application support costs dropped by 39% and 29% respectively (Innovapost, 2015).

1.2 Assets

Since 2001, CPC was modernizing their infrastructure by combining computer systems and redesigning key business processes. A series of databases were developed along with implementing new CRM (Ombudsman, 2002), thus, Innovapost already had these for developing further. By 2004 year end, Innovapost already implemented Employee Relationship Management, Supply Chain Management, Retail Outlet Automation and Address Improvement projects (Canada Post, 2004).

1.3 Organizational Capabilities

CPC's senior managers had already developed the necessary infrastructure and database building, and business process skills. Over time, employees and managers created various task

forces and groups to work on particular projects for solving issues or improving existing processes (Ombudsman, 2002). In addition, all employees participate in training programmes to develop their skills and efficiencies to provide better services, adding to their competitive advantage (Canada Post, 2004). By obtaining these technical, managerial and relationship capabilities, CPC's strategic move for Innovapost will enable further competency enhancements for marketability and profitability.

1.4  Management Preference

The key stakeholders responsible for bringing the radical change were: the customers, suppliers, the Federal Government and the Office of the Ombudsman. Making IT decisions requires clear skill sets to complete different tasks at various times such as: visionary, informational, interpersonal and structural (Pearlson & Saunders, 2013). As the final stage to solving problems, the Ombudsman is an authority where customer complaints on postal services is resolved and are independent to CPC, reporting directly to the Board (Canada Post, 2015). According to the Ombudsman and CPC annual reports, senior management was always open to improving their processes and technologies and took all necessary actions to follow Ombudsman recommendations (Ombudsman, 2002)(Canada Post, 2004-12).

## 2. Old Technology Shortcomings

CPC outsourced most of their IS/IT services through a ten year contract with SHL Systemhouse from 1992-2002 to meet their agile business needs (Halper, 1993). When this ended, the new millennium ushered in much lower transaction mail volumes while eCommerce was emerging. CPC's existing systems lacked integrity, were weak with mail processing and order delivery systems, and couldn't meet challenges for evolving mail, courier, and logistics industries (Innovapost, 2015); see IT evolution in Appendix-A. The Board Chair summed it up saying mail volumes were being eroded by new technologies, which was threatening future profitability of CPC and needed to be addressed for business sustainability (Canada Post, 2004).

## 3. Current Information Technology

The need for a standardized IS/IT service delivery model was a fundamental strategy for CPC's IT transformation, leading to the Innovapost group start-up (Innovapost, 2015). As a Shared Service Provider they support:

- New technology infrastructure and information systems, i.e., high-speed sorting machines, automated parcel & packet equipment, and ERP solutions replaced 77 legacy systems (Accenture, 2010);
- IT support, i.e., call centre operations;
- Business IT solution services, i.e., epost accounts (Canada Post, 2012).

To build the new advanced video conferencing system architecture they leveraged the Cisco Telepresence Series hardware suite.

## 4. Difficulties & Successes of Work Place Implementation

One difficulty CPC encountered was ensuring The Group and their respective IT "suppliers" were able to make a smooth and efficient transition to newly formed Innovapost (CGI, 2002). Once finalized, difficulties were found in making sure synergy could be created between The Group during and after implementation. Because Innovapost was newly dedicated to CPC and offered support as a Shared Services Organization, they had to deal with various idiosyncrasies while trying to align CPC's strategic direction (Canada Post, 2004).

Another difficulty during implementation was managing, extending, and integrating the hundreds of complex systems and online properties throughout CPC. Innovapost implemented one of the most extensive SAP enterprise resource planning systems in North America, which required extensive training and reorganizing by all work place employees. Furthermore, the work place was very challenged in making sure there were never any disruptions in the electronic shipping tools during implementation of new technology and services (Innovapost, 2015).

A success was with collaboration among Group executives and management from implementing the new advanced video conferencing system across CPC. This system simplifies communication with internal colleagues and external vendors, reducing travel costs. Through this rich media it brought employees, suppliers and customers together virtually without sacrificing the "in person" experience (Innovapost, 2015), see networking and communications hype-cycle curve in Appendix-B.

## 5. IT & Business Strategy Link

CPC's business strategy for competing effectively in its market and in present day eCommerce and the future, demands world-class IT services capabilities. Part of their strategy is to work closely with the high technology sector for growing the business across Canada. They

want to help evolve, surpass, and anticipate their clients' needs, by benefitting from an unparalleled concentration of postal and eCommerce skills and knowledge. CPC strategizes to maintain and strengthen their position in the digital economy by creating a flexible, customer-focused IT organization (CGI, 2002).

