NATIONAL PCC WEEK 2014

STRONGER TOGETHER

MEGAN J. BRENNAN
CHIEF OPERATING OFFICER
THANK YOU FOR YOUR LEADERSHIP!

- Steve Hernandez, District Manager Northern New Jersey and Postal Co-Chair
- James Mullan, Industry Co-Chair
- Lauran Solvik, Vice Industry Co-Chair
- Evan Kest, Treasurer
- Catherine Behr, Secretary
- Robert Spadaro, Industry Co-Chair Emeritus
Value in the PCC Network

FEEDBACK

Network of Mailing and Business Professionals
- Share Best Practices
- Provide Feedback
- Offer Solutions

ACTION

USPS Managers Responsible for the Collection, Processing and Delivery of Your Mail
- Informational Webinars
- Educational Workshops
- eMail Alerts/Newsletters
- PCC Website
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CONGRATULATIONS…

HAS EARNED THE PREMIER PCC GOLD AWARD FOR 3 CONSECUTIVE YEARS AND 2014 BRONZE INNOVATION AWARD!
LEVERAGING THE POWER OF TECHNOLOGY TO MAKE MAIL MORE:

- Competitive
- Functional
- Actionable
- Creative
- Personally Relevant
THE ROLE OF MAIL IN MARKETING STRATEGIES

- Better Innovation
- Greater Visibility
- New Technology
- Priority Mail Enhancements and Growth
COMMITMENT TO THE PCC’s

- Transforming the Customer Experience
- Accountability
- Responsiveness Across All Channels
- Exceeding Expectations
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COMMITMENT TO THE PCC’s

- Service Improvement
- Transform the Infrastructure
- More Efficient, Technology Enriched Delivery Network
- Innovate Across the Business Platforms
TRANSFORMING INFRASTRUCTURE
Management Actions

- **Network**
  - More than 350 Processing Facilities Eliminated
  - Reduced over 75 Million Miles

- **Delivery**
  - Eliminated 24,000 Delivery Routes
  - Consolidated 2,513 Delivery Units

- **Retail**
  - POStPlan – 50% of Post Offices Realigned to Match Community Needs

- **Facilities**
  - Eliminated over 6.7 million Square Feet

Service has remained at predictable levels
DELIVERY OPTIMIZATION
DELIVERY OPTIMIZATION

TRANSFORMING INFRASTRUCTURE

- **Units**
  - 2,513 Delivery Unit Consolidated

- **Routes**
  - 24,000 City Routes Reduced

- **Deliveries**
  - Efficient Mode of Delivery
Current Policy/Strategies are Driving Migration to More Efficient Delivery Mode

**USPS DELIVERY MODES**

**Fiscal Year 2013**

- **Door** 37.8M (28%)
- **Curbline** 55.0M (41.0%)
- **Central** 40.5M (31%)

**TOTAL STREET DELIVERIES – 133.3M**

**FY 2013 GROWTH BY MODE**

<table>
<thead>
<tr>
<th>Mode</th>
<th>FY 2013 Growth</th>
<th>% Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Door</td>
<td>(61.2K)</td>
<td>(6%)</td>
</tr>
<tr>
<td>Curbline</td>
<td>490.9K</td>
<td>47%</td>
</tr>
<tr>
<td>Centralized</td>
<td>607.6K</td>
<td>59%</td>
</tr>
<tr>
<td>Total Growth</td>
<td>1.04M</td>
<td>- -</td>
</tr>
</tbody>
</table>
ACCESS OPTIMIZATION
RETAIL CHANNEL STRATEGY FOCUS

- Grow Revenue
- Reduce the Cost to Serve
- Transform Customer Experience in High Traffic Post Offices
- Enhance Customer Convenience Through Expanded Retail Partnerships
- Preserve Retail Services in Rural America
  - 50% of Post Offices realigned to match community needs
FACILITIES MANAGEMENT
Facilities Optimization

