



Envisioning America's Future Postal Service

Options for a Changing Environment

March 2, 2010



Today's discussion

- Review of economic trends and financial forecast
 - Value of planned actions
 - Additional options to ensure a viable Postal Service
- 

McKinsey built an integrated forecast and set of options

Volume forecast

BCG

THE BOSTON CONSULTING GROUP

Prepared volume and revenue projections of the USPS core mailing and shipping business



Revenue diversification research

accenture

Examined revenue diversification pursued by foreign posts



Integrated business forecast

McKinsey&Company

Integrated the BCG and Accenture work with USPS data

- Forecast baseline and scenario profitability
- Assessed a comprehensive list of revenue and cost options

Four trends are increasing pressure on USPS

Revenue trends

Volume

Declining steadily

Cost trends

Universal Service Obligation

Large fixed cost base



Rising but capped

Price

Rising cost per hour

Workforce costs

Price: Price increases combine with volume declines for flat revenue through 2020

USPS revenue \$ Billions

Volumes declining
*-1.5% per year from
2009-2020*

X

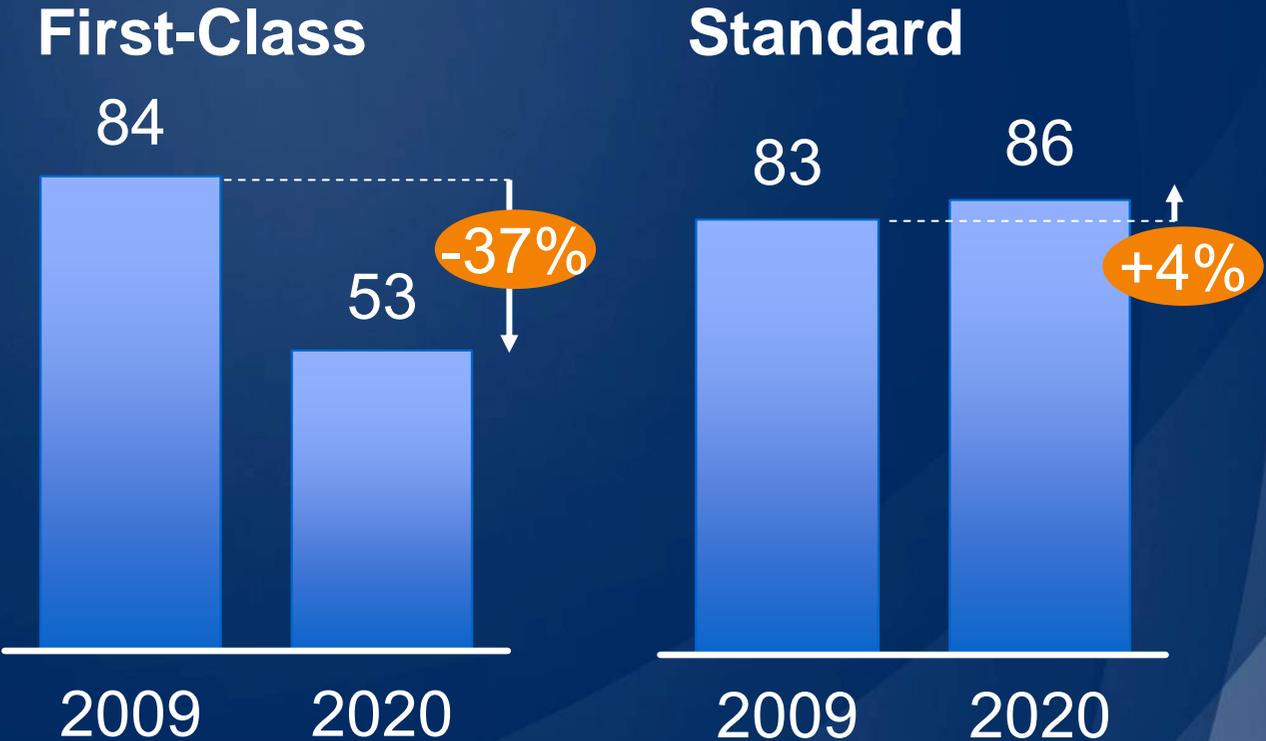
Prices rising
with inflation
*+1.9% per year from
2009-2020*



Revenue trends: Declines focused in higher contribution First-Class Mail

Volume

Billion pieces



Portion of total margin available to cover fixed costs (2009)

71%

21%

Universal Service Obligation



Network was historically built to provide high service levels to customers, regardless of volumes

