POSTAL NEWS
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1. Hatoyama presses Japan Post for plan to put Kampo inns in black

Kyodo News
Wednesday, April 1, 2009

Internal affairs minister Kunio Hatoyama on Tuesday pressed Japan Post Holdings Co. to submit a turnaround plan by June for its money-losing Kampo no Yado resort inn network.

Hatoyama earlier refused to approve Japan Post's overall business plan for fiscal 2009 starting Wednesday, complaining about a projected loss of some ¥3.8 billion for the nationwide inn network for Kampo postal life insurance customers.

He approved the business plan on condition that Japan Post presents its strategy for the inn network by June.

The strategy is expected to include reductions in personnel costs and increased rates to use the inns.

Earlier this year, Hatoyama killed a plan by Japan Post to sell the network to leasing company Orix Corp.

Hatoyama on Tuesday also approved a fiscal 2009 business program of the holding company's Japan Post Service Co. unit on condition it drop a deal to integrate its parcel delivery services with those of Nippon Express Co. in October.

A joint venture, JPExpress Co., was to take over the two firms' separate parcel delivery services while leaving unprofitable rural services to be handled by Japan Post Service.

Interpreting the deal as unfavorable for Japan Post Service, Hatoyama called for raising fees that the joint venture would pay to Japan Post Service for rural services.

2. FedEx Doesn't Owe Contract Drivers Overtime Pay, Jury Says

By Laurence Viele Davidson and Brad Broberg

April 1 (Bloomberg) -- FedEx Corp. didn't illegally deny overtime pay to contract delivery drivers who accused the company of wrongly calling them entrepreneurs while treating them as employees, a Seattle jury decided.

More than 320 contract ground drivers at FedEx, the second- biggest U.S. package delivery company, sued in a 2004 class- action, or group, lawsuit, demanding overtime at 1 1/2 times their regular pay. They also wanted reimbursement for uniforms.

"Contractors freely chose to enter contracts with FedEx and operate their businesses as they choose," Maury Lane, a FedEx spokesman, said after yesterday's verdict. The drivers will appeal, said their attorney, Rebecca Roe. "We are disappointed," she said.

FedEx, based in Memphis, Tennessee, still faces a national class-action lawsuit over driver pay and lost a similar case in California last year. Yesterday's decision in Washington state court has no bearing on the federal case in South Bend, Indiana.

The Indiana case involves more than 30,000 former and current contractors. They alleged they're supposed to be entrepreneurs and that FedEx shouldn't be allowed to require them to wear company uniforms or dictate rules about their personal appearance and the cleanliness of the trucks.

The group in that case is a mix of multi-route workers who can hire their own employees, and single-route drivers who are responsible for their own deliveries. The Seattle case covered only drivers with single routes.

Contract Drivers

Contract drivers in the federal class action allege that because of the company's control over them, they should be treated as full-time employees and receive regular workers' benefits. FedEx has denied the allegations and has asked U.S. District Judge Robert Miller in South Bend to dismiss the case.

FedEx's contractor ground-delivery model probably gives the company a competitive advantage against United Parcel Service Inc., the world's largest package-delivery company, Marick Masters, a business professor at the University of Pittsburgh, has said. UPS's drivers are employees and are represented by the Teamsters union.

"It's a win-win model," FedEx lawyer Kelly Corr told jurors during the trial, saying the company's structure benefits both the carrier and contractors.

Plaintiffs' lawyers representing drivers in the federal class action monitored the Seattle trial and jury decision. Those lawyers estimate a $1 billion payout in the federal case if the contractors prevail.

$26.8 Million

FedEx paid $26.8 million to 203 contractors and their lawyers in a California state case last year.

The U.S. Internal Revenue Service is investigating whether FedEx misclassified contract drivers for tax purposes in 2002, and 2004 to 2006. The tax agency issued and then withdrew a $319 million preliminary assessment, saying FedEx categorized contractors improperly.

FedEx rose 41 cents to $44.49 in New York Stock Exchange composite trading yesterday.

The Seattle case is Anfinson v. FedEx Ground Package System Inc., 04-2-39981, Superior Court of Washington, King County (Seattle). The Indiana case is In re FedEx Ground Package System Inc. Employment Practices Litigation, 3:05-md-00527, U.S. District Court, Northern District of Indiana (South Bend).

