



**BRIEFING
for the
PRESIDENT'S COMMISSION
on the
UNITED STATES POSTAL SERVICE**

January 8, 2003



Outline

- **Background**
- **Current Overview**
- **Transformation Plan**



Postal Reorganization Act of 1970

Universal Service Mandate:

Access and delivery to virtually everyone, everywhere, everyday.

Statutory Requirement:

“ [The Postal Service] shall provide prompt, reliable, and efficient services to patrons in all areas and shall render postal services to all communities.”



Postal Reorganization Act of 1970

Universal Service Mandate:

Access and delivery to virtually everyone, everywhere, everyday.

Business Model Premise:

Moderate volume growth and postage rate increases at or below the economy's rate of inflation would finance universal service and the ever-expanding delivery network.



Universal Delivery Service



at \$5.0 Million Each



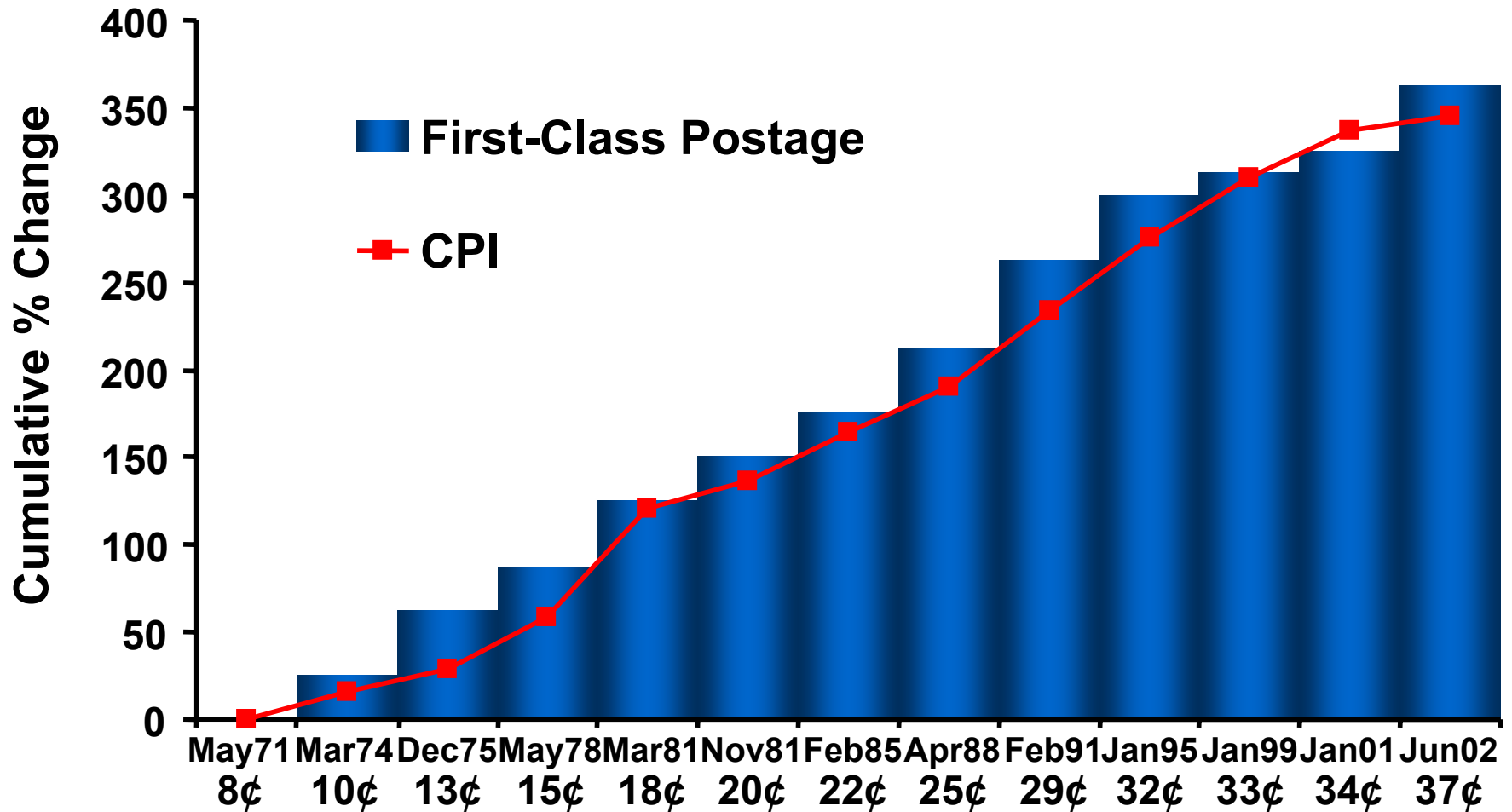


1971 – 2002 Comparisons

	<u>1971</u>	<u>2002</u>	<u>%Change</u>
Delivery Points (Millions)	81	139	72%
Volume (Billions)	87	203	133%
Employees (Thousands)	731	854	17%



CPI vs. First-Class Postage Rates





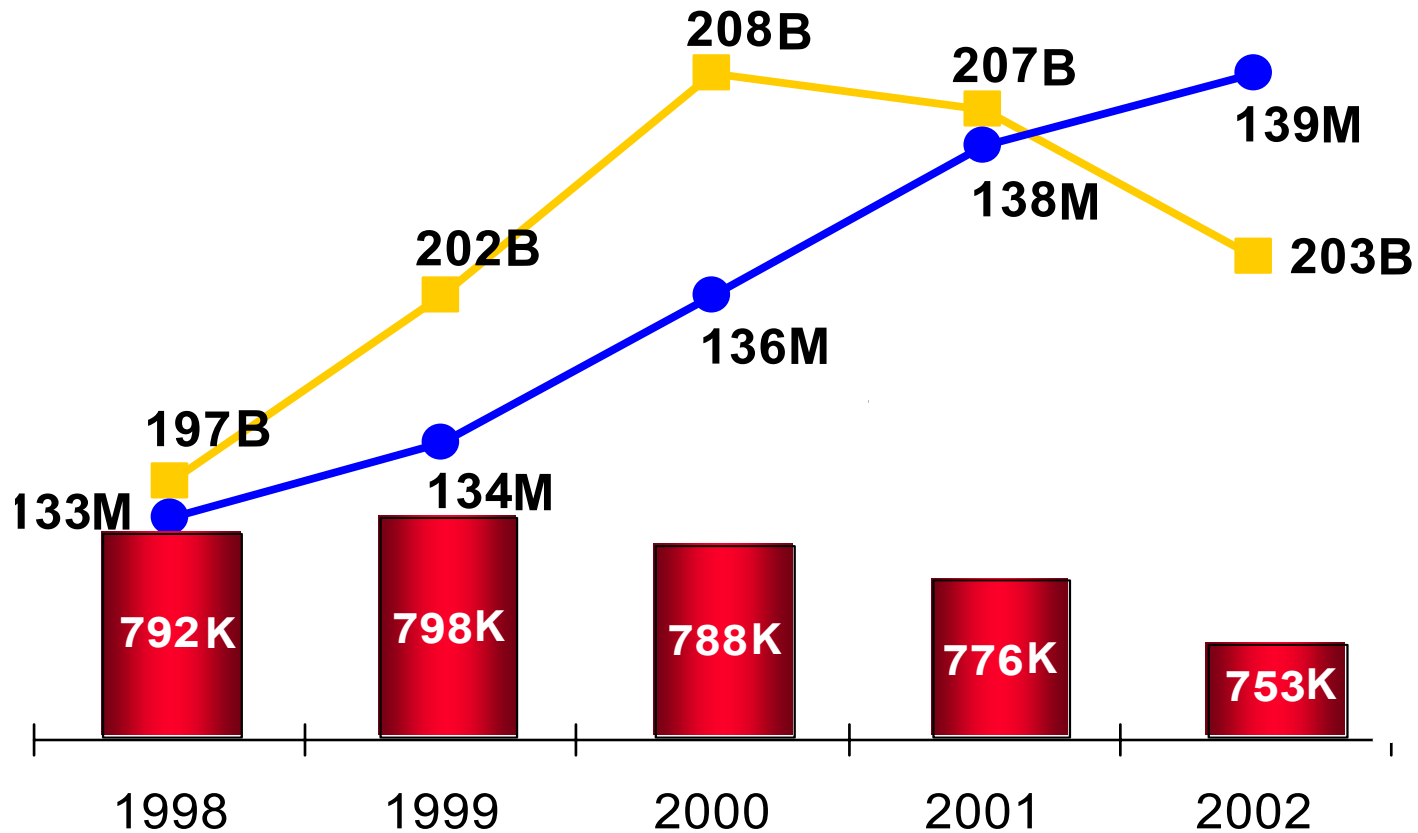
Post Office Department and Postal Service

<u>Financial Results</u> (Cumulative)	<u>Post Office Department</u> <u>1942-1971</u>	<u>United States Postal Service</u> <u>1972-2002</u>
Revenue	\$90	\$1,108
Expense	<u>109</u>	<u>1,114</u>
Deficit	(\$19)	(\$6)
Revenue/Expense	82.6%	99.5%

