

BCG



Projecting US Mail volumes to 2020 Final Report – Detail

March 2, 2010

THE BOSTON CONSULTING GROUP

Objectives and approach

Objectives of BCG's assignment

BCG was asked to develop base case projections of mail volumes to 2020

Base Case is a business-as-usual scenario with the following assumptions

- No new revenue or cost savings initiatives beyond those already in the current USPS plan
- No legislative or regulatory changes
- Economy returns to historical long-term growth rate in two to three years
- No major economic or other disruptions

Base Case forecast incorporates extensive, recent independent research

- Interviews, surveys, BCG expertise, benchmarks from other countries, and commercial research

Approach

Segmented mail into components with common behaviors

- First-Class Mail: invoices, statements, ad mail, payments
- Standard Mail: letters, flyers, catalogs
- Other categories: magazines, packages, etc

Interviewed and surveyed Senders and Consumers

- 50+ Senders interviewed for views on future use of mail
- Average USPS revenue of \$200M for sample, and representation from all major industry segments
- 3,000+ Consumers were surveyed by phone and by internet on perception of online alternatives to mail

Incorporated broad set of industry data and research

- Forrester, Celent, Winterberry, Federal Reserve, etc
- BCG industry experience in multiple markets

Leveraged global benchmarks

- Developed countries with high broadband penetration
- Also, selected US peer for direct comparison

Projected revenues

- Leveraged USPS business-as-usual price assumptions

Mail was classified into segments with similar characteristics and market behaviors

First-Class Mail

Bills and invoices



General B2C mail



Bank statements



C2B / B2B payments



First-Class ad letters



Standard Mail

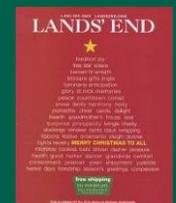
Standard Mail ad letters



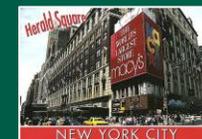
Flyers



Catalogs



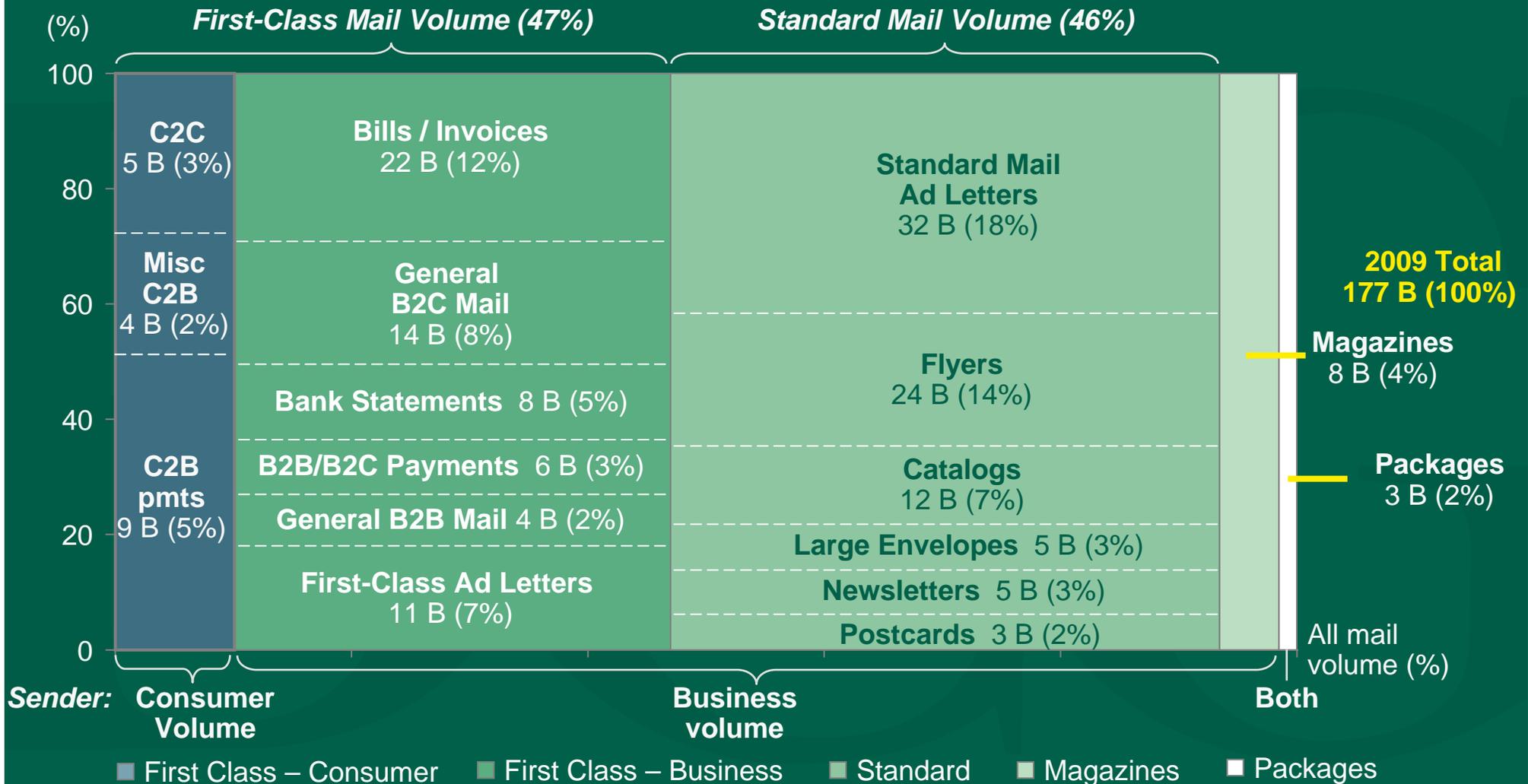
Postcards



Large envelopes



Volume forecasts were created by segment



Note: segments do not sum to 177B pieces due to rounding.
Source: BCG analysis

Results

2020 projections were then developed by aggregating segments into major mail classes

Forecast

Key drivers

All Mail

Volume to fall to approx. 150B pieces from 177B in 2009 (-1.5% CAGR)

- Sharp decline in First-Class Mail
- Flat trajectory for Standard Mail

First-Class

Volume to fall to approx. 50B pieces from 84B in 2009 (-4% CAGR)

- Increasing online diversion driven by increased consumer acceptance

Standard

Volume to remain roughly flat at 85B pieces (+0.4% CAGR)

- Online diversion of retention mail
- Some share gain from newspapers

Packages

A bright spot with projected 1B piece gain (+3% CAGR) – but not offsetting loss in core business

- e-Commerce, including returns

Other metrics

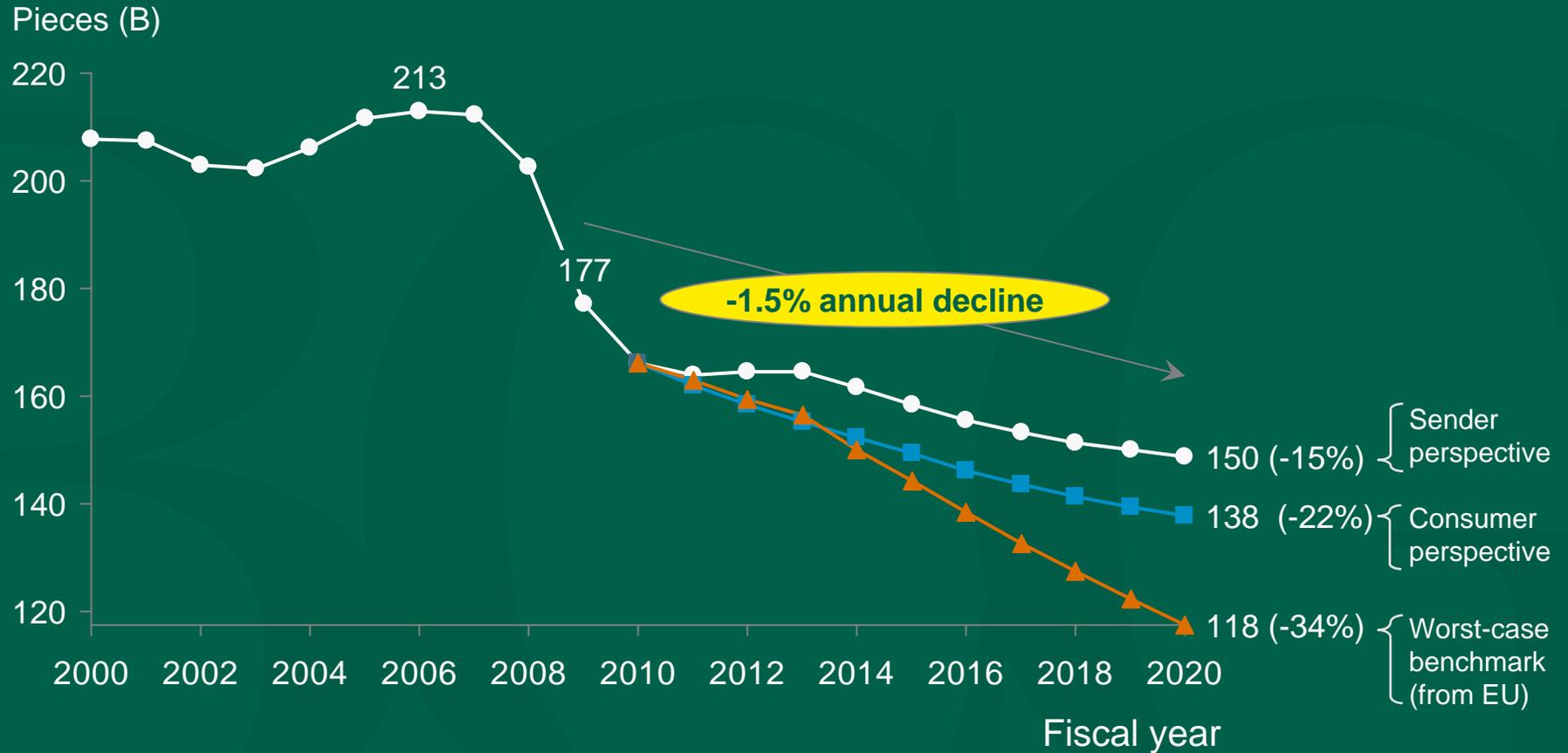
Daily pieces per delivery point to fall from four to three

- Declining mail volumes
- Growth in delivery points

Real revenue per delivery point expected to fall ~30%

- Declining pieces per delivery point
- Mix shift from First-Class to Standard

We project a volume decline of at least 15% by 2020 vs. 2009



2020 projection represents 30% decline off of 2006 peak

1. Sender view
Source: BCG analysis

Multiple drivers impacting volumes in coming decade

First-Class Mail

-  Organic growth in number of households
-  Growth in economy
-  Increase in online presentment and bill pay
-  Increased usage of autopay
-  Extension in billing cycles
-  Increase in mobile presentment
-  Diversion to emerging hybrid mail options

