

BCG



Projecting U.S. Mail Volumes to 2020

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March 2, 2010

THE BOSTON CONSULTING GROUP

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

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

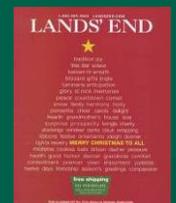
Standard Mail ad letters



Flyers



Catalogs



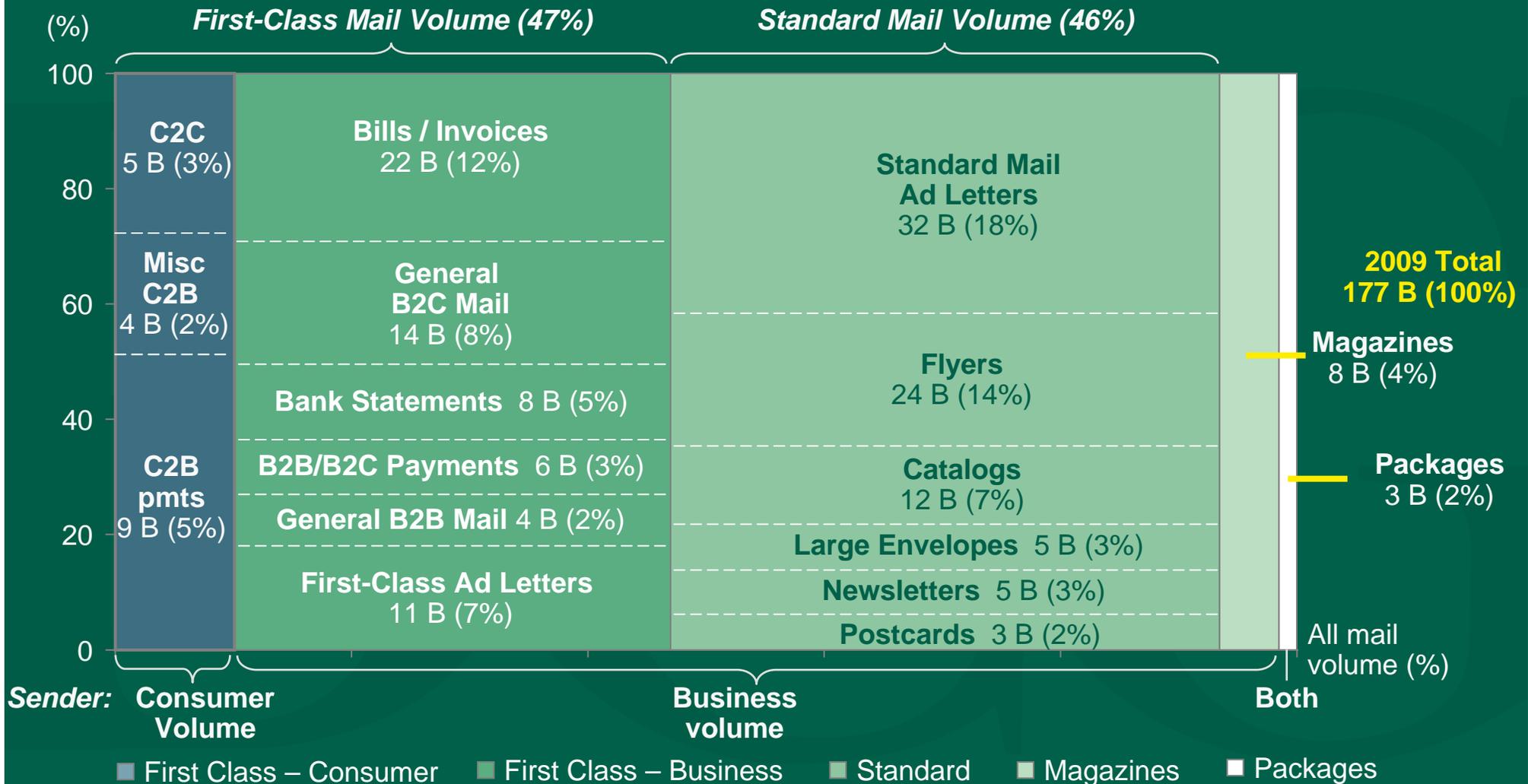
Postcards



Large envelopes



Volume forecasts were created by segment



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

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

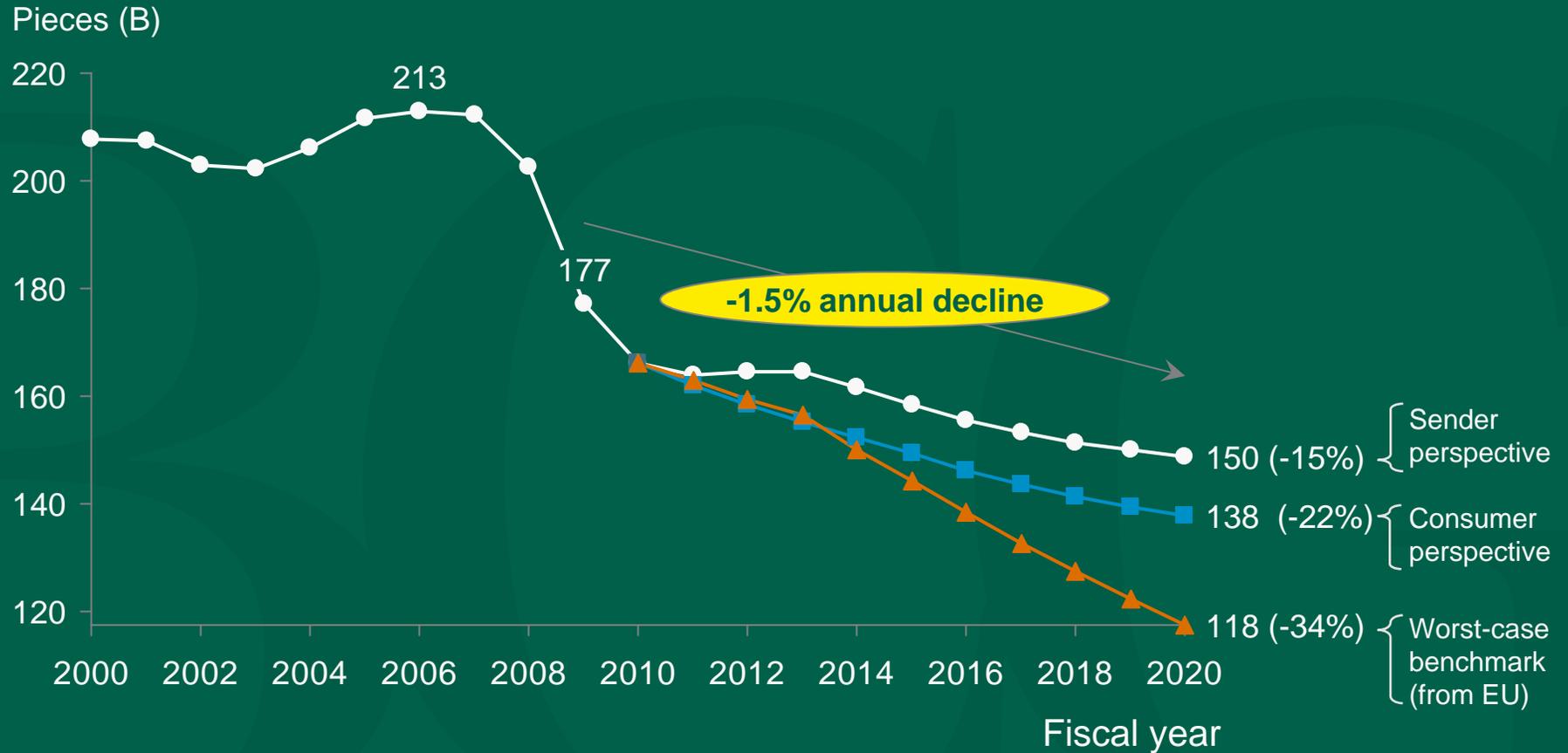
Daily pieces per delivery point to fall from four to three