\$Billions



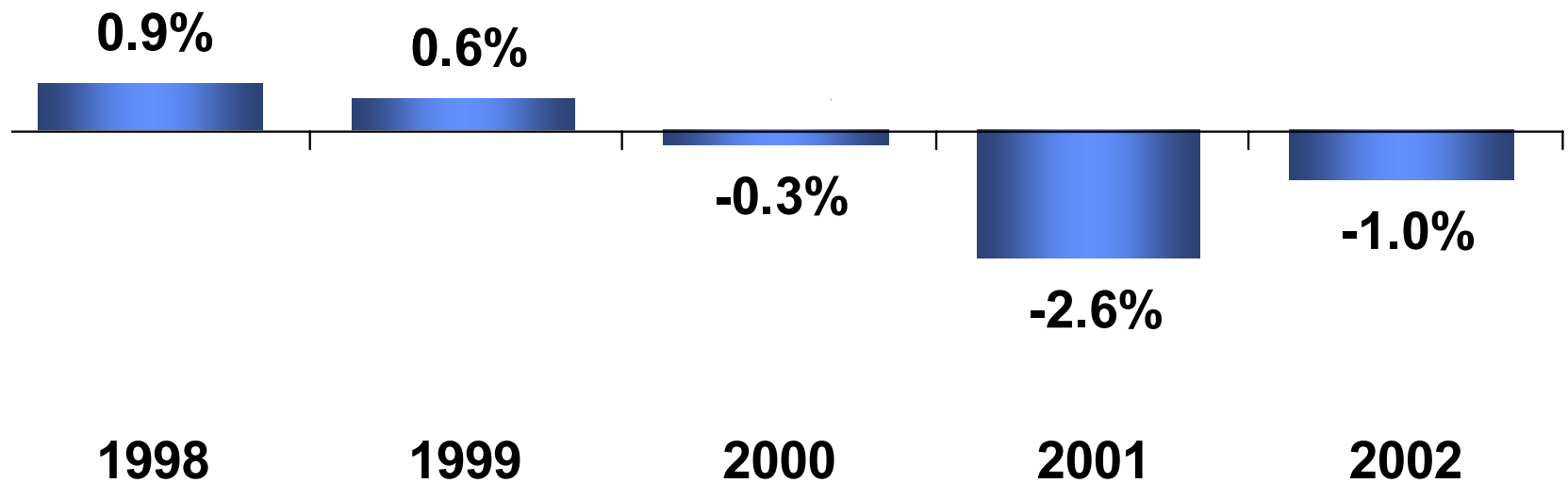
Summary Statistics



 Career Complement
 Mail Volume
 Delivery Points



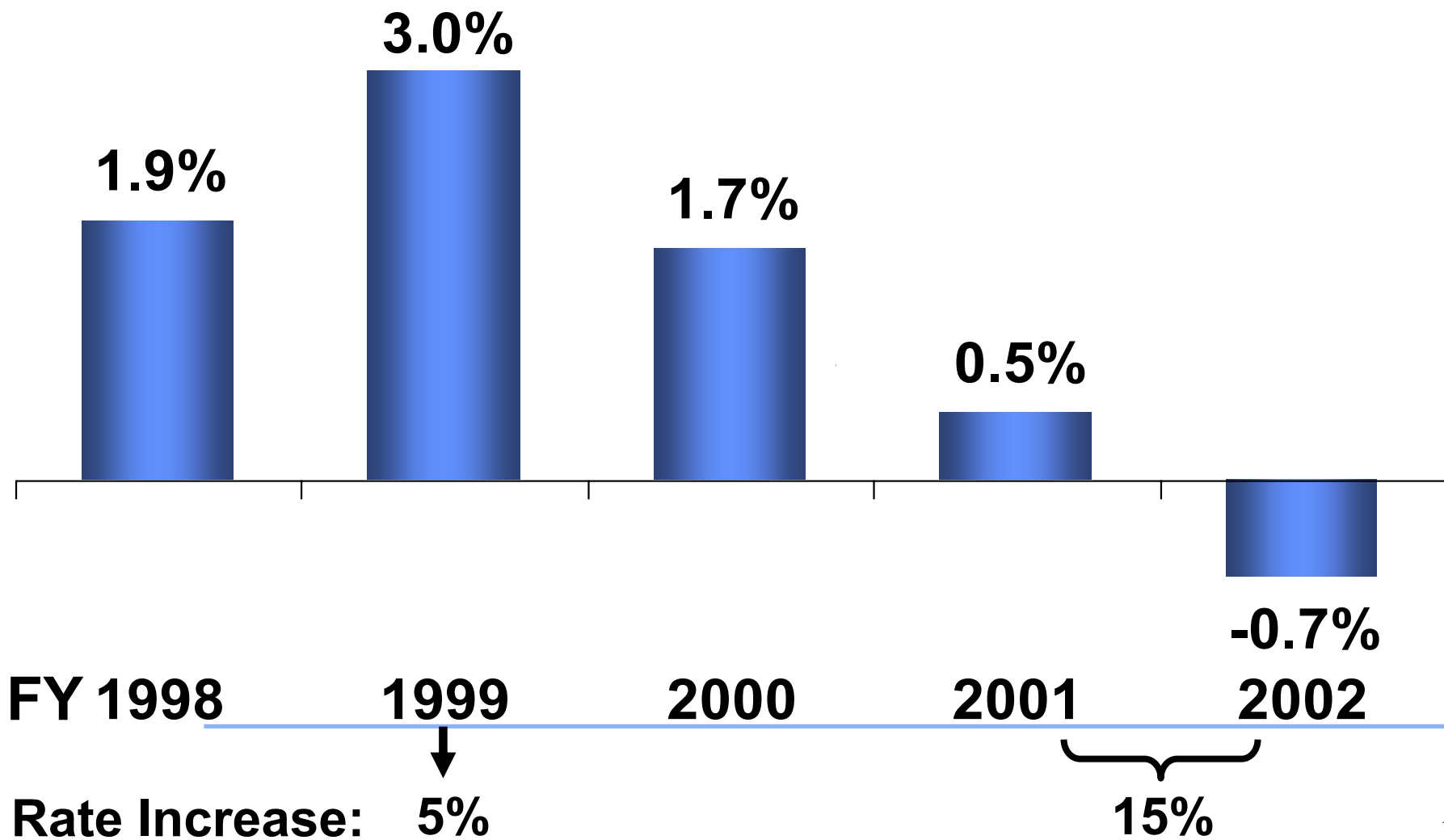
Annual Net Margin



Net Margin = Net Income (or Loss) / Revenue

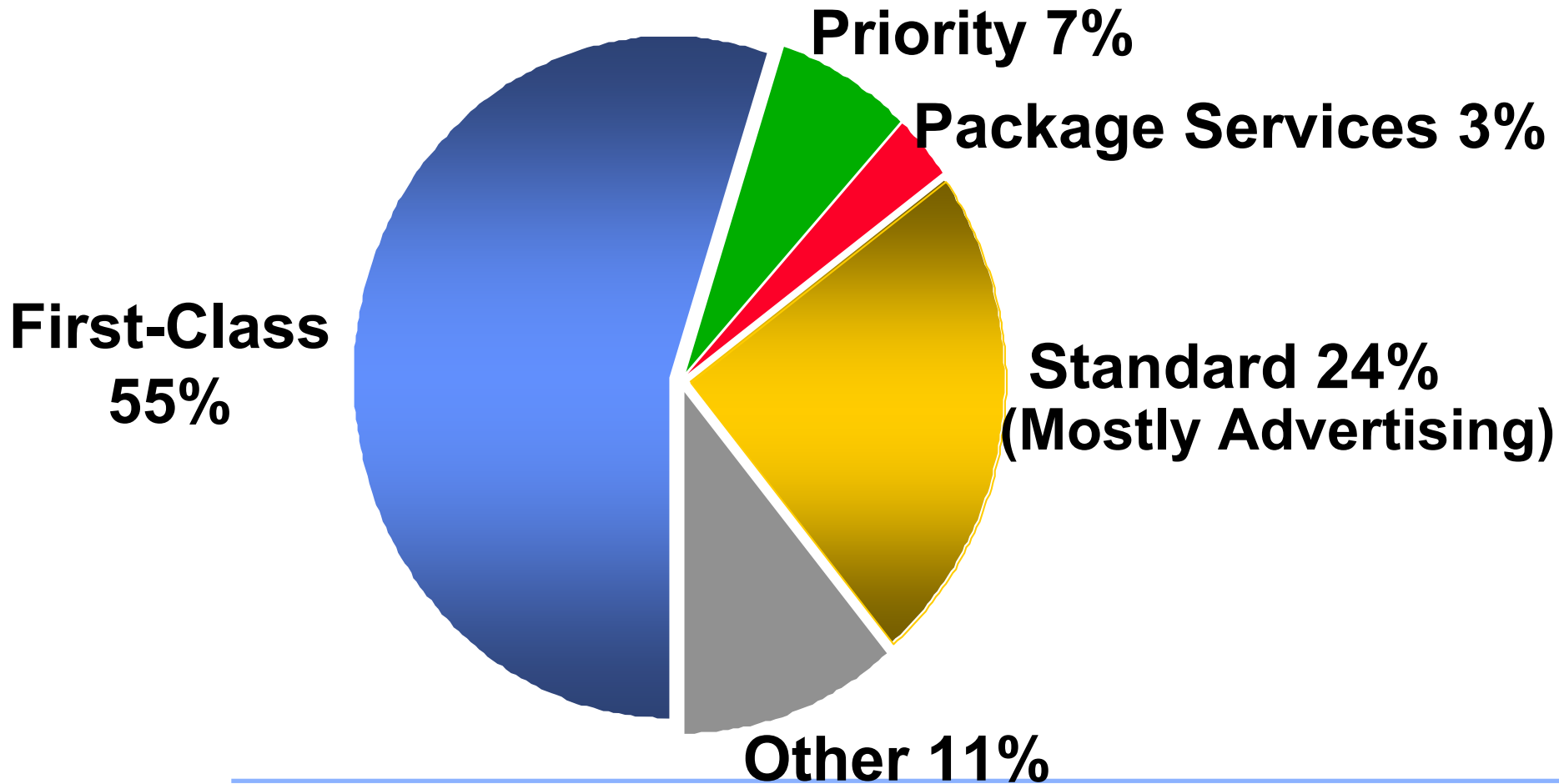


Growth in Revenue Per Delivery Point



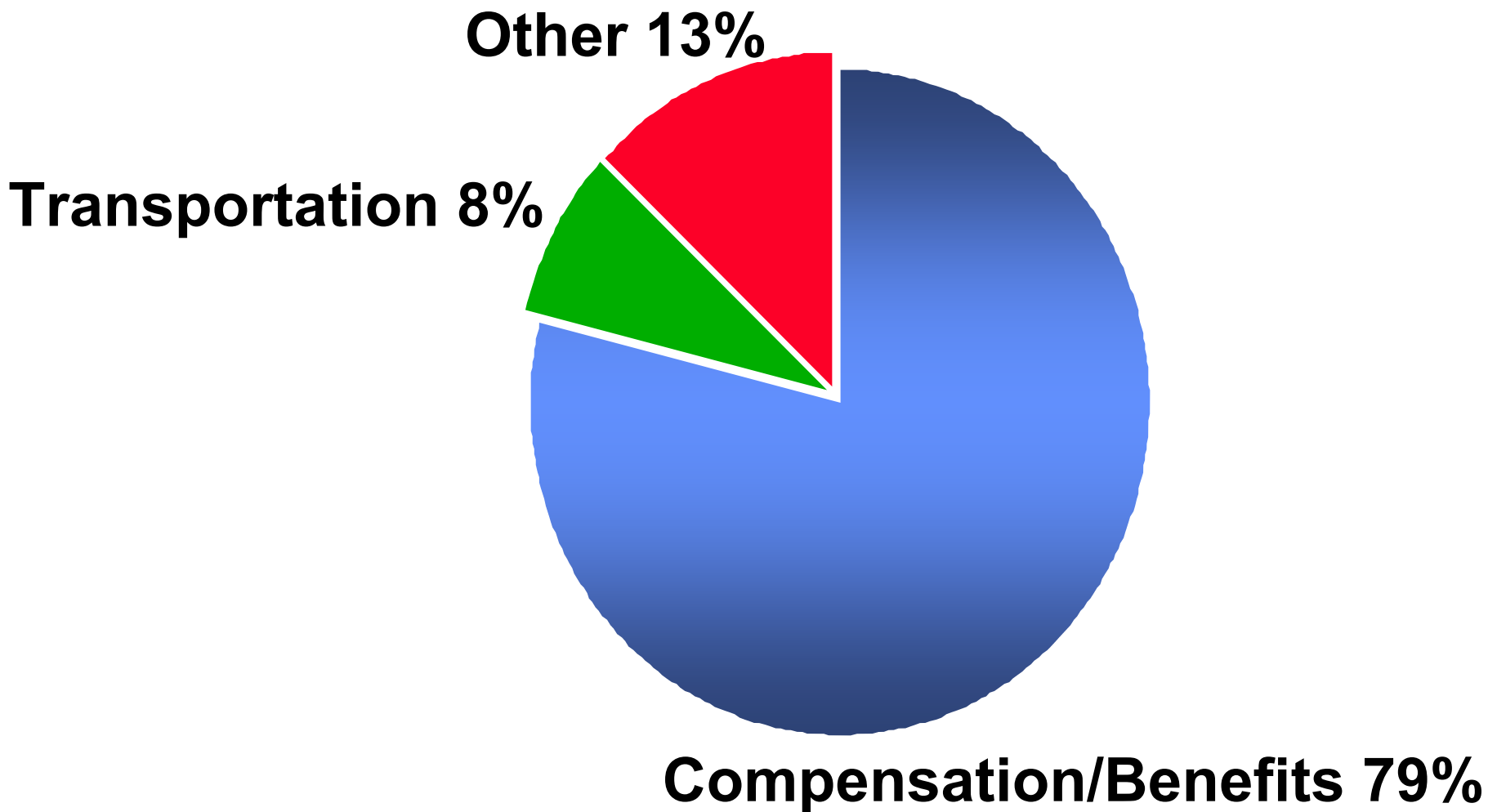


Revenue Composition - FY 2002



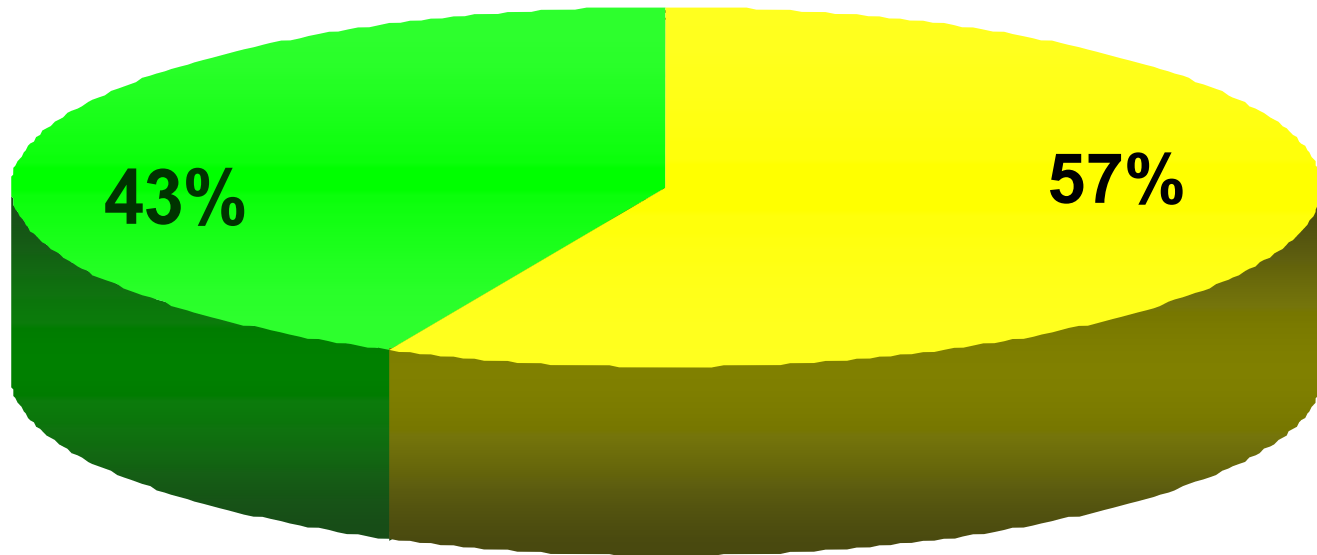


Expense Composition - FY 2002





FY 2001 Expenses



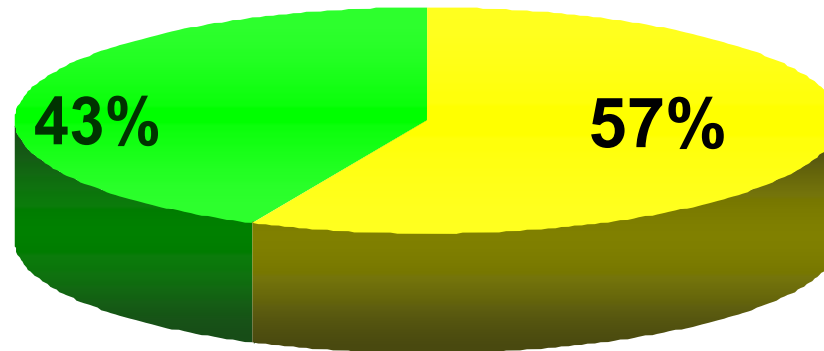