One of Innovaposts' strategies is to deliver world class IT services to The Group while also being able to reduce their information services costs (CGI, 2002). Strategic value is created between CPC and its subsidiaries through combined synergies. This forms an integral part of CPC's growth strategy and the goals of increasing cost effectiveness and efficiencies (Canada Post, 2004). Innovapost strategizes about reducing costs, improving performance, and delivering synergy by providing client-specific IT to CPC (Innovapost, 2015).

Innovapost provides IT development and management, which caters to the business strategy, i.e., application development and maintenance, IT infrastructure and network management, IT architecture and technology development, IT security and governance, IT service management, and IT business strategy. They use their knowledge of CPC in their strategy, enabling them to align and provide support and services to forge synergies and efficiencies throughout The Group. By using their IT strategy to align with the business strategy they extract greater value from their IT investments, reduce IT costs, and enhance service delivery, which improves CPC's competitive advantage (Innovapost, 2015).

Another link between IT and business strategy is their IT transforming CPC's operations and modernizing the business to meet evolving demands through their *Centre of Excellence* delivery model. This brings innovative solutions through an optimized application design, development, and testing, to establish and improve business processes for project planning, execution and deployment, infrastructure, and operations/service management. Innovapost brings exceptional value to every project because of broad expertise in business strategy, change management, IT, and how they pull these resources together (Innovapost, 2015).

CPC has a strategy of not having any downtime along any point of their eShipping process. Innovapost aligns this through their goal to maintain 100% uptime for all electronic shipping applications. They also work closely with CPC determining roadmaps for future enhancements and come up with new software several times annually. This coincides with CPC's strategy to continue improving customer experience (Innovapost, 2015).

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## 6. Cost & Benefits of IT Implementation

6.1 Costs

The joint venture cost to CPC over the ten year contract with CGI was estimated to be $1.75 billion. This cost was not just monetary, however, but also in effort, time, and organization for the transition from a Group IT perspective into one entity, Innovapost (CGI, 2002). After the 10-year contract in 2012, CPC bought out CGI for $26 million (Canada Post, 2012).

Another type of cost was when 85 technical eCommerce employees at *epost* and *Borderfree* were targeted for transition to Innovapost from consolidation. This caused chaos trying to get them trained extensively and quickly and required extra efforts for reassignment and integration. Many other employees were let go, causing uncertainty and negative sentiments to employee moral (Charland, 2008).

6.2 Benefits

At inception in 2002, the 10-year JV between CGI and CPC (51%) was estimated the contract would bring revenues of $3.5 billion (CGI, 2002), however, this was not the case. First year revenues were $190 million with costs at $178 million. By year ten these numbers were marginally better, $221 million and $216 million respectively (Canada Post, 2004-12), see the charts in Appendix-C.

CPC benefits from Innovapost's unparalleled concentration of postal and eCommerce skills and knowledge, enabling operations the ability to surpass and anticipate client's needs through delivering timely IT solutions. CPC's relative position within the digital economy is strengthened while reducing information services costs (CGI, 2002). Having all IS/IT supported by Innovapost, allows for increased business capabilities, drives efficiencies, improves service delivery, and better aligns the strategic direction within CPC (Canada Post, 2013).

With greater synergies among The Group over time, there is more business value from their IT investments. CPC gets improved capacity planning, minimizing the need for new technology investment. With an improved competitive advantage and profitability in the long run, customer loyalty can also be maintained (Innovapost, 2015).

6.3 New Technology Benefits

There's a TD credit card validation and a new IS infrastructure that manages developer authentication, registration, and traffic along with the added capability for online retailers to

incorporate delivery preferences, i.e., home or nearest post office. This resulted in 5% more visitor traffic with customer satisfaction rising 8% (Accenture, 2012). With these advancements CPC benefits from improved and expanded business relationships with top online retailers having full integration of 3000+ merchants and developers, which gave their web services solutions the lead in value proposition for online retailers. Consequently, additional shipping revenues for CPC's parcel delivery services were realized and their eSignature process re-engineering improved customer-facing quality, lowering internal costs (Innovapost, 2015), see Canadian shipping preference chart in Appendix-D. Purolator benefitted from a new system giving them the ability to develop and implement eReturns solutions for their clients through a customized web portal, simplifying customer returns (Innovapost, 2015).

