Section Three

Marketplace

Methodology

The Marketplace group was to determine the impact of any change on revenue generation, customer loyalty, brand recognition, and competitive position in the marketplace resulting from a move from six-day delivery to a five-day delivery scenario.

Customer needs and an assessment of the reaction to a change in delivery and operations frequency was done with a variety of methods: quantitative research, business surveys, one-on-one interviews, focus groups, and a review of relevant existing marketplace intelligence. Market research was specifically commissioned from Opinion Research Corporation (ORC) on behalf of the Postal Service for the Five-Day Operations Study. Discussions with customers and stakeholders were done by customer segment (businesses and residential customers) and application (bills, statements, payments, correspondence, advertising, merchandise, documents and periodicals.)

During all of the interactions with the customers, both internal and external, the scope of the changes being reviewed remained constant with the three different scenarios of operational change.

Market research was performed by ORC to gain insight into the level of importance of various changes in service and the potential change in behavior with respect to these changes.

This research consisted of four separate modules:

- Quantitative surveys of over 700 companies of all sizes that use the Postal Service across industries.
- In-depth Interviews with two dozen decision makers in the billing and accounting, advertising, merchandise fulfillment and publications functions, in a representative group of large corporate mailers.
- Quantitative surveys of over 1,000 residential customers which projects to a national sample.
- Qualitative focus group meetings with individual residential customers to further gauge the level of emotion tied to this potential change.

In addition, relevant existing market research was reviewed including work on brand, customer loyalty, products, channels, market share, competition, and consumer behavior.

To ensure a broad scan of customer input, four different group's opinions were informally solicited concerning their impressions of 5-day operations and on what the change in operations would have on them, their organization, and their customers. These groups and the method for input follow:

- A majority of the top ten business mailers of the Postal Service were interviewed to determine how the proposed changes would impact their businesses, their customers and their mailing behavior.

- Largest Mailers: USPS Sales representatives were given a list of five structured questions to use in soliciting input from their business accounts, across industries and geography. The business mailers included in this approach were those classified as National (revenue greater than $10 million), Premier (revenue greater than $250,000). Reactions from 2,300 business mailers were received through this method.

- Mailing Industry Partners: At the April, Mailers Technical Advisory Committee (MTAC) meeting four breakout sessions were held by Industry class. Two 5-Day Study team members facilitated each breakout and the participants were asked to share their concerns and suggestions. These comments were captured and sent to the 67 customers that participated in the breakout sessions, as well as other MTAC members.

- Internal USPS marketplace stakeholders (Officers, Product & Channel Managers) were interviewed for their perspective on how the change would impact a particular set of customers using their USPS products or accessing the USPS through their channel. Insights were gained on what this would mean to the Postal Service and its bottom line.

Based on this research on the top line reaction of customers to a possible five-day operation a range of financial impacts was modeled. Variables for risk factors were developed in two ways:

- Customer Impact for First Class Mail, Standard Mail, and Expedited and Package Services is derived from the ORC quantitative research on top line customer reactions. It is derived from the percent of business mailers and residential customers that said they would change their mailing patterns and move to alternatives. Different product related questions allowed us to break out alternatives to bills/payment, advertising, and packages. This percent is applied to the Base Revenue to get the 100% Revenue Impact.

- Then additional factors were applied to each application and customer group to determine the Best Estimate of diversion, since not all of the revenue impact reaction realistically is assumed to leave the Postal Service. These combinations of factors were developed for the model through discussions with subject matter experts in Postal Service strategic planning, forecasting, pricing, capital, market intelligence, and sales. Detailed descriptions of each of these factors and calculations are found in the individual scenario discussions.

The Revenue Impact for each class/application was spread across a period of seven years at different rates in line with the baseline financial forecast. These rates depend on the level of competitive alternatives available to customers and how ready they would be to act based on transactions or business process changes. For example, first class mail bills / statements / payments revenues are spread 1/7 each year due to state of electronic transaction behaviors and alternative systems.[redacted]

The estimated revenue and contribution base for the appropriate class and subclass by application was developed starting with the FY 2000 Cost and Revenue Analysis (CRA). The Finance group will determine projections for out-year contribution, revenue, and volume impacts.

Impact on Customer and Revenue Generation

Many internal and external Postal Service stakeholders have the belief that moving to five-day delivery will not make a big difference to most Postal Service customers. In the simplest sense, this is true. However, market research from Opinion Research Corporation (ORC) commissioned by the Postal Service specifically for this study indicates that there is a significant number of business mailers and residential customers that will be negatively impacted by either a five-day delivery or operation.

Business mailers use the Postal Service to meet a variety of their business needs. They use First-Class Mail primarily to send bills, statements and payments to consumers and other businesses. They also use First-Class and Standard Mail to acquire new customers, promote offers and events, and build relationships. The Postal Service's Expedited and Package services are used to fulfill their customer orders for merchandise and important information, such as contracts and reports.

Residential customers primarily use the Postal Service to make payments, ship parcels, and send personal greetings. The retail network continues to be an important access point for many of these services, particularly for small businesses and residential customers.