■ "Fixed" \$29B

■ Volume Variable \$38B



“Fixed” vs Volume-Variable Costs FY 2001

FY 2001 Expenses



■ "Fixed" \$29B

■ Volume-Variable \$38B

“Fixed” Costs include:

- 38,000 Post Office, Station, and Branch Operations
- Del. Rte. Coverage - 240,000 Delivery Rts.
- 215,000 Vehicles
- Retirement Costs
- Overhead

Volume-Variable Costs Include:

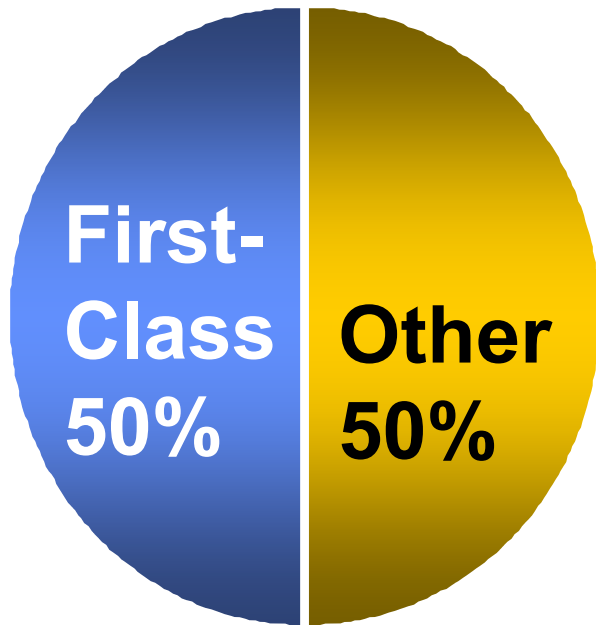
- Transportation
- Mail Distribution Work Hours
- Mail Containers
- Fuel
- Retail Transactions
- Delivery Carrier Prep in Office