- 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

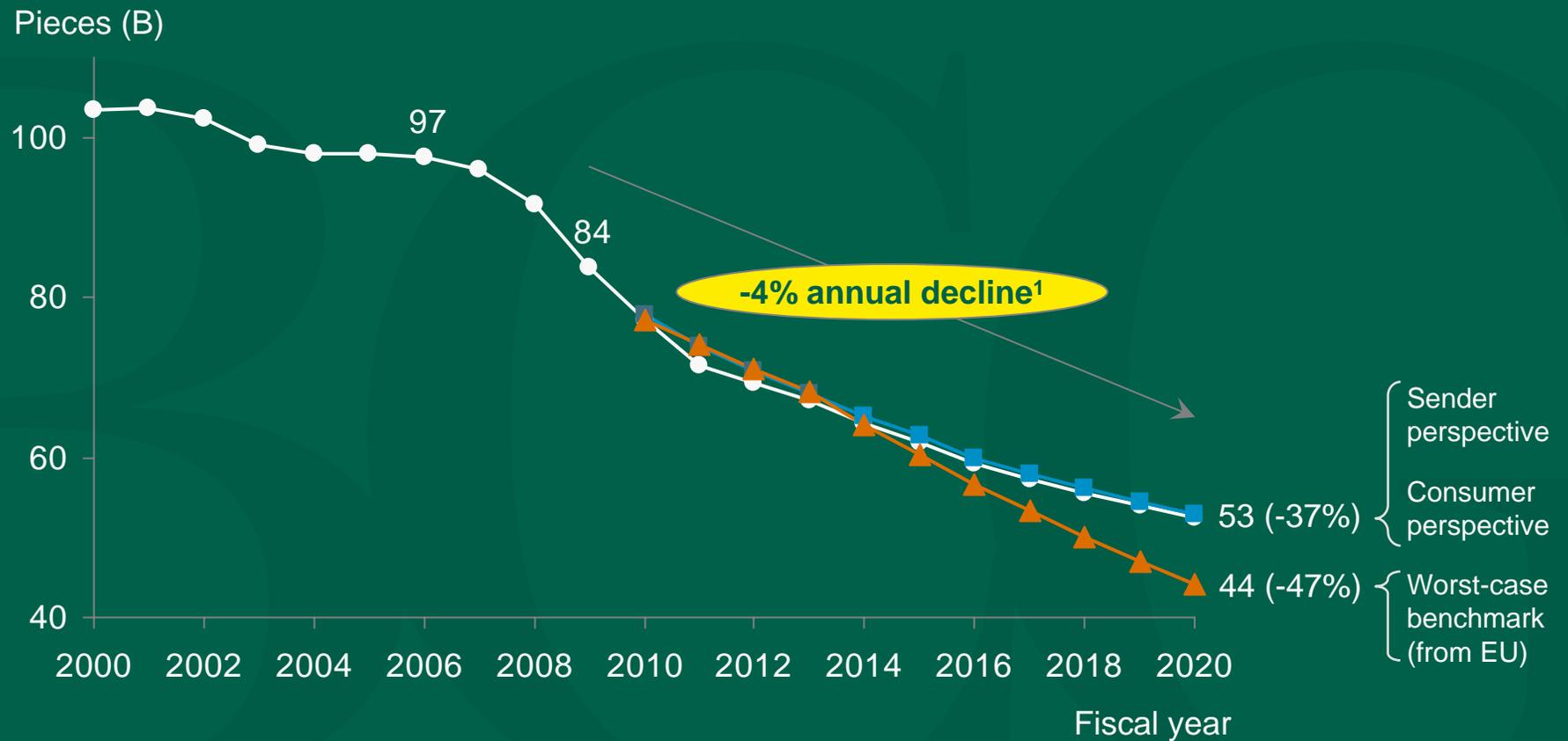


Positive trend for USPS



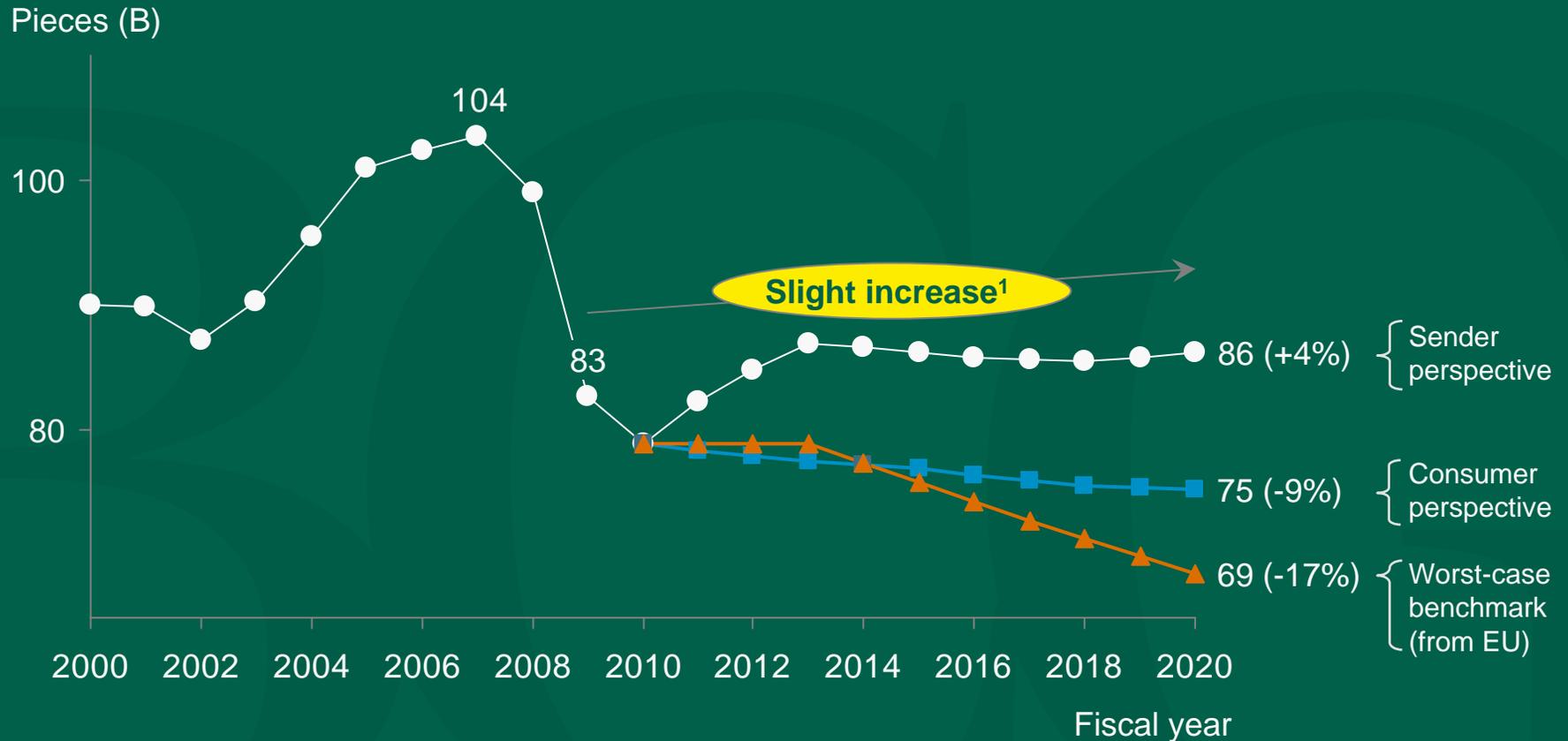
