

# **A New Business Model for the United States Postal Service**

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**Mary Anne Gibbons**  
**Senior Vice President & General Counsel**  
**U.S. Postal Service**

**Linda A. Kingsley**  
**Senior Vice President, Strategy & Transition**  
**U.S. Postal Service**

# Mail: Part of the Fabric of America

- Conduit for **\$30 trillion** in financial transactions annually
- Center of **\$1 trillion** mailing industry employing **8 million** people
- Physically connects every address in America with every other address, here and abroad
- Manages address and ZIP Code system used by critical non-postal databases: emergency response, insurance, property tax, real estate, GPS...

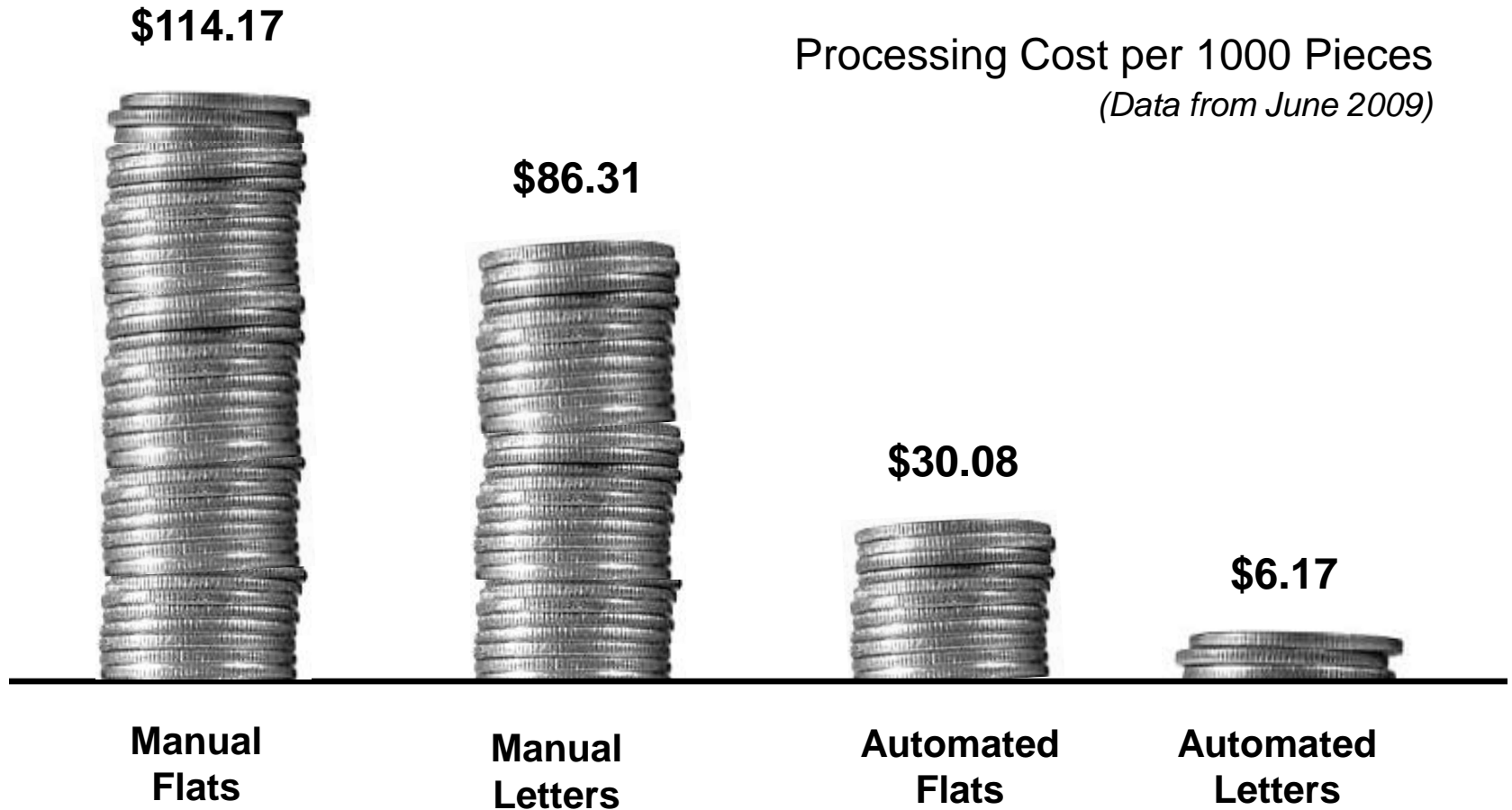
# World's Best Postal Service

- 45% of the world's mail volume (less than 5% of the world's population)
- Consistent high quality service in all areas
- High customer satisfaction (94% *excellent, very good, or good*)
- Extremely high customer trust
- Dynamic, highly productive public-private partnerships
- Dedicated, well-respected workforce – members of their communities
- Some of the lowest, most affordable prices in the world

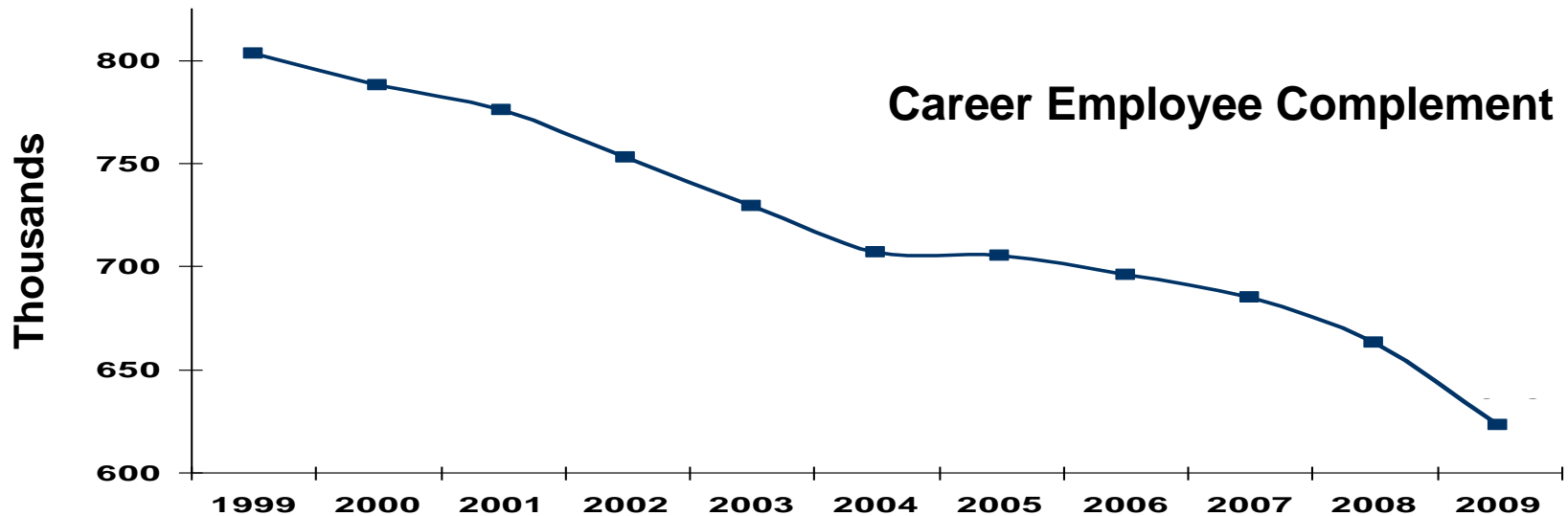
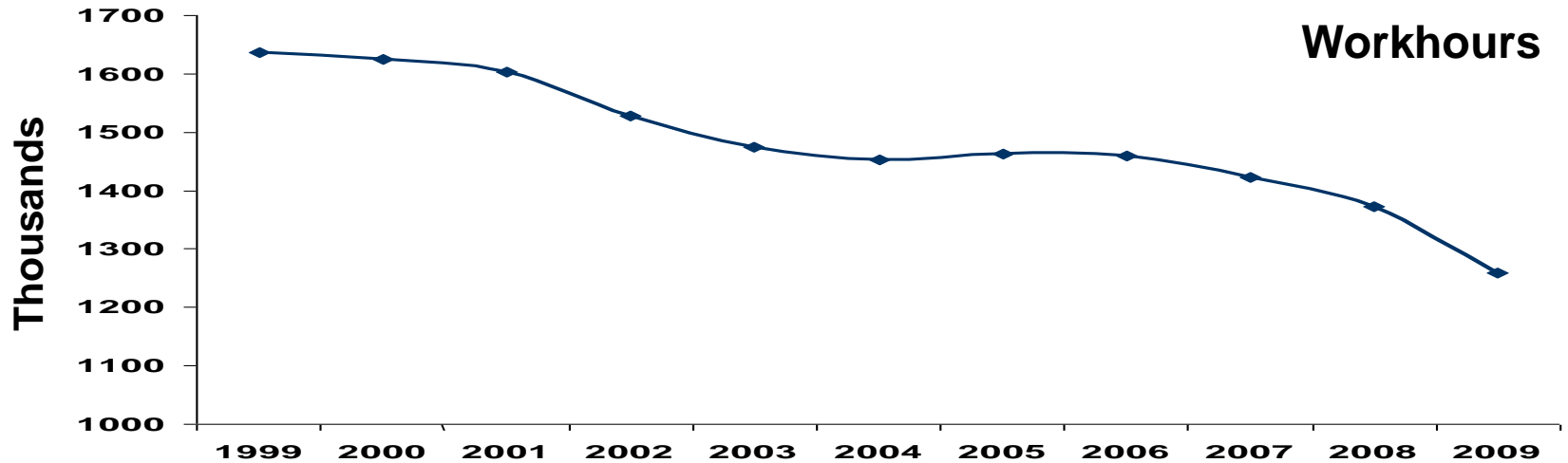
# Well-Managed Organization

