



USPS and Industry: Next Steps

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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






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%



Beneath the Headlines



What Are You Really Paying?

Competitor's Rate Increases 2004 - 2009			
YEAR	Published Increase	Actual Commercial 1 - 5 lbs.	Actual Residential 1 - 5 lbs.
2004	1.90%	1.91%	6.06%
2005	2.90%	4.71%	5.80%
2006	3.90%	4.57%	7.57%
2007	4.90%	5.50%	5.56%
2008	4.90%	5.48%	5.46%
2009	5.90%	7.99%	7.23%
TOTAL	24.40%	30.16%	37.70%
AVERAGE	4.07%	5.03%	6.28%



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%)



Here's The Headline 20%

2009 Ground Residential with 20% Discount - Actual Discounts							
WGT	Zone 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%



Here's The Reality

2009 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%



In Addition To Net Minimums...

Surcharges Continue To Go Up

Competitors use surcharges to mask the true cost of shipping:

- Our competitors place a fuel surcharge on every shipment
- Surcharges can increase the cost to ship anywhere from just under 5% to over 100% of the published price
- Some of the more notable increases for 2009 are:
 - Address correction increases by \$2.00
 - Daily pickup increases by \$1.00
 - Saturday pickup increases by \$2.50
 - Signature required and adult signature required increases by \$0.25