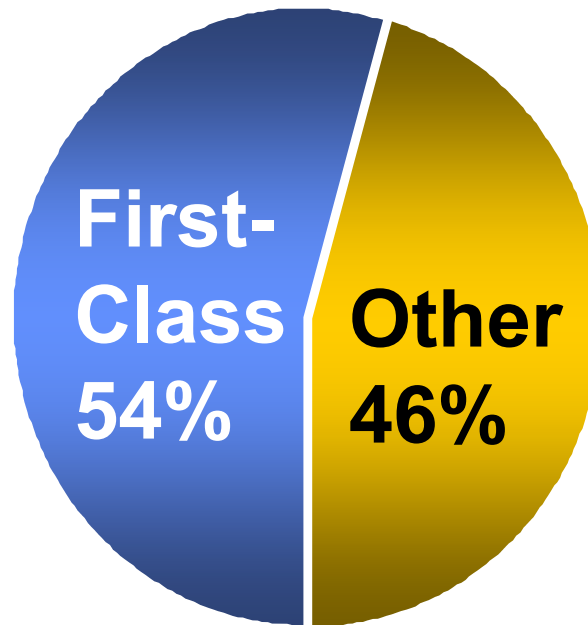
First-Class Mail

Major Contribution to “Fixed” Costs

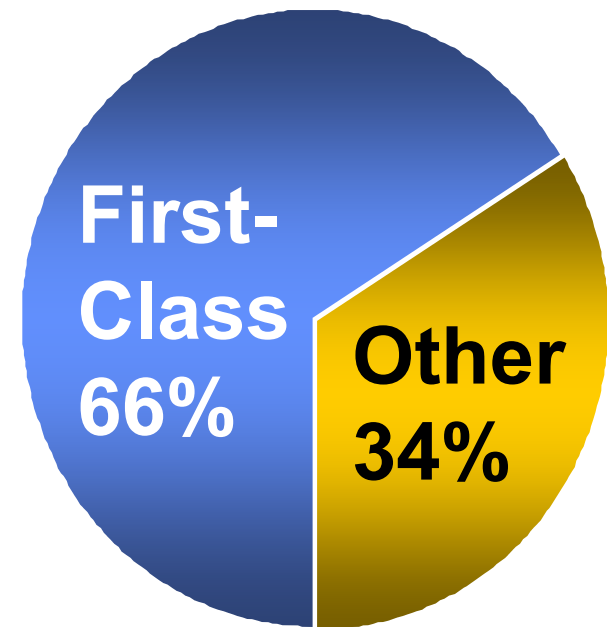
Volume



Revenue



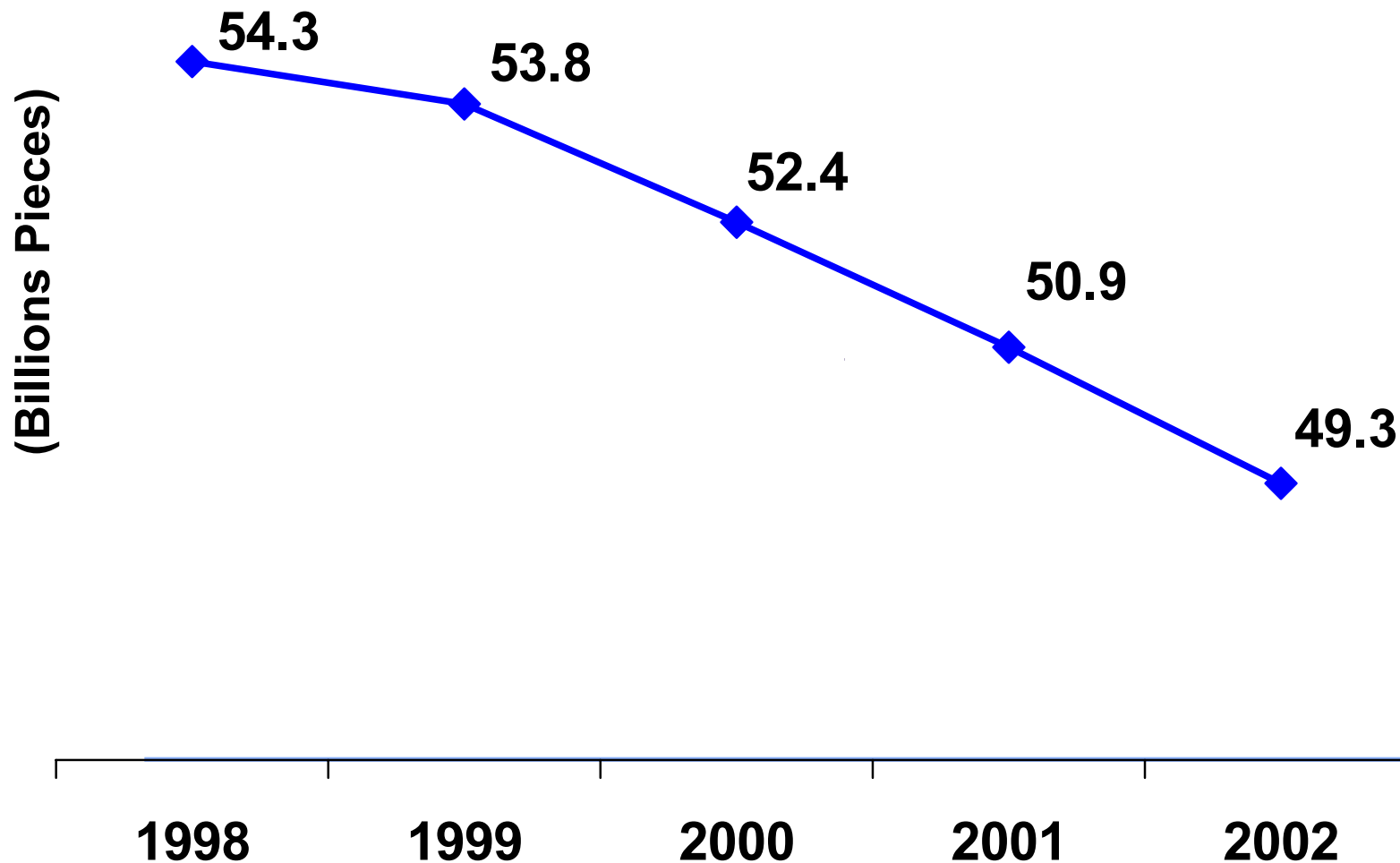
Contribution to “Fixed” Costs



FY 2001



First-Class Single Piece Letters

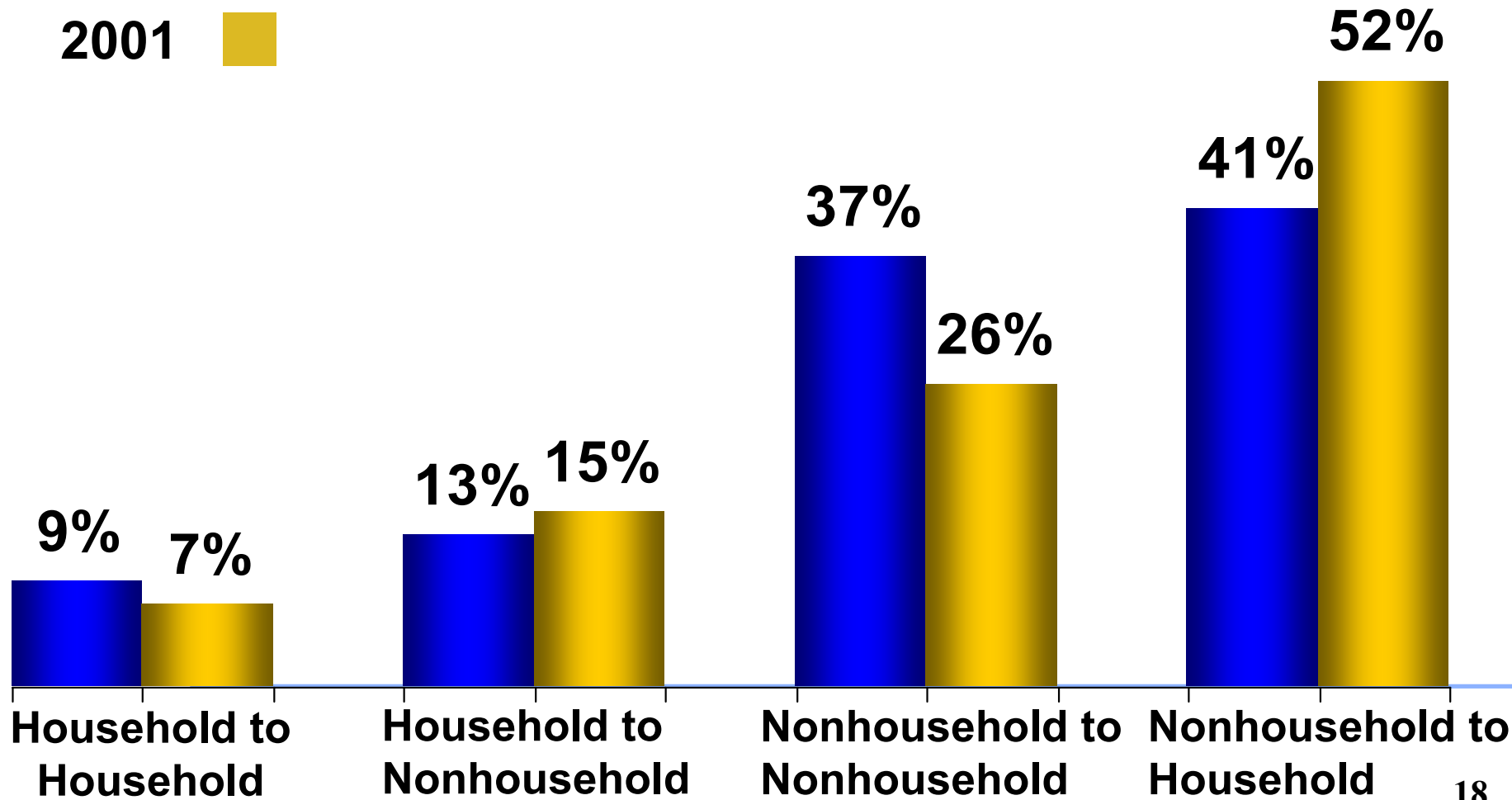




First-Class Mail-Sector Analysis

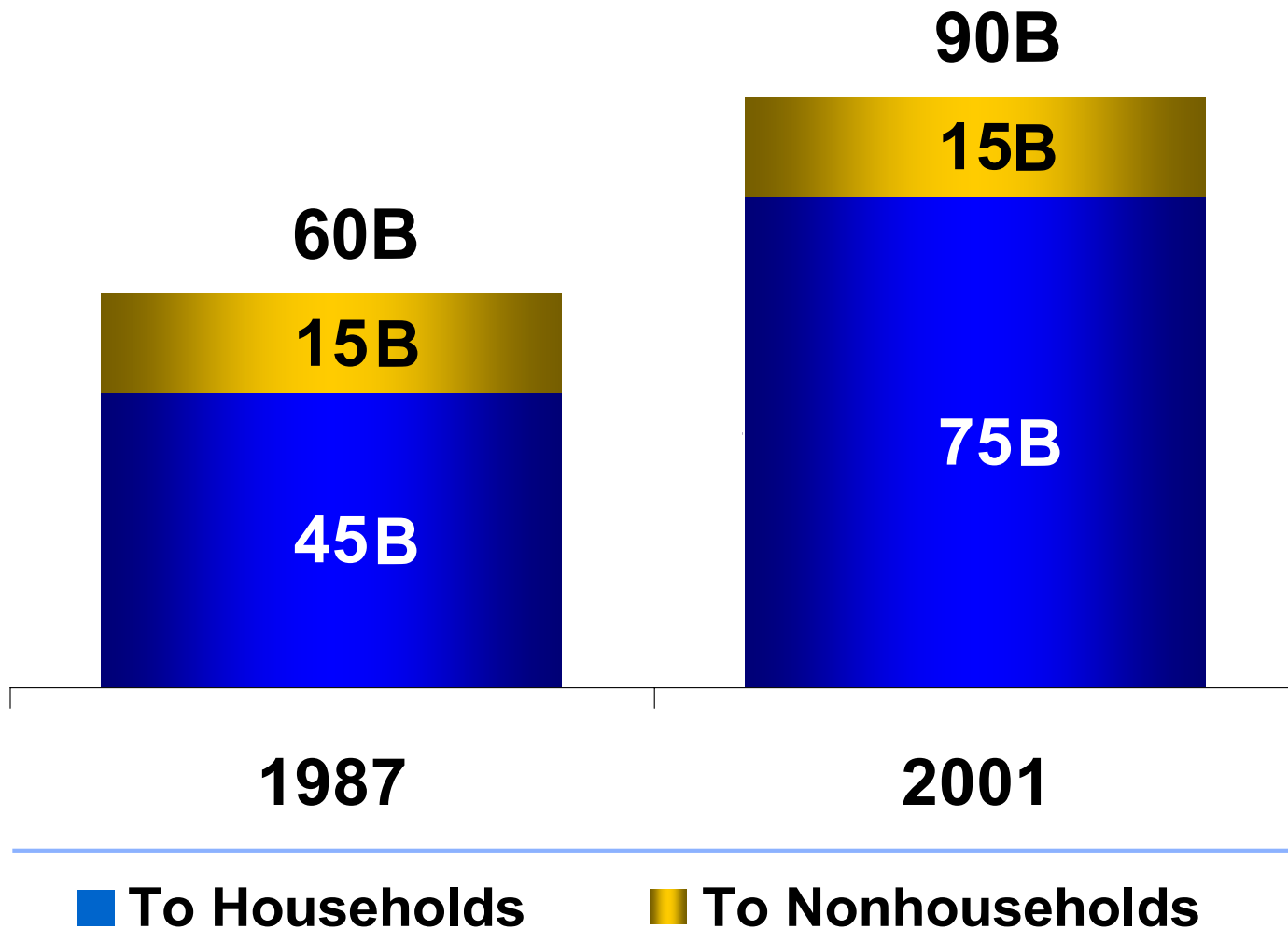