New Jersey Network Distribution Center – 1.4M Sq Ft

Ochopee FL Post Office – 62 Sq Ft

USPS FACILITIES

OWNED 8,596

LEASED 23,763
OBJECTIVE

- Generate Revenue and Reduce Expenses by:
  - Selling owned buildings
  - Terminating leases
  - Re-purposing space

Over 6.7M Sq. Ft. Eliminated
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TRANSFORMING INFRASTRUCTURE

PHASE 2 NETWORK RATIONALIZATION
Financial losses of $26 Billion over last 3 years

Continued decline of First-Class Mail volume & revenue

Increasing wage inflation and operating costs

Increasing debt pressures

Uncertainty regarding legislative reform

Review of postal prices in courts

Needed capital investments to acquire package sorting equipment and replace aging delivery vehicle fleet
Volume Decline

Single Piece - First Class Letters

16.4% decline since AMP packages developed

Source: RPW, FY2007 – FY2013
Projected Mail Volume
By Major Classes of Mail

Std. Mail declines 6%

FCM declines 45%

Packages grow 61%

Volume (billions)
Continuous Efficiency Improvements Have Helped Mitigate Effects of Business Threats

DESPITE SIGNIFICANT COST REDUCTIONS LOSSES REMAIN AT UNSUSTAINABLE LEVELS

Career Employees – Reduced by 205K since 2006, without layoffs

Postal Service is More Efficient Than Ever

$16 Billion of Annualized Savings in the past seven fiscal years with workhours reduced by 24%
A Deep Financial Hole Through FY14 Q3

- Liabilities exceed assets by approximately $44 billion
- The USPS has only 35 cents of assets to cover each dollar of its liabilities

### ASSETS

<table>
<thead>
<tr>
<th>Asset</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unrestricted Cash</td>
<td>$ 5.0B</td>
</tr>
<tr>
<td>Buildings &amp; Equipment, net of depreciation</td>
<td>$16.5B</td>
</tr>
<tr>
<td>Other Assets</td>
<td>$ 1.7B</td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
<td><strong>$23.2B</strong></td>
</tr>
</tbody>
</table>

### LIABILITIES

<table>
<thead>
<tr>
<th>Liability</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retiree Health Benefits</td>
<td>$21.0B</td>
</tr>
<tr>
<td>Workers' Compensation</td>
<td>$17.8B</td>
</tr>
<tr>
<td>Debt</td>
<td>$15.0B</td>
</tr>
<tr>
<td>Accrued Compensation, benefits, and leave</td>
<td>$ 4.2B</td>
</tr>
<tr>
<td>Deferred Revenue</td>
<td>$ 3.8B</td>
</tr>
<tr>
<td>Other</td>
<td>$ 5.3B</td>
</tr>
<tr>
<td><strong>Total Liabilities</strong></td>
<td><strong>$67.1B</strong></td>
</tr>
</tbody>
</table>

- Under multi-employer accounting rules, there are approximately $47B in obligations not shown on the balance sheet
  - Significant profits over years and legislation are needed to recover
PLAN TO CONSOLIDATE PROCESSING AT 82 MAIL PROCESSING SITES IN 2015
Decrease in Processing Locations Through 2016

At start of FY

2006: 673
2007: 623
2008: 614
2009: 599
2010: 528
2011: 487
2012: 461
2013: 417
2014: 320
2015: 319
2016: 239

Plant Consolidation
PHASE II BENEFITS

- Reduce Excess Capacity
- More Efficient Transportation Network
- Fully Utilized Workforce
- Up to $750 Million Cost Reduction
- Reduced Equipment
- Reduced Footprint
- Revised Entry Times
- Preserves Approx. 66% of Overnight Delivery Volume
Concept of 24-Hour Plant Operations

Outgoing Operations (5:00 PM - 12:30 AM)

Continuous DPS/Secondary Operations (12:00 PM - 6:00 AM)

