



Five-Year Business Plan

2013

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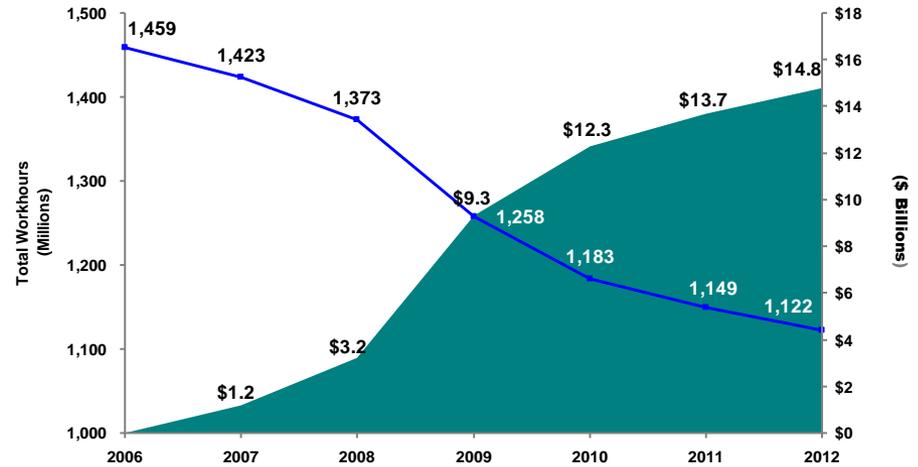


Continuous Efficiency Improvements Have Helped Mitigate Effects of Business Threats

- U.S. Postal Service ranked as the most efficient postal service within the world's top 20 largest economies⁽¹⁾
- The core of an \$800 billion mailing industry in the U.S. that employs approximately 8 million people
- Delivers ~40% of world's mail

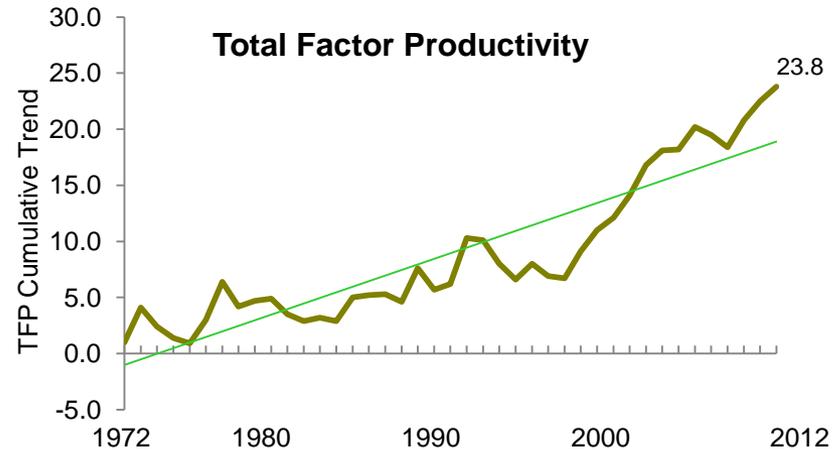
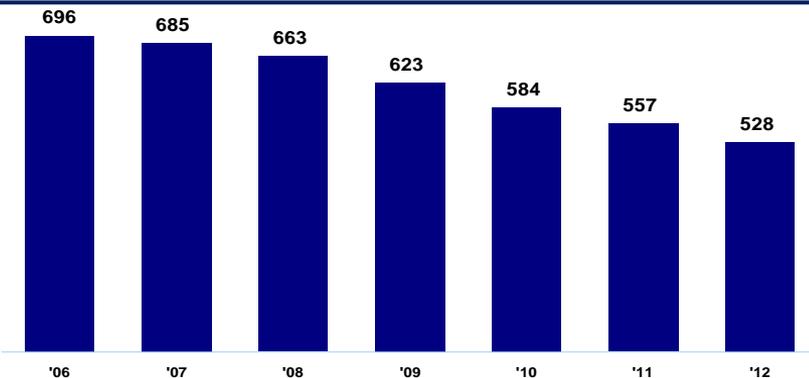
(1) Oxford Strategic Consulting report issued December 15, 2011

\$15 Billion of Annualized Savings in the past six fiscal years with workhours reduced 23%



Postal Service is More Efficient Than Ever

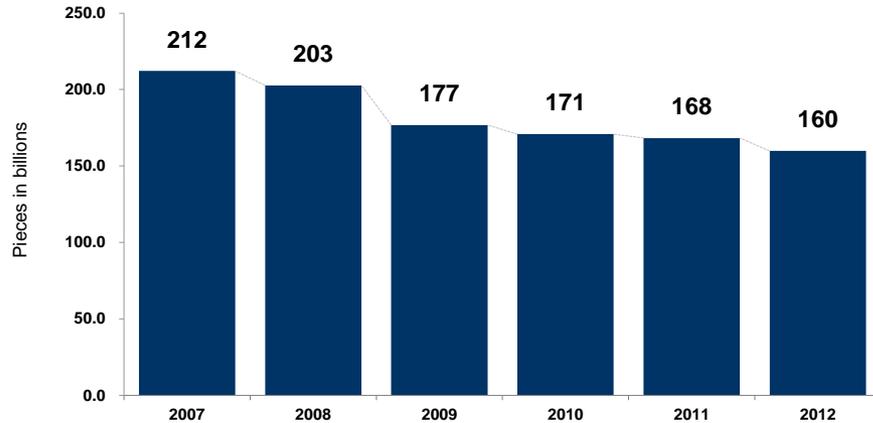
Career Employees – Reduced by 168,000 (24%) during last six fiscal years, without layoffs



