



USPS and Industry: Next Steps

Jim Cochrane

Vice President, Ground Shipping

Mailers' Technical Advisory Committee ★ November 19, 2008



Agenda

- State of the Business
- 2009 Update
- Strategic Direction
- Path to Success



Volume Share

Market Share by Service – Competitive Products Only Volume CY 2007								
	Overnight Service		2-3 Day Service		Ground Parcel Service		Total	
	Pieces	%	Pieces	%	Pieces	%	Pieces	%
UPS	450	36%	343	21%	4,387	71%	5,180	57%
USPS	53	4%	885	54%	350	6%	1,288	14%
FedEx	534	43%	345	21%	1,165	19%	2,044	23%
DHL	195	16%	66	4%	105	2%	366	4%
Other	20	2%	3	<1%	182	3%	205	2%
Sub-Total	1,251 14%	100%	1,641 18%	100%	6,189 68%	100%	9,082 100%	100%

Note: Volume in millions. Competitive Products Only
Includes Express Mail, Priority Mail, and Parcel Select



Volume Share

Market Share by Service – All Products Volume CY 2007								
	Overnight Service		2-3 Day Service		Ground Parcel Service		Total	
	Pieces	%	Pieces	%	Pieces	%	Pieces	%
UPS	450	36%	343	16%	4,387	59%	5,180	48%
USPS	53	4%	1,408	65%	1,555	21%	3,016	28%
FedEx	534	43%	345	16%	1,165	16%	2,044	19%
DHL	195	16%	66	3%	105	1%	366	3%
Other	20	1%	3	<1%	182	3%	205	2%
Sub-Total	1,251 12%	100%	2,165 20%	100%	7,394 68%	100%	10,810 100%	100%

Note: Volume in millions. Competitive and Mailing Services Products Included

Includes Media/Library, Standard Parcels, BPM Parcels and First Class Mail parcels, single piece parcel post



Dollar Share

Market Share by Service – All Products								
Revenue CY 2007								
	Overnight Service		2-3 Day Service		Ground Parcel Service		Total	
	\$	%	\$	%	\$	%	\$	%
UPS	6,761	36%	3,365	26%	20,887	67%	31,013	49%
FedEx	8,410	45%	2,903	22%	6,110	20%	17,423	28%
USPS	949	5%	6,246	48%	2,651	9%	9,846	16%
DHL	2,035	11%	514	4%	566	2%	3,115	5%
Other	389	2%	39	<1%	910	2%	1,338	2%
Sub-Total	18,544	100%	13,067	100%	31,124	100%	62,735	100%
	29%		21%		50%		100%	

Note: Dollars in millions. Competitive and Mailing Services Products Included
Includes Media/Library, Standard Parcels, BPM Parcels and First Class Mail parcels



Economic Indicators 2008

- Overnight: Down - 3.7%
- 2/3 Day: Down - 3.5%
- Ground: Flat + 1.3%



State of Our Business: Headwinds

- Strong competitors
- Package market either flat or declining
- Economic uncertainty
 - Retail sales down including online
 - Consumer confidence down
 - Lowest holiday growth forecast since 1980
- Our Customer Care is below competition
- DHL @Home exit from the market



State of Our Business: Tailwinds

- Great business partners
- Great products
- Best service ever- across the board
- New pricing freedoms
- First and last mile strengths
- Market growth is lightweight and residential
- Economic uncertainty:
 - Customers looking for lowest cost provider:
USPS: Walmart effect
- DHL Express exit from the market



**We believe there is a tremendous
opportunity for us to grow**



Leverage Pricing Freedoms

- January 18th price changes for Competitive products
- Aligns with the industry
- Market Dominant will remain in May



Leverage Pricing Freedoms

2009 Published Increase Highlights:			
	FedEx	UPS	USPS
Overnight	6.9%	6.9%	5.7%
2/3 Day	6.9%	6.9%	3.9%
Ground	5.9%	5.9%	5.9%



So Here's The Bottom Line

- **Express Mail increase 5.7% vs. Competitor Air Saver up 8.4% (1-5lb)**
- **Express Mail prices 24% lower than competitions' lowest commercial next day**
- **Priority Mail 15% lower than competitions' ground prices**
- **Competitor Ground residential up 7.23% (1-5 lbs)**
- **Net Minimum Up**
 - **\$.37 (9%) in 2009**
 - **Up \$.57 in two years (14%)**



Beneath the Headlines



What is Net Minimum

2009 UPS Ground Residential with 20% Discount - Actual Discounts							
WGT	Zone 1&2	Zone 3	Zone 4	Zone 5	Zone 6	Zone 7	Zone 8
1	20%	20%	20%	20%	20%	20%	20%
2	20%	20%	20%	20%	20%	20%	20%
3	20%	20%	20%	20%	20%	20%	20%
4	20%	20%	20%	20%	20%	20%	20%
5	20%	20%	20%	20%	20%	20%	20%