Negative trend for USPS

2020 forecast sees ongoing decline in First-Class Mail



1. Sender view
Source: BCG analysis

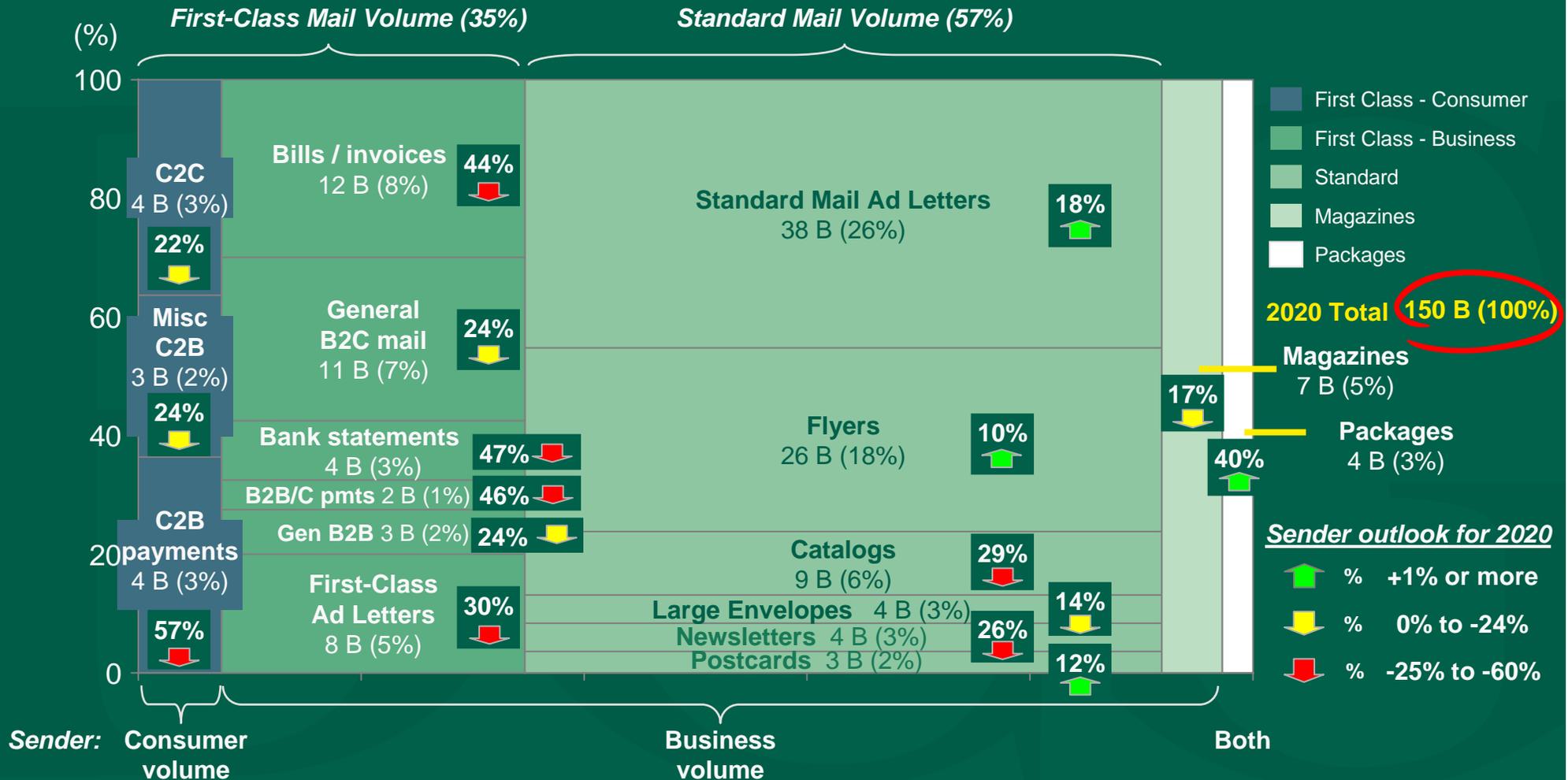
2020 forecast sees roughly flat volumes in Standard Mail vs. 2009



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

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