CPC's eShipping benefits from Innovapost's online channel team that ensures a smooth delivery of millions of parcels and is responsible for maintaining the integrity and security of the electronic shipping tools. As mentioned earlier, CPC's new advanced video conferencing system gives The Group several benefits (Innovapost, 2015).

## 7. Justification for the Investment

At the JV inception, the industry was going through dramatic changes. CPC knew they needed to expand their business offerings through implementation of new technologies since there were many technological advancements evolving. They had to bring new skills from the technology sector to bridge their skills shortage gap. Another reason given was the possibility of selling IT services to other postal organizations which could help speed-up payback (CGI, 2002).

CPC 'sold' this investment strategy to their employees and the country by explaining that service delivery expectations were continually growing. They cited declining mail network economics, with letter volumes declining 1% to 5% annually and Canadian network addresses were increasing by 175,000 yearly. This amounted to -12% revenue per household. CPC wanted to continue focusing on cost management and had increased pressure for openness and accessibility. Their customers demanded new technology but didn't want new risks to security (Canada Post, 2004).

For CPC to increase their client base and generate new business revenues, they needed more open collaboration. This meant improving the reach and speed of communications, increase access to their services, enhanced secure document distribution, simplify document management and improve mailroom operations, all through new IS/IT infrastructure supported by Innovapost.

Intraorganizationally, the investment was for optimizing regional and local office connectivity (Canada Post, 2004).

A major factor was CPC's desire to improve customer satisfaction and meet their interests for the new online channel. New technology implementations would improve customer service and reduce signature capture and data entry costs. CPC wanted multi-channel services with market intelligence and a direct customer channel to enable new business. They could bring new online trusted services such as, electronic document presentment and payment for transitioning to digital commerce, i.e., electronic postmarks (Canada Post, 2004).

## 8. Challenges of Implementation

Implementing the new web platform took twelve months and was done in two phases, building the technology platform under service oriented architecture (SOA) principles and building the new site. It was difficult consolidating CPC's websites since there were many, they lacked a consistent look and feel and were using disparate technologies (Accenture, 2012).

According to CPC's financial results, it was challenging keeping implementation costs down while the revenue stream was dropping through 2005 to 2011, since they operate on a cost recovery basis (Canada Post, 2004-2011).

A challenge with the web parcel services was in developing these for easy installation and management by online merchants and eCommerce vendors. Innovapost had the added issue of dealing with online shoppers wanting a fast and simple online purchasing experience that provided them with clear shipping choices, delivery options, tracking information, and return capabilities. It took two years to complete integration. Making matters more interesting was the various provincial tax rates across the country, which were very challenging to implement into their eCommerce sites. (Innovapost, 2015).

Purolator presented a challenge with integrating the backend processes and transferring of information for the complex eReturns portal, linking it with a third party, Purolator's clients and their customers, which took five months to implement (Innovapost, 2015).

## 9. How Work Changed

After the Innovapost group start-up, each subsidiary partner could no longer support their own IS/IT because Innovapost was now responsible for this side of the business; each Group now relied on them as sole supporter for their needs. Starting up Innovapost involved many of

the 750 employees coming from the other Groups and as such, would not be used to supporting all the Groups. This demands more organization, communication, and General multitasking skills (CGI, 2002).

Working for Innovapost involves a different communication style between the employees and the other Groups because they need to be extremely clear and focused for knowing exactly what is asked of their support services and the employees will continually be working with different people (Charland, 2008). A major way that work changed and was also a big challenge, was with the various work cultures coming from the different subsidiaries and implementing them into just one at Innovapost, trying to create a unique culture. There are new core values for the employees to adhere and get used to, new tasks to figure out, new job responsibilities, along with newly defined job profiles and a newly designed performance management system for the employees to learn and get accustomed to (Charland & Leclair, 2007).

A new Web 2.0 tool system was also implemented for better employee engagement and to facilitate collaboration and sharing between users. This involved training on the new *InnovaConnections* platform, which changed the way employees innovated, engaged, and delivered to their clients, partners and co-workers. See Web 2.0 pyramid model in Appendix-E (Charland & Xarchos, 2008).