This significant number of residential and business customers that would be impacted by a five-day service is worth enough business to the Postal Service to require careful review of the specific revenues at risk. While many customers would adjust to service changes, a best estimate of revenue at risk has been calculated for specific customer segments and service applications within the classes of mail, for each scenario. The best estimate of potential revenue and contribution loss for each of the three scenarios are shown below and the discussion follows.

Best Estimate Marketplace Impact on
Postal Service Revenue and Contribution
From Five-Day Operation Scenarios

Scenario	Millions	Best Estimate of Potential Loss	Year 1
A - Eliminate All	Revenue ($)	($2,461)	($668)
Saturday Operations	Contribution ($)	($925)	($222)
B – Eliminate Only	Revenue ($)	($2,001)	($479)
Saturday Street Delivery	Contribution ($)	($786)	($184)
C – Eliminate Only	Revenue ($)	($2,359)	($581)
Tuesday Street Delivery	Contribution ($)	($917)	($220)

Diversion is assumed to take place over a period of seven years. Bills, statements, payments are assumed to take a longer time to move to alternatives than advertising or packages, which already have highly developed competitors.
It should be noted that the business loss or revenue risk is not a one-time event. Revenue, volume and contribution may also be lost in future years.

Scenario Comparisons - Revenue and Contribution

Following is a discussion of all three five-day scenarios. Reference Marketplace Appendix for details.

In all scenarios, service and convenience was cited as key to business mailers and to their competitive advantage. Our business customers wanted to continue to rely on us to provide service, but they said they would seek to increase their use of alternatives when a certain level of frustration was reached. Several mailers interviewed indicated that they already use alternative systems and would increase this use.

Residential customers generally were interested in having the convenience of Saturday post office access, while the need for pick-up of parcels at post offices on Saturdays was a major concern. Strong opposition was registered to closing operations overall on Saturday by many business mailers. The reasons varied according to business functions and objectives. Following is a brief description from business mailers by functional application.

Billers and Remittance Mailers

Billers and remittance processors, particularly the larger ones in this concentrated industry, cited the loss of billions of float dollars to the industry from one day's delay of payment mail, due to the lack of caller box service. This resulted in two separate responses in the quantitative research.

> Twenty-one percent of businesses surveyed by ORC said they would increase or start to use electronic alternatives for their bill presentment and payment if the Postal Service simply went to five-day delivery.
>
> Twenty four percent of businesses said they would promote electronic bill presentment and payment to their customers.

This was supported by key interviews with customers. Financial Services mailers were especially interested in moving transactions electronically and are looking for opportunities to do so. Further, in an unaided response, 1% of the public said they would start or increase use of electronic payments. This could be considered a 30% increase over the 3% that pay some of their bills electronically now.

Advertising Mailers

The research also showed that if the Postal Service went to five-day delivery, 19 percent of small to medium businesses would start or increase use of other advertising media. Further, 25 percent of the larger advertising mailers said they would increase or start to use other advertising media in place of direct mail.

Advertisers were very concerned that meeting the 2-3 day delivery window would become increasingly difficult for the Postal Service. Weeks with holidays were cited as a particular concern. In general, advertising mailers are looking for consistent delivery in order to manage costs associated with promotional campaigns. This includes the costs of staffing call centers to match peak loads. Advertisers felt the management of incoming orders and responses within integrated and multi-media campaigns would be even more difficult than they are now.

If desired advertising results became more difficult to achieve through direct mail for small and medium businesses they would more aggressively pursue alternatives. Their business processes are not as sophisticated or integrated with the Postal Service as those of larger advertisers. This would allow them to move more quickly to alternatives.

In addition, certain customer segments such as retailers and the services industry had specific targeted delivery dates that needed to be met in order to support weekend sales or specific events. The elimination of Saturday delivery would particularly impact these business mailers.

Expedited Merchandise and Document Delivery

As indicated by the quantitative research [redacted]

[redacted]

In the international markets, it was assumed that it would be difficult to hold on to expedited market share with diminished service. A market share estimate of one percent was assumed at risk.

[redacted] Interestingly, one percent of those surveyed said they would consider renting post office boxes, if delivery were curtailed. This could translate into increased revenue, unless reduced access through delivery also reduced rates.

Consumers appeared most concerned about being able to pick up packages at their post office. While 82% of residential customers said someone is available to go to the post office if needed Monday through Friday, focus groups revealed an underlying sense that the Postal Service could become less and less relevant, and in fact many consumers use alternatives already. If post office services were curtailed on Saturdays, it became clear from focus groups that many expected improved service adjustments would be made to accommodate the public, such as more convenient hours during the week. Other consumers mentioned the need for access on Saturdays, at least at convenient locations.

Publishers

Business customers in the publishing industries and their partners were particularly concerned about weekly magazines, weekend newspaper editions and newsletters with day sensitive content. Their subscribers could quickly drop these publications or in many cases go to the newsstand. In these cases, periodicals volume and revenue would immediately move out of the mail stream. Additionally, the other mail generated by these periodicals subscriptions would also decline.