- Kept First-Class stamp price increases under rate of inflation
- Went from being 20% subsidized in 1970, to receiving **zero** subsidy as of 1983
- Developed innovative products and services
- Aggressively reduced costs
- Increased efficiency through capital investments

# Replacing Labor with Capital Mechanization and Automation



# Aggressive Response to Workload Changes

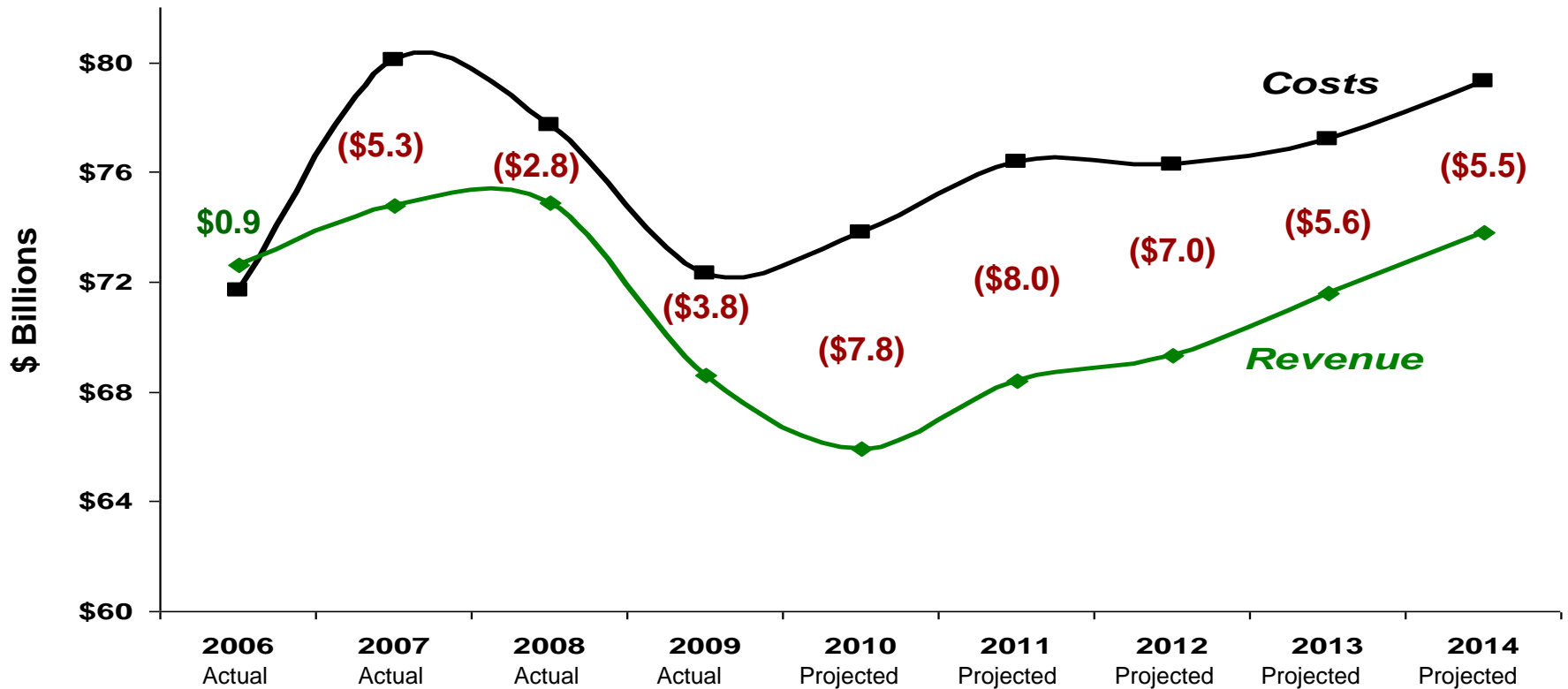


# Product Innovation

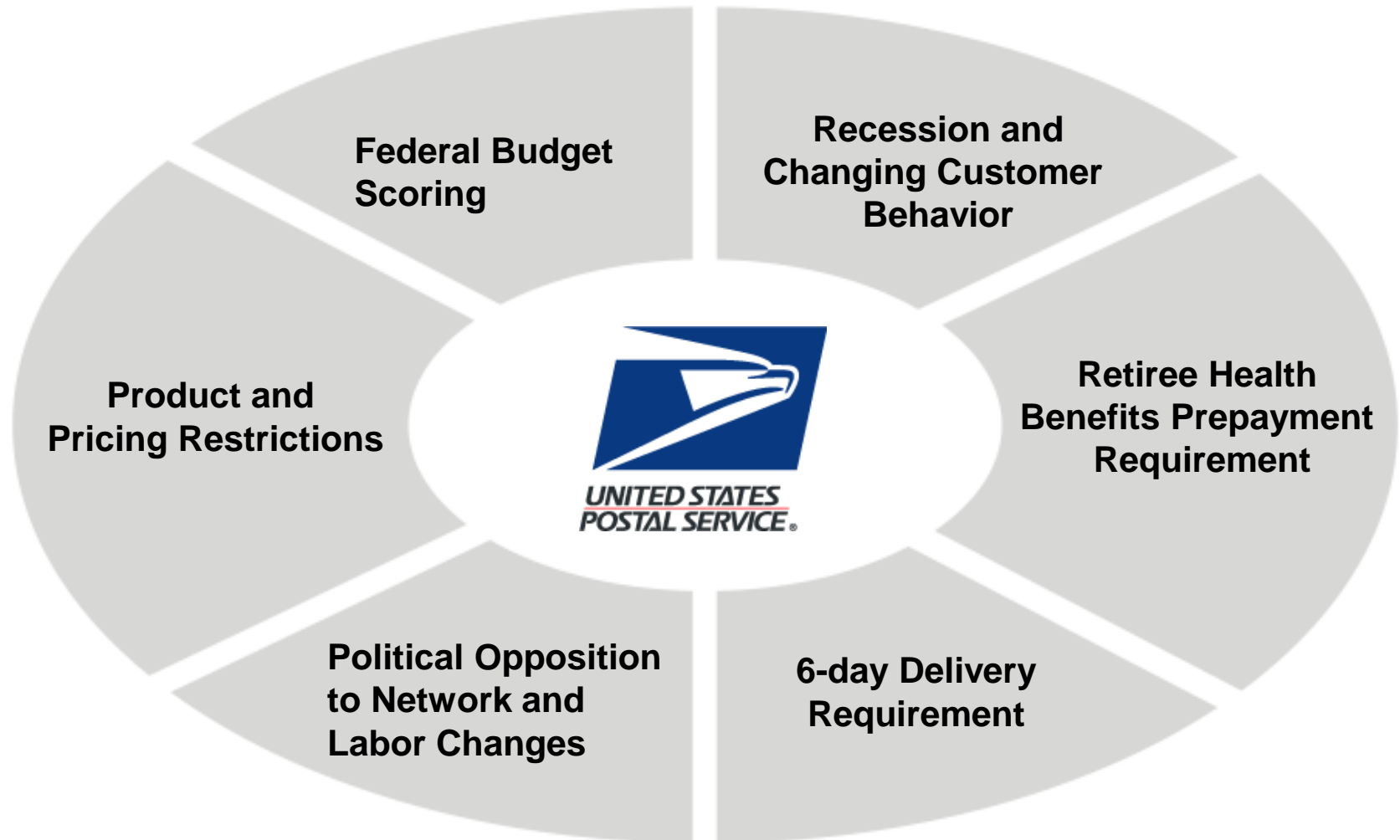
- Worksharing (access pricing)
- Contract pricing
- Click-N-Ship, *usps.com*, free carrier pick-up
- Partnerships
- Customer Connect, Business Connect, Rural Reach
- Summer/Fall sales incentives
- Priority Mail Flat-Rate Boxes