Continuous Remittance/Caller Service Processing 0800-0600

BMEU (8:00 AM - 7:00 PM)

Incoming Primary Operations (8:00 AM - 12:00 PM)
OUR COMMITMENT TO EMPLOYEES

- Methodical, measured transition
- Placement Options Available
- Proven track record of working with Union and Management Associations
No immediate change to acceptance locations or hours

- 120-day notice for following changes:
  - BMEU Moves/Consolidation
  - BMEU/DMU Hours of Operation
  - DMU Transportation

Expand drop-ship appointments at gaining facilities

Effective Jan. 2015 to qualify for DSCF pricing mailers will be required to enter mail at the SCF defined in Labeling List (Federal Register Dec.18, 2013)

- BMEU/PVDS Mailers should prepare mail according to effective labeling lists
- Grace Periods Built into Labeling Lists
- To assist in the transition the Postal Service has an exception process for BMEU mailers currently claiming SCF discounts at facilities scheduled for consolidation
Early Warning System well established
Mail move plan updated and posted on RIBBS
Continued communication with the mailing industry
Site Intervention based on Early Warning System
Feedback system in place to address customer issues:
  • CustomerFirst! System
  • BSN eService
  • Local postal officials
AVAILABLE TOOLS

EWS Reports
- Daily Monitoring of plant inventory levels
  - First Class
  - Periodicals
  - Standard Letters
  - Standard Flats
- Weekly Monitoring of:
  - Work in Process (WIP) cycle time
  - Pieces processed after clearance time
  - Mail Conditions

CustomerFirst! System
- Business Service Network’s (BSN) repository of mailer customer issues
- Issues tracked as Service Requests (SR)
- SRs handled as open tickets needing resolution in order to be closed

BSN eService
- Customer-facing access point
- BSN customers can submit electronic inquiries and learn status of inquiry from web account
- Non-BSN customers may contact a local BSN representative by phone or email for support, if needed
Mail Move Plan

- Enables mailers to plan consolidation implementation progress
- File provides targeted mail move consolidation site information, type, and date

Mail Move Plan File

Mail Move Plan is updated and posted weekly on RIBBS https://ribbs.usps.gov
Industry and Customer Communications

We will continue:

- Industry Alerts
- Industry, PCC presentations and webinars

PCC and Managed Account messaging from:

- PCC program office
- HQ Business Customer Support & Service
- From Area and District BSNs

BME messaging to affected customers

Weekly posting of planned operational moves on RIBBS

Structured release cycle for labeling list / mail directional file changes
JAN 5
Operational Window Changes

April 18
Proposed Quarter 3 APWU Move Date

October 1
Finalize All Consolidation Activities

January 10
Plant Consolidations and Quarter 2 APWU Move Date

July 25
Proposed Quarter 4 APWU Move Date

October 31
Proposed Quarter 1 APWU Move Date
We are doing our utmost to maintain the long-term affordability of mail and high level of service.

We are working to make this transition as seamless as possible for our business customers as well as our 150 million addresses.

We value the mail and our employees and will provide responsible solutions throughout the transition.
STRONGER TOGETHER

TECHNOLOGY ENRICHED DELIVERY PLATFORM
100% PRODUCT VISIBILITY

PROVIDES THE ABILITY TO TRACK MAIL PIECES AND CONTAINERS THROUGH THE POSTAL NETWORK AND PROVIDE BUSINESS INTELLIGENCE TO ENHANCE OPERATIONAL PERFORMANCE AND PROVIDE CUSTOMER VALUE
Apply an intelligent and trackable barcode to every mail product

STRATEGY

• IMb for letters and flats
• IMpb for packages
• IMtb for trays and sacks
• IMcb for pallets and containers
Driving Efficiency Through Measurement & Diagnostics

Service Performance Diagnostics
From Reactive to Proactive

Service Measurement
Meeting Service Expectation
Predictability
Visibility
SERVICE:
COST EFFECTIVE AND CONSISTENTLY RELIABLE
GROWTH OPPORTUNITIES
Growth Opportunities

- Enhance the value of Direct Mail and Catalogs
- Increase Marketshare of Packages
- Innovate across USPS Business Platforms

Continue to Optimize the Value of the Infrastructure
12%.....the share of total American marketing spend on mail. It’s been consistently about 12 percent for the past 30 years.