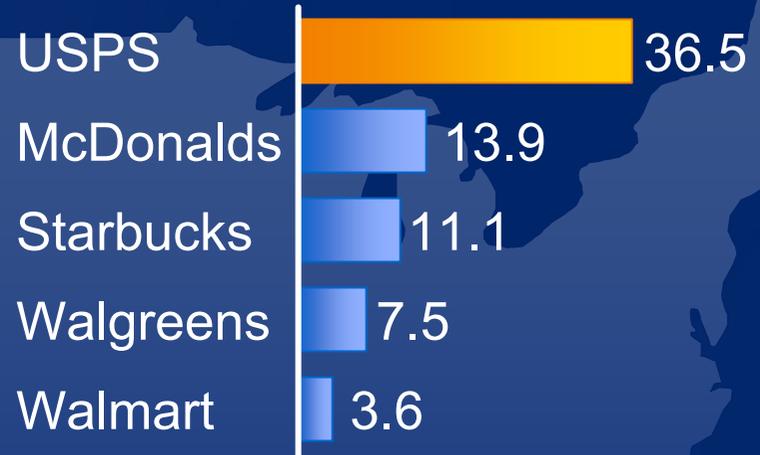


Universal Service Obligation: Customer service network costs are largely fixed



U.S. retail locations

Thousands



Service network

- 600 weekly counter customers at the average Post Office, 1/10th of Walgreens
- Prohibited from closing Post Offices solely for economic reasons

Universal Service Obligation: Processing overhead costs are largely fixed



600 processing facilities

~12 for every state

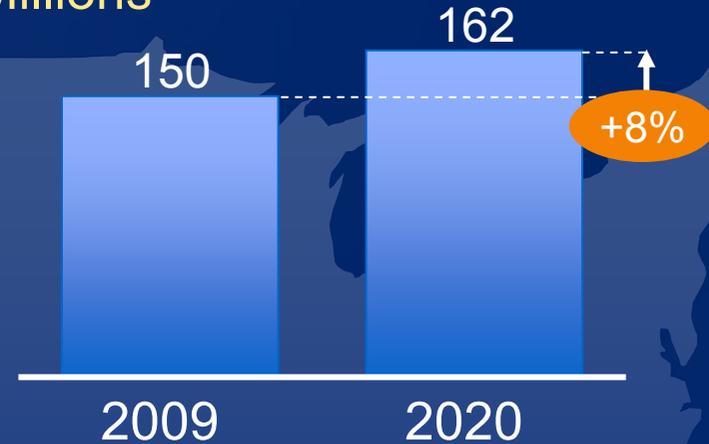
Sortation plants

- Ensure overnight delivery of local mail
- Network largely fixed
- Volume declines are rapidly reducing economies of scale