# A Continuing Net Income Gap

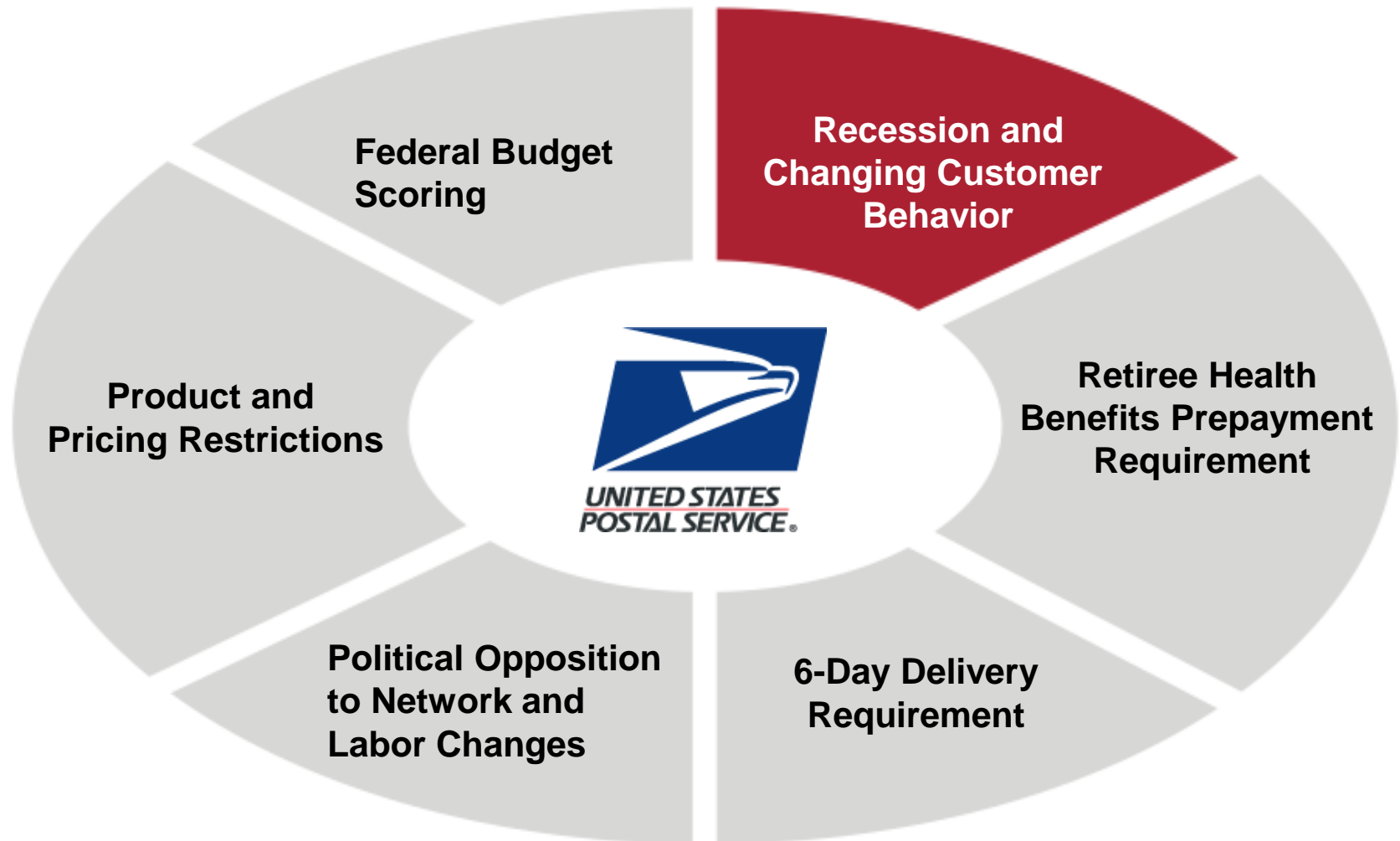
Projections assume the Postal Service will reduce base costs by \$3.5 billion in 2010 and \$1 billion in each successive year. Also factored in are continuing revenue gains from product and pricing innovations.



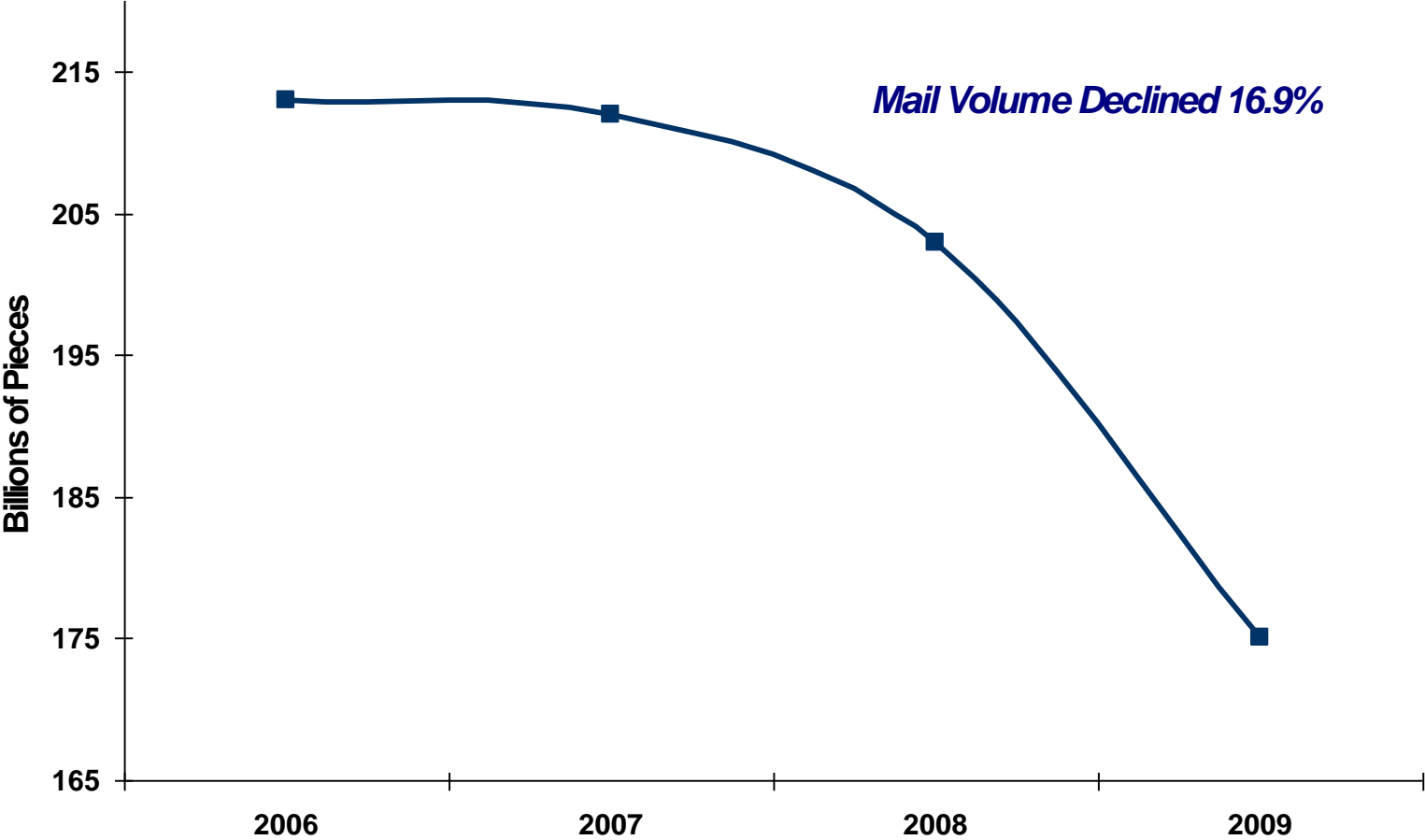
# Challenges to a Self-Sufficient Postal Service



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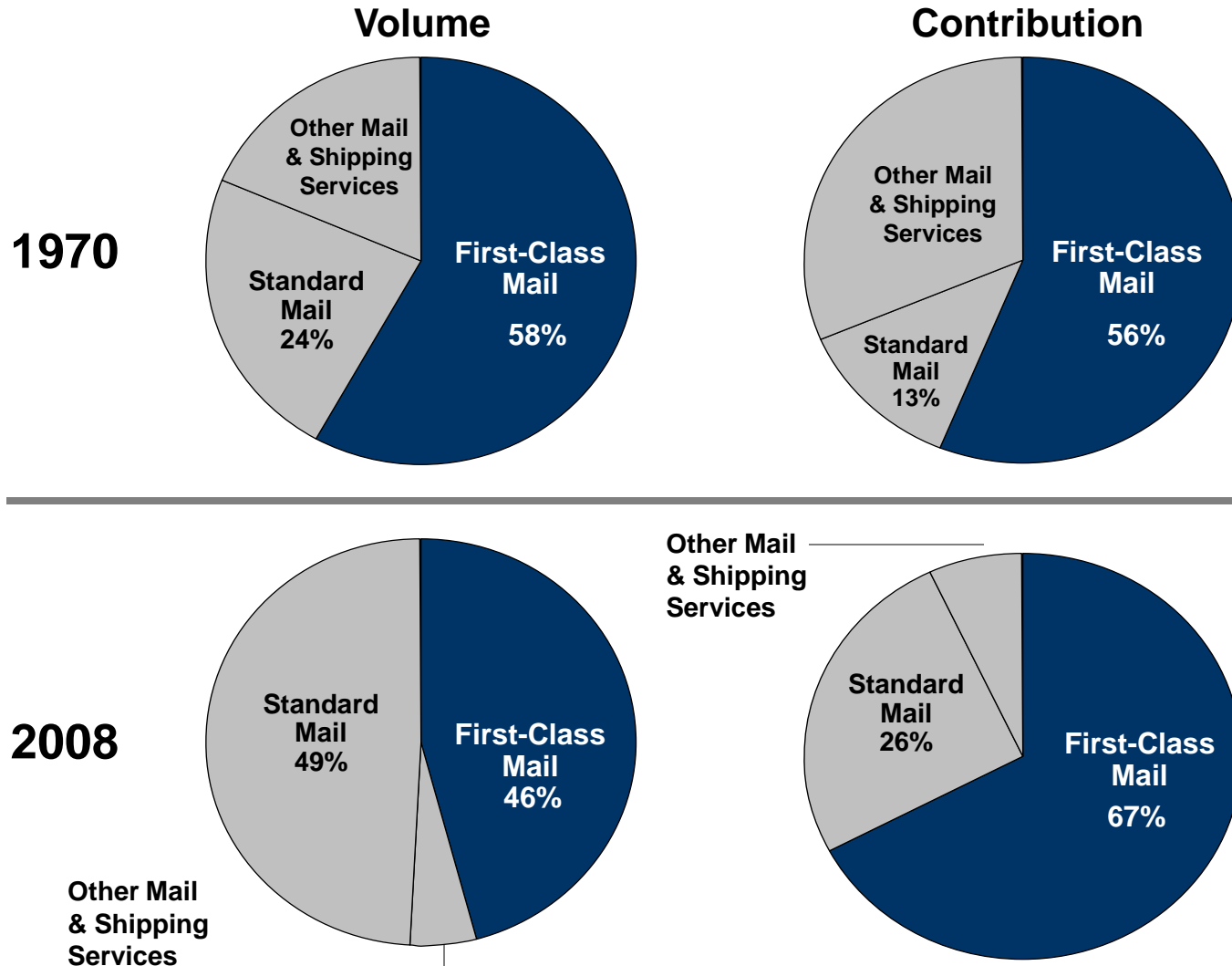