Tuesday versus Saturday Delivery

According to ORC, Saturday was chosen overwhelmingly by businesses (82%) as a day to stop delivery compared to Tuesday (15%). Businesses are open on Tuesday and rely on the Postal Service for delivery as part of their value chain to their customers. Our services allow

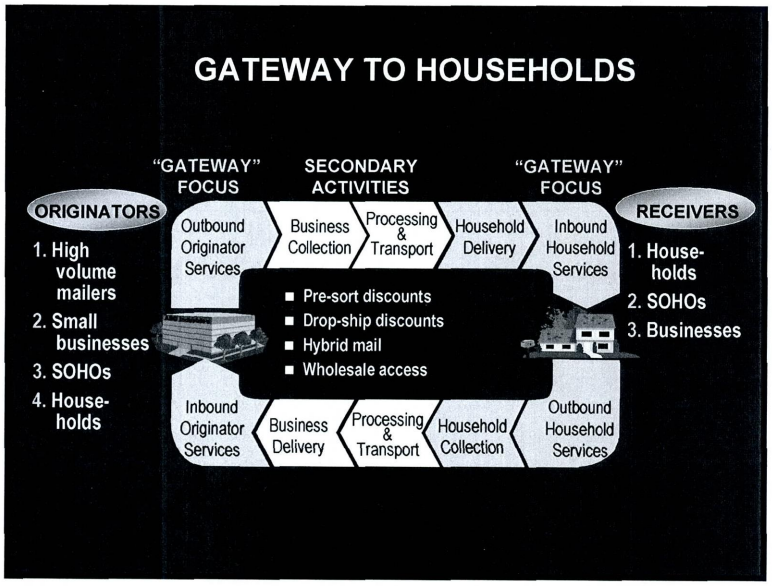
customers to continue their critical daily business processes, such as billing, remittance and order processing, shipping merchandise and facilitation of business through correspondence. Further, competitor response is expected to be more aggressive in seeking our high value customers if there were elimination of Tuesday delivery versus elimination of Saturday delivery.

While the majority of consumers most likely would adjust to 5-day delivery, 56 percent in the ORC research said Saturday delivery was important or very important to them. A similar number, 55 percent, said Tuesday delivery was important or very important to them.

Brand Recognition

The revenue risk does not include the effect on the potential value of the brand or franchise in the future. [redacted]

Our customers are mailers and recipients in both business and consumer roles. Traditional mailers expect to send bills that will be paid, communications and periodicals that will be read and build relationships, and advertisements that will generate responses. The experiences of residential customers in this Postal Service "mail moment," is the "brand" or relationship that adds value to the link we provide between senders and recipients.



[redacted]

[redacted]

[redacted]

[redacted]

For example, in residential customers' focus groups on five-day delivery, when asked if eliminating Saturday delivery would affect their satisfaction with the Postal Service, an individual made the following statement which was indicative of others' sentiments in the group:

"It depends on how it's presented to the public; it would be a problem, unless I was educated."

Customer Satisfaction, Loyalty and Retention

It is a well-known business maxim that it is cheaper to retain customers' business than acquire new business. [redacted] Current Postal Service loyalty scores are 18-23 percent for businesses and 29 percent for residential households, based on the percent of customers that rated our overall performance "excellent" in the previous 30 days, during quarter two of Postal Service fiscal year 2001.

In the five-day delivery ORC surveys of business mailers and the public, there was a similar level of satisfaction at the "excellent" level with overall performance. However, given the number of businesses, in particular, which considered moving postal business to alternatives, curtailment of delivery service would most likely erode customer loyalty. This erosion in satisfaction is evident and highlighted in comments from interviews with business mailers.

The comments below are indicative of many of the comments we heard:

"Cuts in service will force us to go to alternate delivery."

" We need a consistent 2-3 day delivery window to integrate our campaigns, plan our mailings and then staff call centers for responses.

"We're concerned about backlogs in processing and then delivery, since this is a deferrable product, and about more clutter in the mailbox lowering response rates.

"One day of delivery is one day's float and is worth billions of dollars to the remittance industry (wholesale and retail remittances)."

"A number of logistics systems would have to be modified to reflect a major change in the delivery process. This would involve major work and expense to the industry."

" One day of delivery elimination would be devastating to our business."

" This is part of your core franchise, don't cut into it. Leverage your assets and capacity."

Franchise Strength, Growth Opportunities and Market Share

[redacted]

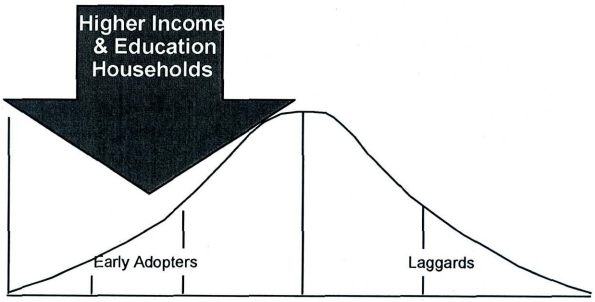
In recent research by Total Quality Marketing International, Inc. for the Postal Service, the "mail moment" has been shown to have a very high positive emotional connection with key members of a household. Going to the mailbox for many customers brings high expectations and is an important part of their day.