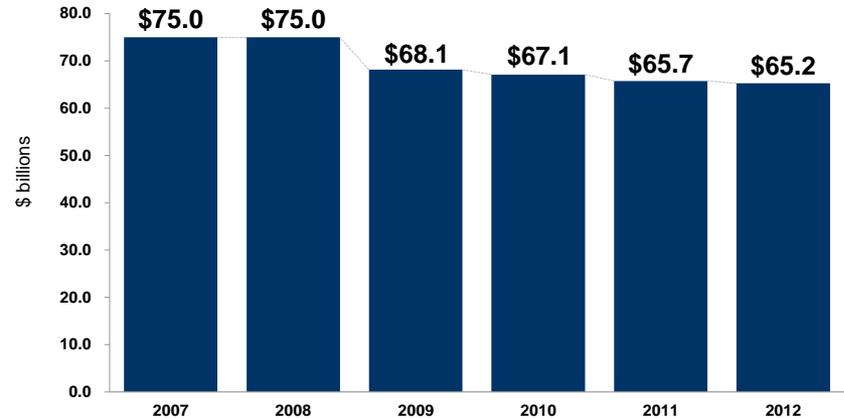


USPS Financial Position has Deteriorated in Recent Years

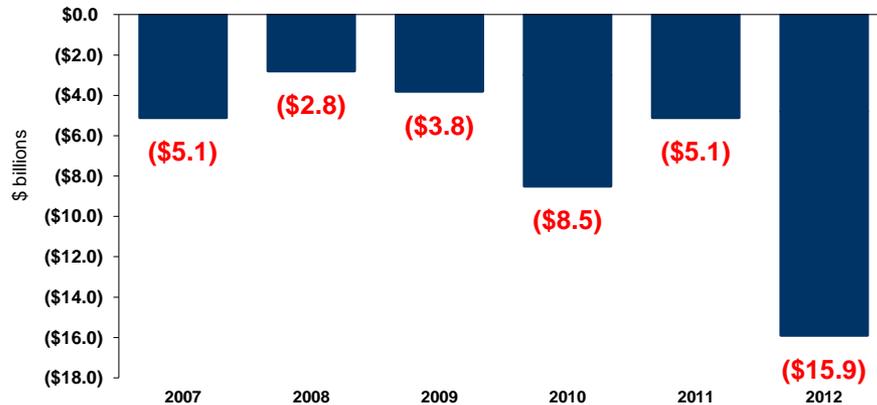
Mail Volume Decline: 25% from 2007 to 2012



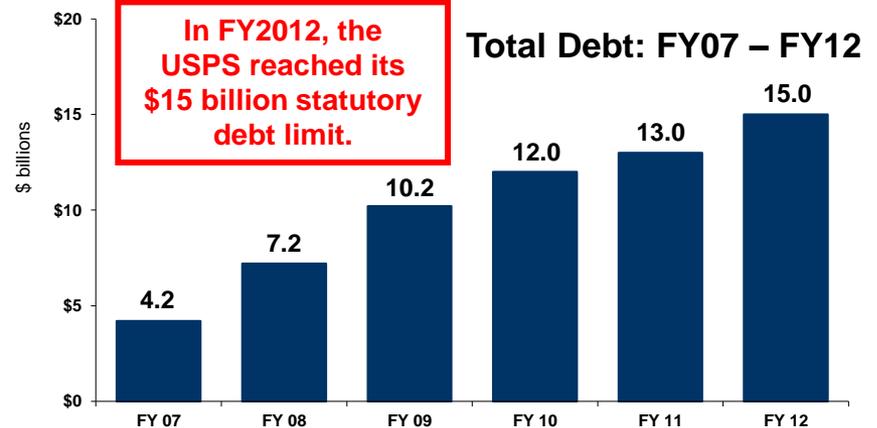
Revenue Down \$10B (13%) from '07 to '12



\$41B of Net Losses



Borrowing Reserves Fully Used



Dire financial position requires urgent action to ensure continued mail delivery and to restore long-term self sufficiency.