# Recession and Changing Customer Behavior Since 2007: A New Reality



# Recession and Changing Customer Behavior

## A Less Profitable Mail Mix

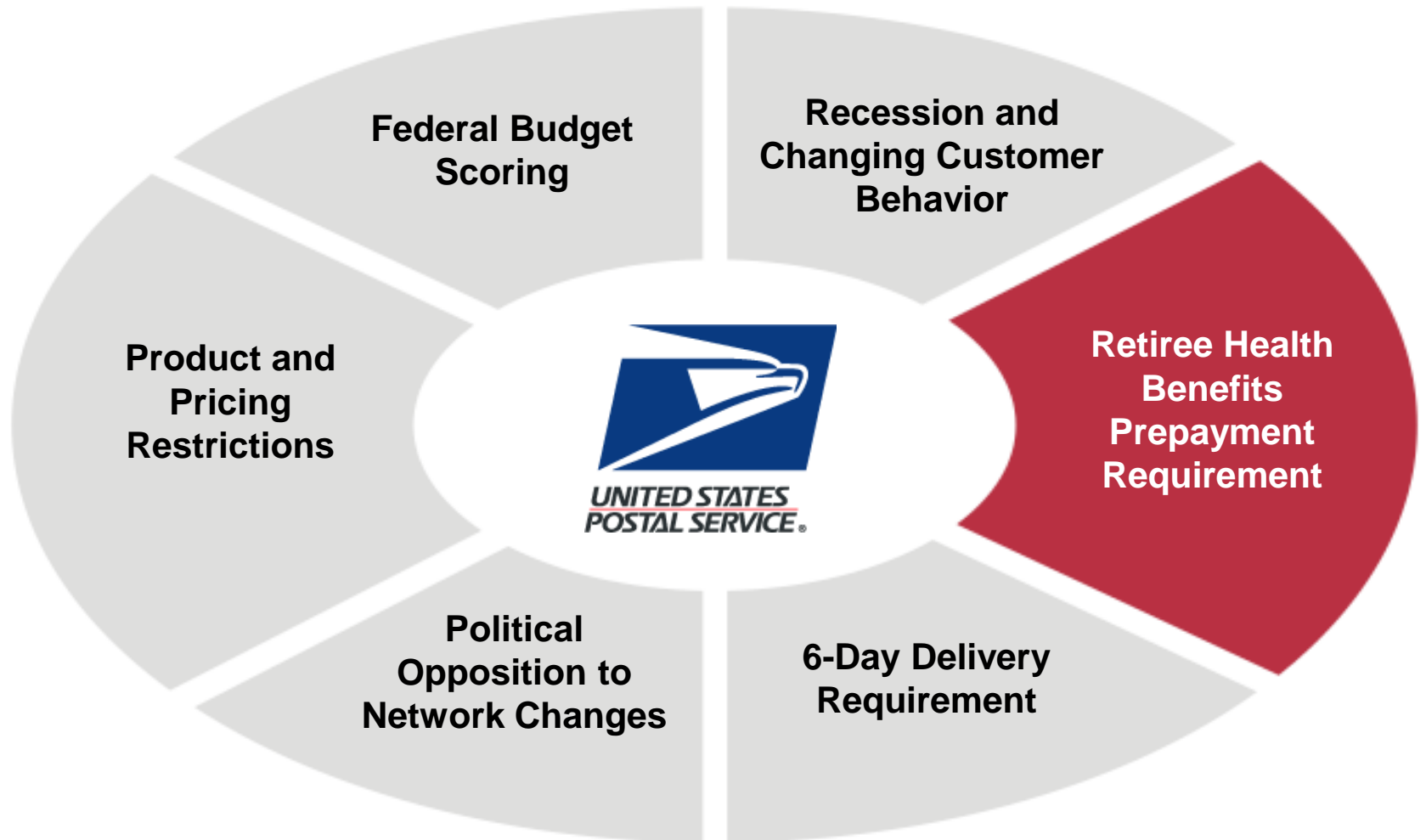


# Recession and Changing Customer Behavior

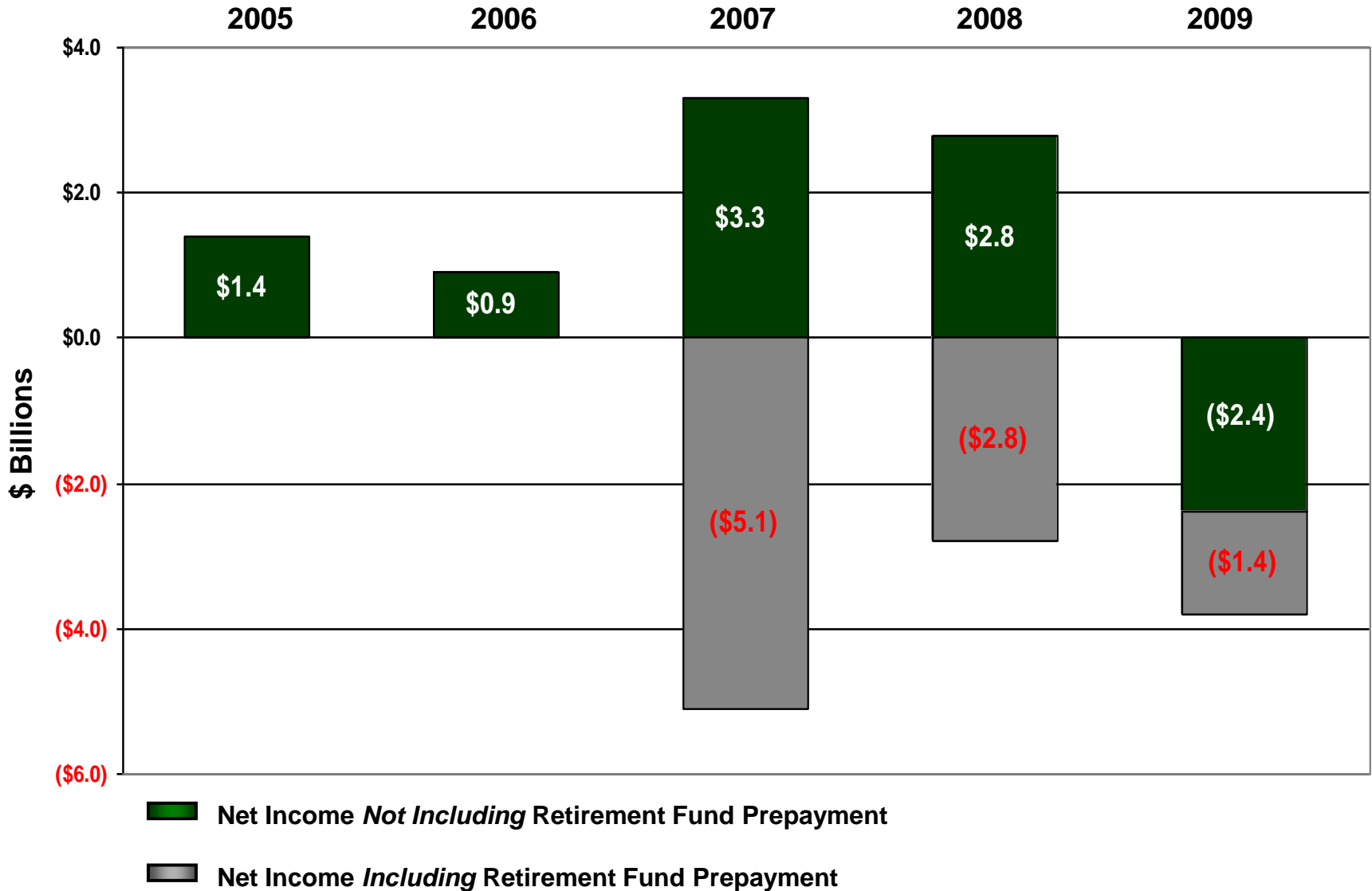
- Postal Service now pursuing its mission in radically different environment
- Sectors hit hardest by recession – financial, housing, retail, automotive – include heavy mailers
- Diversion of mail to Internet – some gone for good
- Volume threatened by perceptions that mail is bad for the environment, “Do Not Mail” efforts