## 10. Stakeholder Analysis

All employees either directly or indirectly are impacted by such a major change to the business structure. There was a known risk to employee attrition because of radical changes being made in the way CPC's IS/IT would be supported. Some of the employees would not like this change and decide to leave the organization, while others could lose their focus during the transition phase and every employee of the organization would feel the impacts whether positive or negative during and after implementation. CPC actively recruited in order to develop and retain the leadership for meeting their long-term goals, thus, mitigating attrition. They also developed training and knowledge management tools for reducing the outflow of knowledge from the change. By closely monitoring their operational requirements, CPC could ensure ongoing alignment with their resource planning (Canada Post, 2012).

CPC's customers are important stakeholders since it is very important to keep them and as indicated earlier, it is clear they want improved customer service. CPC knows that maintaining operational excellence is important for cost management and to retain customers. CPC did a

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preliminary analysis and exercised careful planning by implementing a quality service management system to improve their ability for identifying issues and root causes. This was done to resolve service issues during transition (Canada Post, 2012).

As a Crown corporation, the Government of Canada is a major stakeholder. CPC needs their approval for the corporate plan, budget, restricted transactions, borrowing, etc. The Board of Directors are in place to oversee the Corporation on the Government's behalf. The Board holds management accountable for CPC's business performance and to carry out their objectives. The Innovapost strategy was well thought out for moving the corporation forward into the digital era, for better cost containment, and for better service. All of which, if executed correctly, will enhance their bottom line and bring more government revenues (Canada Post, 2012).

Furthermore, suppliers to the subsidiaries for IS/IT related products or services would also be affected by the Innovapost start-up since it is quite possible they may not be engaged by the group after the transition has been completed.

## 11. Conclusions & Recommendations

11.1 Areas for Improvement

1. Windows Mobile App.: CPC currently has mobile apps for Apple, Android and Blackberry devices but should also focus on developing one for Windows devices. There are 300,000 available applications to download at the Windows App store which gives an indication of the demand and customer base (Statista, 2015).

2. Tracking System Integration: CPC and Purolator each have individual shipping tracking systems. Innovapost has to continually maintain and upgrade them separately (Charland, B., Interview, 2015). CPC and Innovapost, should take the steps to integrate these systems into just one for The Group.

3. Business Architecture Group Development: Presently, CPC has different architecture groups for improving the overall architecture in technology, data, solutions, etc., divisionally (Charland, B., Interview, 2015). CPC should develop a separate Business Architecture Group to focus on long-term architecture for all subsidiaries.

11.2 Conclusion

Canada Post Corporation has gone through quite a transition with their information technology. They have modernized their infrastructure, redesigned the business processes,

implemented new information systems and acquired a standardized IT service delivery model. CPC has demonstrated their capacity to transition efficiently and smoothly, their capability to manage and integrate complex systems and their ability to generate strategic value, therefore, improving the competitive position of the corporation.

CPC must continue to listen to their customer's needs and ideas while continually scanning their external environment for technology advancements and digital market trends. They should not stay static from their recent technology integration successes but continue to innovate and bring exceptional services to their clients and customers, all the while keeping their employees properly trained.