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3. USPS lost $658 million in February

March 31st, 2009
The US Postal Service losing streak continued in February, with the agency reporting a loss of $658 million, bringing the year to date loss for the fiscal year to $1.8 billion. The agency continued to aggressively cut employee work hours, which were down 12% from the prior year. That translated to a 7.3% decrease in wages and benefits. (The savings are inflated by 3-4% because 2008 was a leap year, so there was an extra weekday compared with 2009.) Revenue, meanwhile was down 12.8%. The slide in revenue accelerated from January's 11.8% decline, but that number is also slightly inflated by the extra day in SPLY.
The sharpest drop was in standard mail, down 22% from February 2008. The decrease meant that there was actually less standard mail than first class in the system for the month, reversing recent trends. First class mail volume was down 12.7% compared with last year. Year to date, the USPS has processed about 11 billion fewer pieces of mail than it had at this point a year ago.
Non-personnel expenses were down 12.2% or $167 million, led by a 15% drop in transportation costs and a 14% decline in supplies and services. Information technology expenses increased by 26%, or about $7 million.
(Monthly financial results are unaudited and subject to change. Volume numbers are derived from permit data and statistical sampling. The sampling portion of the RPW system is designed to be statistically valid on a quarterly and annual basis.)

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4. UK Parcel Service Under Pressure To Shut Down

01 April 2009 by Sandra Patterson - © Hellmail.co.uk

A parcel service which sends live animals through conventional postal systems using what it describes as 'specialised packaging', is facing a backlash of criticism from pet lovers and animal welfare activists.

Animal Parcels Ltd, which recently launched it's UK website, www.animal-parcels.co.uk, will deliver anything from small mammals to large dogs from as little as £4.00. Angry protesters gathered outside its headquarters in East Anglia yesterday, with many demanding that the company shuts down its website and immediately cease operations.

“This company posts animals in boxes!” says Penny Walters, a member of Petworth Animal Welfare Society. “Animals are stuffed in small, inhumane, insanitary boxes, and then sent through the normal parcel systems the same as a parcel of books bought off Amazon”

A representative from the U.S. Federation of Animal Relocaters and Transporters told us:

“Animal Parcels Ltd is owned by an overseas company. They tried a similar thing here in the U.S. We successfully pushed for action through Congress and managed to get their website taken down after only a few days. They stopped trading here within a month/

"Pet couriers are expensive, and breeders are always looking to save money, but this is not the way. I hope that existing legislation governing the protection of animals in transit is as tough as that in America.

“The transportation of animals is a very serious business and animal welfare must always be the number one priority, not cost cutting. Companies such as this bring our whole industry into disrepute and need to be stamped on quickly.

Steve Lawson, editor for Hellmail the postal industry news site said:

"We are already familiar with Animal Parcels Ltd and have received numerous complaints about the service.

"Their interpretation of 'specialist boxes' is suspect to say the least. We heard of one case where six baby owls were stacked upright, one on top of another in a cardboard tube. Thats is just unacceptable. There were no holes left for them to see out and no indication that the tube should only be stored one way up." he said.

A facebook group have created an online petition for supporters to sign;

http://www.ipetitions.com/petition/ban-animal-parcels/

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5. Ending the Post Office Monopoly

By Timothy Lutts
President, Chief Investment Strategist and Editor of Cabot Stock of the Month
March 30, 2009

Featuring Lutts' Logic:
Ending the Post Office Monopoly
Competing with USPS
A Digital Contender

Odds are you're reading these words on a computer screen, but not so long ago, the dominant medium of our industry was paper. In fact, in my early years in this business, our big expenses were always the "The Four Ps," paper, printing, postage and people.

The people are still around (and better than ever) but thanks to the Internet, the other three big expenses have shrunk dramatically ... which is good for those of us trying to cut expenses, but bad for those who see their revenue shrink.

Newspapers are at the top of this list today, as advertising dollars have fled to the Internet. Also suffering from the long-term trend are paper companies, ink companies and advertising companies, to name a few. And the current economic crisis has compounded the damage.

In fact, just last week, one of our local printers (we've historically used two, mainly to foster competition) dropped off a job and then stopped by my desk to chat ... or more specifically, to grumble. He says he's reduced staff to the absolute minimum, and now he's working "just to keep the lights on."