Mail is a media for connecting business mailers with residential customers. A day without delivery to the mailbox may negatively impact this connection with residential customers. Fifty-seven (57%) percent of households expect no personal correspondence in their next mail delivery, because the Internet is replacing more personal correspondence every day. As a result, people go to the mailbox knowing that it is mainly bills, flyers, and catalogs.

Mail is a media for getting commercial information into the hands of real life shoppers, in places where consumer plans are made. Eighty-five (85%) percent of people who sort the mail are the household's principal shopper. Fifty-two (52%) percent of households say they order products and services they see in advertising mail received at home. This is why business mailers will continue to use direct mail unless there are more affordable alternatives.

At the moment the Postal Service has a competitive advantage in the delivery of messages into the home, but it is vulnerable to electronic alternatives. Research indicates that five-day delivery could accelerate the diversion, particularly in targeted markets. Targeted markets are defined as high-income earners who are high intensity mail recipients of First Class and Standard Mail. These high-income earners are the early adopters of PC and Internet technology in the home. They are also the individuals that business mailers want to reach most on a targeted one-to-one basis in order to gain transactions and build ongoing commercial relationships for their products.

Possible Adopters of Electronic Alternatives to the Mail



%HH	5%	14%	36%	33%	12%
First Class C&T Mail/Week	15	11	9	7	6
Standard Mail/Week	27	11	14	10	7
Typical Education	Post Grad	College	Some College	High School	Some High School
Income	>$100K	$65 to $100K	$30K to $65K	$10K to $30K	<$10K
% Correspondence and Transactions Mail	28%		64%		8%
% Advertising Mail	32%		62%		6%

Source: Applied Value Corporation analysis based on USPS household diaries

[redacted]

[redacted]

First-Class Mail

Meeting customer needs and requirements is the best answer to retaining our position against competitive alternatives. When consumers think of the Postal Service they think of First-Class Mail. For one price, consumers can use First-Class Mail to perform transactions and correspond with anyone in the United States.

Businesses also rely on First-Class Mail as a means of managing relationships, billing customers, receiving payments and orders, and advertising. The Financial, Utilities, Telecommunications, and Services industries rely on First-Class Mail to meet all the needs of their value chains: acquisition, fulfillment, and retention.

Customers of the USPS use First-Class Mail for a number of applications. The primary applications of First-Class Mail revolve around correspondence and transactions. As such, the growth in online bill payment alternatives presents a great risk to First-Class Mail volumes.

Historically, the primary strength of First-Class Mail has rested in its monopoly status. Today, as the competitive environment for the transmission of information is transformed through the use of the internet the importance of the monopoly to First-Class Mail success is becoming less significant. Indeed, over the last three to four years, the threat of electronic diversion of First-Class Mail has materialized, albeit slower than many analysts expected. Diversion to electronic alternatives has impacted the volume of personal correspondence and bill payment. Today, more emails are sent per day in the United States than pieces of traditional mail and approximately 2% of household consumers pay at least some bills electronically.

Efforts to address electronic diversion are primarily focused on retaining our billing customers. In particular, major billers want the Postal Service to improve the reliability and tracing of the mail so they can better manage their cash flow and mail relate-related fulfillment (e.g., remittance processing) operations. Research suggests that the way to address the growth of electronic substitutes to the check in the mail is not to concentrate on the bill payer but on the bill generator. In the new economy, the importance of reliable, fast service for remittance mail is becoming paramount.

Standard Mail

The advertising industry is expected to grow by 6-9% over the next five years, offering the Postal Service a key opportunity for growth with this actionable, measurable, and targetable product. Our opportunity to grow at the industry rate or more will be contingent on capitalizing on our strengths in this product and shoring up the weaknesses.

Standard Mail is the hub of a thriving $45 billion direct mail industry. Standard Mail's strengths as an advertising medium are significant. It provides advertisers with broad reach, high response rates, and a forum for distributing a personalized, information-rich message. Major advertisers take advantage of these strengths in their media mix.

Major customers and their business partners work closely with Postal Service operations at key points to ensure that their costs throughout the advertising campaign cycle stay efficient—from ad development/printing, postal acceptance, delivery, then customer responses to their staffed call centers and fulfillment. The ability of our customers to continue to plan and time of these elements well are critical to the success of Standard Mail as a medium. Improvements in information on the movement of mail throughout our system can strengthen the value of Standard Mail for our customers.

[redacted]

Until recently, direct mail was the fastest growing segment of the $236 billion domestic advertising market. Direct Mail had increased its market share from 13% in early 1990s to 21% in 1998. However, direct mail's share has declined to 19%, with each share loss equivalent to $800 million in revenue to the Postal Service.

The reasons for competitive market share decline are several:

- rapidly rising costs of television advertising, which led to a decreased share of wallet for other media;
- increased radio market share due to longer drive times in metropolitan areas and targeted stations;
- rapid growth of internet advertising from very low levels.

While banner ads may not have fulfilled their promise, other internet advertising and brand-building tools have grown, particularly used by small businesses, and have stolen some share from direct mail.

