

assured
logistics

CANADA POSTES
POST CANADA

From anywhere... to anyone



from: amazon.ca
to: your door

May, 2003

www.assuredlogistics.com

It was a marriage of high technology and deep Canadian roots. Two giant corporate retail icons went searching for the ideal collaborator. What did they have in common? In many ways, it was a case of opposites attracting. Each brought their unique brand to the marriage, and each became more like the other.

1. Amazon, Canada Post, and Canadians

By Rena Granofsky, J.C. Williams Group

Amazon already had international Websites set up in the UK, Germany, Japan, and France. A Website targeting Canada seemed like a natural next step given Canada's position as a G-7 nation, close proximity to the United States, and educated and internet savvy population.

The company recognized the significant potential of Amazon.ca, a Canadian-oriented version of Amazon.com. But how could they grow sales in Canada, and at the same time, limit capital investment? They appointed a Canadian, Marven Krug, as General Manager of Canada, and charged him with the task of making it all happen.

It didn't take long for Marven to realize that the optimal solution lay in an outsourced fulfillment model.

Meanwhile, Canada Post was re-inventing itself as a company, and searching for ways to provide holistic solutions to their customers. As part of this effort, they surveyed their retail customers to determine their hot buttons.

One of the top ten issues uncovered was the need to improve the customer order-to-delivery process. Canada Post already had the unique capability of delivering merchandise to every customer's door in Canada, with a variety of transportation and delivery solutions. However, they could not, at that time, support order processing, inventory management, and warehouse operations.

To address this issue and enable end-to-end order-to-delivery solutions, Canada Post acquired Progistix-Solutions Inc., a national 3rd party logistics company, specializing in custom-designed solutions for technology and telecommunications. And, to further support their retail customers, they set up Assured Logistics, a subsidiary of Progistix-Solutions Inc., focusing on retail, and specializing in B2B and B2B2C (i.e., 3rd party logistics for merchandise to be shipped directly to the customer's door or retail outlet).

These are the things retailers tell us keep them awake at night

- Boosting e-Commerce Performance
- Driving Channel Traffic
- Generating Sales Leads
- **Improving Customer Order-to-Delivery**
- Improving Head Office-to-Store Connections
- Managing Merchandise Returns
- Marketing One-to-One
- Planning Store Openings and Relocations
- Optimizing Catalogue Distribution
- Simplifying Statements and Invoicing

Improving Customer Order-to-Delivery



2. The Case for Outsourcing

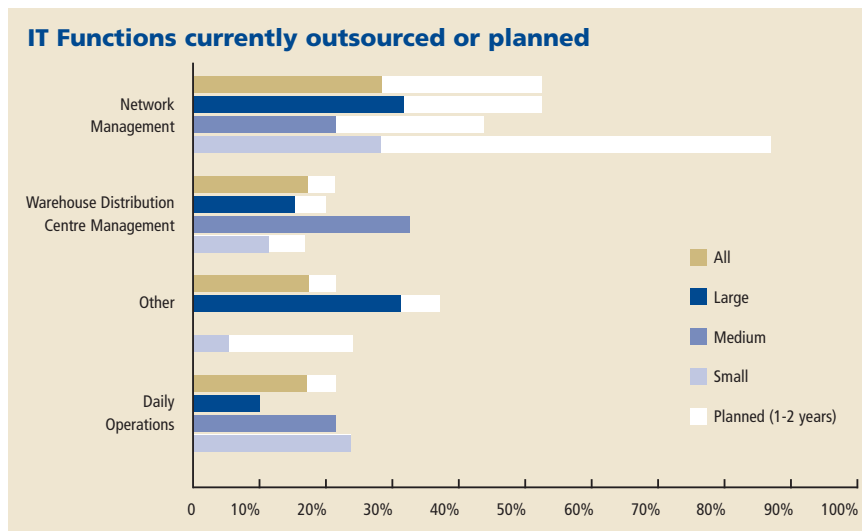
As retail in Canada continues to be challenged with mergers and acquisitions, consolidations, new store entries from abroad, and multi-channel selling the quest for better business models become even more compelling.