I sympathized. And then I saw the story about the United States Postal Service, which lost $2.8 billion last year, and is on track to lose even more this year, in part because the volume of first class mail, which has been declining since 2002 thanks to the Internet, has now fallen off a cliff. Says Postmaster General John Potter, "We are facing losses of historic proportion. Our situation is critical."

This affects us all, because we're all accustomed to receiving mail deliveries six days a week. And while we complain about the rising cost of stamps, the fact is the postal service has done a great job. But if there's anything that last year's giant domino tumble should have taught us, it's that when a big institution starts losing money, things can go from bad to worse in a hurry.

Note: The phrase, "Neither snow, nor rain, nor heat, nor gloom of night stays these courageous couriers from the swift completion of their appointed rounds" has long been identified with the USPS but it is not, in fact, the organization's official motto. It has none. The phrase originated with the Greek historian Herodotus during the war between the Greeks and Persians about 500 B.C. and it was in reference to the Persian horsemen who carried messages.

But it's become identified with the USPS because back in 1896-97, when the New York City General Post Office was being designed, Mitchell Kendal, an employee for the architectural firm McKim, Mead and White, came up with the idea of engraving Herodotus' saying all around the outside of the building. And it's still there today.

So what's the solution for the United States Postal Service? Or more precisely, since disruptive technologies have eroded the core letter-carrying business of the USPS, what's the most cost-effective way for Americans to send and receive mail in the years and decades ahead?

Let's start with a little history.

The United States Postal Service was created in Philadelphia in 1775 under the direction of Benjamin Franklin. Its Railway Mail Service was inaugurated in 1869, making great use of rail cars as on-the-move sorting stations. In 1896, Rural Free Delivery was instituted. In 1912, delivery was reduced to six days a week at the behest of religious leaders. 1913 brought the beginning of parcel post. And 1918 saw the debut of the Air Mail Service.

Then in 1970, Richard Nixon signed the order that turned the institution into an independent agency of the U.S. government, which means basically that it's supposed to be self-sustaining ... and when it's not, we learn about the losses.

Today, the USPS is the third-largest employer in the United States, after the Department of Defense and Wal-Mart. It's also the largest civilian operator of motor vehicles. Considering its great size, it's done a very good job of adapting to changing times. But the growing operating losses (just as at GM) warn us that if bigger changes are not made, the USPS will be next in line for a government bailout. And I think Americans have had enough of bailouts.

Now, it's easy to say that USPS pensions are too cushy or that political patronage is the problem, and while those may be true, I think the two big issues in the institution's business equation are these:

One: The Universal Service Obligation mandates that the USPS provide delivery to every address in the U.S., six days a week, at the same rate.

Two: The Postal Monopoly provides funding for the obligation by mandating that only the USPS can deliver letters in this country and only the USPS can access your mailbox.

Long-accepted logic says that rural delivery is expensive, and is thus subsidized by urban deliveries, and removing the monopoly would enable competitors to target profitable urban locations, leaving the USPS with the more expensive rural routes.

However, an analysis of the quality of delivery proves otherwise. The rural customer often provides the "last mile" of delivery service by picking up his or her mail from a cluster box, or from the end of a driveway, while urban customers often receive mail directly at their doors, and the result is that urban mail does not subsidize rural mail.

Thus the monopoly serves not to protect "profits" but only to prevent competition. And what happens without competition? There's no incentive to compete by pushing costs down!

Yes, the USPS has worked diligently to keep costs under control, and I applaud them for their achievements. I shudder to think what the institution would look like if Richard Nixon hadn't signed the order making it stand alone.

Nevertheless, it is still a monopoly, and independent economists have concluded that the costs of the monopoly exceed its benefits. In short, the USPS is still overpaying its work force, and those workers account for roughly 80% of the institution's costs.

Again, the institution is working to address the issue. Just 10 days ago, the USPS announced that it would slash more than 3,000 jobs, and would offer more than 150,000 employees--nearly half its workforce--early retirement.

And now it's talking about reducing mail delivery to five days a week from six. Sure, that saves money, but it's certainly not what the customers want!

So, after analyzing the facts, I can only conclude that the best course is to open up the business to competition ... slowly.

The USPS has already proven it can compete in the priority mail business, where it has a 15% share.