# Challenges to a Self-Sufficient Postal Service

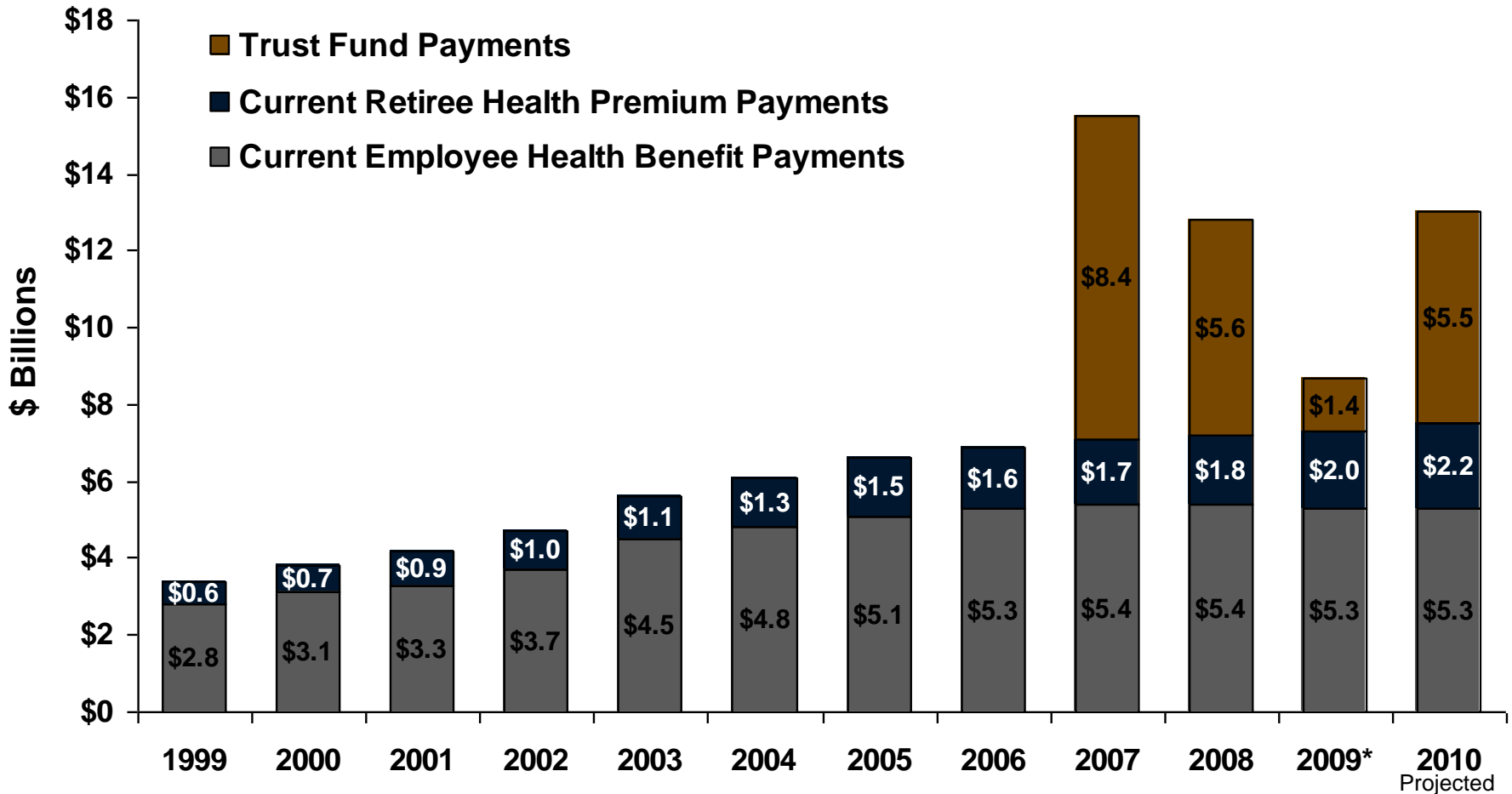
Annual Value: Up to \$5.8 Billion



# Retiree Health Benefits Prepayment Requirement Drives Losses



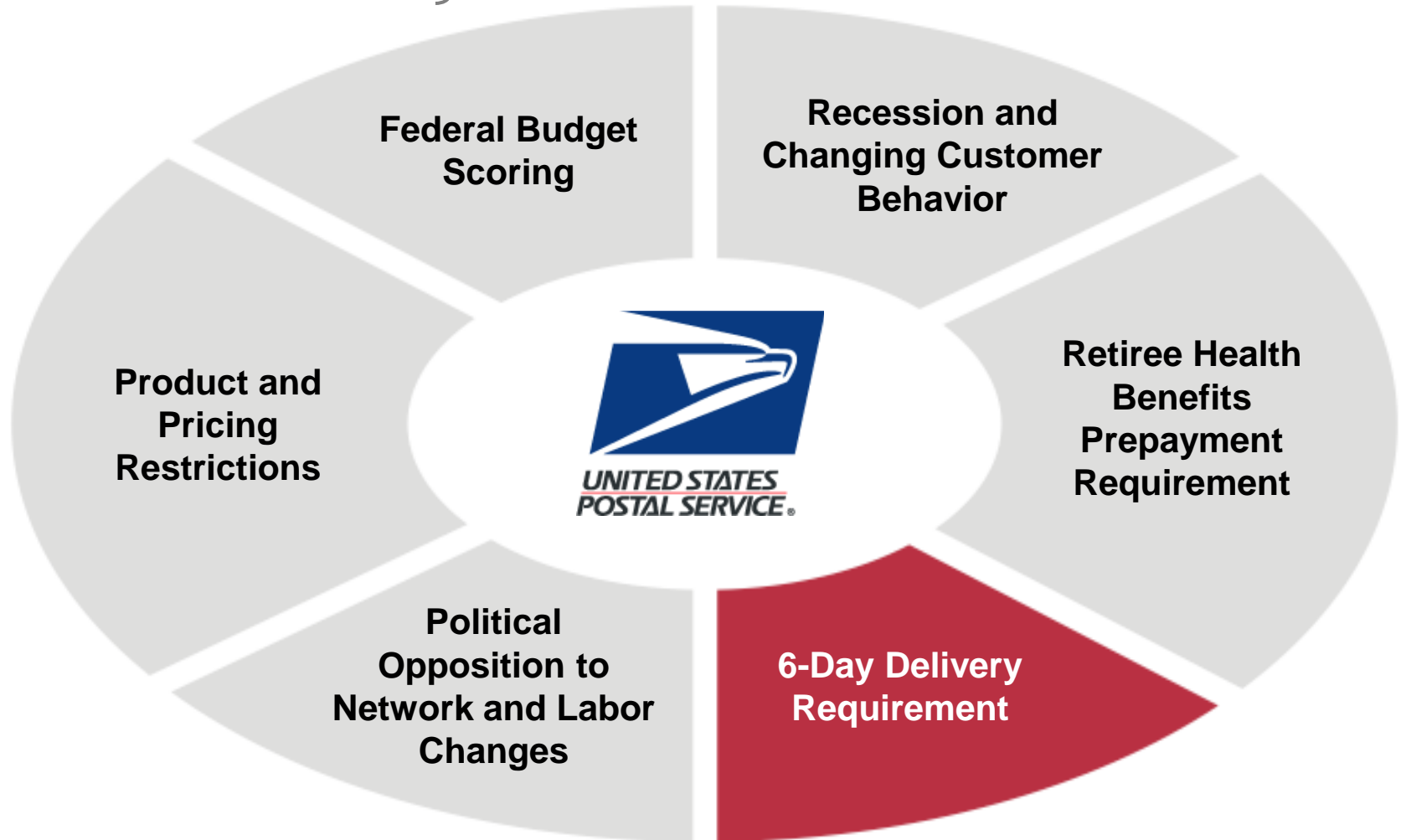
# Retiree Health Benefits Prepayment Requirement