Standard Mail

-  Organic growth in number of households
-  Growth in economy
-  Share capture from newspaper
-  Shift to online alternatives to acquisition mail (search ads, banner ads)
-  Shift to online alternatives for retention mail (e.g., email to existing customers)
-  Increased diversion to private carrier delivery
-  Diversion to emerging hybrid mail options

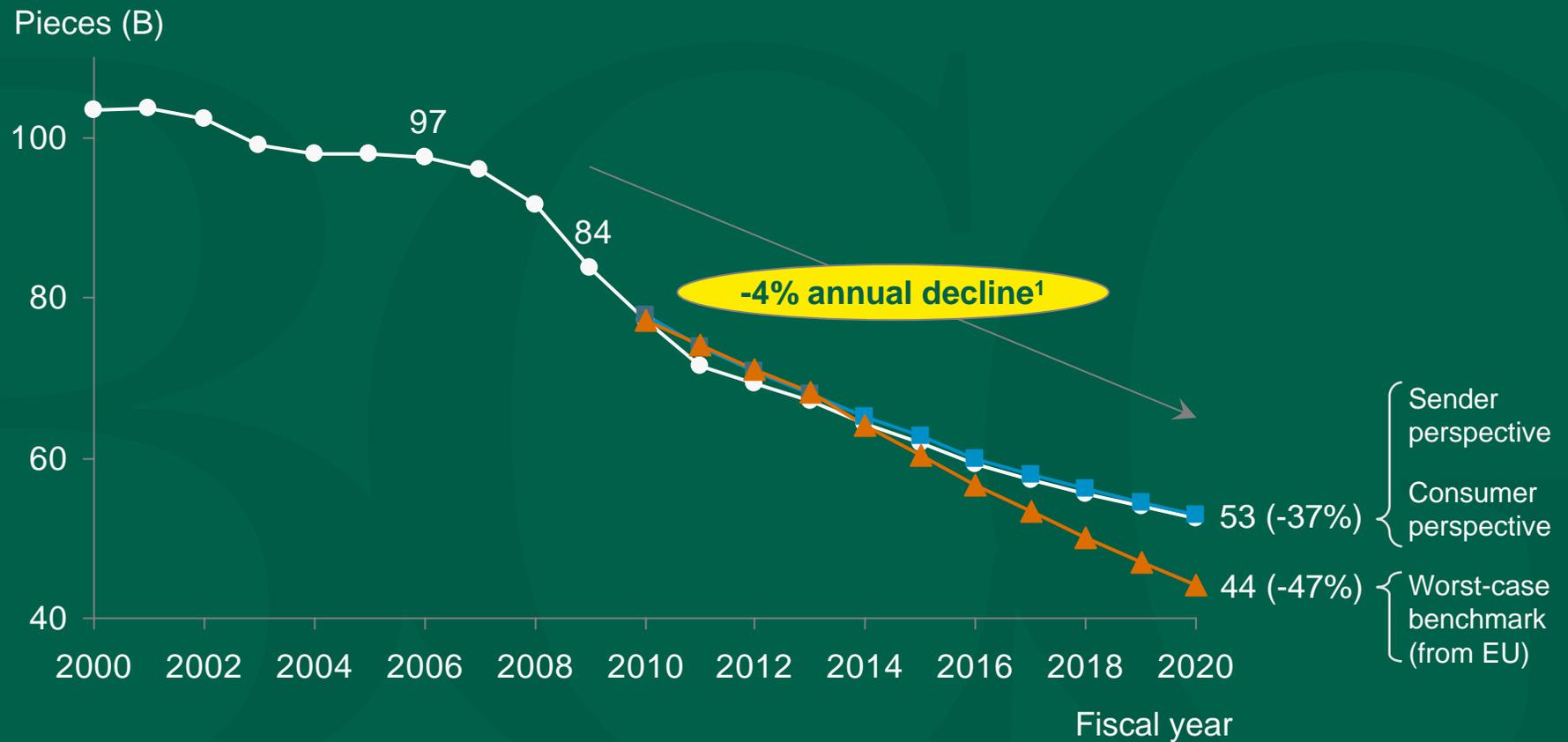


Positive trend for USPS



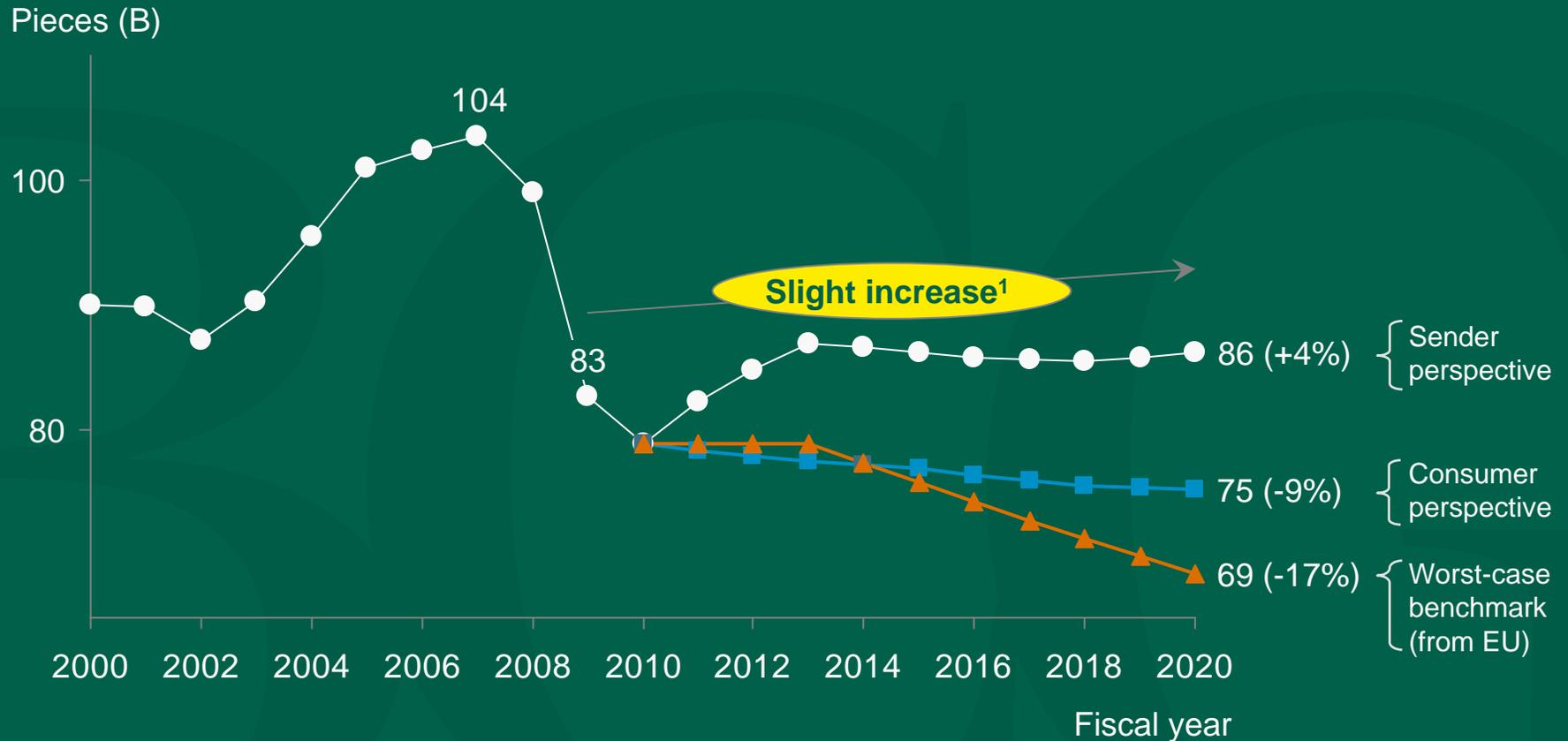
Negative trend for USPS

2020 forecast sees ongoing decline in First-Class Mail



1. Sender view
Source: BCG analysis

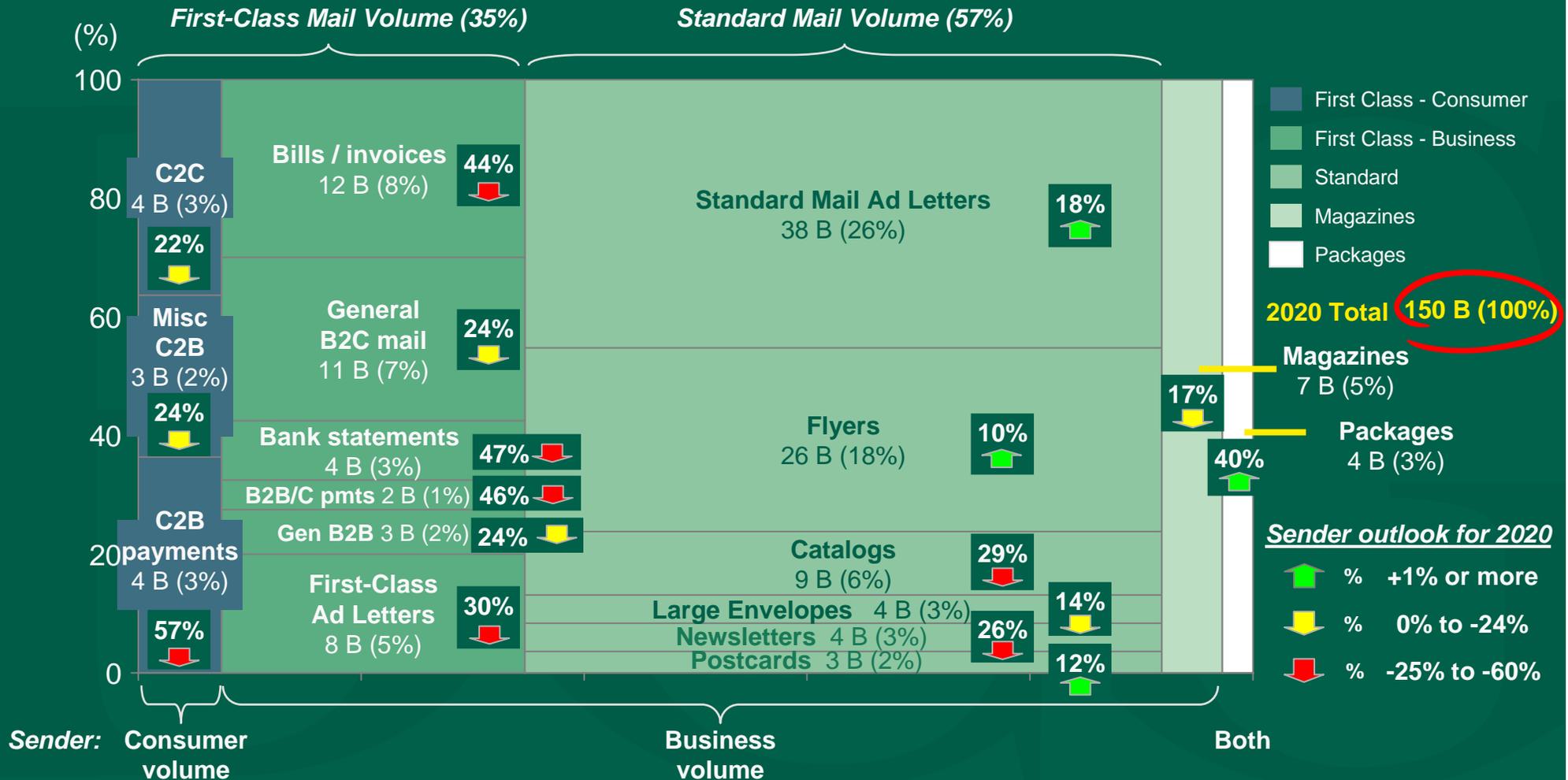
2020 forecast sees roughly flat volumes in Standard Mail vs. 2009