And since the end of 2006, when it was first allowed to offer volume-related price discounts on some of its shipping services, it has gained market share there, too. In 2008, the USPS generated 11% of its $75 billion in revenue from shipping services.

Its main competitors, of course, are United Parcel Service and FedEx. (German carrier DHL dropped out of the market last year after a six-year effort.) And United Parcel Service and FedEx would no doubt be among the top competitors should Washington allow true competition for letter delivery as well.

But the real opportunities for growth would lie in the digital realm ... should true competition be allowed, and I'll get to that below,

In any case, gearing up to serve this huge market will take time, so winding down the monopoly should be done slowly. I have no doubt it will be a very difficult job. But I have even less doubt that the longer it is delayed, the greater the eventual pain, for all of us.

Bottom line: Postal reform appears to be one of the last things on President Barack Obama's list ... it may not even be on his list. But it should be.

So, putting on our investment hat, let's look at United Parcel Service and FedEx and then at a potential competitor from the digital universe.

United Parcel Service (UPS), headquartered in Atlanta, is the big dog. With annual revenues of $51 billion, it's already two-thirds the size of the USPS. Its bread-and-butter is packages, representing 62% of revenues. International packages account for 21%, and supply chain logistics and freight make the rest.

Revenues have grown in each of the past 10 years (5% and 4% in the past two years), but earnings have shrunk in each of the past four quarters, as revenue growth has slowed faster than expenses.

In the past four years, the stock has fallen from 89 to 38, and it recently rebounded to 50. This rebound might become a new uptrend, but there's no big power behind the move, so I'm skeptical.

FedEx (FDX), headquartered in Memphis, has a lot of similar traits. With annual revenues of $38 billion, it's two-thirds the size of UPS ... or half the size of the USPS. But FedEx gets two-thirds of its revenue from express mail, 18% from ground and 13% from freight. International business accounts for 28% of its revenues.

FedEx, too, has seen revenues grow every year of the past decade (9% and 8% in the past two years), but its earnings began shrinking early in 2007.

In the past two years, the stock has fallen from 121 to 35, and it recently rebounded to 45. Technically, it looks worse than UPS.

Admittedly, both stocks might be considered cheap today; they're well below their old highs, and the market values them at less than one year's revenues.

But on a price/earnings basis, they're no bargains ... unless earnings can rebound in the quarters ahead. And the market appears not to expect that. Certainly analysts don't; they're reduced their projections for both companies for both 2009 and 2010.

So who's the digital contender? Which successful digital company of today might be happy to compete for a piece of the USPS business, and to bring it into the 21st century?

I suggest Amazon.com (AMZN). Clearly, the company is skilled logistically; it's become successful not only by selling books from retailers to individuals but by selling everything from everybody to everybody else, and getting them delivered correctly, too.

But I'm not suggesting Amazon get into the delivery business. I'm suggesting that Amazon's Kindle, the electronic book-reader, might just be the revolutionary piece of technology that could deliver personalized paper-like content to your house, eliminating the need for so much of that paper that fills your mailbox.

And I assume the brains at Amazon are working on it.

Even without that, business is very good at Amazon. Revenues, which totaled $19 billion last year, have grown every year of the past decade (39% and 29% in the past two years), though earnings growth has been less linear. But analysts recently raised their estimates for 2009 and 2010.

Technically, the stock looks great; it's obviously under heavy accumulation. Back on March 2, it earned a spot in Cabot Top Ten Report, where editor Mike Cintolo wrote:

"So why is AMZN so strong? In part, we think it's because the stock is still not over-owned; fewer than 500 mutual funds own the stock. In part we think it's because the company is truly international; 47% of revenues come from outside the U.S. In part we think it's because the company is still achieving double-digit annual revenue growth. And in part we think it's because the company's Kindle, the electronic book platform, has been well received. While the company refuses to divulge sales figures, reviews of the original Kindle, and now the Kindle 2, have been quite positive. Furthermore, the ongoing implosion of the paper-based newspaper industry has created an opportunity for an electronic newsreader, and Kindle is the leading contender in the early phase of the race. In short, the stability of revenue flows from its budget-priced merchandise combined with the promise of what the Kindle might achieve make an attractive package."