What is Net Minimum

2009 UPS Ground Residential with 20% Discount - Actual Discounts							
WGT	Zone 2	Zone 3	Zone 4	Zone 5	Zone 6	Zone 7	Zone 8
1	0%	2%	4%	6%	10%	11%	12%
2	1%	5%	11%	12%	15%	15%	15%
3	2%	8%	14%	15%	15%	15%	15%
4	4%	11%	15%	15%	15%	15%	16%
5	7%	12%	15%	15%	15%	16%	16%



Delivery Area Surcharge (DAS)

- **DAS is in addition to the Residential Surcharge**
- **“Regular” DAS is \$2.40 in continental US**
- **New Extended DAS \$2.65 in continental US**
- **DAS charge is also subject to fuel surcharge**
- **Over 80% of DAS ZIPs have Extended DAS**
- **Over 57% of ZIPs receive DAS or Extended DAS**
- **Over 25% of US population lives in a DAS**



Domestic Shipping Comparison

Priority Mail Commercial vs. UPS Ground Daily Rates B2B							
WGT	Zone 1&2	Zone 3	Zone 4	Zone 5	Zone 6	Zone 7	Zone 8
1	-\$0.23	-\$0.10	\$0.02	\$0.21	\$0.47	\$0.56	\$0.68
2	-\$0.15	-\$0.05	\$0.01	-\$1.18	-\$1.30	-\$1.67	-\$1.99
3	-\$0.39	-\$0.64	-\$0.99	-\$2.31	-\$3.08	-\$3.60	-\$4.42
4	-\$0.82	-\$1.24	-\$1.69	-\$3.55	-\$4.67	-\$5.45	-\$6.58
5	-\$1.27	-\$2.14	-\$2.33	-\$5.06	-\$6.06	-\$7.23	-\$8.48
	USPS Advantage						
	Competitor Advantage						



Domestic Shipping Comparison

Priority Mail Commercial vs. UPS Ground Daily Rates B2C							
WGT	Zone 1&2	Zone 3	Zone 4	Zone 5	Zone 6	Zone 7	Zone 8
1	\$1.82	\$1.95	\$2.07	\$2.26	\$2.52	\$2.61	\$2.73
2	\$1.90	\$2.00	\$2.06	\$0.87	\$0.75	\$0.38	\$0.06
3	\$1.66	\$1.41	\$1.06	-\$0.26	-\$1.03	-\$1.55	-\$2.37
4	\$1.23	\$0.81	\$0.36	-\$1.50	-\$2.62	-\$3.40	-\$4.53
5	\$0.78	-\$0.09	-\$0.28	-\$3.01	-\$4.01	-\$5.18	-\$6.43
	USPS Advantage						
	Competitor Advantage						

- Includes Residential Surcharge (\$2.05)



Domestic Shipping Comparison

Priority Mail Commercial vs. UPS Ground Daily Rates B2C with Weighted DAS							
WGT	Zone 1&2	Zone 3	Zone 4	Zone 5	Zone 6	Zone 7	Zone 8
1	\$2.44	\$2.57	\$2.69	\$2.88	\$3.14	\$3.23	\$3.35
2	\$2.52	\$2.62	\$2.68	\$1.49	\$1.37	\$1.00	\$0.68
3	\$2.28	\$2.03	\$1.68	\$0.36	(\$0.41)	(\$0.93)	(\$1.75)
4	\$1.85	\$1.43	\$0.98	(\$0.88)	(\$2.00)	(\$2.78)	(\$3.91)
5	\$1.40	\$0.53	\$0.34	(\$2.39)	(\$3.39)	(\$4.56)	(\$5.81)
	USPS Advantage						
	Competitor Advantage						

- 25% of the DAS surcharge (weighted)
- DAS = \$0.53 (25% of \$2.40)



Domestic Shipping Comparison

Priority Mail Commercial vs. UPS Ground Daily Rates B2C with Weighted DAS, Weighted Extended DAS and Fuel							
WGT	Zone 1&2	Zone 3	Zone 4	Zone 5	Zone 6	Zone 7	Zone 8
1	\$3.07	\$3.21	\$3.34	\$3.55	\$3.83	\$3.92	\$4.05
2	\$3.16	\$3.28	\$3.38	\$2.20	\$2.11	\$1.75	\$1.45
3	\$2.92	\$2.71	\$2.40	\$1.09	\$0.36	(\$0.14)	(\$0.92)
4	\$2.50	\$2.12	\$1.72	(\$0.11)	(\$1.20)	(\$1.96)	(\$3.04)
5	\$2.07	\$1.23	\$1.11	(\$1.60)	(\$2.57)	(\$3.71)	(\$4.91)
	USPS Advantage > \$2.00						
	USPS Advantage						
	Competitor Advantage						

- Includes Residential Surcharge And Weighted DAS & Extended DAS & Ground Fuel Surcharge (8.25%)