Source: Household Diary Study

1987 
2001 



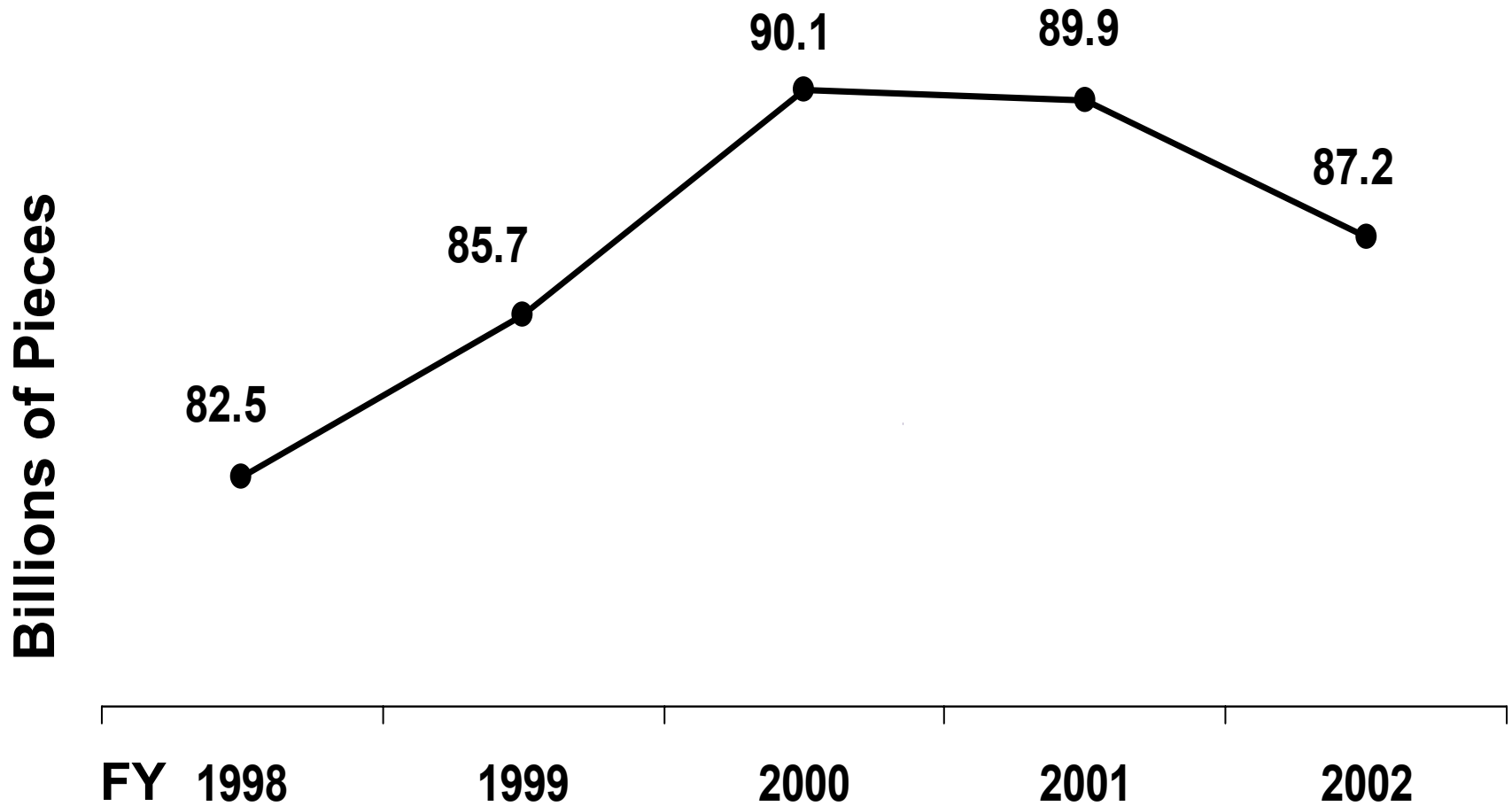


Standard Mail Volume 1987 and 2001



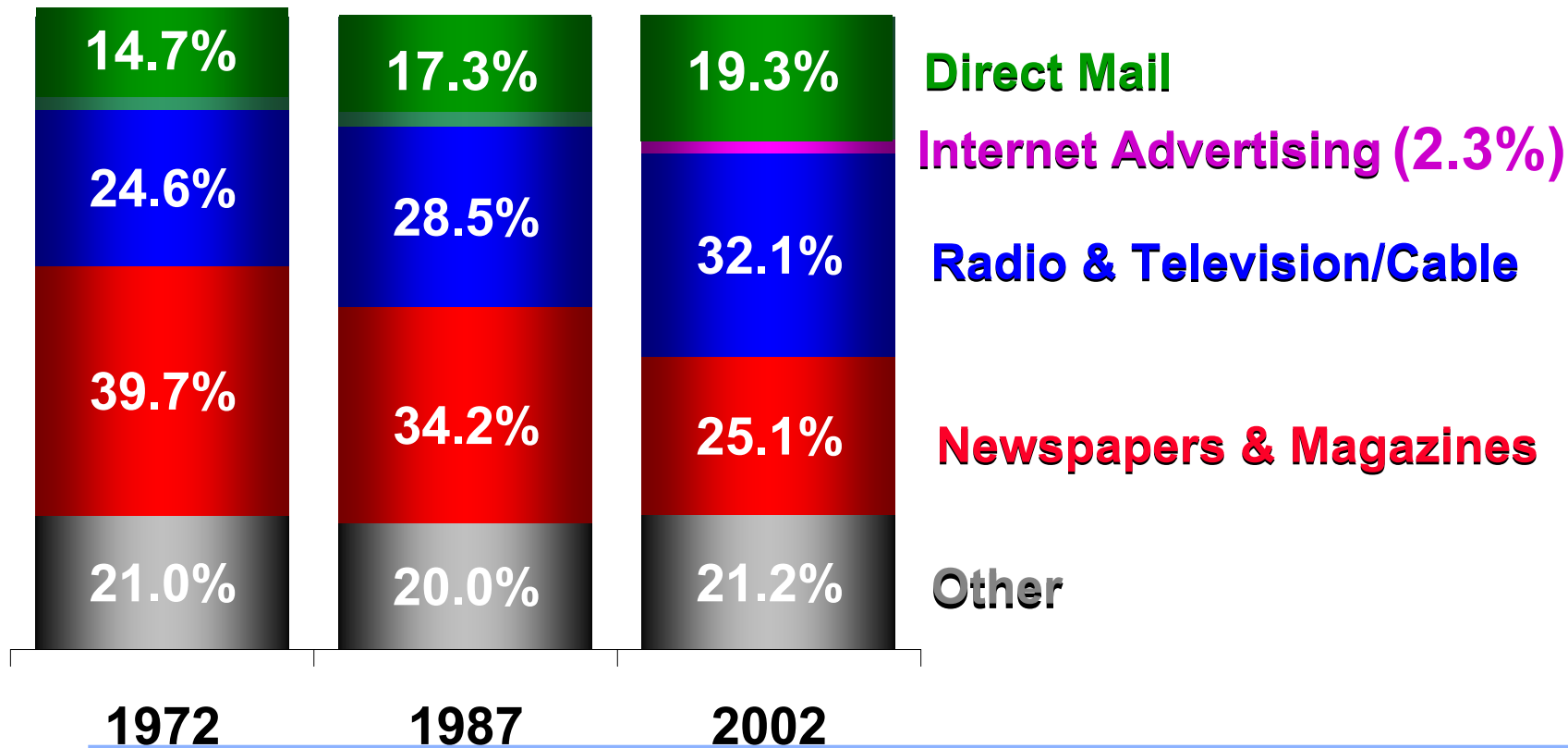


Standard Mail Volume





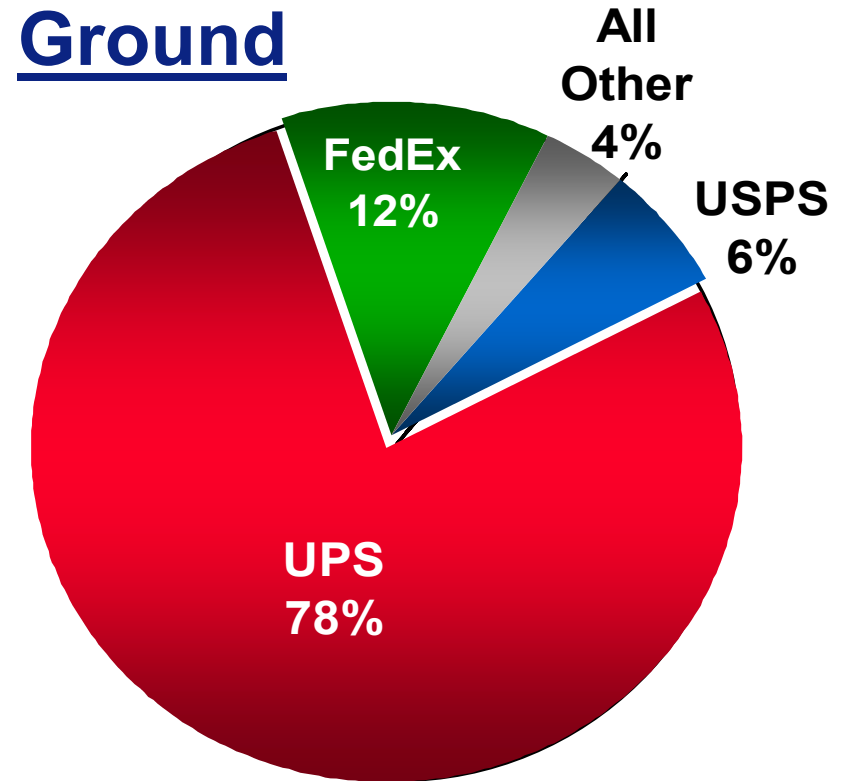
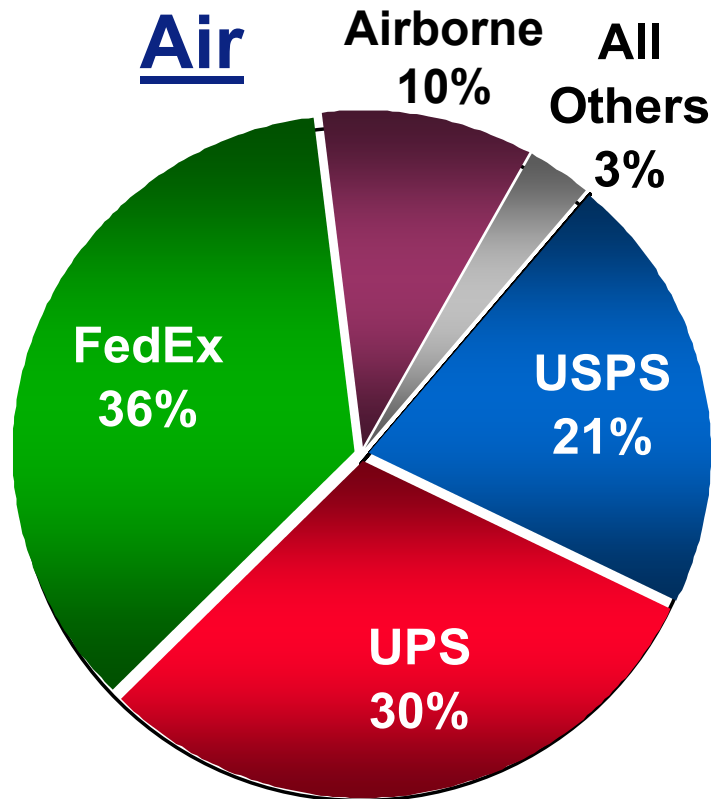
Standard Mail Volume Market Share 1972- 2002



Source: McCann-Erickson WorldGroup



Package Services Revenue Share FY 2001