When that was written, AMZN was trading at 62. Since then it's climbed to 75, and in the past week it's pulled back normally to 70. So you could buy it here. But even smarter would be buying a no-risk subscription to Cabot Top Ten Report, so you'd be kept up to date on Mike's latest recommendations.

Yours in pursuit of wisdom and wealth,

Timothy Lutts
Publisher
Cabot Wealth Advisory

6. **The shrinking post office**

Deseret News editorial
Published: Monday, March 30, 2009 12:06 a.m. MDT
if the Information Age suddenly jumped up and bit the U.S. Postal Service. Fifteen years ago, almost to the day, we contemplated the writing just about anyone could see on the wall.
"One has to believe the U.S. Postal Service, sitting on the brink of an electronic information explosion as it is, may be reaching the point of diminishing returns," we wrote at the time.
That explosion has hit, and shrapnel is ripping through every concern that deals with information, from this newspaper to your neighborhood postal carrier. Last week, the Postmaster General told Congress he wants to eliminate an entire day, preferably Tuesday, of mail delivery. This is because the agency ran a deficit of $2.8 billion last year and is facing one much larger this year. Eliminating Tuesdays would save an estimated $3.5 billion a year. Combine that with changes in postal worker health benefits, the loss of some employees through attrition, early retirements and layoffs, and the Postal Service still might run a $6 billion deficit in 2010.
Stop! Wait a minute, Mr. Postman.
A private business couldn't sustain losses like that very long. But then, no other such private business (or even quasi-private, as is the Postal Service) exists because the Constitution specifically provides for it. "Congress shall have power ... to establish post offices," it says. Reliable and quick mail service is essential to any nation. Without it, commerce would cease and payments would be in doubt. And without a government-established postal service, the nation's far-flung rural residents especially would be vulnerable.
But in the modern world, those requirements have run headlong into technology and private competition, both of which have been beneficial to the public. Private carriers have pushed the Postal Service to next-day delivery of parcels. E-mail, instant messaging and texting have allowed people to communicate instantly and almost effortlessly worldwide, and that includes sending photos, videos, legal documents and presentations, and paying bills.
And yet many Americans still wait anxiously each day for the postal carrier to deliver. Elderly Americans, in particular, rely on the service.
It's not as if the Postal Service hasn't tried. The past 15 years have seen one reform attempt after another. And yet the returns keep diminishing.
The recession may be exaggerating losses for the moment, but that writing on the wall is becoming clearer each year. The Postal Service has to get smaller. It has to concentrate mostly on the important stuff and on the people who have few alternatives. It may have to eliminate Tuesdays, or even another day as time goes by.
America still needs reliable mail delivery to remain strong, but it has to learn how to guarantee this more intelligently before too many more billions of dollars slip through the cracks.

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7. **Lithuania Slashes Postal Network And Jobs**

27 March 2009 by Franz Groter - © Hellmail.co.uk
The Lithuanian postal service is to reduce post office adminstration jobs by 15% as a result of changes to its post office structure.

Lietuvos Pastas PLC said that it was necessary to restructure main post offices across the country to reflect the econimic downturn. Earlier this month it reduced the number of the employees in it's central headquarters by 10 percent.

Director general Ernestas Vaidelys said:

“These changes will reduce costs incurred by the company, will centralise the management and the organization of the company’s activities.

"They will also enable further purposeful conduction of the company’s mission – providing quality courier and postal services throughout Lithuania."

The company had 10 regional main post offices, differing significantly in size of served territories, population, quantity of post offices, business customers and volumes of provided services. From the 1st of April Lithuanian Post is to reorganise these into 5 main branches located at Vilnius, Kaunas, Klaipeda, Panevezys and Šiauliai.

The plans will result in the loss of around 120 full-time adminstration positions (15%). Lietuvos Pastas said the structural changes would mainly affect the managing personnel of the post office branches and that there were no plans to reduce the number of postmen, operators, sorting employees, heads of post offices and their deputies. It reassued customers that services would not suffer as a result of reforms.

“So far there are no plans to reduce the number of workers of the production chain, however the postal sector, like any other business, has no immunity against growing costs – if the decrease of services’ volumes and increase of expenditures persists, we might be forced to return to the personnel issue” said Vaidelys.

PLC Lietuvos Paštas has more than 8000 employees; the postal network embraces 954 points of provision of universal postal services.

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