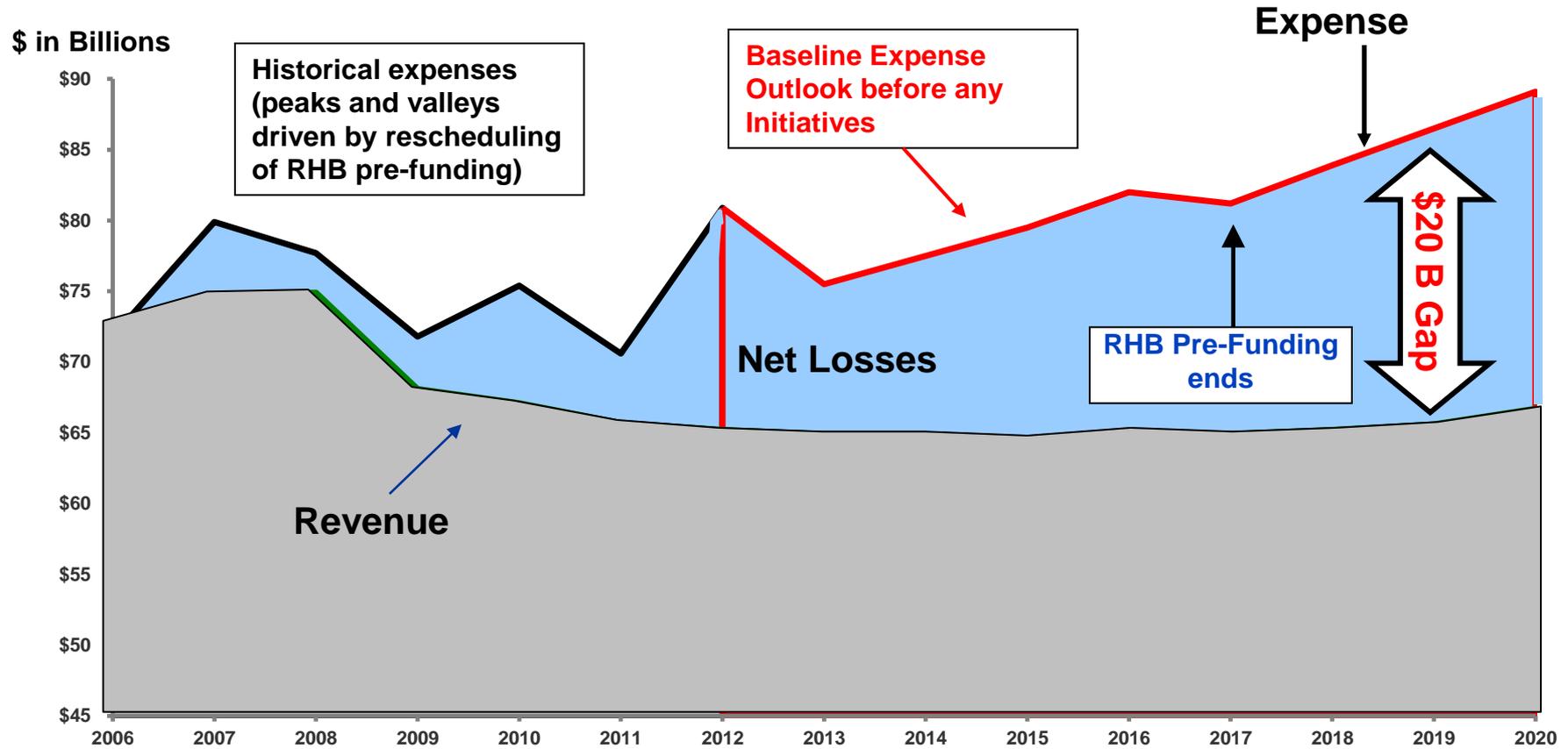


**We continue
to execute
the Plan...**





Expenses Exceed Revenue and the Gap is Growing



Debt (1)	\$4	\$7	\$10	\$12	\$13	\$15	\$18	\$25	\$31	\$37	\$48	\$61	\$77	\$93
Debt (2)	\$4	\$7	\$10	\$12	\$13	\$15	\$33	\$45	\$57	\$70	\$82	\$95	\$111	\$127

(1) Assumes no USPS initiatives and **no** RHB prefunding paid in 2012 – 2017 (\$34B).

(2) Assumes no USPS initiatives but with RHB prefunding paid 2012 – 2017 (\$34B).



Restructuring Objectives

USPS's Business Plan continues to be based upon key restructuring objectives that benefit stakeholders:

Preserve the ability to provide and finance secure, reliable and affordable universal delivery service

Further economic growth and enhance commerce

Implement comprehensive transformation for a long-term sustainable financial future

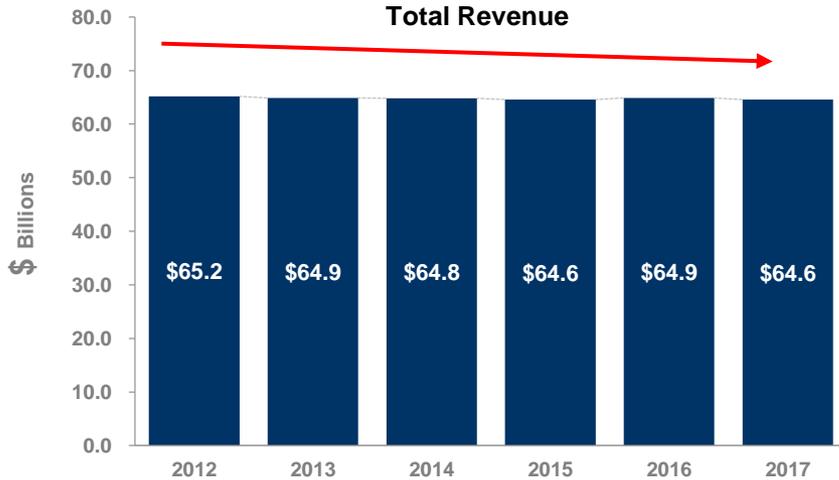
Protect U.S. taxpayers (avoid Federal funding and appropriations)