In a survey of Canadian retailers in June 2001¹, retailers responded that they were beginning to explore the concept of outsourcing non-core functions. But there were many challenges, especially with related costs. Since that time, a variety of outsourcing models have begun to permeate Canadian retail, and prove their viability.

Canadian retailers are beginning to understand that the benefits of outsourcing go far beyond cost savings. For example, the model may enable cost-effective solutions based on leading technologies, and even more important, allow retailers to share business risks with a trusted business partner.

A prime example of a successful outsourced business model is the business collaboration between Amazon.ca and Canada Post Group, in implementing an end-to-end Order-to-Delivery Solution.

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¹ Canadian Retail Technology Survey 2001, Retail Council of Canada and J.C. Williams Group

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...when Amazon.ca sends an order electronically to Assured Logistics, Assured Logistics will promptly notify Amazon.ca if there is insufficient stock so that Amazon.ca can notify the customer immediately.

3. The Challenge of Implementation in Only Four Months

It was a tall order, to say the least. Amazon and Canada Post signed the contract in January 2002. The launch date was set at June 25, 2002. Assured Logistics had only four months to lease and set up a new warehouse, hire appropriate resources, source and install equipment, design more than 20 IT interfaces to communicate with Amazon.ca, build all systems and processes, and train their staff.

Each of the three collaborating companies (i.e., Canada Post, Assured Logistics, and Amazon.ca) allocated many resources to the project across a large number of departments.

The project was driven by senior management in all three companies (i.e., John Lee, General Manager, Retail Solution Sales, Canada Post; Mike Kirk, Vice President and General Manager Assured Logistics; and Marvin Krug, General Manager, Amazon.ca). They set up core teams at each company, and consulted regularly to ensure a smooth launch.

4. The Elegant Solution

Amazon is well known for its expertise in setting up efficient logistics processes. But this time, they approached things differently. Amazon.ca supplied the target key performance metrics and left it to Assured Logistics to design the right processes to meet those metrics.

Assured Logistics brought forth a world-class solutions design team to develop a high technology/low mechanization solution.

Assured Logistics developed more than 20 points of interface to communicate with Amazon.ca and provide Amazon.ca with a near real-time view into the inventory in the warehouse, as well as the status of each order. For example, when Amazon.ca sends an order electronically to Assured Logistics, Assured Logistics will promptly notify Amazon.ca if there is insufficient stock so that Amazon.ca can notify the customer immediately.

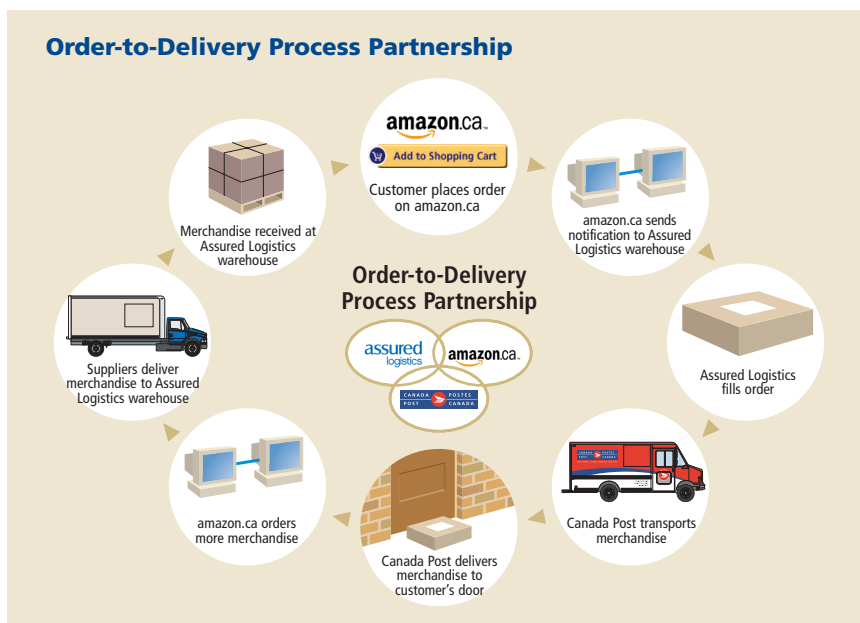
The order status is updated to a Track and Trace database, so that customers can log onto Amazon.ca for a status update on their orders until they are shipped. When shipped, Amazon e-mails a shipping notification to the customer with the Canada Post tracking number. The customer can then query the Canada Post Website to track the shipment and delivery status.