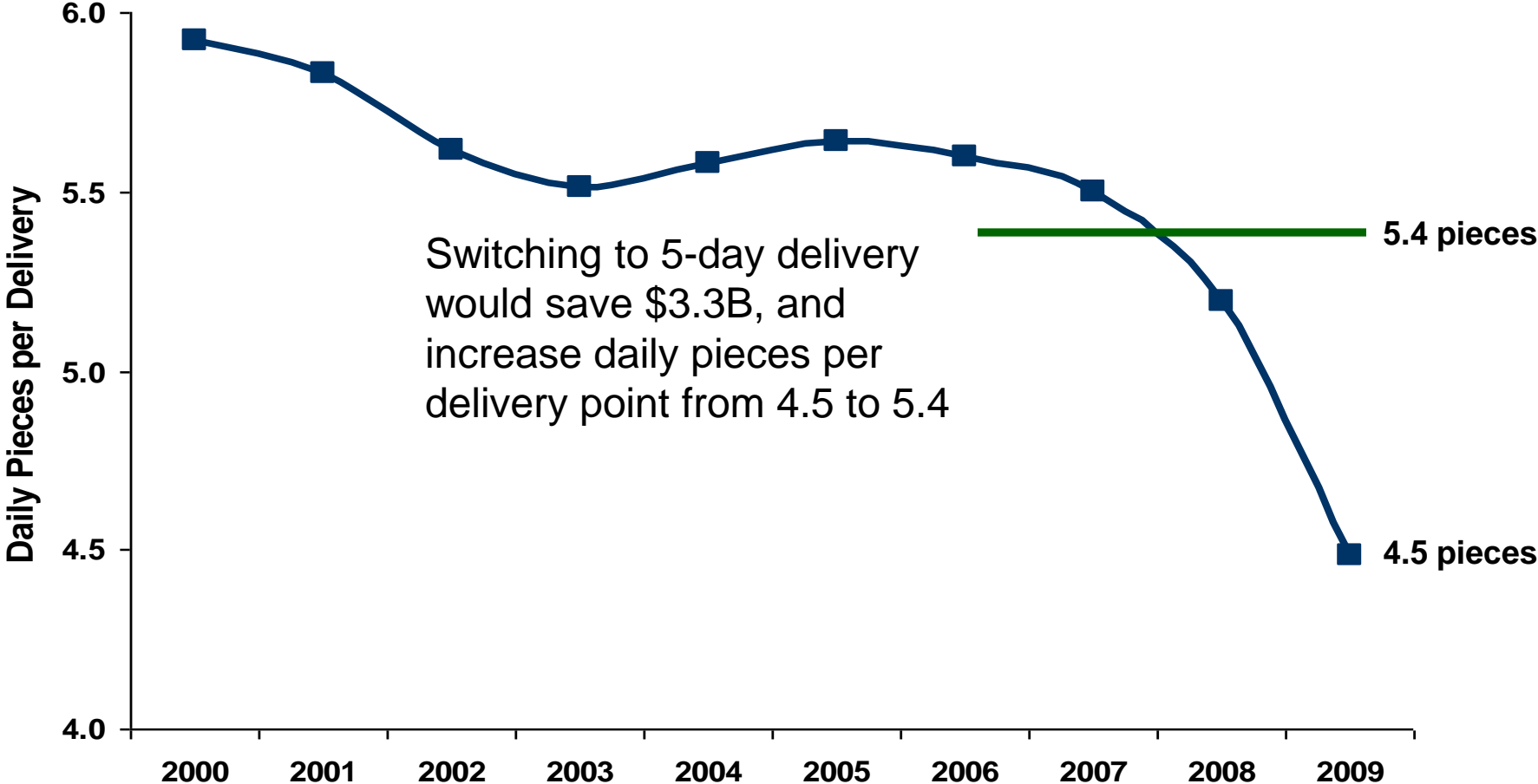
- *Congress provided for a reduction in the 2009 payment only*
- *Total 2010 payments equal \$13B, almost 8 cents/mail piece*

# Challenges to a Self-Sufficient Postal Service

Annual Value to Close the Gap: } \$3.0- \$3.5 Billion to Change from 6- to 5-Day Delivery

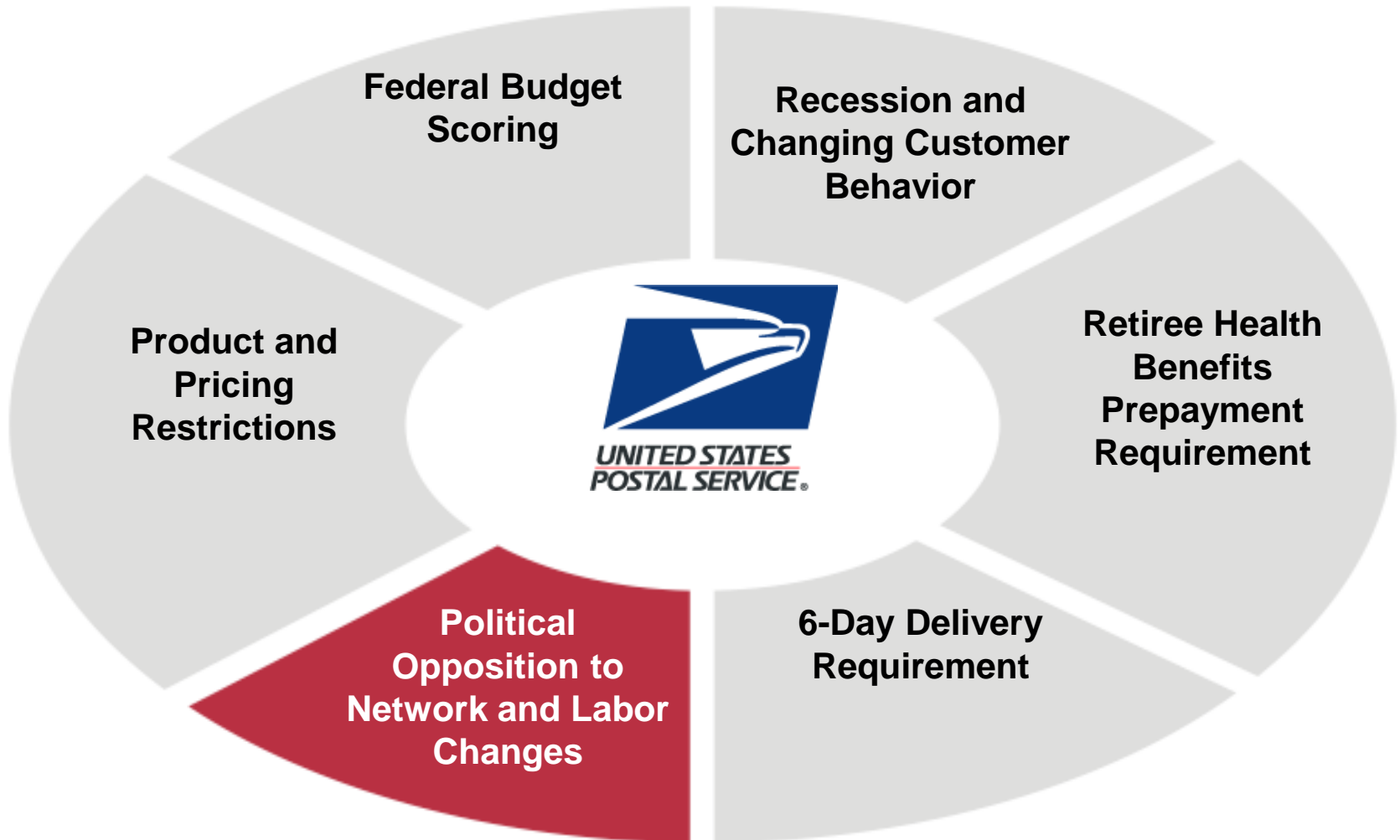


# 6-Day Delivery Requirement



# Challenges to a Self-Sufficient Postal Service

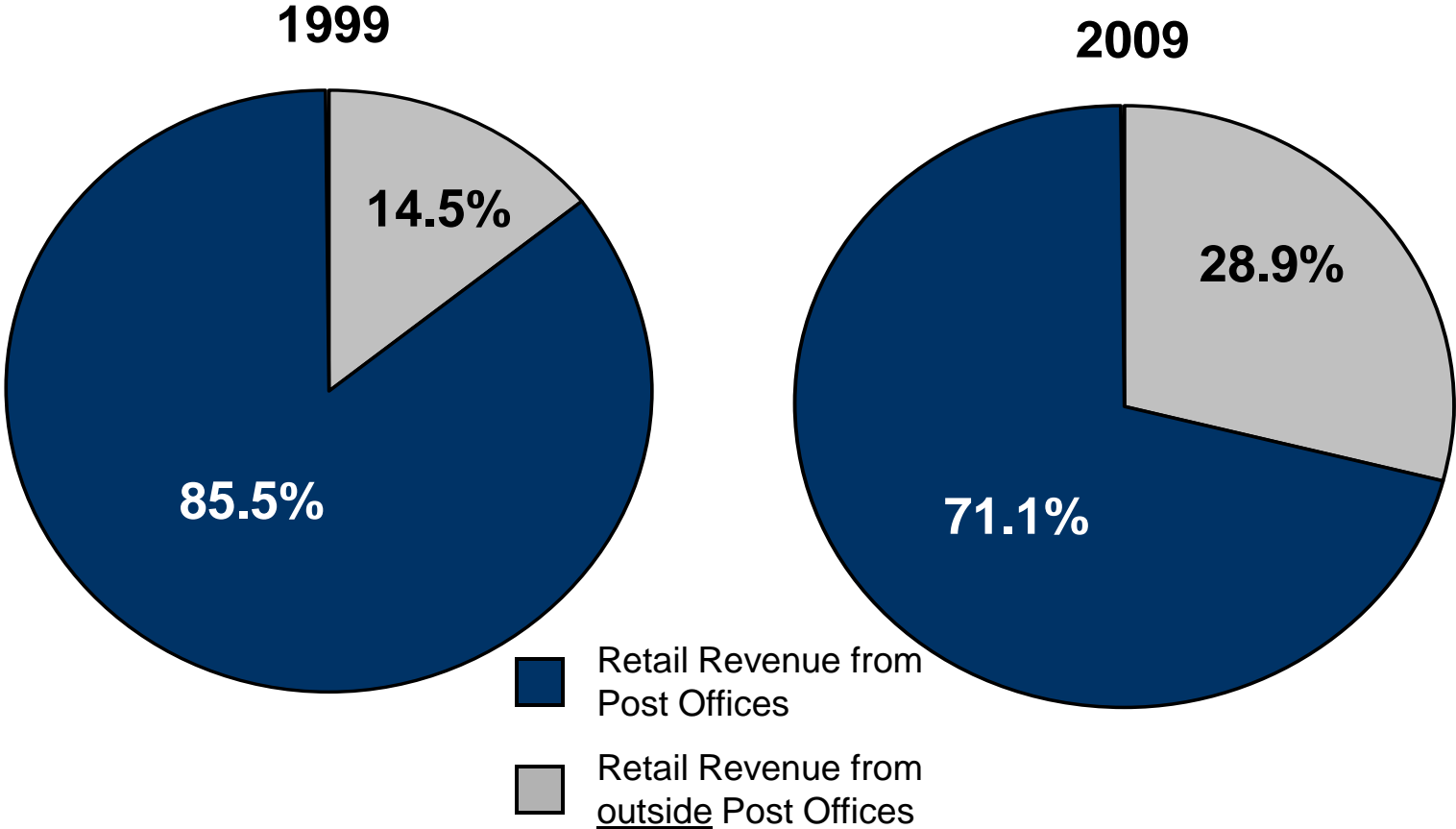
Annual Value to Close the Gap: } Up to \$1.5 Billion from Network Consolidation  
Up to \$5.0 from Additional Contracting Out