Recovery will not revisit pre-crisis levels

1. Sender view
Source: BCG analysis

Most mail segments will decline by 2020



Note: based on Sender view. Segments do not sum to 150B pieces due to rounding.
Source: BCG analysis

Senders tell us that they see their use of mail declining sharply

Representative quote

"We are planning to suppress 100% of First Class transaction mail by 2020, and are sure that other telecom companies are moving in the same direction"

"We do not see a rebound, we expect annual declines out to 2020 of 5-7% per year"

"The goal shifted from how well I can use the mail to how much mail can I push out of the system"

"Even if the economy recovers, we might get 50% of all marketing mail back. The rest is gone"

"Utilities see no value in sending bills to customers and are offering to average the bill out over 12 months to attract consumers to sign up for recurring payments"

Representative source

Top five Telecom

Top five Check Printer

Top five Credit Card Mail Service Provider

Top five Financial Services Firm

Top five Mail Service Provider

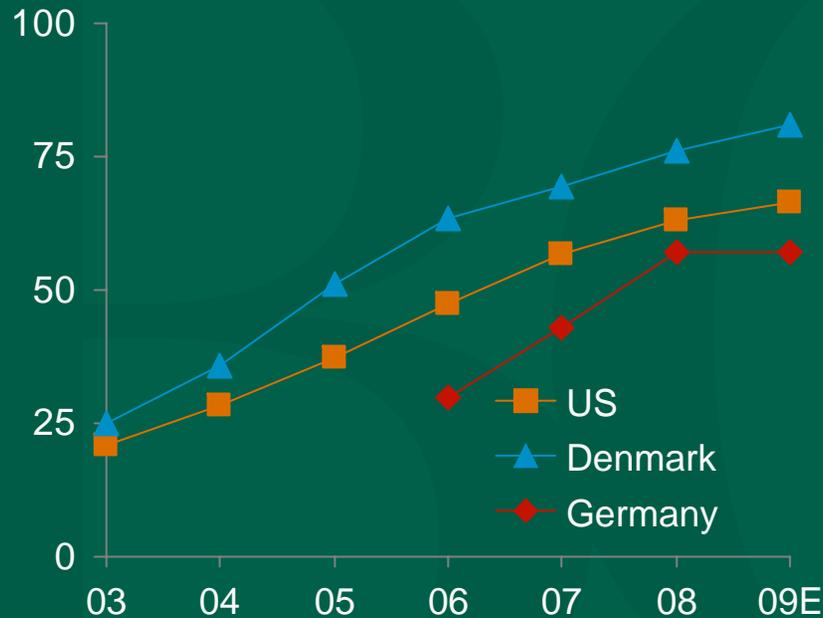
Benchmarks from other global posts

What US is experiencing is not unique—other posts all seeing erosion of volumes as well

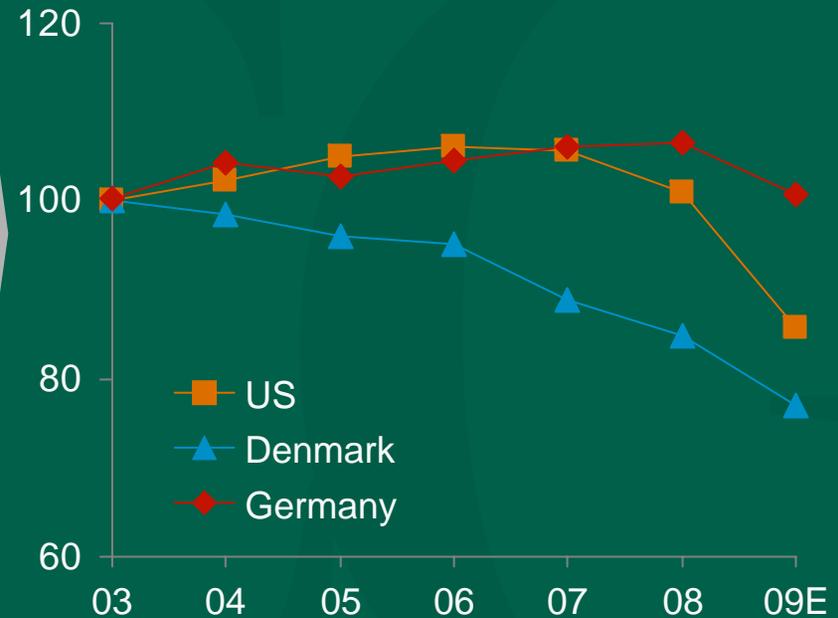
Other posts have varying levels of broadband penetration ...

... defining a range in terms of mail volume erosion

Broadband household penetration
(in % of all households)



Postal volume
(% of reference year '03)



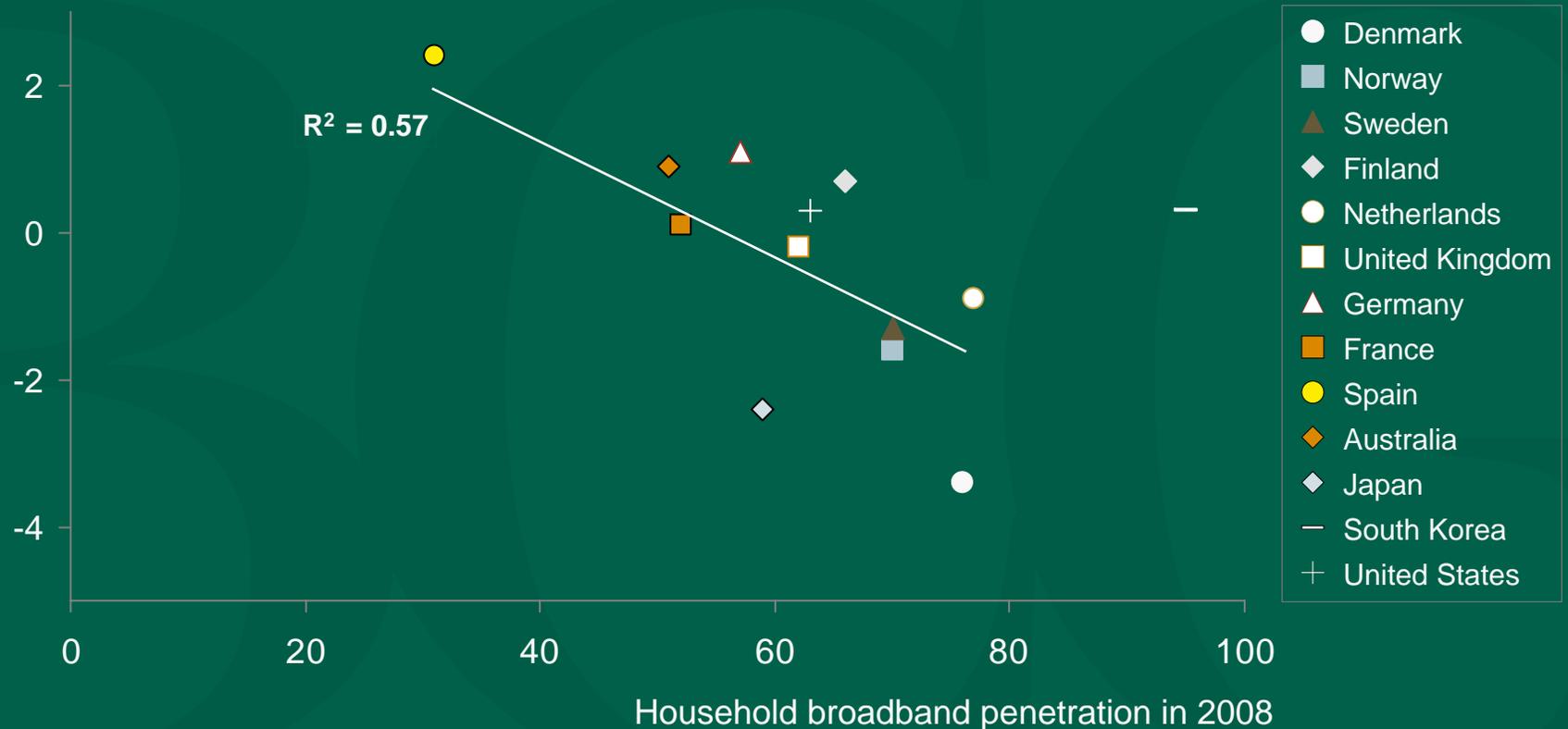
Findings reinforced by about a dozen internet-enabled countries in sample

Source: OECD; Annual reports and interim reports local posts; Universal Postal Union; 2008–2013 Forrester estimates; TIA 2009 ITC Market review and Forecast

Mail trends in broadband-enabled countries points to impact of broadband penetration

Total mail1 CAGR as function of 2008 broadband penetration

Mail volume average annual growth for each country, 00-08



Note: Mail volumes for Japan and South Korea only available until 2007; trend lines and R^2 based on data from all countries except South Korea
Source: OECD, Forrester, ComScore, UPU, Annual Accounts local postal companies

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Implications

2020 real revenue per delivery point will decline almost 50% from 2000

Average pieces per delivery point per delivery day

Real (inflation-adjusted) revenue per delivery point per day (current \$)

	Year			'09-'20 change (%)
	2000	2009	2020	
Total Mail	4.9	3.8	2.8	-26
First-Class Mail	2.5	1.8	1.0	-44
Standard Mail	2.1	1.8	1.6	-11
Total Mail	1.8	1.4	1.0	-29
First-Class Mail	1.0	0.7	0.4	-43
Standard Mail	0.4	0.4	0.3	-25

Note: A yellow callout bubble with an arrow points from the 2009 value (1.4) to the 2020 value (1.0) for Total Mail, indicating a -44% change.