The solution is elegant and efficient. For example, pickers pick multiple orders at a time, with the same item in multiple locations in the warehouse, to maximize efficiency. The orders are sorted later, in a re-binning process. The process is further customized to handle optional gift-wrapping, and include other inserts in the packages.

They developed a unique approach to handle planned spikes in volume. For example, the highly anticipated Harry Potter and the Order of the Phoenix will be available in bookstores Saturday June 21. Harry Potter and the Order

of the Phoenix has been Amazon.ca's best-selling book since shortly after becoming available for pre-order on January 15, 2003; the book has already outsold Amazon.ca's best-selling item for all of 2002 to become the online retailer's best-selling product-to-date and is available for delivery to the customer's door that same day.

Reverse logistics are handled elegantly as well. Customers can reference the Amazon.ca Website to print a special return label to place on the package. They can then drop the package at any of Canada Post's 7,000 outlets or community mailboxes, and the merchandise will be shipped directly to the Assured Logistics warehouse. Their credit will be processed by Amazon.ca when the returned merchandise is received and verified by Assured Logistics at the warehouse.



Over 20 unique information exchanges

- Order Flow
- Inventory
- Vendors (POs)
- Transportation

The solution is elegant, cost effective, and efficient; a combination of high technology and low mechanization.

5. An Unquestionable Success

What more could they have wanted? Amazon.ca launched on time, without one hiccup. And the success continues. The fulfillment process has kept up with the order volume, even at Christmas, when more than 99% of orders were delivered on time.

Measuring performance is key to the continued success. Amazon.ca set up target key performance metrics in process, technology, customer service, and returns. In fact, the Assured Logistics fulfillment metrics are similar to Amazon.com's top fulfillment sites in the U.S.

But the focus is on key performance metrics related to customer service. As Marven Krug puts it, "If you take care of these, the rest takes care of itself."

The focus is on low performance metrics related to customer service. "If you take care of these, the rest takes care of itself."

Marven Krug,
General Manager, Amazon.ca

Many of the challenges were not anticipated, such as the large number of book vendors in Canada, and the need to set up relationships and processes with each one. Most other countries served by Amazon sites have only a few book suppliers.

6. They Were Not Without Challenges

Some of the challenges could have been predicted, but many were not. After all, Amazon had already set up Websites to serve several other countries. But this time things were different.

One of the biggest challenges was the structure of the Canadian book publishing industry. In the U.S., and in several other countries served by Amazon Websites, there are a few large book distributors who can each provide the large majority of books in print. But Canada's book vendor situation is far more fragmented, and Amazon.ca had to develop relationships and working processes with more than 15 suppliers — just to get started.

The challenges in marketing were also not anticipated. How do you reach Canadian consumers cost-effectively? In other countries, Amazon has online advertising agreements with large Websites based in that country. But Canadian consumers surf as much if not more on American Websites than Canadian sites, such as MSN.com in addition to MSN.ca. To effectively capture that traffic, Amazon.ca has explored innovative ways to advertise on 3rd party .com Websites in addition to .ca Websites.

And of course, there were the usual challenges, such as the three-hour time difference between Seattle and Mississauga; ongoing high consumer expectations (versus what might be expected in B2B); accurately predicting weekly volumes, spikes in volumes, and so on.

7. Reaping the Benefits of Collaborative Marketing Efforts

These two corporate icons recognized the brand value that each could bring to the collaboration. Amazon clearly had the capability to broaden the perception of Canada Post as an innovative company, in keeping with Canada Post's direction. And, based on its "trustworthy" perception, Canada Post could certainly help Amazon.ca earn the confidence of Canadians.