Maintain fairness to employees and customers



First-Class Mail Declines Will Continue Shipping & Packages Will Grow

Flat Revenue from 2012 to 2017

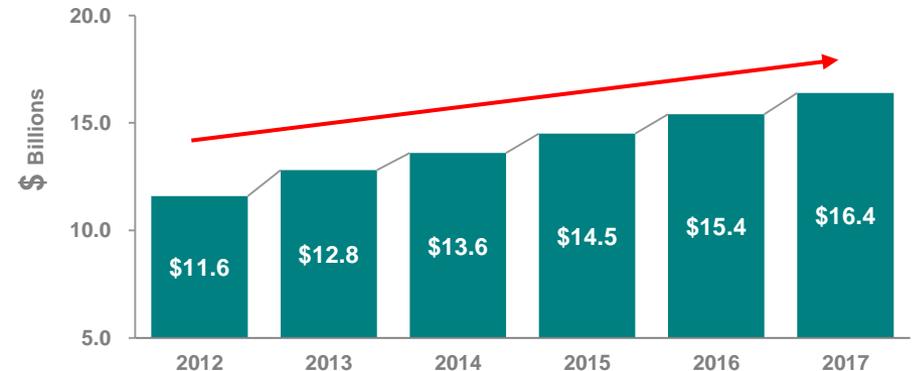


First-Class Decline: \$6.2B from 2012 to 2017



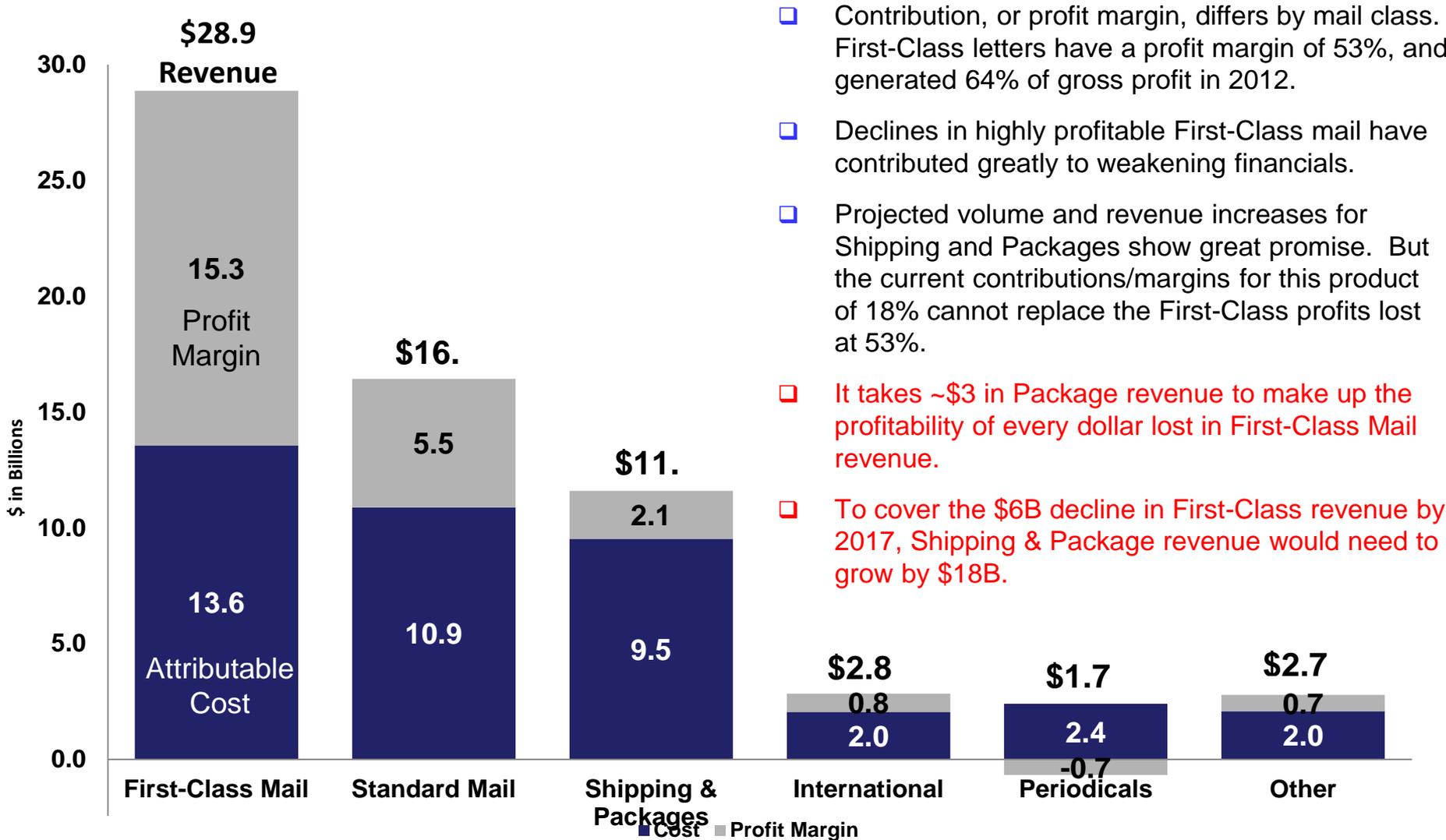
- ❑ Flat total revenue over next 5 years, net of volume declines and price changes.
- ❑ Loss of another \$6 billion of First-Class revenue – results in loss of \$3 billion of profit margin (at 53%) in 2017.
- ❑ Gain of \$5 billion of Shipping/Package revenue provides \$0.9 billion of profit margin (at 18%) in 2017.
- ❑ Decrease in profit margin in 2017 from these two major items results in loss of \$2 billion in annual profitability.
- ❑ Volume/revenue changes in other mail classes have an insignificant effect on total profit margin.

Shipping / Packages Increase: \$4.8B from 2012 to 2017





Shipping & Packages Profit Margin 1/3 of First-Class Mail in 2012



- Contribution, or profit margin, differs by mail class. First-Class letters have a profit margin of 53%, and generated 64% of gross profit in 2012.
- Declines in highly profitable First-Class mail have contributed greatly to weakening financials.
- Projected volume and revenue increases for Shipping and Packages show great promise. But the current contributions/margins for this product of 18% cannot replace the First-Class profits lost at 53%.
- It takes ~\$3 in Package revenue to make up the profitability of every dollar lost in First-Class Mail revenue.
- To cover the \$6B decline in First-Class revenue by 2017, Shipping & Package revenue would need to grow by \$18B.