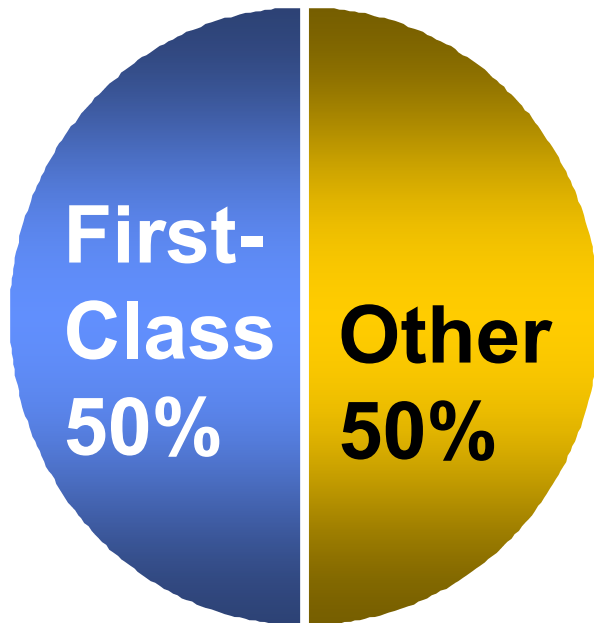
Source: Colography Group



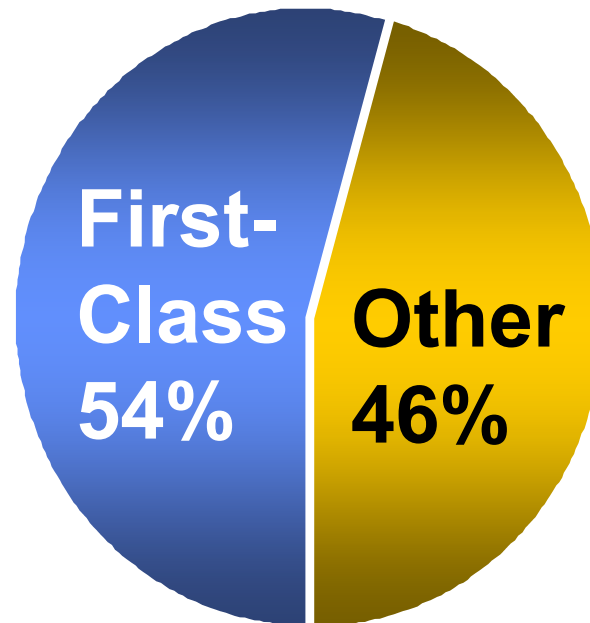
First-Class Mail – FY 2001

Major Contribution to “Fixed” Costs

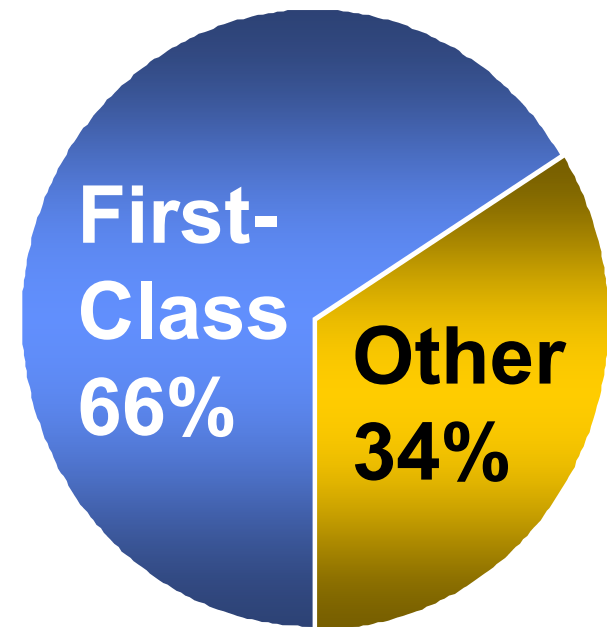
Volume



Revenue



Contribution to “Fixed” Costs





Financial Effect

Volume Necessary to Replace Contribution From \$1 Billion of First-Class Mail Revenue