Note: based on Sender view
Source: BCG analysis

All reasonable scenarios suggest volume will continue to decline

	+10%	153B	158B	163B
Standard Mail	0%	144B	150B Base Case	155B
	-10%	135B	140B	146B
		-10%	0%	+10%
		First-Class Mail		

- 80% of homes with broadband
- Online payments getting less traction
- 3.3% YoY GDP growth

- 90% of homes with broadband
- Privacy loses to online targeting for customer acquisition
- 1.3% YoY GDP growth



Note: based on Sender view
Source: BCG analysis

Of course, other events can significantly impact volumes

External

-  Catastrophic internet security failure
-  Significant changes to US health care
-  National sustainability ("green") initiative
-  Prolonged high fuel prices
-  Protracted recovery from current economic conditions – like Japan's "Lost Decade"
-  Economy recovers, but quasi-periodic recession returns in 8 years
-  Relaxed SEC regulations around investor communications (e.g., "Access is delivery")
-  9/11-type event

USPS-specific

-  Downstream printing/increased workshare
-  Larger share of Ad Mail leads to greater swings in profits
-  Reduction in monopolies
-  Mail-borne terror attack
-  Do not mail list – opt-in or opt-out
-  Regulation/legislation

-  Positive trend for USPS
-  Negative trend for USPS

**Must build significant labor flexibility
on top of cost reductions**

Structural changes required for USPS

Revenue and cost interventions implemented by other posts

Typical revenue / volume enhancements

Conventional cost and revenue enhancements are minimal requirements

Pricing enhancements

Sales and marketing

- Key account management
- Improved product bundling

Product development

- B2C parcel proposition
- Value chain extensions (print, DM)
- Intelligent Mail, Hybrid mail

Typical cost reduction steps

Efficiency improvements to processes and routes

Further automation: sequencing, printing, etc

Network consolidation

Generic cost reductions

- Indirect, Purchasing, Capital costs

Structural changes are required to close the gap

Diversification steps used elsewhere

- Financial/Insurance Services
- Logistics (B2B CEP, LTL, 3PL, reverse)
- (e-) Government services
- Information logistics (CRM, secure email)

Profit from diversification likely to be too limited and too late to compensate

Given the magnitude of the gap, structural cost changes are unavoidable

Structural cost changes

- Delivery model
 - Frequency: 5 or 3 per week
 - Relaxing service standards/ days to delivery
 - Delivery points and time
- Integrate Post office network into retailers to lower costs & release cash from assets
- Lower labor costs to reflect market conditions (Non Career, Part-time, Outsourcing)

Some posts are pursuing these structural changes now

Implemented distribution changes



Canada: Reduction from 6 to 5 delivery days (1960s in urban areas, 1982 in rural areas)



Australia: Reduction from 6 to 5 delivery days (1975); In rural areas delivery frequency can be between two and four times depending on cost and community need.



Belgium: Reduction from 6 to 5 delivery days



Greece: Reduction from 5 to 3.5 delivery days in rural areas



Slovenia: Reduction from 6 to 5 delivery days in rural areas



Spain: Reduced scope of delivery, no delivery in remote homes more than 250m from the main roads



Denmark: Reduced frequency of delivery of non time critical class mail on alternate days¹

Changes under consideration



France: Considered moving from T+1 to T+2 delivery

- According to La Poste, T+1 has a high environmental impact and does not respond to strong demand, particularly by companies



Netherlands: Considered reducing number of delivery days from 6 to 5² and announced Dec 09 that its goal is to move to a 3 day delivery model³

Will close the last post office mid 2010 and fully integrate retail access into retailers

Continue to shift to more part time labor



Germany: Deutsche Post proposed in December 2008 to reduce delivery days from 6 to 5

- Proposal rejected by German authorities

1. Some households will get non time-critical mail on Mondays, Wednesdays and Fridays while others will get their non time-critical mail on Tuesdays, Thursdays and Saturdays;

2. As part of its Masterplan II announced in 2006; 3. Statement from TNT CEO Peter Bakker during Vision 2015 announcement on December 3, 2009

Source: Report "The Evolution of the European Postal Market since 1997", company reports; press search;

The path forward

In the immediate term, there may be some revenue opportunities that offset some of the losses projected here

However, long-term viability requires a mix of structural changes to address high fixed costs; these may include changes to

- Delivery model, e.g., frequency, standards
- Branch network
- Labor model

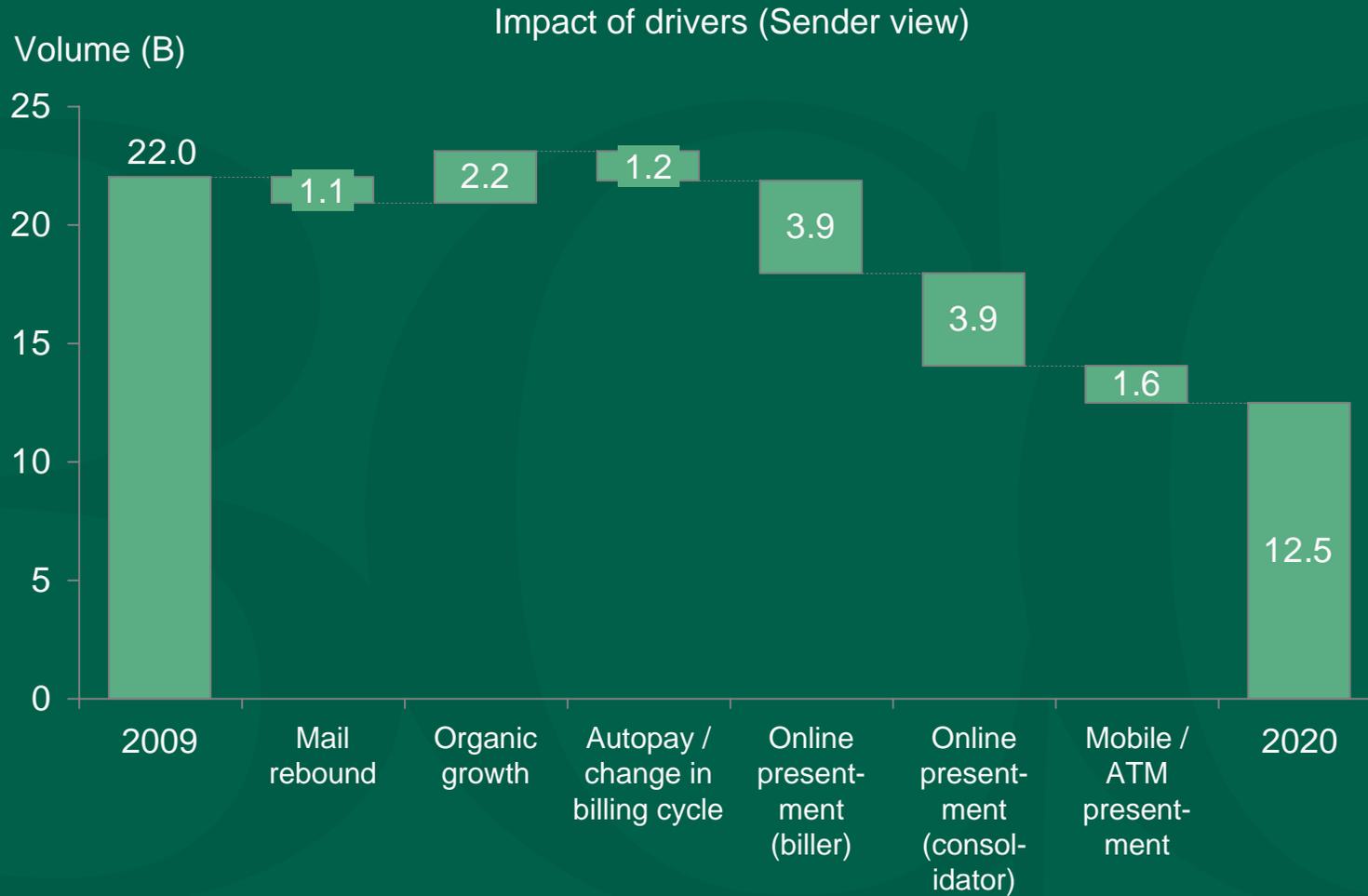
Other posts are taking similar actions in response to declining volumes

These actions are profound changes to the business model – restoring viability through these steps will require both internal alignment and external buy-in