Revenue Growth Initiatives Will Accompany Cost & Efficiency Improvements

Enhance Mail - Create a multi-sensory experience

- ❑ Mobile on mail that interacts with consumers
- ❑ Mail with Audio/Visual features
- ❑ Hardcopy to digital that connects consumers to:
 - ❑ Website
 - ❑ Social media or
 - ❑ Purchase point

Package Growth

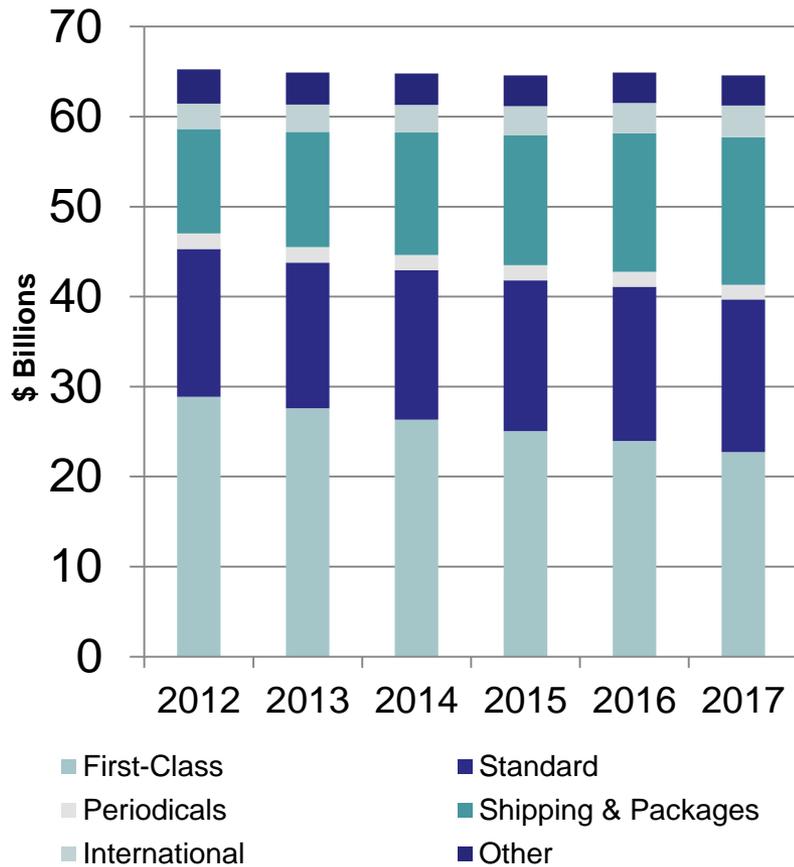
- ❑ Close competitive gaps to level the playing field:
 - ❑ Competitive pricing
 - ❑ New Priority Mail Features: Day-Certain and Insurance
- ❑ Build advantages by targeting new solution for ecommerce
 - ❑ Speedier service
 - ❑ Improved access that enables customers and consumers to use USPS services easier and more effectively.

Digital Products - extend the USPS's current technology and data platform in ways that help better support the mailing industry and the American public