They should seriously think about integrating real-time tracking and payroll systems, and bring other disparate Group systems into one. Another recommendation would be to form an alliance with a service provider who has more of a global presence to give their expert skills more visibility. CPC must now manage the business as a true commercial enterprise that is capable of competing head-on in every product line.
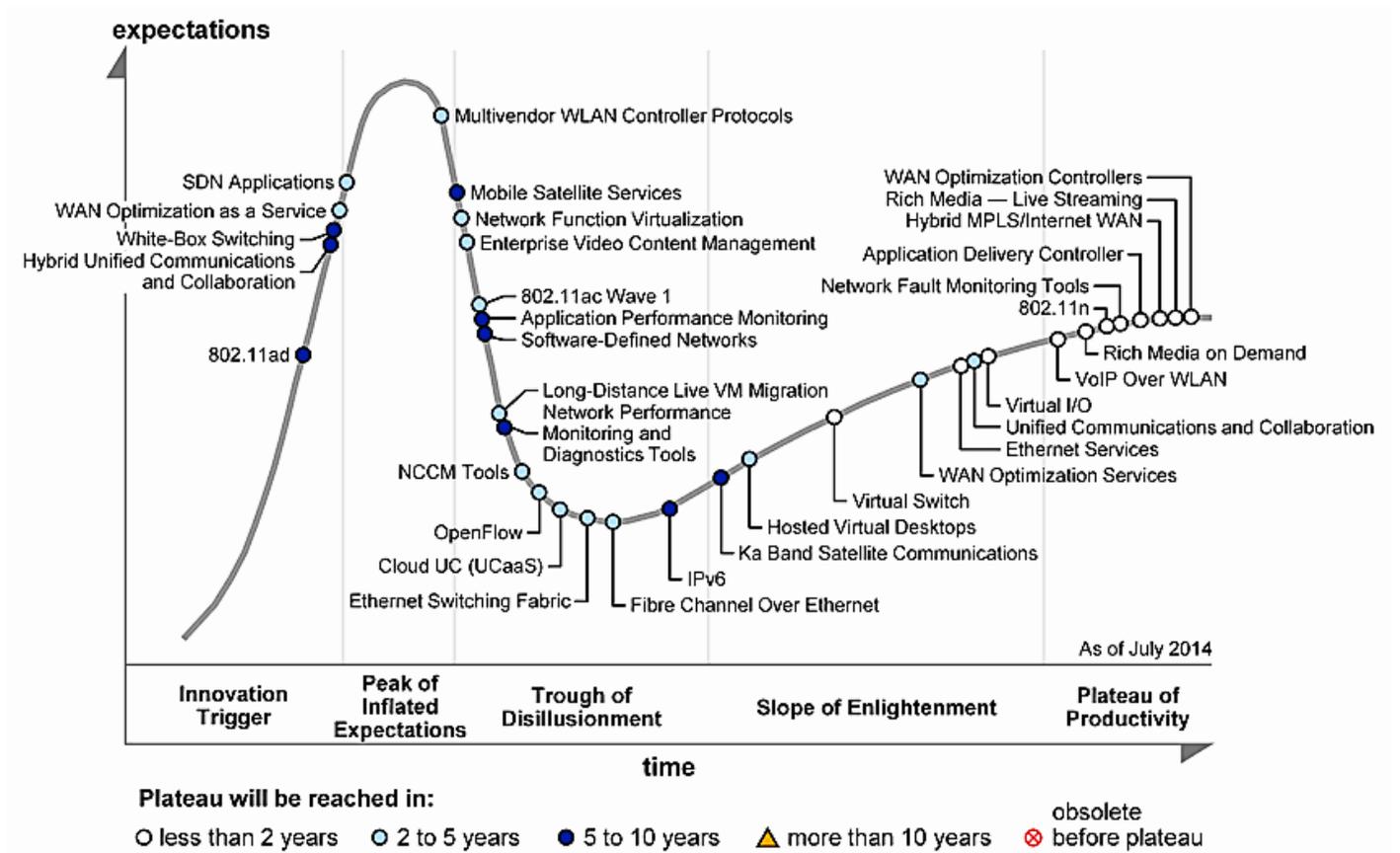
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March, 2015. Retrieved from website: http//www.statista.com/statistics/276623/number-
of-apps-available-in-leading-app-stores/.