Appendix: Selected backup materials for key segments – Sender view

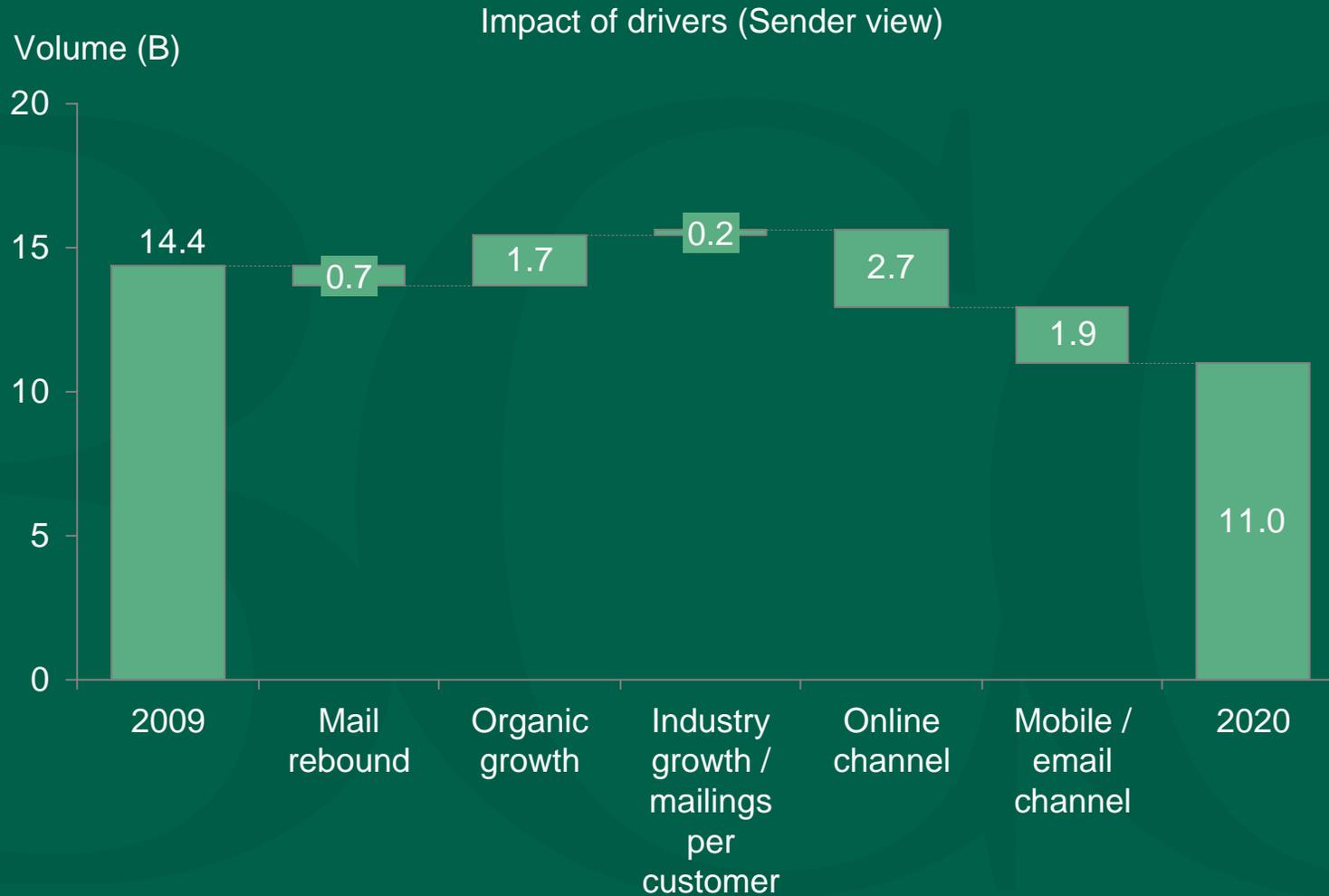
Bill and invoice volume expected to fall 44%

Mail Rebound from recession offset by continued diversion



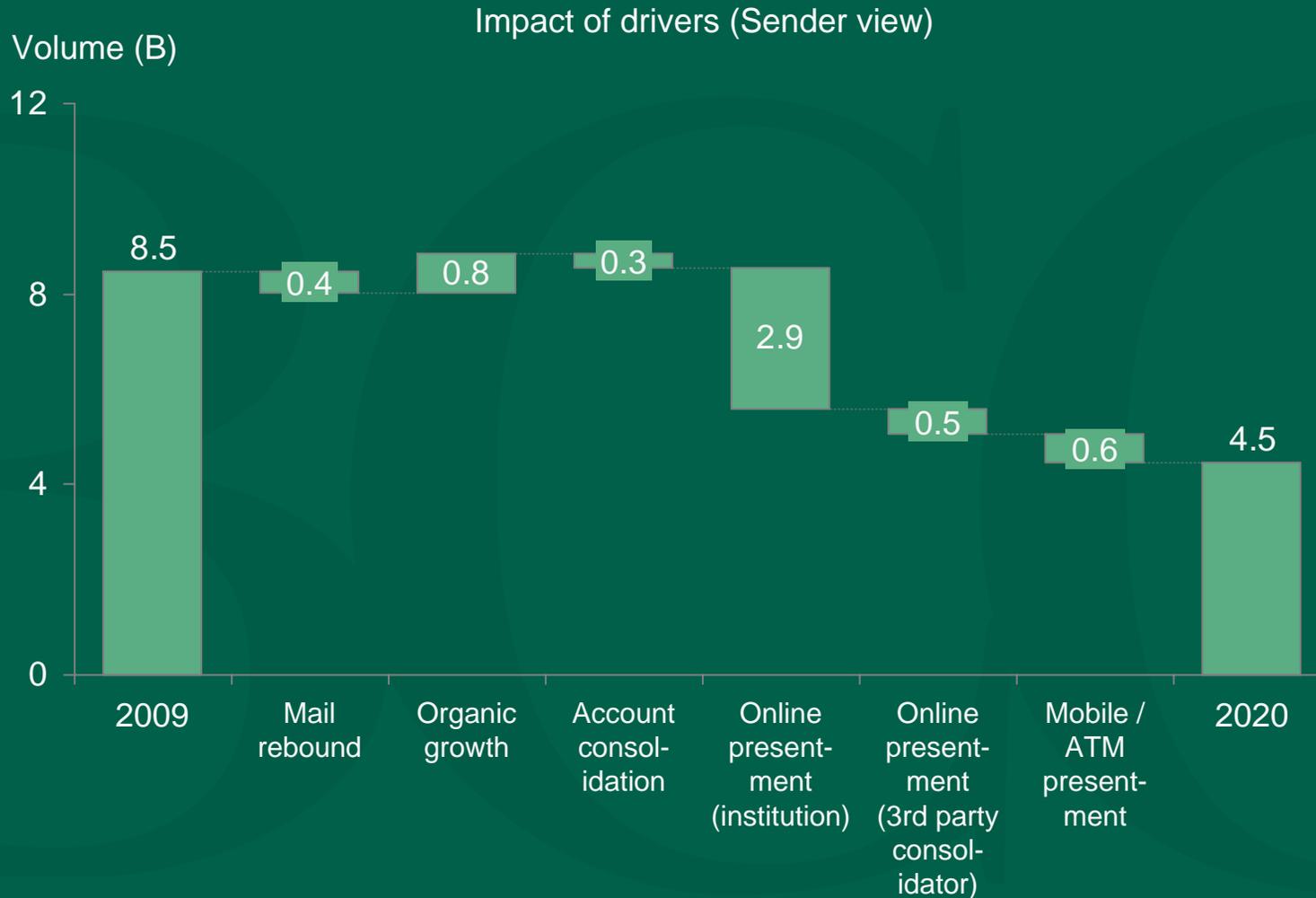
Source: BCG analysis, customer interviews, USPS RPW Report, USPS Household Diary Survey, USPS volume tracking data

B2C Correspondence expected to fall 24%



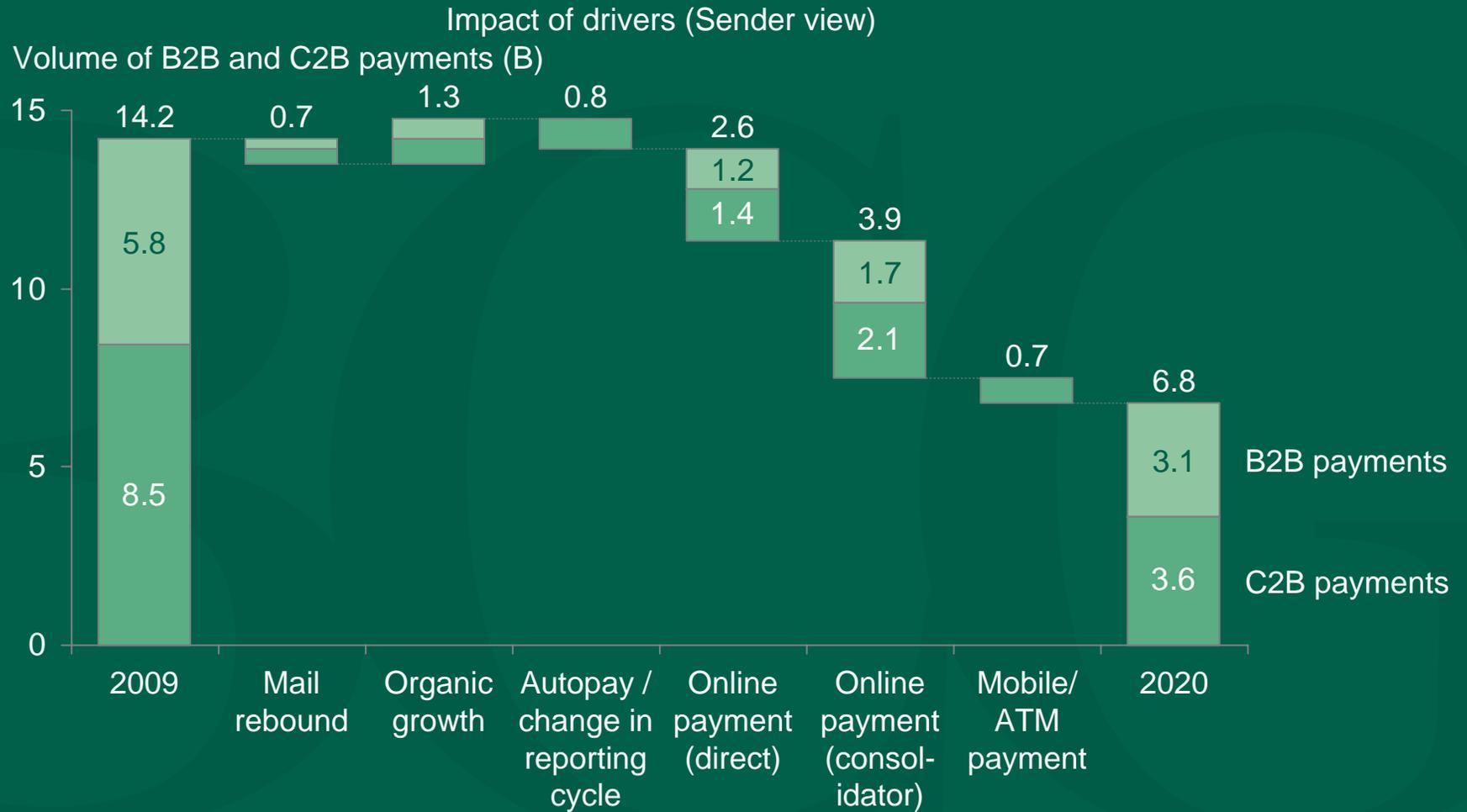
Source: BCG analysis, customer interviews, USPS RPW Report, USPS Household Diary Survey, USPS volume tracking data

Bank Statement volume expected to fall 47%



Source: BCG analysis, customer interviews, USPS RPW Report, USPS Household Diary Survey, USPS volume tracking data