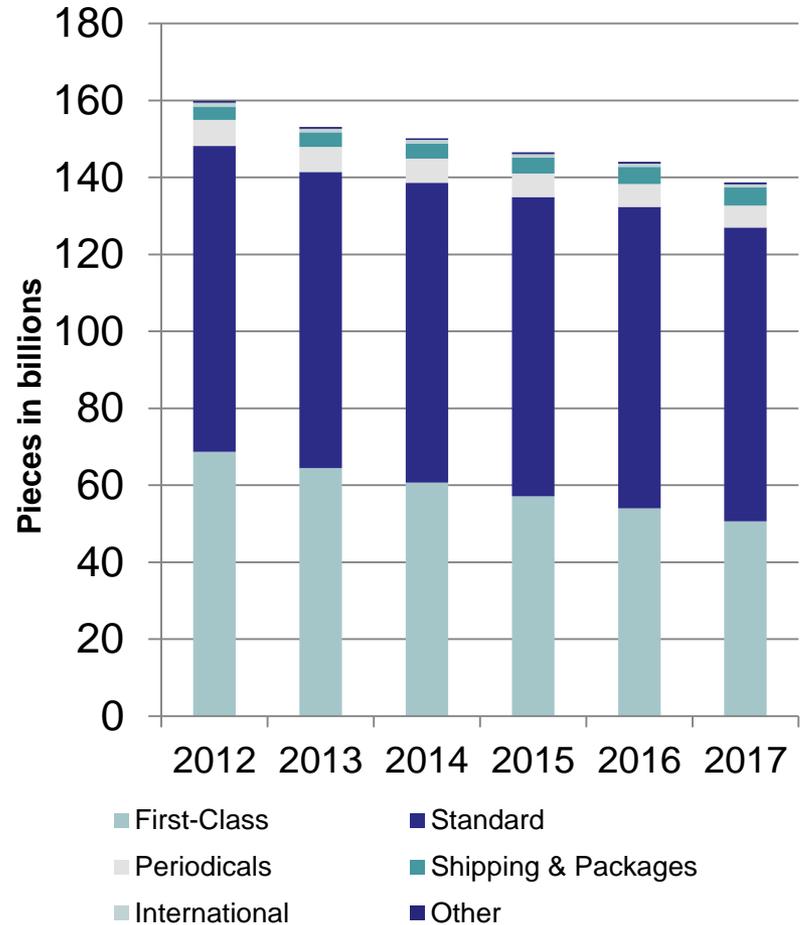


Revenue & Volume Forecasts

Revenue Forecasts



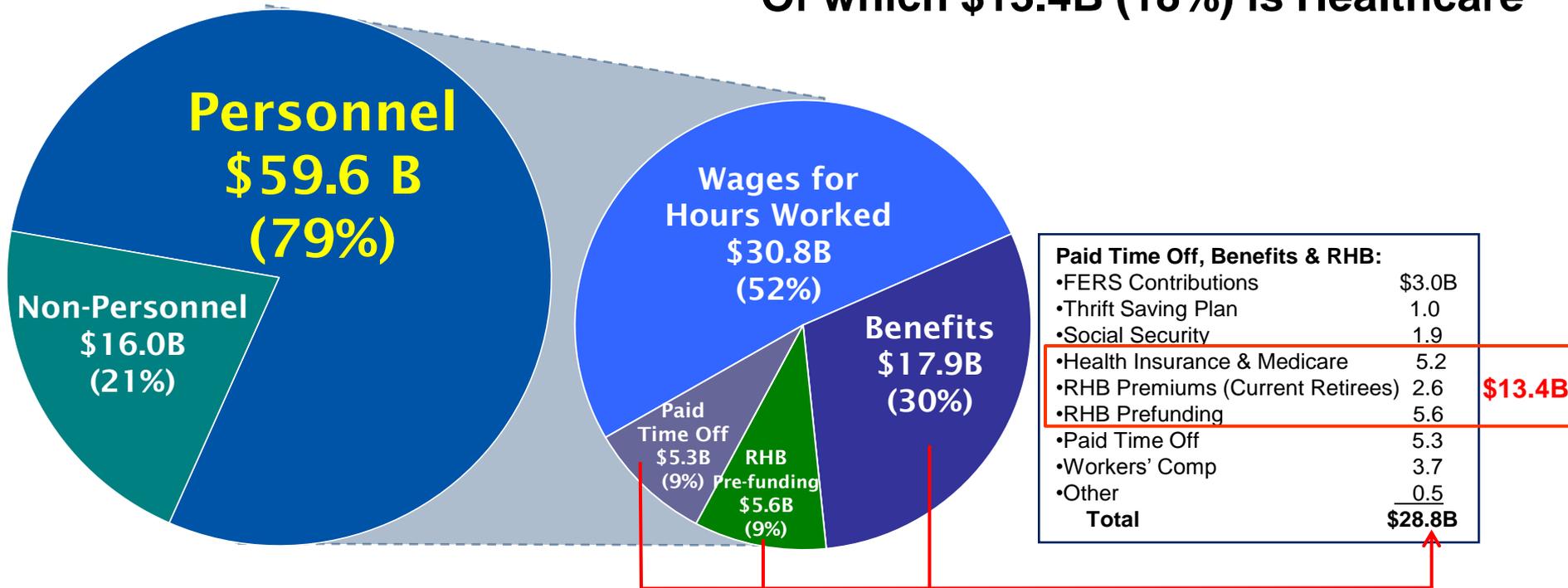
Volume Forecasts





Benefits Costs Contribute to High Personnel Costs

Baseline* FY2012 Total Costs: \$75.6B
Of which \$13.4B (18%) is Healthcare



* Includes only the expense of the FY2012 RHB pre-funding (\$5.6B) and not the second RHB pre-funding carried-over from FY2011.

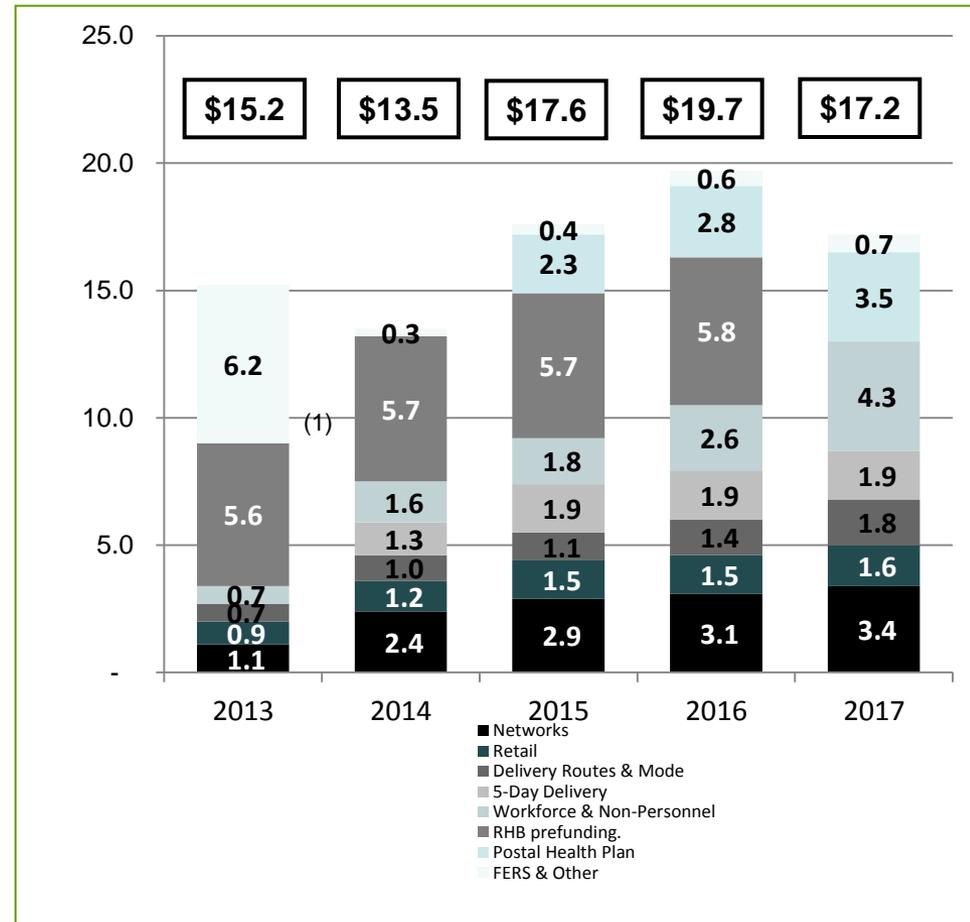


Savings by Strategic Initiatives

Strategic Initiatives (\$ Billions)