Advertising mail growth targets for the Postal Service are found in all industries. However, the Postal Service is particularly targeting those industries comprised of smaller businesses, such as Services and Retail.

Advertising Mail Expenditures - Share by Industry

Segment	Total Adv. $	Ad Mail $	% share
Mail Order	$ 4.3 B	$ 1.7 B	39.9%
Others	$ 2.8 B	$ 0.8 B	28.9%
Fin. Services, Telecom, Util.	$ 35.0 B	$ 7.4 B	21.1%
Manufacturers	$ 54.1 B	$11.1 B	20.5%
Sub-Total	$ 96.2 B	$21.0 B	21.8%
Average			18.9%
Services	$ 50.4 B	$ 9.2 B	18.3%
Retail	$ 85.4 B	$14.2 B	16.6%
Publishers/Printers	$ 0.9 B	$ 0.1 B	11.1%
Government	$ 3.1 B	$ 0.2 B	6.5%
Sub-Total	$139.8 B	$23.7 B	17.0%
Total	$236.0 B	$44.7 B	18.9%

Expedited and Package Services

The growth opportunity presented in the expedited and package services market is significant. Currently, the domestic market for expedited and ground packages is over 40 billion dollars annually, and growth is anticipated domestically and internationally. The role the Internet plays with buyers and sellers will fuel much of this growth. [redacted]

[redacted]

Overall market revenues and volume grew at an average annual rate of 6.8% and 4.2% respectively between 1996 and 2000. In 2000, market revenues and volume represented over $47 billion and over 8.4 billion pieces, respectively. Total overall market revenues and volume are expected to continue growing at approximately 4.9% and 4.0% a year, respectively, until 2004.

While market share percentages are in flux, the current leaders in each of the three market segments are: FedEx in the overnight market, USPS in the 2/3-day market, and UPS in the ground market. For 2000, the projected growth in the total market volume is 4.3% for overnight, 4.0% for 2/3 day, and 4.9% for standard.

[redacted]

[redacted]

[redacted]

Parcel Post is the only product that offers a Retail ground package shipping solution. As such, Parcel Post targets small business customers and individual consumers who send ground packages at Retail locations. Parcel Post does not carry a surcharge for residential delivery, as some other shippers do. Also unique to Parcel Post, each parcel travels exclusively by ground transportation. The combination of these characteristics make this package shipping alternative an accessible, easy to use, inexpensive option and is suitable for non-time-sensitive shipments.

[redacted] Fiscal Year 2000 Postal Service market share for 2 and 3 day service was 61 percent, followed by 18 percent for Federal Express and 17 percent for United Parcel Service. The Postal Service continues to enhance the product to compete on more than just price.

Last year's introduction of Delivery Confirmation provided customers with a useful shipment/delivery information tool. This year, Signature Confirmation will be provided to customers, further allowing them to confirm not only delivery, but also who accepted the package.

In addition, E/PS and Operations are working together on the design and review of a new operational concept that is centered around the 32 largest major metropolitan markets.

Extensive research has shown that approximately 90% of Priority Mail volume is concentrated in the 32 largest major metropolitan markets. This network would enable the Postal Service to improve service performance and consistency while effecting better control of operational costs.

[redacted]

Priority Mail is an attractive option for online retailers who are price sensitive and are generating increased package volume to residential destinations. Trends in the e-commerce environment reflect a growing discontent in the high price of shipping.

[redacted]

Making Up Diversion with Growth

In order to make up any loss in growth or diversion, we would have to do so by focusing on our competitive advantages and growth product lines in our core business—Standard Mail, Priority Mail, Packages and International. As an illustration, the table below shows how much Priority Mail volume and additional percent growth would be required to offset 1 percent revenue loss in either First-Class or Standard Mail.

Core Product at Risk	1 Percent Revenue Loss	Priority Mail Increase Equivalent	
		Volume	% Change
First-Class Mail	$350 million	92 million	8%
Standard (A) Mail	$143 million	38 million	3%

As an example, for every 1 percent revenue decline of First-Class Mail, we lose $350 million in revenue per year. To make up this 1 percent decline, we would need annually 92 million additional pieces of Priority Mail, and its revenue growth to be around 8 percent.

For every 1 percent revenue decline of Standard (A) Mail, we lose about $143 million in revenue per year. To make up this 1 percent decline, we would need annually 38 million additional pieces of Priority Mail, and its revenue growth to be another 3 percent.

Issues Requiring Further Study

Additional analysis will need to be completed to more fully determine the impact of the following items:

- Drill down further within one specific scenario (e.g. only eliminate Saturday delivery) with functional business managers: billing, advertising, merchandise fulfillment, and publishing.

- Business correspondence potential revenue loss for one specific scenario.
- Business billing and payment potential revenue loss for one specific scenario.
- Advertising mailers' behaviors regarding the level of movement of alternative advertising media.

It is cheaper to retain customers' business than acquire new business. The top line assessment of revenue diversion and impact to the franchise from five-day delivery needs to be carefully weighed against the potential savings.

Appendix 1
Marketplace

Detailed Data for Each Scenario

A detailed discussion of each scenario and line item calculation follows.