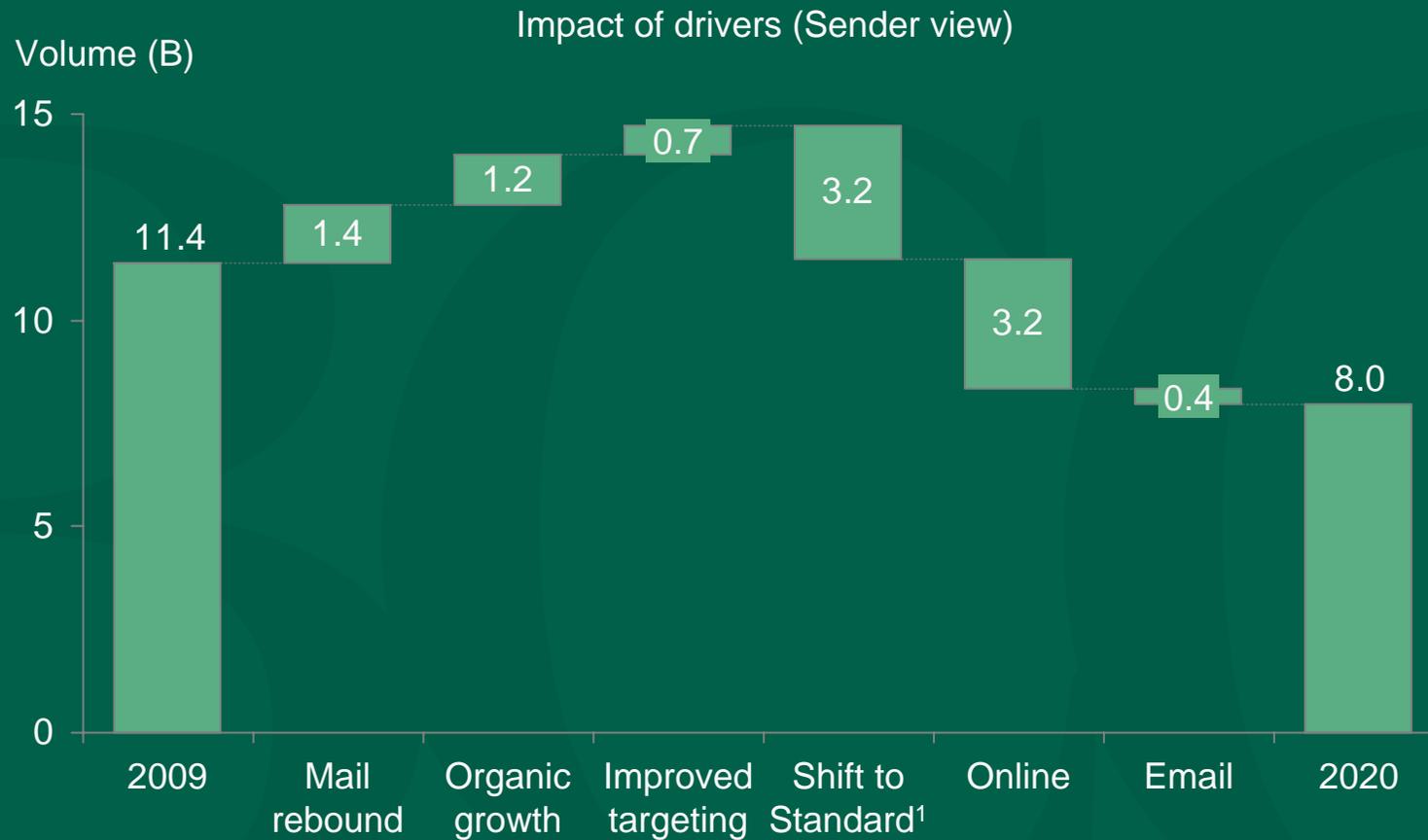
B2B/C2B Payment volume expected to fall 52%



Source: BCG analysis, customer interviews, USPS RPW Report, USPS Household Diary Survey, USPS volume tracking data

First-Class Mail ad letter volume to fall 30%

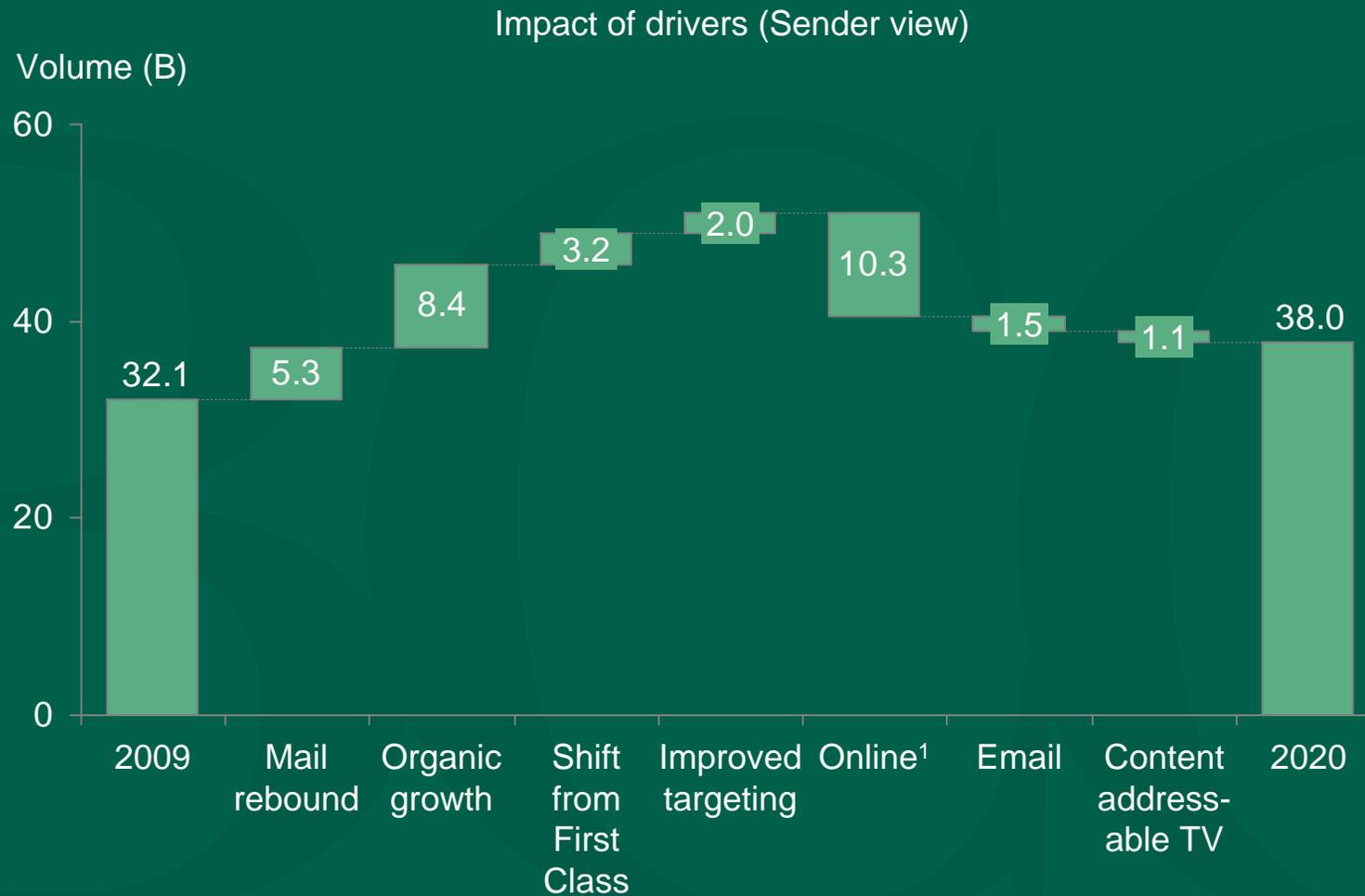
Mail rebound offset by migration to Standard Mail



1. Shift to Standard Mail indicates migration of advertisements from First-Class Mail to Standard Mail
 Source: BCG analysis, customer interviews, USPS RPW reports 2009, USPS Household Diary Survey 2008

Standard Mail ad letter volume to increase 18%

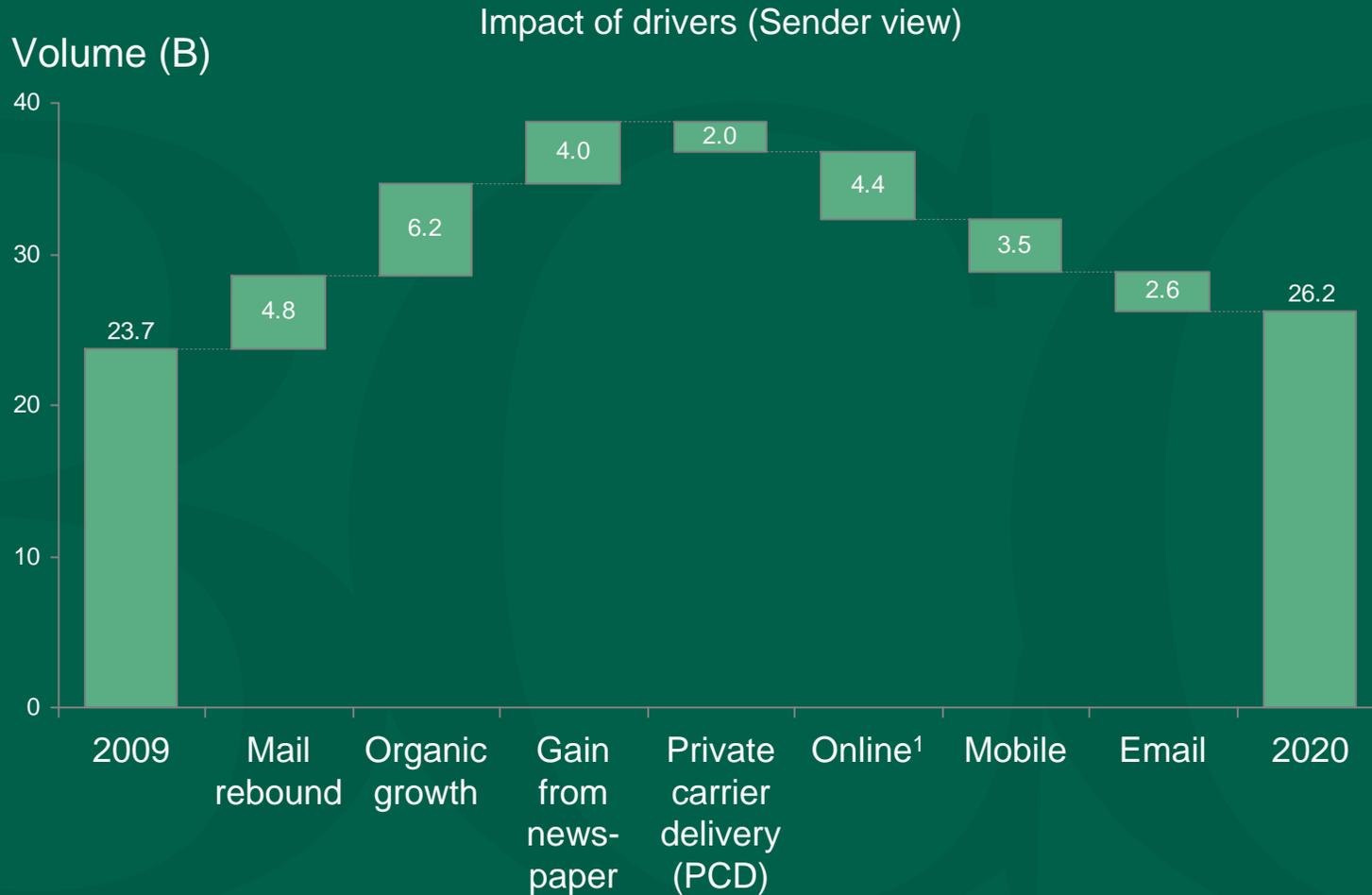
Some volume capture from First-Class Mail