They were each striving to reach consumers, build brand awareness of Amazon.ca, and drive traffic to the Website. And, Canada Post was also hoping to build brand awareness of their credentials in order-to-delivery with other retailers, in B2B2C.

They developed a comprehensive Collaborative Marketing Program. First, to drive awareness of the Website, they draped Canada Post delivery vans with the graphic representation of their collaboration (i.e., "from: Amazon.ca to: your door"). This program was launched on the Website launch date, June 25, 2002, and continued through October 31, 2002.

The delivery vans created an incredible buzz, and Marven Krug is looking forward to repeating the promotion.



Next, to highlight Canada Post's key role in bringing Amazon.ca shipments to the customer, Amazon.ca placed the Canada Post logo on Amazon.ca shipping boxes.

The Canada Post logo is also highlighted in the shipping area of the Amazon.ca Website. And Amazon.ca did extensive PR at the launch, distributed bookmarks with an Amazon.ca gift certificate in Canada Post outlets, and participated in the Canada Post Bright Lights Holiday Co-Promotion.

And finally, in order to create brand awareness of their order-to-delivery capabilities within the retail community, Canada Post created a B2B ad campaign. They developed a graphical representation of the Canada Post solution at work at Amazon.ca, and placed the ad in several trade magazines.



8. Is This the Right Business Model For Other Retailers?

The Canada Post Group offers a unique solution. It is truly end-to-end, from order-to-delivery to the customer's door. It is also a high quality solution, focused on customer service, with value added features (e.g., the ability for the retailer to view the inventory throughout the process).

Which retailers would fit the model well? Attributes include:

- Retailers who want an end-to-end solution for a B2C application;
- Retailers who appreciate value, additional services, and high quality performance;
- Retailers who will trust Canada Post to design the right processes to meet their needs; and,
- Retailers with a strong focus on customer service, with customers who want the product right away.

Merchandise would ideally have these attributes:

- Relatively high value,
- Conveyable,
- Shippable, and
- Hard goods (preferably).

Amazon.ca is investigating adding additional merchandise to their over two million titles of books, DVDs, videos, and music, over time.

9. Where do they go from here?

For Amazon.ca, the first task will be to investigate adding other types of merchandise beyond books, music, DVDs, and videos. In addition, they will work on continuing to lower costs, so they can offer better value to their customers in the form of lower product prices and everyday free shipping. And, they will develop new Website features that will reinforce, in the minds of Canadians, that Amazon.ca is the simplest way to shop.

Amazon.ca will also take steps to provide the same great selection, prices, and customer experience to other interested businesses and their customers. The April 2003 re-launch of HMV.com as a co-branded, Canada-oriented Website powered by Amazon's e-commerce technology is an example of this, with more to come.

Assured Logistics, for its part, is ready to set up fulfillment for other retailers. For smaller retailers with compatible merchandise, they might set up a multi-client warehouse. Or they might set up relationships with other large retailers. They are also pursuing international retailers who would like to sell direct to consumers in Canada. They have the unique opportunity to help those retailers test the Canadian opportunity with limited investment, through their partnership with Borderfree.

Borderfree offers the international retailer an integrated technology, marketing, and logistics solution for accessing the Canadian marketplace, with limited investment. Once the pilot proves successful, and volumes begin to increase, the warehouse capabilities of Assured Logistics can be introduced to reduce costs per order and build the business.

10. Lessons For Amazon, Canada Post, and the Rest

As this case study illustrates, business collaboration continues to offer tremendous opportunities to retailers. Amazon and Canada Post learned how to work together and leverage their own strengths. This happened with mutual trust, communication, and tremendous support from all levels of each organization.

Both companies benefited tremendously from this collaboration, and are looking forward to building many more opportunities based on this success.

For more information, please contact your Canada Post Account Executive or e-mail us at retailsolutions@canadapost.ca.