	<u>Volume Increase</u>	<u>% Growth</u>
Standard Mail	7.1 B	8%
or Priority Mail	313 M	26%
or Express Mail	50 M	70%
or Parcel Post	1.5 B	465%



Competition and Technology

First-Class Mail

- Business eMail
- Electronic Bill Payment

Standard Mail

- Print/Broadcast Media
- Internet Advertising

Periodicals

- Internet News Sources
- Lifestyle Changes

Packages

- No Longer the Only Nationwide Package Service



Strategy: Achieve Lowest Combined Cost

Progression of Customer Worksharing Options

1970's

- **Presorted Bundles**

1980's

- **Presorted Bundles**
- **Prebarcode Pieces**

1990's

- **Presorted Trays**
- **Prebarcode Pieces**
- **Dropship**

\$15 Billion Current Annual Discounts



Strategy: Achieve Lowest Combined Cost Postal Operations

1970's

1980's

1990's

2000's

- **Mechanized Mail Processing**
- **Automated Letter Distribution**
- **Automated Flat and Parcel Processing**
- **Delivery Point Sequencing**
- **“Network Optimization”**

1970 Postal Reorganization

- **Capital Investment Financing**
- **Self-Directed Research**
- **Longer Term Planning**



Pricing Cycle

Five Months

Preparation

Ten Months

Rate Case Litigation

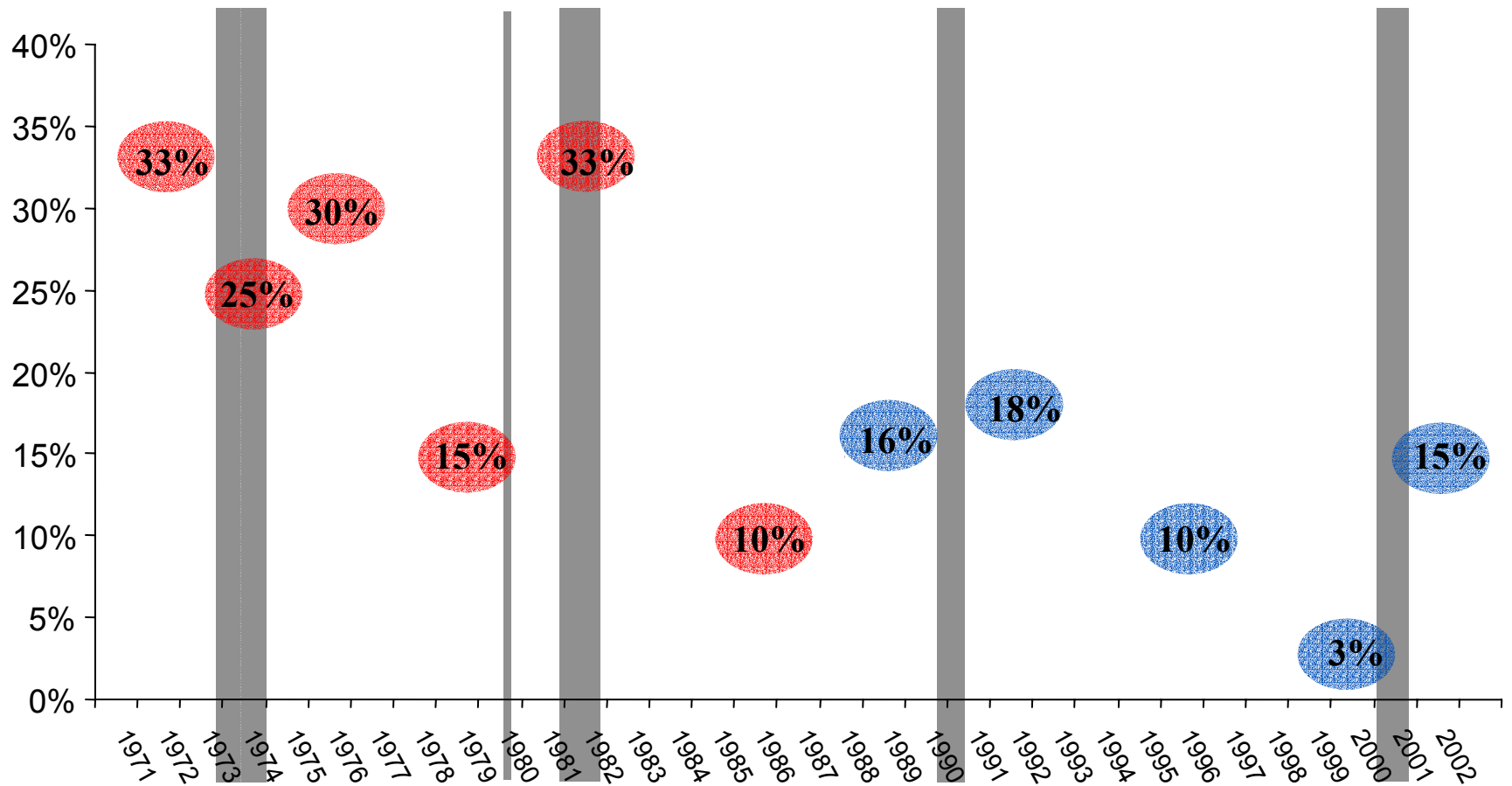
**Three
Months**

Governors' Consideration

Implementation



Rate Increases and Economic Conditions



- First-Class First Ounce Rate Increase
- Recessions
- Average Rate Increase – All Classes – 2001 and 2002 increases implemented in 3 steps

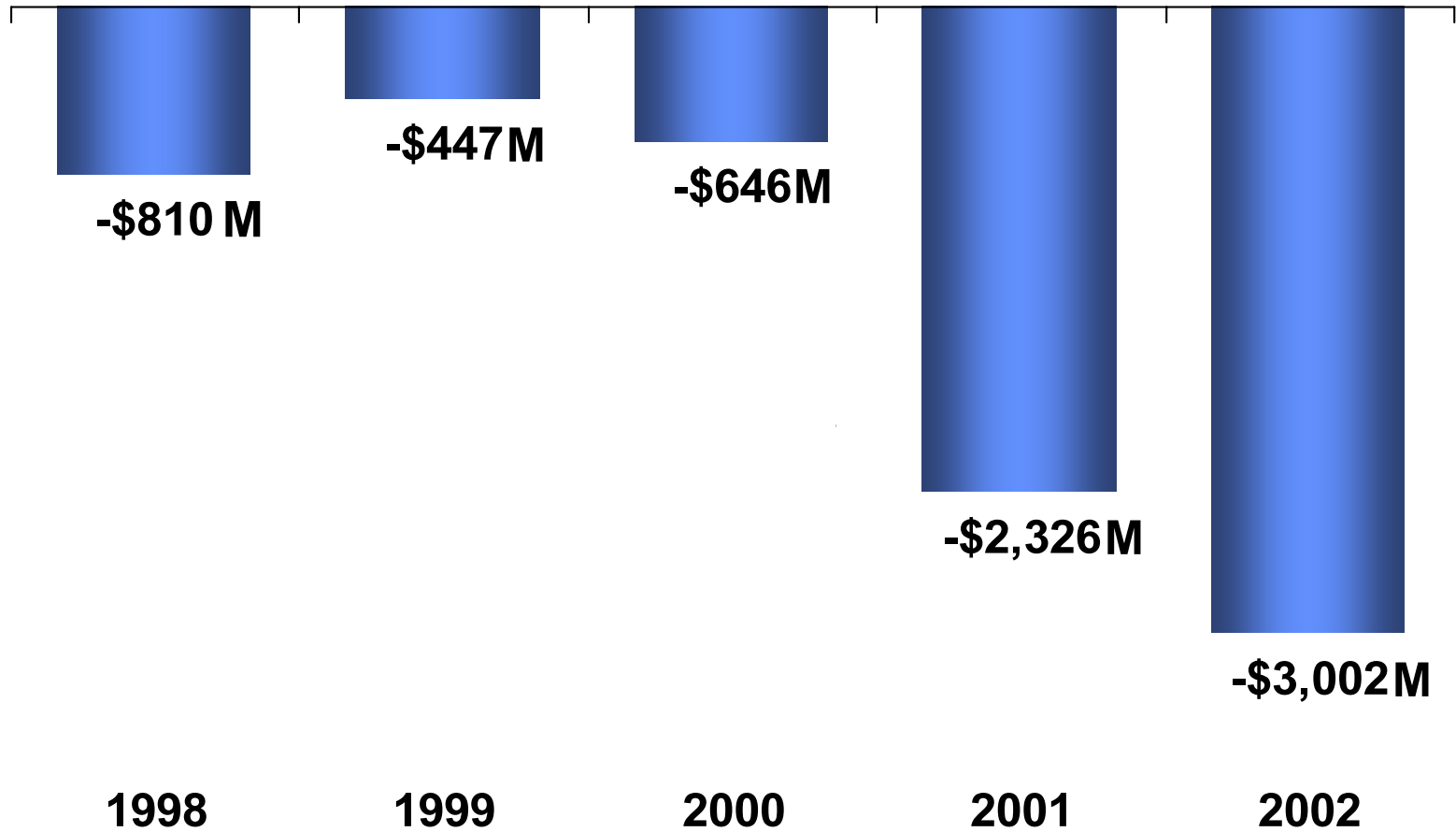


Financial Stress

Debt	\$ 11 B
Other Liabilities (Excluding CSRS)	\$ 19 B
Retiree Health Benefits Obligation	(\$40 – 50 B)
Cumulative Losses (Since 1971)	\$ 6 B