¹.Online channel includes paid search and banner ads
 Source: BCG analysis, customer interviews, USPS RPW reports 2009, USPS Household Diary Survey 2008

Flyer volume expected to increase about 10%

Some influx of volume captured from newspaper ads



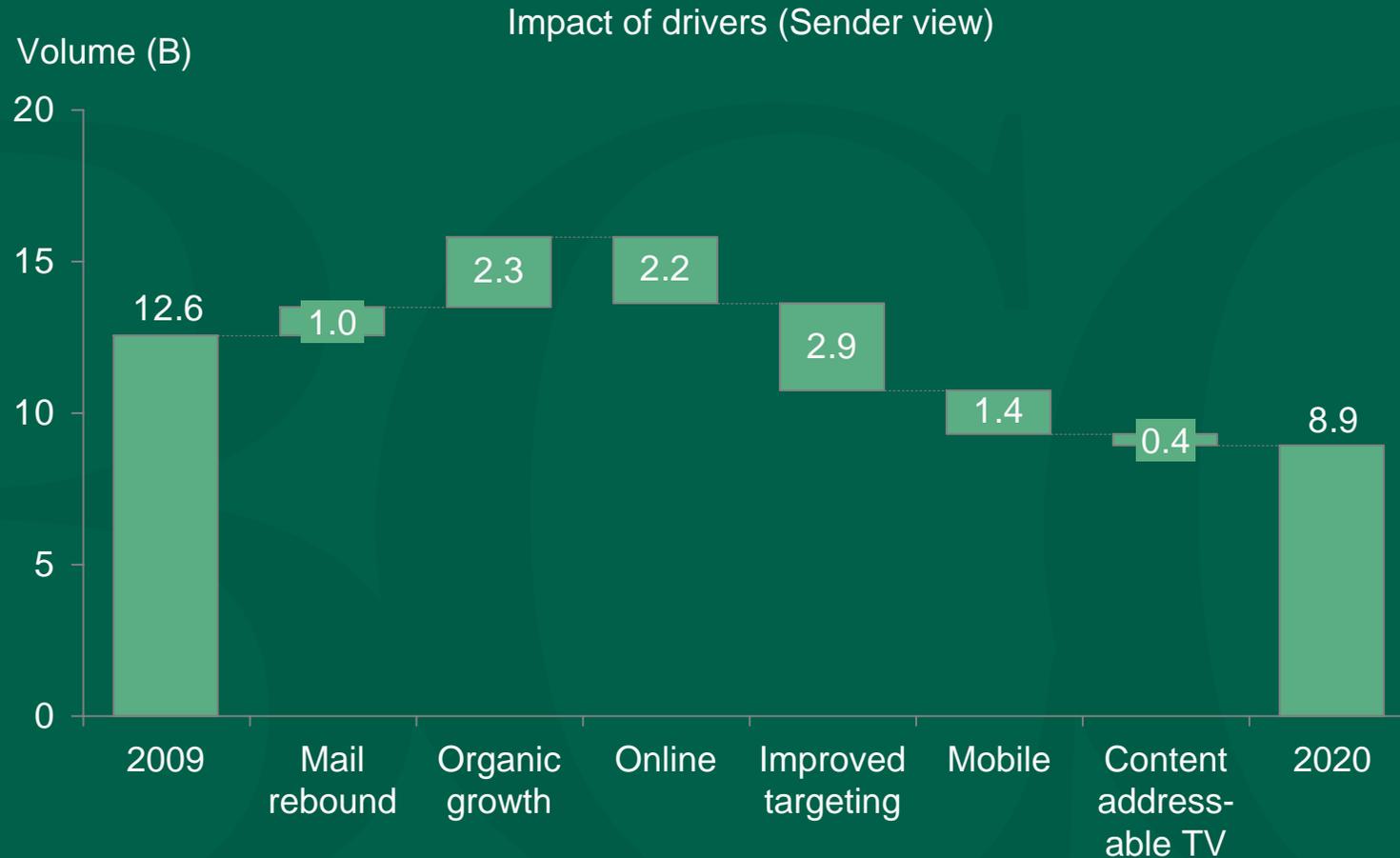
1. Online channel includes paid search, website search and banners

Mail Rebound marked low confidence due to uncertainty in recovery time and not uncertainty in magnitude of recovery

Source: BCG analysis, customer interviews, USPS RPW reports 2009, USPS Household Diary Survey 2008

Catalog volume expected to fall about 29%

Mail Rebound from recession offset by smarter targeting



1. Online channel includes paid search, website search and banners
 Source: BCG analysis, customer interviews, USPS RPW reports 2009, USPS Household Diary Survey 2008

Appendix: Selected backup materials for key segments – Consumer view

Consumers expect volume of mailed bills to fall

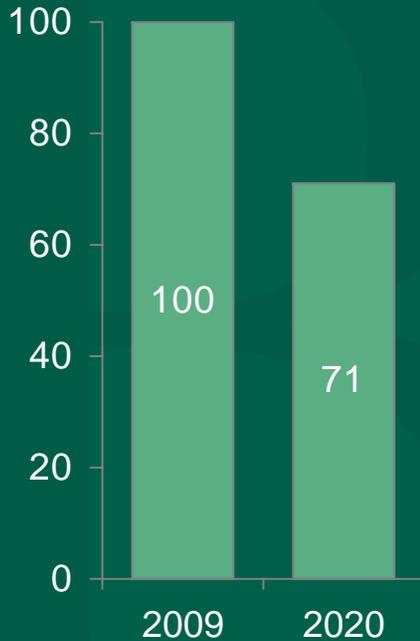
Decline will be greater as online financial services improve

Consumers expect a 30% drop in bill volume

But if these improvements are made in online services

Bill receipt could decline ~45%

Remaining of '09 values (%)



Improvement	Score ¹
Improvements in security	●
Provision of a long and free archive of bills	◐
Speed of payment delivery	◑
Email alerts about payment dates	◑
Ease of enrolling to receive online bills	◑
Ease of registering billers to whom bills are paid	◐
Ease of accessing online bills	◐
Ability to view multiple bills at one site	◐

Remaining of '09 values (%)



Senders indicate high likelihood improvements will occur in the next ten years, including improvements to security

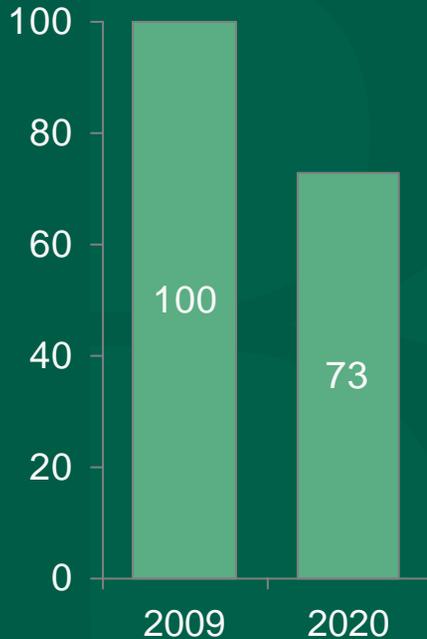
1. Harvey balls based on score. 27-32: ¼, 33-38: ½, 39-45: ¾, 46-52: 1. Score indicates the percent of respondents who indicated that that improvement would lead them to significantly shift towards online services instead of paper bills
 Source: Consumer internet-based research, 11/09, n=1736; BCG analysis; Sender research, 11/09

Consumers expect volume of statements to fall

Decline will be greater as online financial services improve

Consumers expect ~30% drop in statements

Remaining of '09 values (%)



But if these improvements are made in online services

Improvement	Score ¹
Improvements in security	●
Provision of a long and free archive of statements	◐
Ease of enrolling to receive online statements	◑
Ease of accessing online statements	◒
Small fee instituted to receive paper statements	◓
Features to make statement analysis easier	◔
Ability to view multiple statements at one site	◕

Statement receipt could decline ~40%

Remaining of '09 values (%)



Senders indicate high likelihood improvements will occur in the next ten years, including improvements to security

1. Harvey balls based on score. 27-32: ¼, 33-38: ½, 39-45: ¾, 46-52: 1. Score indicates the percent of respondents who indicated that that improvement would lead them to significantly shift towards online services instead of paper statements
 Source: Consumer internet-based research, 11/09, n=1736; BCG analysis; Sender research, 11/09

Consumers expect to mail fewer payments

Decline will be greater as online financial services improve

Consumers expect
~25% drop in payments

But if these improvements
are made in online services

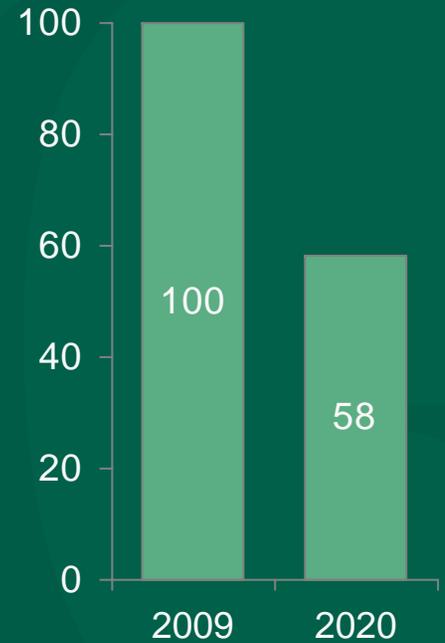
Payments could
decline ~40%

Remaining of '09 values
(%)



Improvement	Score ¹
Improvements in security	●
Provision of a long and free archive of payment records	◐
Enrolling for online bill pay	◐
Accessing online bill pay	◐
Ease of registering billers to whom bills are paid	◑
Ability to pay multiple bills via one site	◑

Remaining of '09 values
(%)



Senders indicate high likelihood improvements will occur in the next ten years, including improvements to security