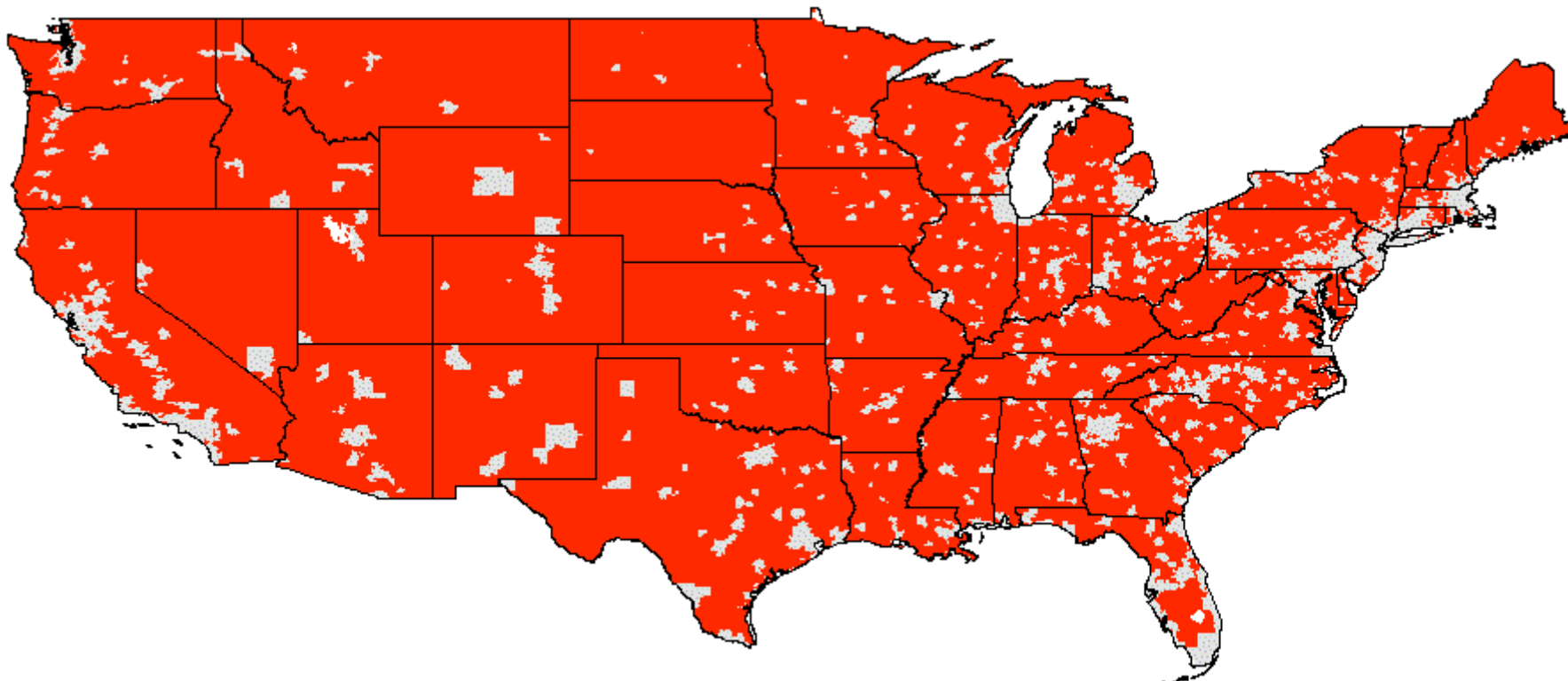


Delivery Area Surcharge (DAS)

- 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



What Our Competitors Consider Rural



5-digit ZIP codes subject to competitor 2009 delivery area
Surcharges (DAS) for commercial & residential delivery

*Red areas are subject to DAS, white areas are not.

Colography Inc. 2009



Domestic Shipping Comparison

Priority Mail Commercial vs. Competitor's 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. Competitor's 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. Competitor's 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. Competitor's 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	\$2.83	\$2.96	\$3.09	\$3.29	\$3.56	\$3.65	\$3.78
2	\$2.91	\$3.02	\$3.10	\$1.92	\$1.82	\$1.45	\$1.15
3	\$2.67	\$2.44	\$2.12	\$0.81	\$0.06	(\$0.45)	(\$1.25)
4	\$2.25	\$1.85	\$1.43	(\$0.42)	(\$1.52)	(\$2.29)	(\$3.39)
5	\$1.81	\$0.96	\$0.80	(\$1.91)	(\$2.89)	(\$4.05)	(\$5.27)
	USPS Advantage > \$2.00						
	USPS Advantage						
	Competitor Advantage						

- Includes Residential Surcharge And Weighted DAS & Extended DAS & Ground Fuel Surcharge (4.75%)



Domestic Shipping Comparison

Priority Mail Commercial "Plus" vs. Competitor's 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	\$2.18	\$2.18	\$2.18	\$2.18	\$2.18	\$2.18	\$2.18
2	\$2.18	\$2.18	\$1.64	\$0.47	\$0.68	\$0.31	\$0.02
3	\$2.07	\$1.34	\$0.55	-\$0.26	-\$1.18	-\$1.81	-\$2.47
4	\$1.51	\$0.54	\$0.20	-\$1.60	-\$2.80	-\$3.66	-\$4.68
5	\$0.90	-\$0.36	-\$0.25	-\$2.95	-\$4.27	-\$5.33	-\$6.71
	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. Competitor's Ground Daily Rates B2C with a 30% Discount				
WGT	Zone 1&2	Zone 3	Zone 4	Zone 5
1	\$1.84	\$1.85	\$1.86	\$1.82
2	\$1.78	\$1.84	\$2.02	\$1.96
3	\$1.69	\$1.82	\$1.98	\$2.00
4	\$1.69	\$1.80	\$1.99	\$2.11
5	\$1.77	\$1.70	\$2.05	\$2.12
	USPS Advantage > \$2.00			
	USPS Advantage			
	Competitor Advantage			

- Parcel Select Rates Are Blended 82% DDU, 18% DBMC and Included Yield
- Competitor Ground Daily Rates with 30% Discount Include Residential Surcharge and Fuel



Int'l Shipping Comparison - Japan

Priority Mail International vs. Competitor's 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			



Int'l Shipping Comparison - Europe

Priority Mail International vs. Competitor's 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 Keys

- 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
- 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
- New Small Priority Mail Flat Rate Box for \$4.80
- 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