Universal Service Obligation: Delivery requirements are growing



Addresses Millions



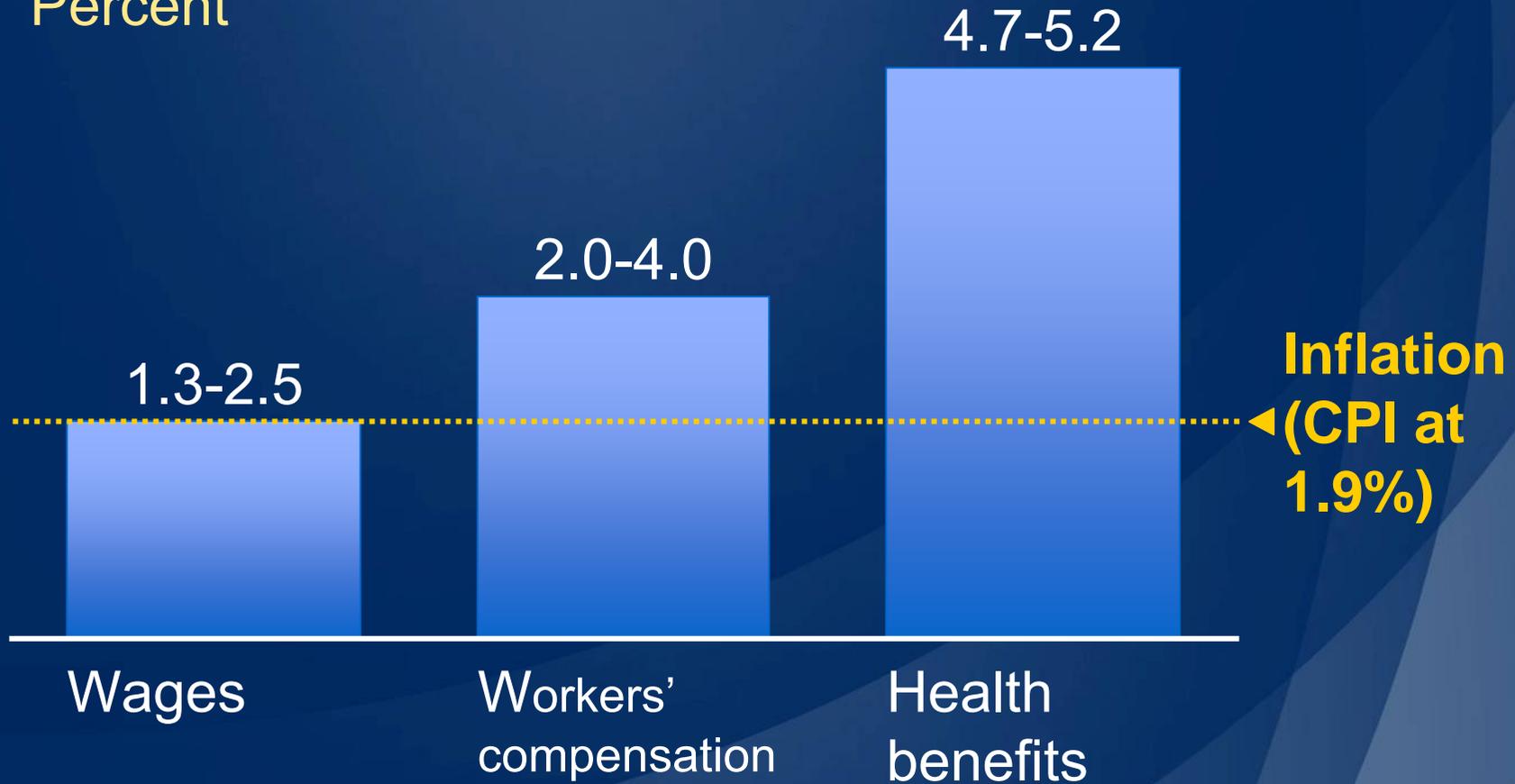
Delivery network

- Deliver to every address in America
- 6-day delivery
- Corresponding high fixed delivery cost

Workforce costs: Continue to rise faster than inflation

Workforce annual rate increases, 2010-2020

Percent



Workforce costs: Required Retiree Health Benefit funding is substantial from 2010-2016