Scenario A

Eliminate all Saturday services to both the residential consumer and the business customer. Elimination includes all delivery, mail processing, bulk mail acceptance, post office box and caller box service, and retail operations.

BEST ESTIMATE
REVENUE AND CONTRIBUTION DIVERSION
SCENARIO "A"

Mail Class/Service	Revenue Impact	Revenue Year 1	Contribution Impact	Contrib. Year 1	Contribution Rate
FCM	**582**	**123**	**341**	**75**	***59%***
Standard	1,073	233	387	84	***36%***
EPS	**543**	**181**	**189**	**63**	***35%***
Periodicals	121	40	-6	-2	***-5%***
International	59	8	14	2	***24%***
Subtotal w/o Retail	**2378**	**585**	**925**	**222**	***39%***
Retail/Services	83	83	0	0	***0%***
Total	**2461**	**668**	**925**	**222**	***38%***

The best estimate for revenue and contribution diversion impacts were derived from a series of assumptions by class of mail, customer segment, and applications. As noted in the methodology, the following discussions will highlight the assumptions made by class and their impact to the revenue and contribution for Scenario A.

FIRST CLASS MAIL

(millions)	BASE REVENUE FY 2000	TOTAL REVENUE IMPACT	YEAR 1 REVENUE IMPACT	TOTAL CONTRIB. IMPACT	YEAR 1 CONTRIB. IMPACT
CONSUMER PAYMENTS	$4,000	$80	$11	$42	$6
BUSINESS PAYMENTS	$1,000	$106	$15	$45	$7
BILLS/STATEMENTS	$12,000	$59	$8	$38	$5
CORRESPONDENCE	$14,316	$42	$6	$22	$3
ADVERTISING	$4,200	$296	$83	$194	$54
TOTAL*	$35,516	$582	$123	$341	$75
*May not equal due to rounding					

Payments:

Consumers
The base Postal Service revenue for consumer bill payments was estimated as $4 billion in fiscal year 2000. The quantitative research conducted by Opinion Research Corporation (ORC) indicated that 1% of the respondents said they "would increase/start electronic bill payment" if the Five Day Delivery scenario was adopted. Although Scenario "A" assumes that all delivery and operations are suspended, this consumer response can be conservatively used to describe Scenario "A" impacts. The responses were "top of the mind" unaided and therefore led to the assumption that a 2% adoption rate for electronic bill payments was reasonable. In addition, 24% bill presenters said that "they would promote use of electronic bill payment and presentment to customers". This further validated the use of a 2% diversion rate for consumer payments. Market research would suggest that consumers will take some time to change their behavior therefore, the $80 million diversion was spread over seven years at the rate of $11.5 million per year.

Using the FY 2000 Cost and Revenue Analysis (CRA) data, the contribution that would be lost was computed using a contribution rate of $.177 per piece, for a total of $42 million.

Businesses
Business payments accounted for $1 billion in revenue for the Postal Service in FY 2000. Of that amount approximately $106 million is assumed to divert. The ORC research indicated that 21% of the businesses would "increase or start use of e-bill presentment and payment." A further factor of 21% was applied to the Business to Business payments (1/2 of the $1B at risk) to reflect the assumption that only 21% of businesses will be able to receive electronically transmitted bill in the near future. In the case of Business to Consumer payments an 80% factor was applied to reflect that many of these payments (e.g. social security, veteran's benefits, tax refunds, etc.) are already moving electronically to consumers.

The contribution per piece for this category of First Class mail was $.177 per piece. Considering the volume that would be impacted it would result in a diversion in contribution of $45 million. It is anticipated that this diversion would happen slowly over time and was spread evenly over seven years.

Of particular concern for both major mailers and smaller businesses was the inability to process remittances daily. Billers and remittance processors, particularly the larger ones in this concentrated industry, cited the loss of billions of float dollars to the industry from one day's delay of payment mail, due to the lack of caller box service. The preference is for a continuous schedule of processing and pick-up to improve cash flow into the banking system and their bank accounts. One customer has commented "that some smaller remittance processors do not have enough volume some days to need to be fully staffed, however, this is not the case with major remittance processors".

Potential near term revenue diversion from the Postal Service of clean, high contribution retail remittances are based on the residential customers' behavior estimates. While it is the consumer's behavior that will drive this diversion, 24% of businesses said they would promote EBPP. This was supported by key interviews with customers. Financial Services mailers were seen by their business partners as especially interested in moving transactions electronically and are seen to be looking for opportunities to do so. The risk for accelerated diversion longer term could be significant.

Delays in wholesale remittances cause high levels of reduced cash flows. Diversion risk on wholesale remittances is low because electronic accounts payable systems are expensive due

to non-standardization of methods and documents. Nevertheless, given that the value of one day's float is worth over a billion dollars on retail and wholesale remittances, the remittance industry (mostly financial service firms) would raise a loud lobbying voice against elimination of any day of processing and delivery of either type of remittance.

Bills/Statements:

Business to Business
The presentation of bills and statements in the business to business environment is not estimated to change with the implementation of Scenario "A". This segment of the revenue base is valued at $6.4 billion. There is no expected diversion in wholesale billing since businesses typically pay according to the terms of the transaction (30, 60, 90 days), not when bills are received. This approach has also been taken to ensure conservative estimates of revenue diversion.