	2016 Savings
Operational Initiatives	
Networks	\$ 3.1
Retail	1.5
Delivery	1.4
Total Operational Initiatives	6.0
Workforce & Non-Personnel	2.6
Legislative Initiatives	
5-Day Mail Del. + Saturday Pkgs	1.9
Postal Health Plan	8.6
FERS & Other	0.6
Total Legislative Initiatives	11.1
Total 2016 Savings	\$ 19.7

Savings by Strategic Initiative (\$ Billions)



(1) Includes \$6B estimated refund of FERS overfunding.

Consolidate Excess Capacity

- ❑ 417 processing facility network built to handle 250 billion pieces of mail
- ❑ Current and projected volumes call for network of <250 facilities
- ❑ 2012 Plan assumed all consolidations & service standard changes in 2012.
- ❑ In Summer 2012, adopted two-phase approach in order to allow Congress sufficient time to pass comprehensive Postal Reform legislation.
 - ❑ Phase I - Summer 2012 - Spring 2013.
 - ❑ Phase 2 - Spring 2014.
- ❑ Accelerating portions of Phase 2 Consolidations to June-Sept '13 without impacting service standard.
- ❑ \$3.4 billion savings achieved in 2017, including workload effects.

From 417 Processing Facilities



Rationalized Network of <250 Facilities





Strategic Initiatives: Retail

Retail Channel Strategies

- Transform customer experience in high traffic Post Offices by increasing the availability of self service
- Enhance customer experience through expanded retail partnerships
- Preserve retail service in rural America by modifying window service hours to match the local customer demand and establishing Village Post Offices with local businesses to provide postal services where customers shop

2017 Savings (\$ in billions)

Workload Impact of Reduced Volumes	\$	1.0
PostPlan		0.6
Total Retail Savings	\$	1.6

Savings Detail

Volume decline of 21 billion pieces by 2017 reduces retail workload

- Increase adoption of self service at high traffic offices from 28% to 65%
- Shifting transactions to alternative access
 - Increase alternate access retail revenue from 40% to 60%
- Implement non-career staffing at 13,000 small Post Offices (level 16 and below)
- Phase in 2-4-6 hour operations throughout 2013 and 2014



Strategic Initiatives: Delivery

Expand Centralized Delivery

- ❑ Savings of \$65 per year for each delivery converted from curb to central
- ❑ Savings of \$190 per year for each delivery converted from door to central
- ❑ Savings will more than cover the costs associated with centralized delivery boxes:
 - Purchase cost
 - Installation cost
 - Maintenance cost
- ❑ New delivery points - centralized

2017 Savings (\$ Billions)

Workload Impact of Reduced Volumes	\$	0.8
Delivery Optimization		1.0
Total Delivery Savings	\$	1.8

Savings Detail

- ❑ Workload Reduction
 - Volume decline of 21 billion pieces by 2017
 - Delivery workload reduction by 2017 of \$0.8 billion
- ❑ Delivery Optimization Savings:
 - Delivery Unit Optimization (consolidations) – approx. 1,500 planned by 2015
 - Route Optimizations continue



Savings - Legislative Initiatives

\$ in Billions

Legislative Initiatives	2012A	2013	2014	2015	2016	2017	'13 - '17
5-Day Mail Delivery + Saturday Pkgs (Jan 2014)	-	-	1.3	1.9	1.9	1.9	7.0
Resolve RHB prefunding (Postal Health Plan Beginning 2015)	-	5.6	5.7	5.7	5.8	-	22.8
Postal Health Plan - Actives' Premium Reductions	-	-	-	0.2	0.4	0.4	1.0
Postal Health Plan - RHB: Normal Cost vs Retiree Premiums	-	-	-	2.1	2.4	3.1	7.6
FERS Surplus Refunded	-	6.0	-	-	-	-	6.0
FERS - Reduce Biweekly Contribution Percentage	-	0.2	0.3	0.3	0.3	0.3	1.4
New Career Employee - Defined Contribution Pension Only	-	-	-	-	0.1	0.1	0.2
Workers' Compensation Reform (Equivalent to S. 1789)	-	-	-	-	0.1	0.1	0.2
Non-Postal Products and Services	-	-	-	0.1	0.1	0.2	0.4
Legislative Initiatives Total	-	11.8	7.3	10.3	11.1	6.1	46.6