Financial Stress - Equity





TRANSFORMATION PLAN



Transformation Plan

- **“Push the Envelope”**
- **Legislation – Short Term**
 - **Public Policy Issues**



Transformation Plan

“Push the Envelope”

- **Growth**
- **Efficiency**
- **Performance Based Culture**



Transformation Plan – Results to Date

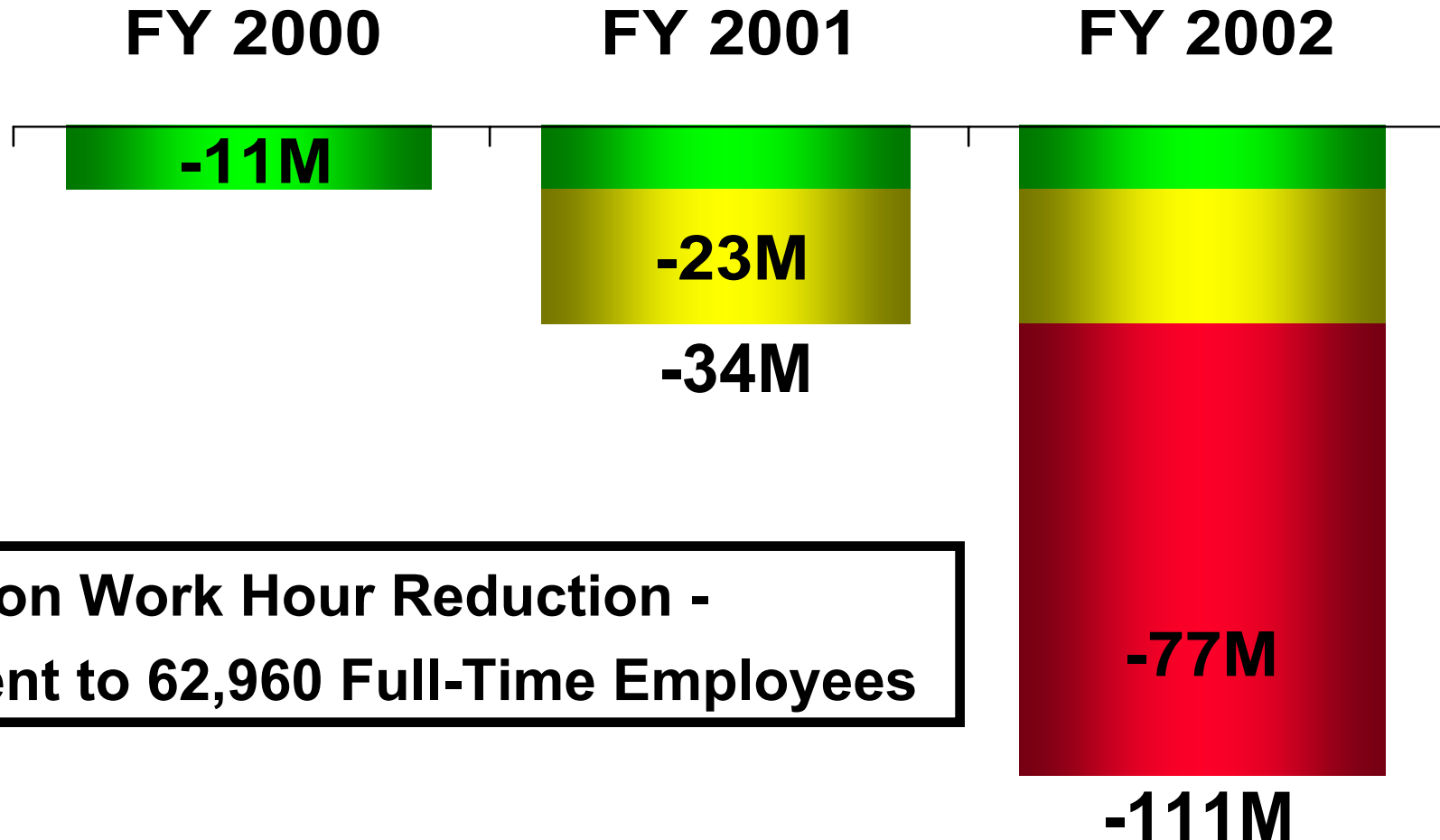
Service

- **Externally Measured**
- **Service At Record Levels**



Transformation Plan – Results to Date

Work Hour Reductions



**111 Million Work Hour Reduction -
Equivalent to 62,960 Full-Time Employees**



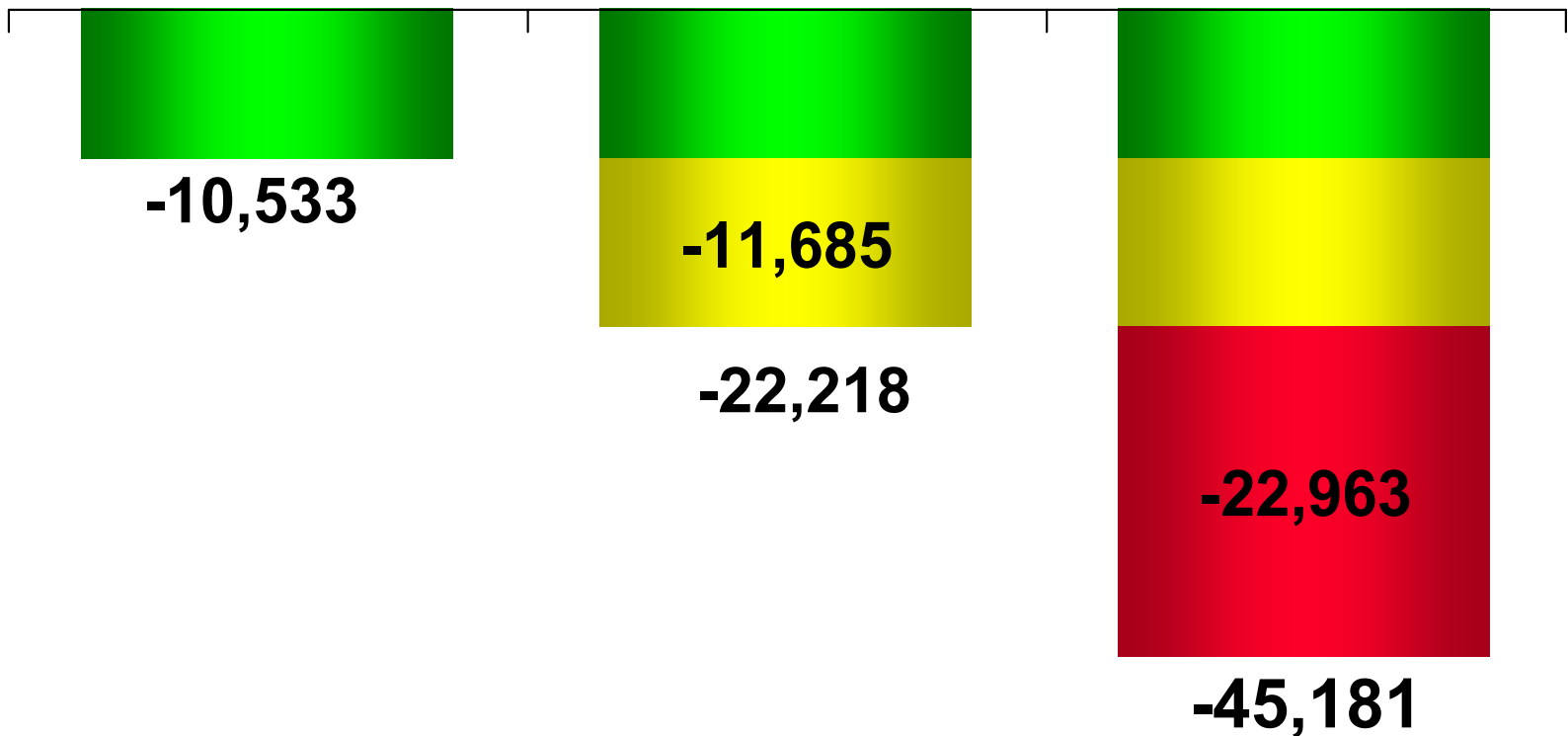
Transformation Plan – Results to Date

Career Complement Reductions

FY 2000

FY 2001

FY 2002





Transformation Plan - Results to Date

- **First Ever Expense Reduction – \$200 Million Below 2001 Level**
- **Labor Contracts – In Place to Provide Stability**
- **Record Setting Safety Performance**
- **Negotiated Rate Settlement/Expedited Implementation**
- **Delivered \$1.5 Billion of Cost Savings
Goal - \$5 Billion By 2006**



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