Business to Consumer
With a base revenue of $5.6 billion this business to consumer billing segment has a risk of diversion in the amount of $59 million over time. Currently 3% of consumers pay their bills electronically and it is assumed they would be willing to receive bills electronically. As with consumer payments, it is expected that this change would increase the diversion by 2% for a total diversion of 5% or $8 million per year for seven years. This 5% of consumers is applied to the 21% of businesses that the market research said would explore electronic alternatives to receive and pay their bills. Therefore, a factor of 1.05% was used to determine the diversion risk to bills and statements revenue. As noted above, many of the businesses are very concerned with impacts the change would have on "float" and 24% said they "would encourage their customers to switch to electronic means to receive and pay their bills."

An effort may be made of biller services to capitalize on the reduction in service to promote reduction of trust in the Postal Service and improve their advantage with their own electronic bill presentment and payment services. It costs billers $1.50 more than electronic alternatives to produce hard copy statements and receive payments. Consumer's behavior has been slow to change and billers look to accelerate this process. An acceleration of electronic bill presentment potentially removes $59 Million in revenue and $38 Million in contribution from our hardcopy mailstream, without necessarily full recovery by the USPS eBillPay service.

Correspondence:

Consumer
The risk to consumer correspondence revenue was deemed to be low. The types of correspondence that could move would be birthday cards and some personal correspondence. In unaided response, 1 percent of consumers said they would "increase or start use of electronic means for sending or receiving communications." (ORC- M20A/M20B). Since this was an unaided response, a 2% factor was applied to $2.1 billion in base revenues. Diversion of $42 million in revenue and $22 million in contribution is estimated.

Business
It is not anticipated that there would be any significant change in this $12.2 billion worth of business correspondence by shutting down on Saturdays. Any urgent correspondence is already going via Express Mail or competition. Reports, notices, annual reports, and other general correspondence are not highly time sensitive or day sensitive.

Some customers expressed concerns about the level of customer service that their customers have come to expect, however, it is expected that FCM will continue to be used, or a premium paid, for expedited services, where feasible. Further, by assigning no risk factor for diversion

on this large revenue base, we are again ensuring that the scenarios are not considered overly aggressive.

Advertising:

Small/Medium Businesses
As indicated in our quantitative market research, 19% of the small/medium sized businesses would "increase or start use of advertising media other than direct mail" should the Postal Service implement the Five-Day Delivery scenario. Although Scenario "A" assumes that all delivery and operations are suspended, these business responses can be conservatively used to describe the risk factor for Scenario "A". Assuming that only half of those surveyed do what they indicated on the survey on a revenue base of $1 billion for First-Class advertising mail, this amounts to an estimated diversion of $100 million in revenue. The small and medium sized businesses are less automated in their business processes, thus less wedded to mail.

It is presumed that the diversion of would happen fairly quickly so the total contribution impact of $65 million was spread over three years.

Large Businesses
The larger sized businesses are quite automated in their businesses processes, thus more invested in mail and somewhat slower than smaller businesses to be attracted away from direct mail by easier to use radio and print media.

This segment has a base of $3.2 billion in First Class advertising mail revenue. It is anticipated that the impact of the diversion will result in a loss of revenue approximating $197 million over four years, with a contribution of $129 Million.

STANDARD MAIL

Advertising:

Large and Small Businesses
Advertisers typically require a 2-3 day delivery window they can plan around consistently and are concerned that the elimination of one day will cause delays in the Standard Mail deferrable product.

Interviews with retailers and their business partners say our product is very important to them, but they will need to use alternatives if we move to a Five-Day operation (or even Five-Day delivery). A major business partner has indicated that they currently use an alternate service for 3 million pieces weekly, and will move more business this way if their current operations were forced to change. Many of these businesses are concerned about effective strategies to drive store traffic on the weekends and need to place advertising in their customers and prospects hands on Fridays and Saturdays.

Our customer's lack of reliance on this growth product could reduce revenues $1.073 billion and contribution by $387 Million annually. It is estimated that $361 Million of this reduction in revenues would come from smaller businesses and $712 Million from Larger businesses.

For small/medium sized businesses, 19 percent say they would "increase or start using advertising media other than direct mail" (ORC B/19e). It is anticipated that diversion would occur over a four-year period, with 50 percent of revenues at risk of diverting in this time frame. The small and medium sized businesses are less automated in their business processes, thus less wedded to mail. [redacted]

For large businesses, 25 percent would "increase or start use of advertising media, other than direct mail" (ORC B/19e). It can be reasonably expected that diversion of 25 percent of the impacted revenues would occur over a five-year period. [redacted]

Expedited and Package Services:

Product revenue estimated to divert is $ 542 million with a contribution of $189 million. The majority of this diversion is from business shippers. Based on market research, 85 percent of this revenue is from businesses and 15 percent from consumers. Estimates are on a base of $6.876 Billion in Express, Priority, and Parcel Post revenues. Express Mail revenues are included because the assumption was made that businesses typically would not split their EPS business among delivery service vendors.