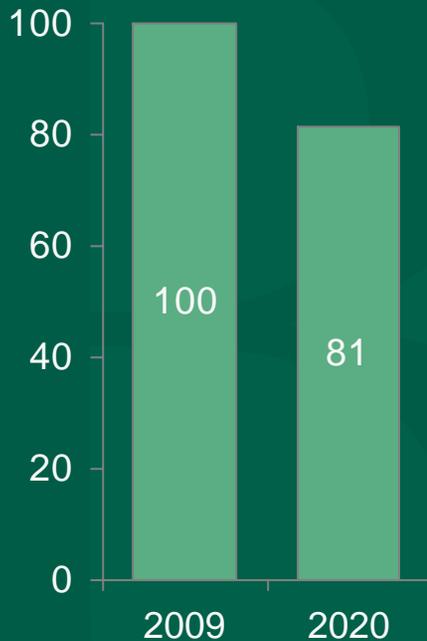
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Source: Consumer internet-based research, 11/09, n=1736; BCG analysis; Sender research, 11/09

Consumers expect volume of ad letters to fall

Decline will be greater as online advertising improves

Consumers expect a ~20% drop in ad letters

Remaining of '09 values (%)

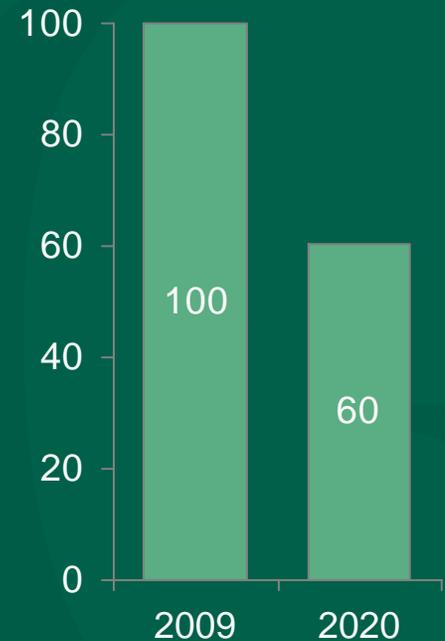


But if these improvements are made in online advertising

Improvement	Score ¹
Perception that online ads are secure genuine	●
Perception that online ads do not collect information about consumers	●
Provision of promotional discounts	●
Relevance of online ads	◐
Informative value of online ads	◐
Ease of use of online ads	◐
Ability to inform consumers of new products	◐
Attention value of online ads	◐
Ability of online ads to provide solicitations from charities consumers have worked with	◐

Ad letters could decline ~40%

Remaining of '09 values (%)



Senders indicate many of these improvements will be made in the next 10 years

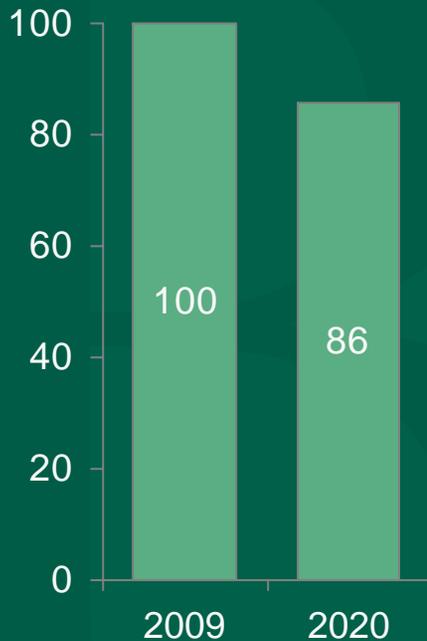
1. Harvey balls based on score. 7-20: ¼, 21-34: ½, 35-49: ¾, 50-63: 1. Score indicates the percent of respondents who indicated that that improvement would lead them to more strongly favor
 Source: Consumer internet-based research, 11/09, n=1328; BCG analysis; Sender research, 11/09

Consumers expect volume of flyers to fall

Decline will be greater as online advertising improves

Consumers expect a ~15% drop in flyers

Remaining of '09 values (%)



But if these improvements are made in online advertising

Improvement	Score ¹
Provision of promotional discounts from online ads	●
Informative value about local stores	●
Perception that online ads do not collect information about consumers	●
Relevance of online ads	●
Online ads' ability to allow consumers to compare products	◐
Informative value of online ads	◐
Online ads' ability to inform consumers of new products	◐
Attention value of online ads	◐
How fun online ads are to read	◐

Flyers could decline ~40%

Remaining of '09 values (%)



Senders indicate many of these improvements will be made in the next 10 years

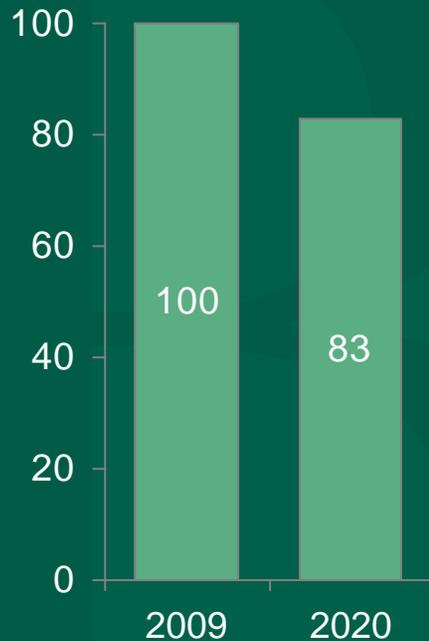
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Consumers expect volume of catalogs to fall

Decline will be greater as online advertising improves

Consumers expect a ~20% drop in catalogs

Remaining of '09 values (%)

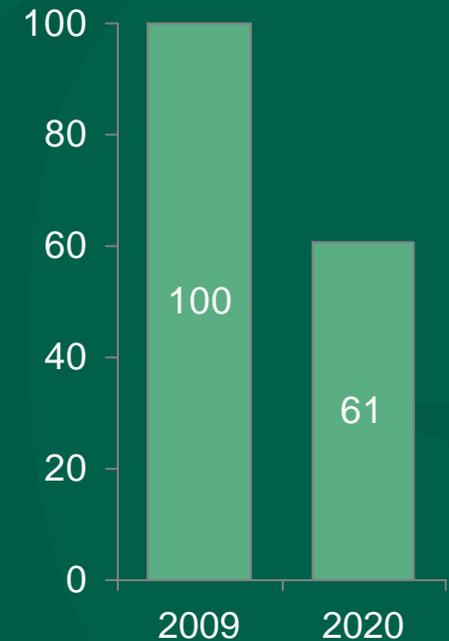


But if these improvements are made in online advertising

Improvement	Score ¹
Perception that online ads do not collect information about consumers	●
Provision of promotional discounts from online ads	●
Relevance of online ads	●
Online ads' ability to allow consumers to compare products	◐
Informative value of online ads	◐
Attention value of online ads	◐
How fun online ads are to read	◐
Online ads' ability to inform consumers of new products	◐

Catalogs could decline ~40%

Remaining of '09 values (%)

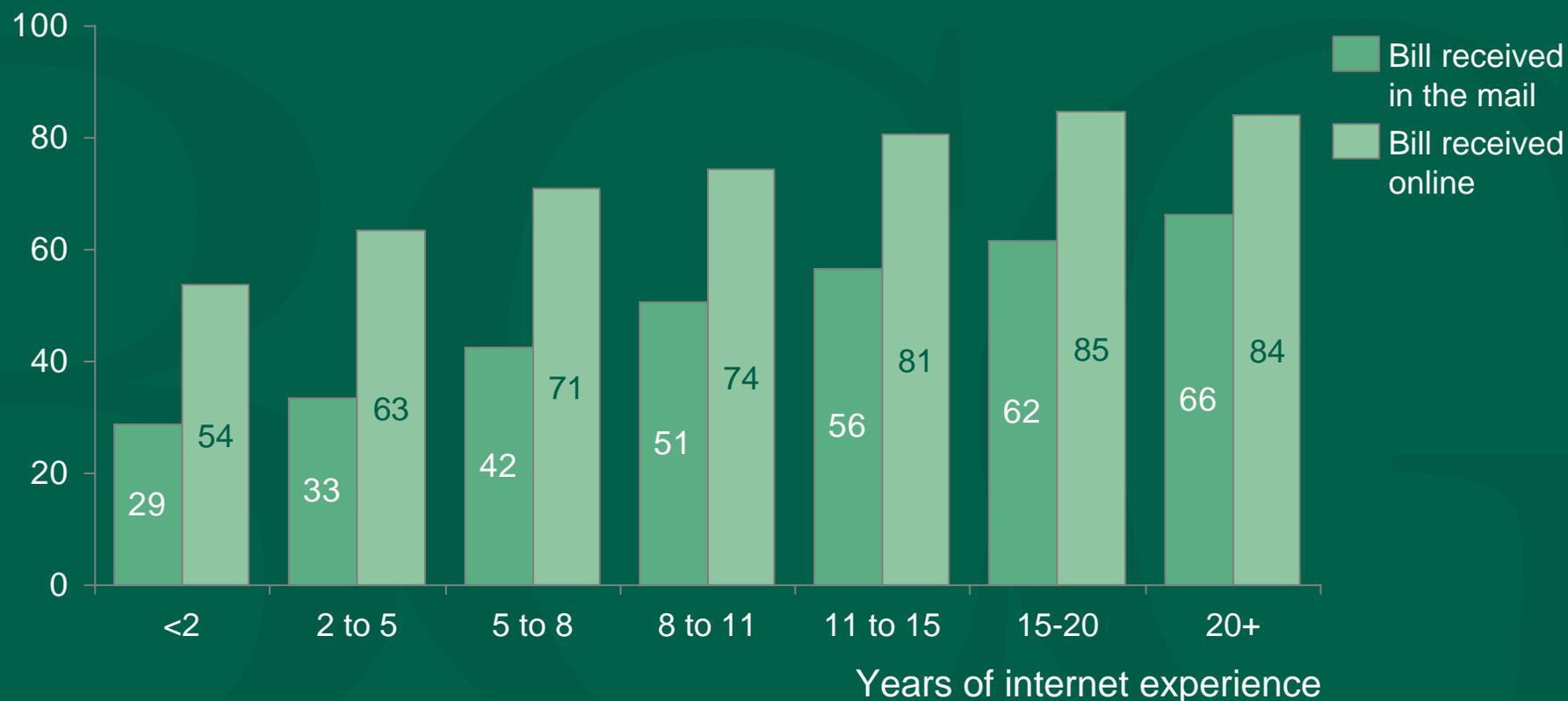


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Years of experience online drives Consumer receptivity for conducting transactions online

Respondents who prefer to pay online (%)



Source: BCG analysis; Consumer internet-based research, 11/09, n=1736