# Political Opposition to Network and Labor Changes

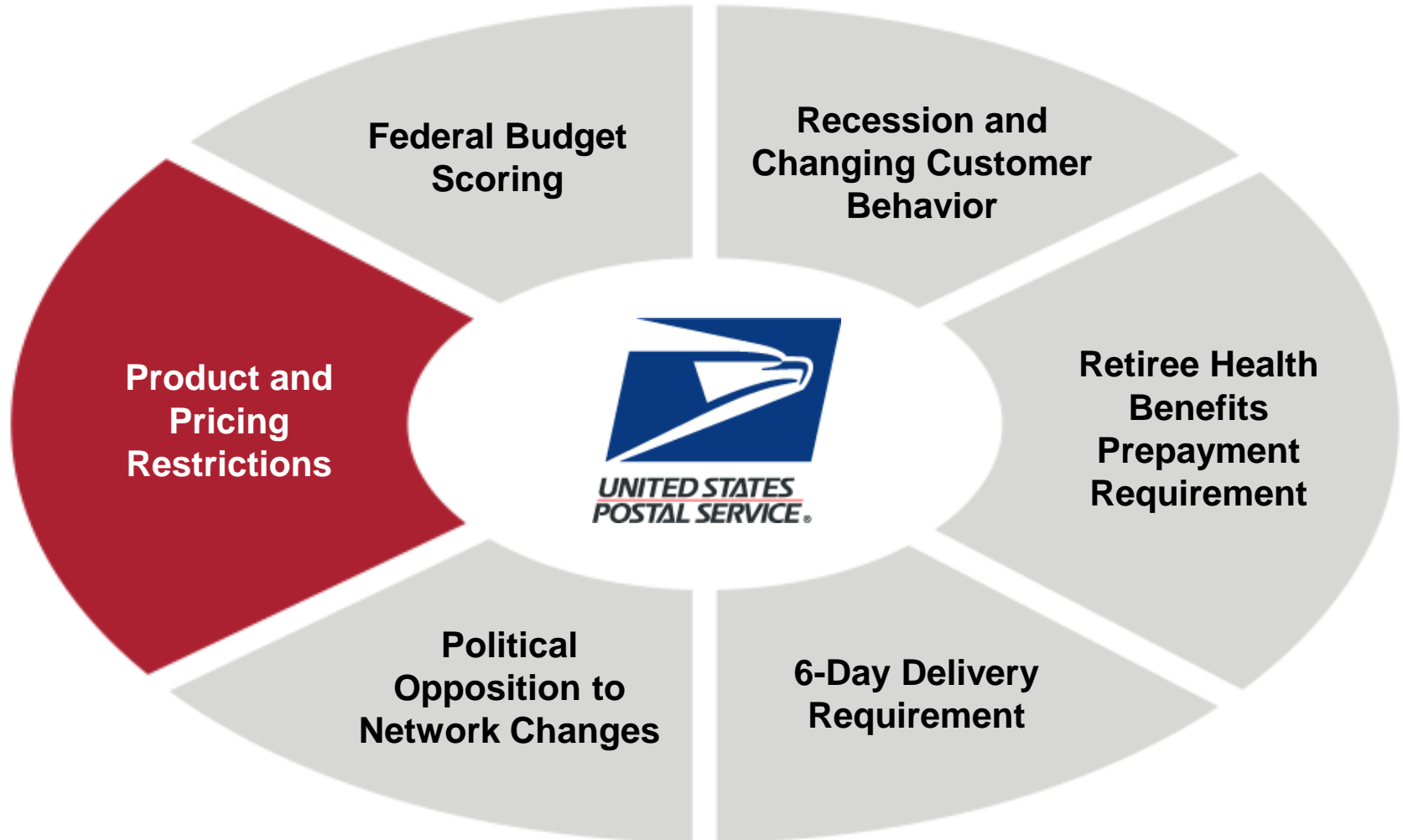
**Retail is the source of over 26% of total revenue.**

The share of retail revenue generated outside of Post Offices has almost doubled in 10 years.



# Challenges to a Self-Sufficient Postal Service

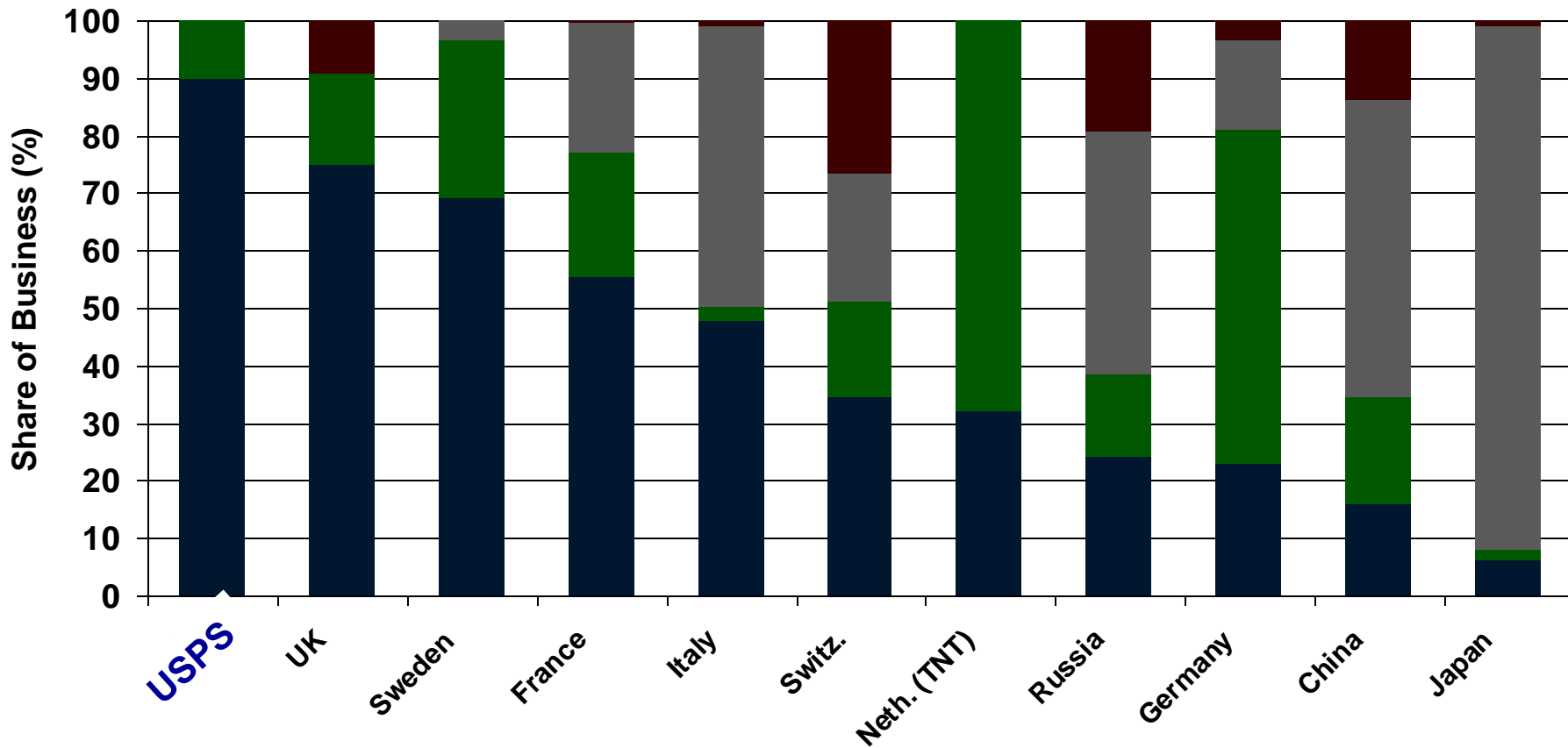
Annual Value to Close the Gap: } Up to \$2.5 Billion from Product Freedom  
Up to \$0.5 from Value-Based Pricing