Domestic Shipping Comparison

Priority Mail Commercial "Plus" vs. UPS Ground Daily Rates B2C with a 20% Discount							
WGT	Zone 1&2	Zone 3	Zone 4	Zone 5	Zone 6	Zone 7	Zone 8
1	\$2.42	\$2.43	\$2.44	\$2.45	\$2.47	\$2.48	\$2.49
2	\$2.42	\$2.45	\$1.94	\$0.78	\$0.53	\$0.14	-\$0.17
3	\$2.32	\$1.63	\$0.88	-\$0.42	-\$1.37	-\$2.01	-\$2.71
4	\$1.77	\$0.84	\$0.03	-\$1.78	-\$3.02	-\$3.88	-\$4.96
5	\$1.18	-\$0.05	-\$0.43	-\$3.15	-\$4.51	-\$5.59	-\$7.03
	USPS Advantage > \$2.00						
	USPS Advantage						
	Competitor Advantage						

- Includes 20% Discount, Residential Surcharge And Fuel



Domestic Shipping Comparison

Parcel Select Blended Rates with Consolidator Markup vs. UPS Ground Daily Rates B2C with a 30% Discount				
WGT	Zone 1&2	Zone 3	Zone 4	Zone 5
1	\$2.07	\$2.08	\$2.10	\$2.06
2	\$2.01	\$2.08	\$2.28	\$2.22
3	\$1.93	\$2.07	\$2.25	\$2.27
4	\$1.93	\$2.06	\$2.27	\$2.40
5	\$2.02	\$1.96	\$2.34	\$2.42
	USPS Advantage > \$2.00			
	USPS Advantage			
	Competitor Advantage			

- Parcel Select Rates Are Blended 80% DDU, 20% DBMC and Included Yield
- UPS Daily Rates with 30% Discount Include Residential Surcharge and Fuel



International Shipping Comparison - Japan

Priority Mail International vs. FedEx International Economy				
WGT	2009 FedEx Int'l Econ. (Zone G)	PMI (Zone 3)	Diff. in Rates	% Diff
1	\$54.14	\$25.00	-\$29.14	-53.8%
2	\$65.40	\$29.25	-\$36.15	-55.3%
3	\$75.45	\$33.50	-\$41.95	-55.6%
4	\$85.80	\$37.75	-\$48.05	-56.0%
5	\$95.52	\$42.00	-\$53.52	-56.0%
	Actual Savings Using USPS			
	% Difference In Price			



International Shipping Comparison - Europe

Priority Mail International vs. FedEx International Economy				
WGT	2009 FedEx Int'l Econ. (Zone G)	PMI (Zone 3)	Diff. in Rates	% Diff
1	\$56.31	\$26.50	-\$29.81	-52.9%
2	\$68.32	\$29.75	-\$38.57	-56.5%
3	\$79.26	\$33.00	-\$46.26	-58.4%
4	\$89.68	\$36.25	-\$53.43	-59.6%
5	\$99.82	\$39.50	-\$60.32	-60.4%
	Actual Savings Using USPS			
	% Difference In Price			



I Have to Stop Now,
I Am Getting Over Confident
... It's More Than Pricing



Four Key Strategies

- Improve Customer Service
- Improve Service Quality
- Enhance Tracking Service
- Optimize Reasonable Pricing



Service Quality

- Continuous improvement of on-time delivery standards
- Increase our capability
- Continue to drive time-in-transit improvements
 - Across the board all shipping
- Reduce miss-sorts and miss-sent and their root causes
 - The service tail
- Be careful of all average perspective



Visibility & Tracking

- **Create more visibility with tracking**
- **More passive scans**
 - Added 114% in FY08
 - 547 Million Additional “Enroute” Scans
- **Scan for “Arrival at Unit” for all packages**
- **Increase delivery scan execution**
- **Release more tracking data to customers**
- **Release “Out for Delivery” event**
- **Add additional scan events**



Optimize Reasonable Pricing

- Align pricing changes with industry
- Enhance profitability with new product offerings that meet customer's needs
 - New \$4.80 small Flat Rate box for Priority Mail
- Limit price increases at destination entry point (DDU) to encourage movement closer to the destination
- Continue to reward volume growth with volume discounts for Priority and Express Mail and rebates for Parcel Select
- Leverage contract pricing to grow volume and revenue
- Gain better understanding of costs that drive pricing



Optimize Reasonable Pricing

- New “Plus” Pricing for Expedited Shipping:
 - Express Plus
 - 6,000 pieces per year/25 per day
 - 14.5% average discount
 - Priority Plus
 - 100,000 pieces Per year/400 per day
 - 7% average discount
- Ground pricing encourages more first and last-mile entry
- Still No Fuel Surcharges In FY09’



Improve Customer Service

- Improve “Ease of Use”
 - Shorten start-up time for new customers
 - Pre-certify Labels/Barcodes, Electronic Verification System
 - Over 95% of Parcel Select Shippers are now eVS
 - Make it easier for 3rd Party providers to bring in their customers
- Improve Customer Care
 - Testing dedicated staff for single package look-up
 - Reduce response time for customer inquiries
 - Analysis of our Sales structure
- Enhance Employee Training
 - Broader knowledge base
 - Deeper knowledge base for customer care employees



Next Steps

- You are part of the Mail supply chain
- You are our customers, our business partners and valued associations
- I challenge you to let us compete

...It is time for you to rethink your shipping