- Four Key Ideas:
  1. Personally Relevant – Interest
  2. Actionable – Speed to purchase
  3. Functional – Imbed technology in paper
  4. Creative – Color, construction, size
The Impact of Direct Mail is Significant

Using direct mail and email in integrated campaigns creates synergies that boost response more than using either medium alone.

Source: Marketing Sherpa Study
Mobile Technology Helping Drive Long-Term Value with Direct Mail and Catalogs.

- Smartphones and tablets interact with the printed page
- Direct Mail or Catalog becomes “catalyst” for mobile commerce
- Direct Mail and Catalog integration with technology increases:
  - Relevance
  - Effectiveness
  - Convenience
  - Responsiveness
  - Engagement

NFC
Mobile Barcode
Image Recognition
Augmented Reality
We remain committed to growing mail

Will collaborate with the industry to grow and enhance direct mail and catalogs

Embrace technology to attract consumers to new possibilities

Continue to seek promotional ideas from customers

The power of mail enhances package delivery & returns.
OPPORTUNITY IN PACKAGES

Building a World Class Package Platform
ATTAIN MARKET SHARE NOW GROW WITH HYPER-GROWTH OF MARKET

U.S. E-Retail Sales, in billions

<table>
<thead>
<tr>
<th>Year</th>
<th>Sales</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>$202</td>
</tr>
<tr>
<td>2012</td>
<td>$226</td>
</tr>
<tr>
<td>2013</td>
<td>$252</td>
</tr>
<tr>
<td>2014</td>
<td>$278</td>
</tr>
<tr>
<td>2015</td>
<td>$304</td>
</tr>
<tr>
<td>2016</td>
<td>$327</td>
</tr>
</tbody>
</table>

U.S. E-commerce Sales: 2011-2016

Online consumers will increase their spending 62% by 2016, according to Forrester Inc.

Source: Forrester Inc.
SEVEN KEY ELEMENTS

- Integrated Package Network Plan
- Product Development Plan
- Package Delivery Optimization Plan
- Next Generation Equipment
- International Package Processing Plan
- Improve Customer Pick-up Experience
- 100% Product Visibility
THE FUTURE IS NOW

INNOVATION PLATFORMS
Growing Consumer Expectations

Consumers' busy lifestyles demand more delivery convenience. New businesses take notice of these demands and offer more expedient deliveries. Existing players improve their offerings to meet demand. These changes set new consumer expectations.
Innovate Across Business Platforms

**First Mile**
- Boost the demand for mail and packages
- Expand and simplify induction points
- Integrate emerging digital, big data, and consumer trends to grow

**Physical Network**
- Leverage market-leading physical assets
- Incorporate evolving logistics solutions
- Develop a structure that fosters agility and innovation

**Last Mile**
- Expand delivery solutions
- Capitalize on the expansion of e-Commerce and technology
- Optimize route flexibility and productivity

**Digital**
- Leverage USPS’s brand, trust, and reputation to drive profit
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A SYMBOL OF USPS COMMITMENT TO:

- Customer Service
- The Future of Mail
- Our Partnership
Success Requires Collective Effort

USPS - INDUSTRY COLLABORATION

- Leverage PCCs to Work With Local Leadership to Exchange Ideas & Resolve Issues
- Drive Innovation and Adopt Technology
- Committed to Collaboration/Communication

OPPORTUNITIES:
- PCC Week 2015 – September 21-25
  https://www.usps.com/business/local-pcc.htm
- Area Focus Group Meetings – Calendar by Area
  https://ribbs.usps.gov/index.cfm?page=periodicalsfocus

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