**Appendix – A: Canada Posts' IT Evolution Table**

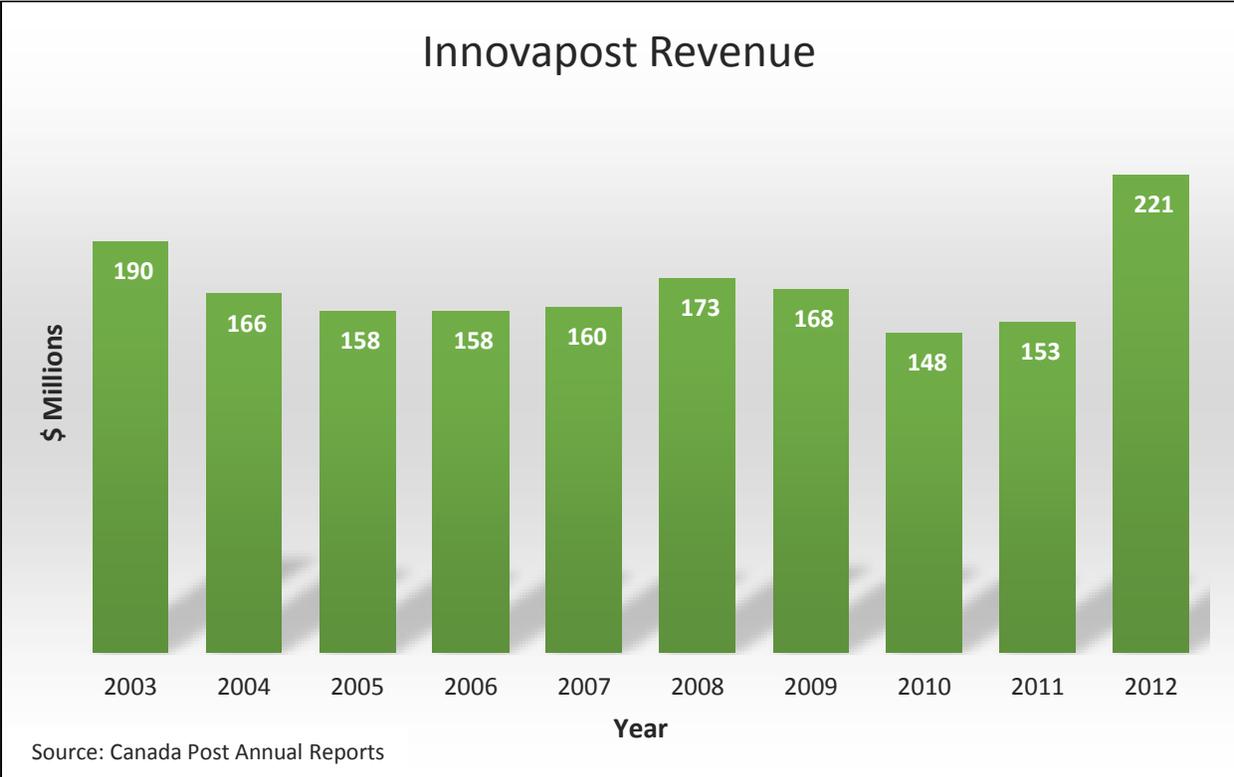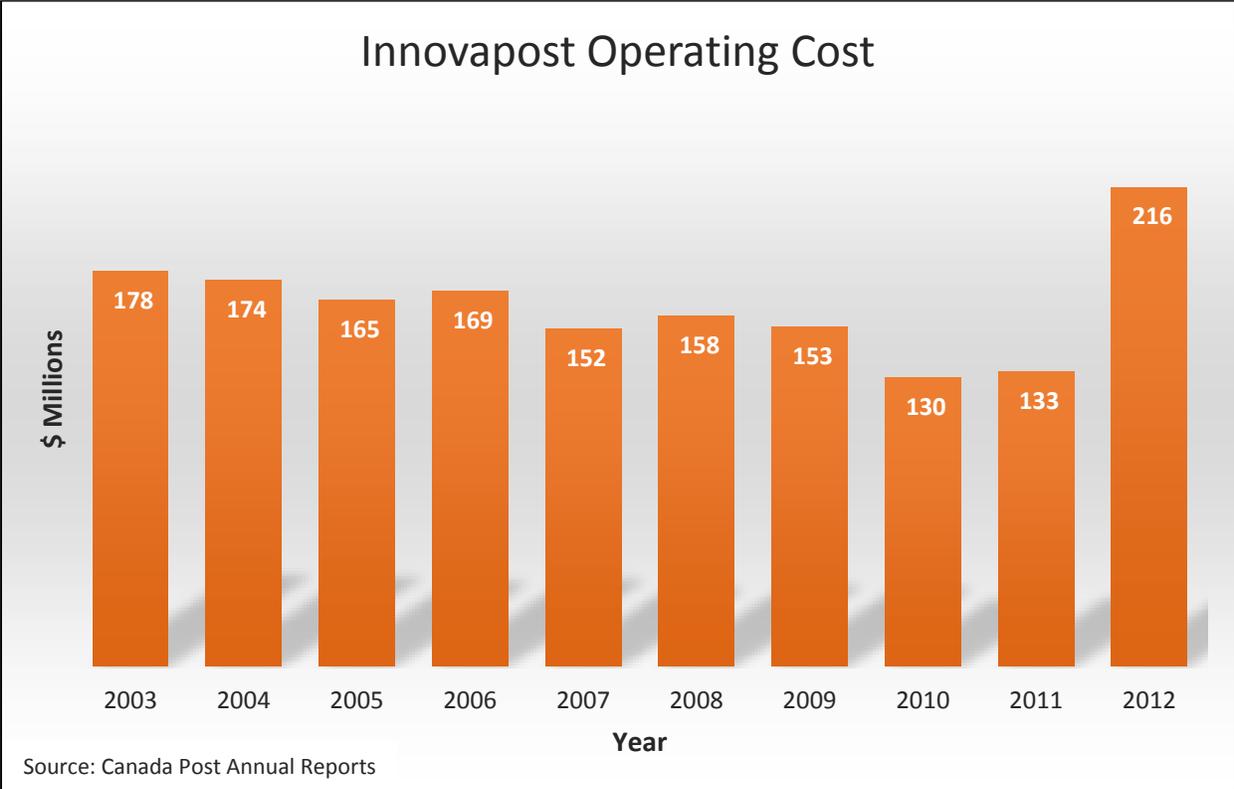| YEAR | GROUP RESPONSIBLE | SOURCING TYPE | THE IT SYSTEMS | Financial Resources |
|---|---|---|---|---|
| **1980-1992** | Canada Post' IT Departments | Internal – Disparate | Sorting machines, & conveyor belts | Charge-back system |
| **1992-2002** | SHL Systemhouse Corporation | External Vendor | Equipment upgraded, automated sorting & logistics began | Pay as it goes system |
| **2002-Current** | Innovapost – Division of CPC | Internal – Dedicated Group | High speed automated equipment, integrated data links | On a cost recovery basis |