Required Annual Retiree Health Benefit (RHB) funding

2005

\$1.5 billion

2010-16

\$9.0 billion average

Percent of total revenues 2010-16

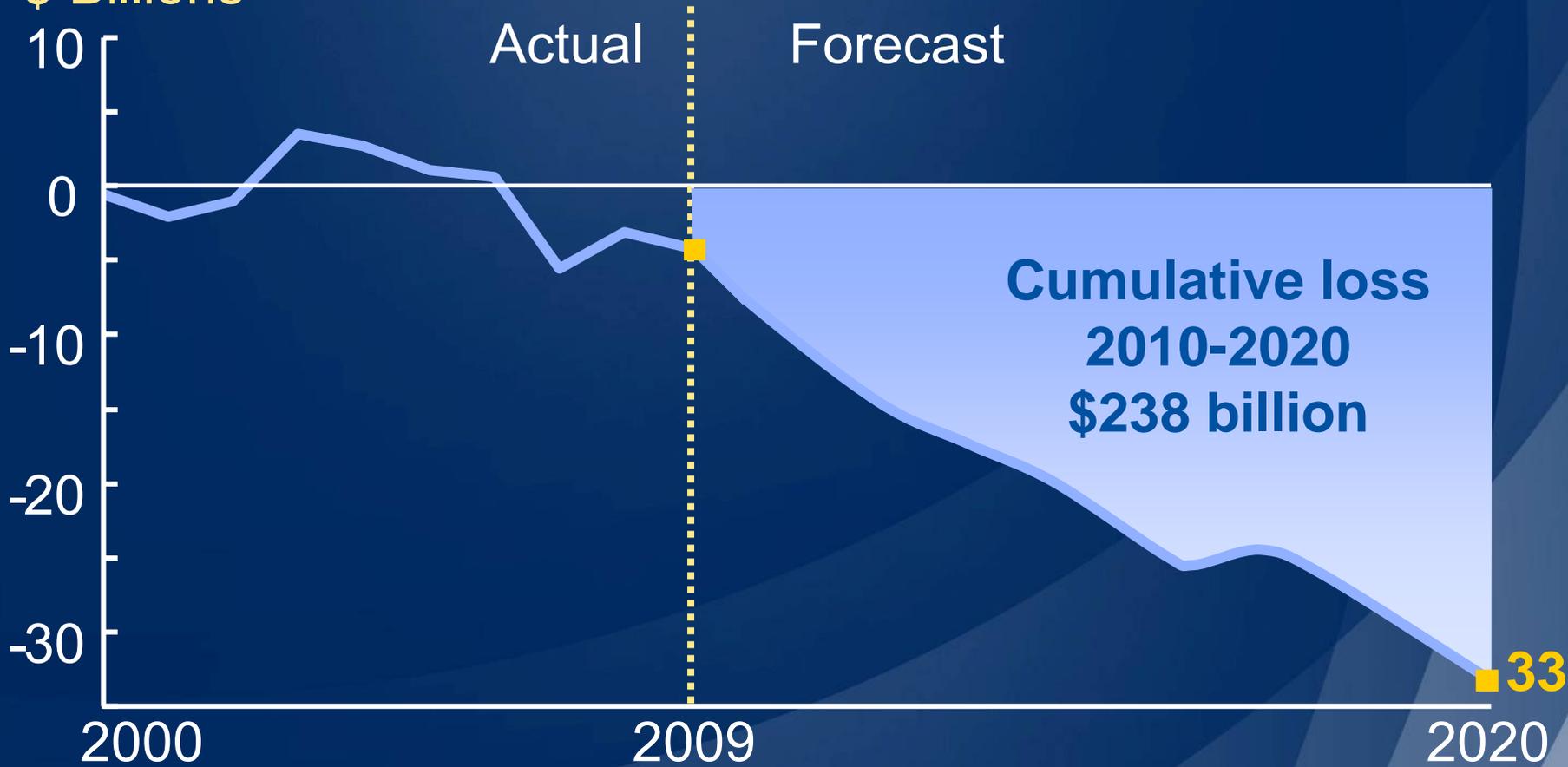
12-16%



Recent losses are forecast to grow without changes

Net profit/loss

\$ Billions



Actions within Postal Service control: Four sets of actions could reduce the 2020 gap by \$18 B

Net profit benefit in 2020
\$ Billions

1	Product and service actions	~2
2	Productivity improvements	~10
3	Workforce flexibility improvements	~0.5
4	Purchasing savings	~0.5
	Avoided interest due to reduced debt	~5

Total **~18**

Cumulative impact 2010-2020 **~123**

Actions within Postal Service control will improve long-term sustainability, but a gap will remain

Net income

\$ Billions



McKinsey examined an extensive range of options

50+ options considered

- Aggressive internal cost improvement options across the organization
- Products and services options from:
 - Foreign posts (banking, logistics)
 - Private sector firms
 - Other government entities
 - The Postal Service
- Other product and service extensions from existing assets
- Pricing actions
- Privatization



Filtered on criteria

- Overall profit impact
- Impact on customers and mailers
- U.S. specific-industry dynamics
- Time and capital investment required
- Feasibility

Privatization: An unlikely option for USPS

- Investors require a clear path to profitability before acquisition
- Changes USPS requires to become attractive to investors are more extensive than those required to ensure a viable government entity
- The scale and associated risk further limit investor interest in the business
- Even after a privatization, U.S. Government would need to maintain implicit or explicit support for the Postal Service



Fundamental change: Options exist across five areas to address the remaining \$15 billion gap

Products and services



Pricing

Service levels



Remaining
FY 2020 gap =
\$15 billion

Public policy considerations



Workforce

Fundamental change options: Products and services



Create new products and services
consistent with USPS mission



Develop a suite of hybrid mail products
that integrate electronic and physical mail

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Simplify advertising products

Fundamental change options: Pricing



Modify price cap to apply across all market dominant products rather than by class



Apply exigent price increase



Increase prices on select products to cover costs:

- Periodicals
- Nonprofit mail
- Media and Library mail

Fundamental change options: Service levels



Change service levels from 1-3 day to 2-5 day delivery for First Class Mail



Reduce delivery frequency to 3 days or 5 days per week

Change delivery location to curbside or cluster boxes



Expand access through alternative channels

- Private sector retail partnerships
- Kiosks
- Direct (e.g., online, mobile)

Fundamental change options: Workforce



Improve workforce flexibility by changing the employee mix and taking advantage of over 300,000 voluntary separations over the next 10 years



Align workforce costs with overall market trends and inflation

Fundamental change: Public policy considerations



Restructure RHB pre-funding

- Defer payments
- Shift to a “pay-as-you-go” system comparable to other federal agencies and private companies



Receive Universal Service Obligation subsidies through Federal appropriations



Streamline oversight model to improve flexibility and timeliness

Closing perspective

Even undertaking all opportunities within Postal Service control, USPS is facing a cumulative \$115 billion loss

Actions in any one area will not be enough to close this gap

Pursuing multiple actions can result in enhanced customer service and a financially viable operating model

Legislative and regulatory changes are necessary and will require cooperation from multiple stakeholders



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