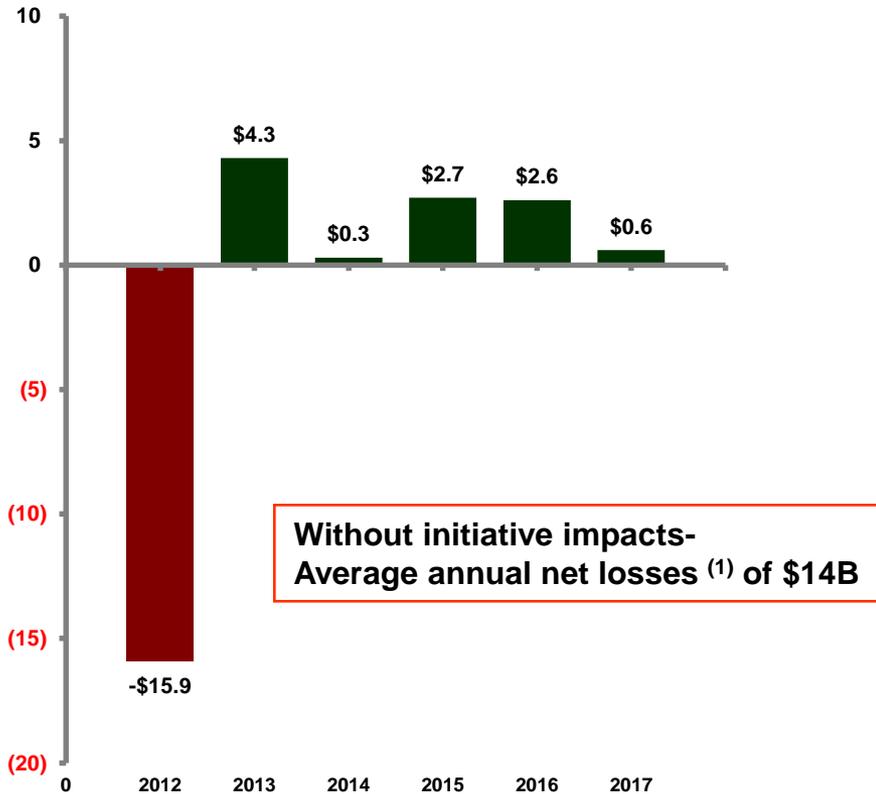
Delivery Schedule	<ul style="list-style-type: none"> 6-day package delivery and 5-day mail delivery begins in Jan 2014. Reduced workload from 5-day mail delivery. Noncareer flexibility used for Saturday packages
RHB Prefunding	<ul style="list-style-type: none"> Requesting Congress to require Postal Health Plan for both active employees and retirees beginning January 2015. Eliminates need for prefunding in 2013 and beyond.
Postal Health Plan (Active Employees)	<ul style="list-style-type: none"> Requires union agreement under current law. Requesting Congress to require Postal Health Plan, beginning January, 2015.
Postal Health Plan (Retirees)	<ul style="list-style-type: none"> Market Postal Health Plan to retirees while continuing to pay FEHBP premiums (pay-as-you-go) through 2014. Requesting Congress to require Postal Health Plan for retirees, beginning January 2015. Postal Health Plan will reduce costs, providing for a fully funded RHB, therefore only paying annual "normal cost" in 2015 and beyond.
FERS Refund & Biweekly Contribution Percentages	<ul style="list-style-type: none"> Estimated values using Postal-specific assumptions (primarily pay increases and demographics), versus the government-wide assumptions currently used by OPM.
New Career Employee	<ul style="list-style-type: none"> Savings from changing from defined benefit pension to defined contribution plan (TSP) for employees hired beginning in 2015. Savings don't begin until 2016 because of minimal number of new hires.
Workers' Comp Reform	<ul style="list-style-type: none"> Assumes enactment of reforms from Senate Bill passed in April 2012.
Non-Postal Products & Services	<ul style="list-style-type: none"> Includes estimated financial benefit of shipping beer and wine and providing services on behalf of federal and local government agencies.



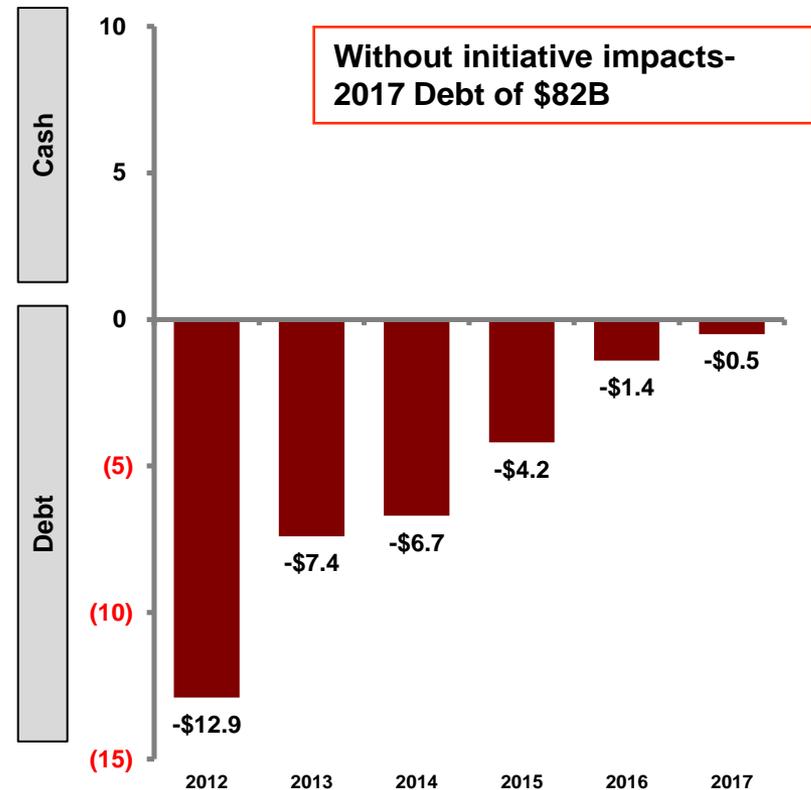
Financial Projections after Strategic Initiatives Achieved

Achieving the Business Plan will produce reasonable profits that will allow for debt repayment. This requires full realization of all the Strategic Initiatives.

Net Profit ⁽¹⁾ (\$ in billions)



Net Debt (\$ in billions) eliminated



(1) Excludes impacts of non-cash adjustments (if any) to workers' compensation liability in 2013 - 2017.



Closing Comments