Source: Canada Post Annual Reports, 2004-12

**Appendix – B: Networking & Communications Hype-Cycle Curve**



Source: Gartner Inc., Website, 2013

**Appendix – C: Revenue & Operating Costs**

## Innovapost Operating Cost



Bar chart of $ Millions by Year:
- 2003: 178
- 2004: 174
- 2005: 165
- 2006: 169
- 2007: 152
- 2008: 158
- 2009: 153
- 2010: 130
- 2011: 133
- 2012: 216

Source: Canada Post Annual Reports

## Innovapost Revenue



Bar chart of $ Millions by Year:
- 2003: 190
- 2004: 166
- 2005: 158
- 2006: 158
- 2007: 160
- 2008: 173
- 2009: 168
- 2010: 148
- 2011: 153
- 2012: 221

Source: Canada Post Annual Reports

**Appendix – D: Canadian Shopper's Preference Chart**

Canadian Shopper's Preference



Canada Post ■ FedEx ■ Purolator ■ UPS ■ Other ■ No Preference

30%

13%

10%

8%

2%

37%
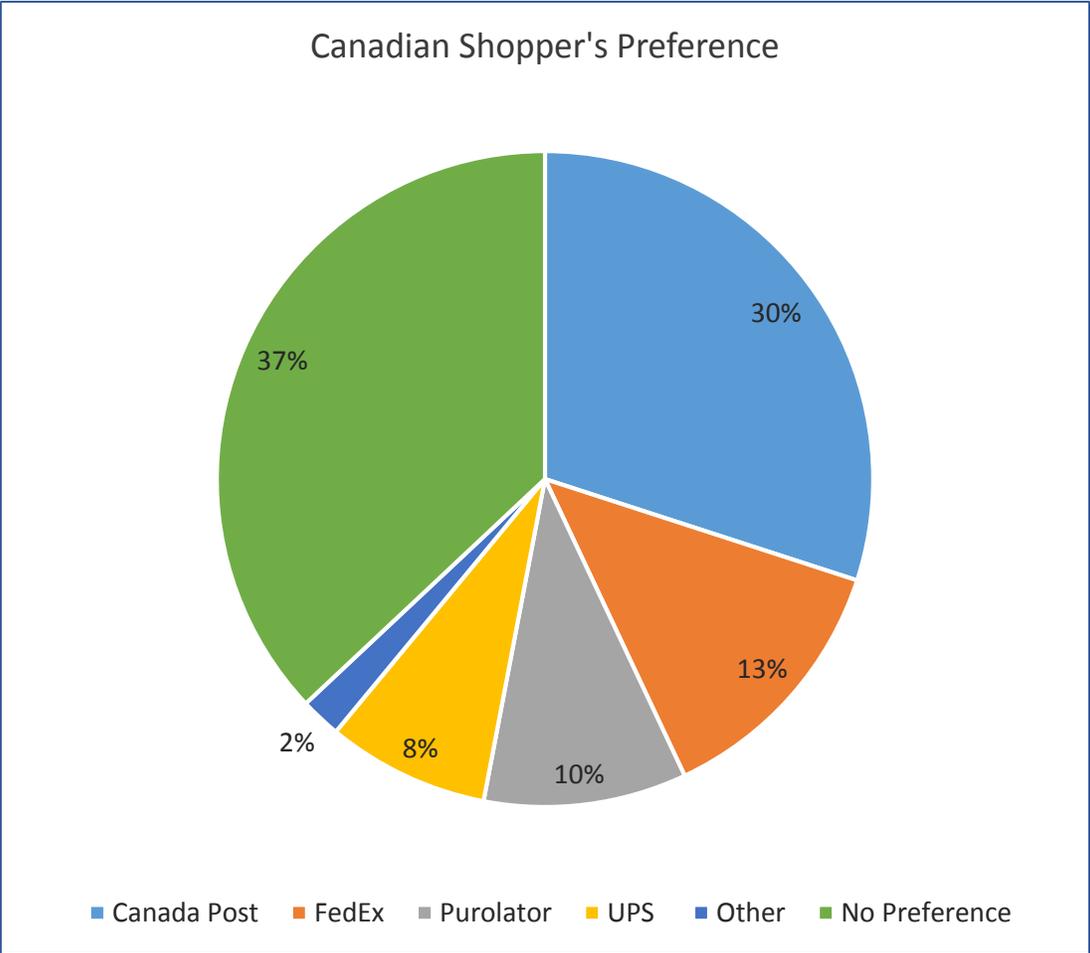
Source: Thinkwrap Commerce Website, 2013