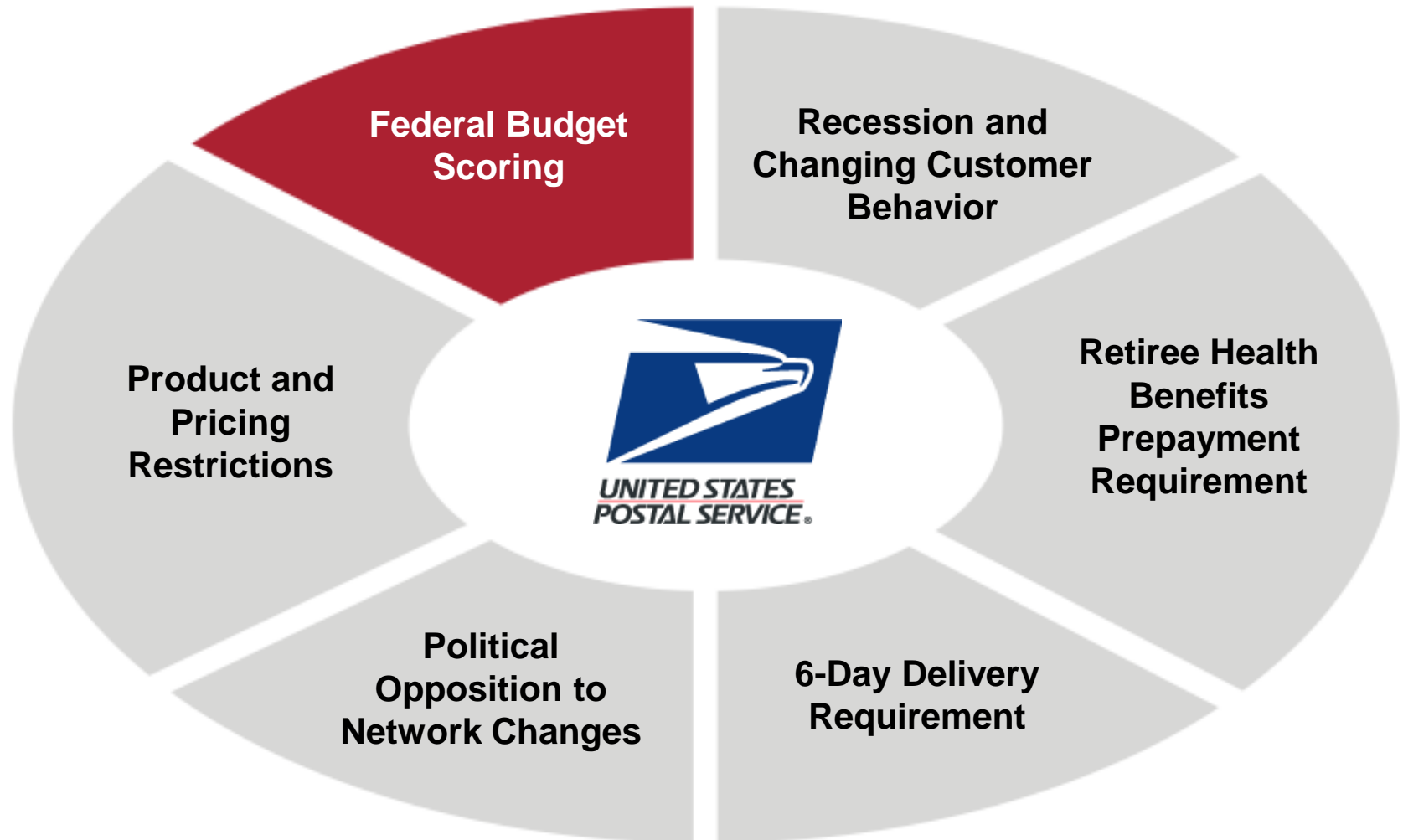
# Product and Pricing Restrictions

## *More Product and Pricing Flexibility Elsewhere*

■ Letter Post    ■ Packages and Logistics    ■ Financial    ■ Other Products



# Challenges to a Self-Sufficient Postal Service



**The Status Quo is not an Option**

# 1970: An Independent Establishment of the Executive Branch



## Postal Reorganization Act

**Product flexibility**

**No price cap**

**GAAP — no prepayment of retiree health benefits**

**No 6-day delivery requirement**

**Network flexibility**

**No prohibition to closing unprofitable retail sites**

# Today: The Business Model is Obsolete



## Today

Highly restricted product offerings

Price caps

Prepay future retiree health benefits over 10 years

6-day delivery required

Political involvement in every network change

No closing retail due to economics

## Postal Reorganization Act

Product flexibility

No price cap

GAAP — no prepayment of retiree health benefits

No 6-day delivery requirement

Network flexibility

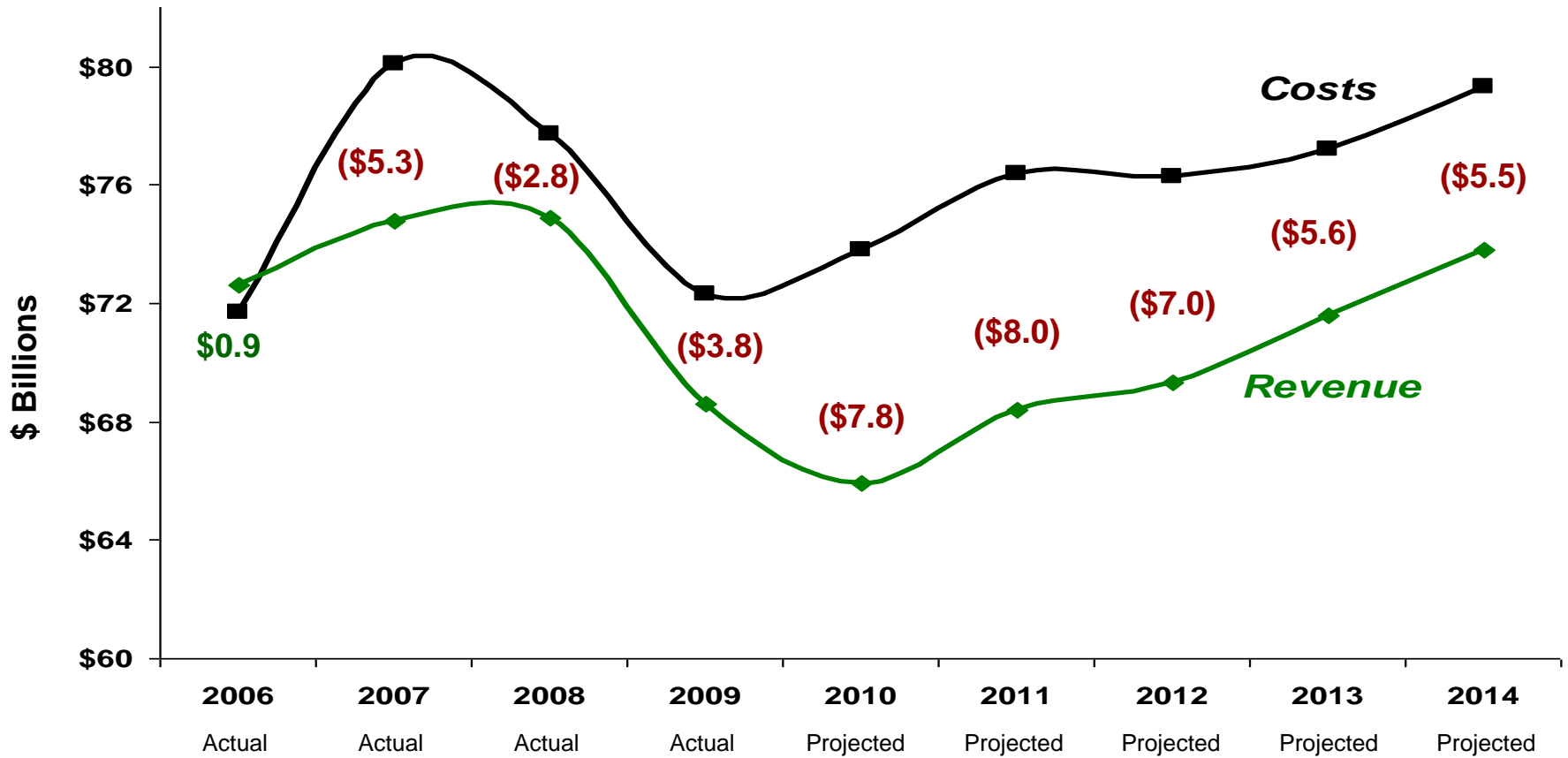
No prohibition to closing unprofitable retail sites

# Future Model: An Entrepreneurial Postal Service?



Today	Postal Reorganization Act	Future Model?
Highly restricted product offerings	Product flexibility	Off federal budget
Price caps	No price cap	GAAP — Pay-as-you-go retiree health benefits
Prepay future retiree health benefits over 10 years	GAAP — no prepayment of retiree health benefits	Delivery frequency based on market demand
6-day delivery required	No 6-day delivery requirement	Optimize networks to changes in volume and customer use
Political involvement in every network change	Network flexibility	Expanded product freedom
No closing retail due to economics	No prohibition to closing unprofitable retail sites	Value- and demand-based pricing

# Close the Gap



# Close the Gap:

## *What are the opportunities?*

<u>Opportunity for change</u>	<u>Annual Value</u>	<u>Barriers to change</u>
<b>Prefunding Requirement for Retiree Health Benefits</b>	\$0 - \$5.8B	Legal
<b>Delivery Frequency</b>	\$3 - \$3.5B	Legal
<b>Network Flexibility</b>	TBD	Legal/Political
<b>Contracting Out</b>	TBD	Political
<b>Product Freedom</b>	TBD	Legal
<b><i>OTHERS?</i></b>	<b><i>?</i></b>	<b><i>?</i></b>

# Questions

- 1. What will the country need from the Postal Service in the Short-term? Longer-term?**
- 2. Should USPS be allowed to close a post office if adequate alternate access exists?**
  - How should adequate access be defined and measured?
  - Does access have to be postal-owned?
- 3. Given that there is competition for all market dominant products, why should price caps remain?**

## More Questions

**4. How could the regulatory structure be streamlined?**

**5. Looking ahead 10-20 years, what should the Postal Service's business model be?**

- Subsidized by government (old Post Office Dept)
- Corporate/Governmental enterprise (more flexibility than today)
- Corporation (liberalized, fully privatized)
- Other?