**Appendix – E: Portfolio Management View of IT Investment**
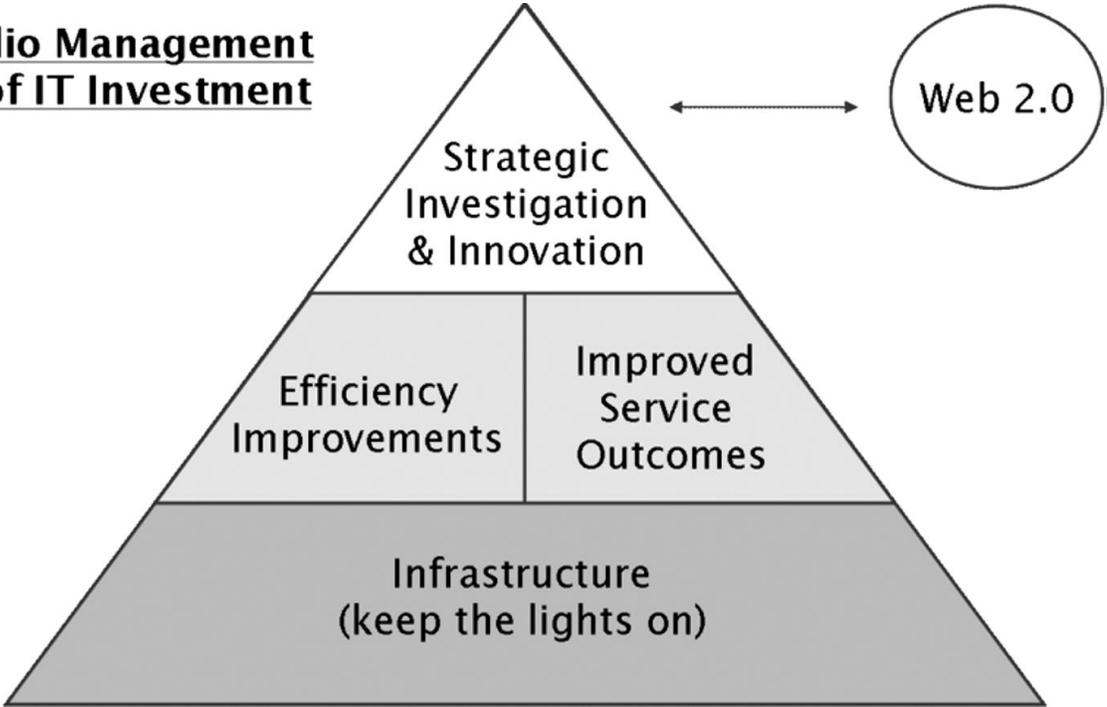


Source: Strategic HR Review, 2008