Business:

[redacted]

[redacted]

The estimated amount of EPS diversion from businesses is $526 million in revenue with a contribution of $183 million.

Consumer:

Four percent of consumers stated they would "increase or start to use competitors of the Postal Service for sending or receiving packages" (ORC C/M20-A/M20-B). Since responses given were unaided, we raised the risk of diversion to 8%, as with payments and correspondence. Only 20 percent of this amount is assumed to be the best estimate to divert. The impact is spread over three years. [redacted]

The estimated amount of EPS diversion from consumers is $17 Million in revenues with $6 Million in contribution.

Periodicals:

Customer interviews suggested diversions would be driven by time sensitive news in magazines, newspapers, and weekly newsletters delivered on weekends. The customers of these publications could quickly drop subscriptions and purchase a single copy at newsstands.

According to the US Postal Service's Household Diary study, fifty-nine percent of periodicals delivered to the home are weekly magazines. It is conservatively estimated that 5.56 percent of current revenue will be impacted. Estimates are also based on the amount of periodical mail assumed to be magazines delivered to consumers on Saturday.

Product revenue subject to diversion is shown to be $121 Million with a negative contribution of $6 Million. This is on an overall revenue base of $2.2 Billion.

International:

Product revenue estimated to divert is based on the overall size of the international expedited market. Potential loss is estimated as $59 Million with a contribution of $14 Million. This is on an overall revenue base of $ $1.7 Billion.

USPS Outbound EPS International mail is part of a $5 Billion international EPS market and growing at an estimated 5-10% per year. The US Postal Service's market share is very low, at 8%, with 1 % of the market share at risk.

USPS Inbound International mail is part of a $3.5 Billion international EPS market. An estimated 1% of the Postal Service's market share is assumed at risk. A factor of 25% has been applied to further estimate the portion of Express and Priority that would be impacted.

These estimates are considered to be the best estimate given the focus of the International Business Plan to grow Express and Priority business.

Retail and Services:

Retail is the way most Americans buy and use mail. This provides local access for the core product applications of correspondence and transaction mailing, domestic and international package shipping and special services, including delivery through more than 18 million Post Office boxes. Our major retail customer segments are small business and consumers (customers who use the mail for personal, rather than business reasons).

The revenue at risk from retail products and fees and other Special Services is estimated at $83 Million on $2.2 Billion. The retail services and products included here are: Money Orders, Phonecards, PO Boxes, Philatelic Products, Packaging Products, Certified, Delivery and Signature Confirmation, COD Pickup, and Customs Pickup.

The impact to the other portion of the $14.4 Billion in Retail revenues has substantially been accounted for in the previous discussions of First-Class Mail and EPS for small businesses and consumers.

Based on FY 2000 revenue, estimates were developed on percentage of revenue lost (diversion to competition), as well as the movement to another day of the week for the portion of revenue not lost. The Retail Datamart was used extensively to derive many of the product and day of week factors, which previously was not available.

The revenue summary data shows a bottom-line loss of $83,131,502 after accounting for the appropriate shifts to Monday and Friday. There is no impact assumed on contribution since the revenue retained is factored in the analysis of revenue and workhours.

Based on research conducted by Opinion Research Corporation (ORC), when customers were asked the degree of importance to be able to pickup or mail letters & packages, buy stamps, or conduct other business at Post Office on Saturday, the results showed 46% responding at the high end. (5 & 4 on a scale of 5-1)(ORC M12A/M12B)

In 82% of households, someone is available to go to the post office if needed, Monday through Friday. While 18% affected is not a large number, the customers have told us in focus groups that the trust and brand impacts would be significant if we closed on Saturday. They felt that eventually they would question why they needed to do business with us at all. Additionally, customers commented that not everyone could adjust to the weekday option and would seek alternatives.

Customers felt that service adjustments should be considered, such as extended hours, alternate hours for certain days of the week (e.g. Public Libraries have evening hours on certain days), and other ways to accommodate today's customer needs. Customers mentioned the need for Saturday access, at least at convenient locations.

In customer focus groups and the ORC consumer quantitative survey, customers have indicated a preference to open a PO Box at their Post Office, should a delivery day be eliminated. This additional revenue was not projected due to the uncertainty of the customer needs and availability of PO Boxes. Additionally, there may be an argument that without delivery there is less access and the PO Box rate should be lowered. Thus, we have a revenue opportunity and potential revenue loss. There was identified a potential 1% of a nationally projectable sample of the population who expressed a desire to rent a post office box.

This would translate to a potential revenue gain of $40 million. However, it is expected that the actual gain would be a percent of that $40 Million in new revenue. (ORC M20A/M20B)

[redacted]

Scenario B

Eliminate all Saturday Delivery, while retaining mail processing, bulk mail acceptance, post office box and caller box service, and retail operations.

BEST ESTIMATE
REVENUE AND CONTRIBUTION DIVERSION
SCENARIO "B"

Mail Class/Service	Revenue Impact	Revenue Year 1	Contribution Impact	Contrib. Year 1	Contribution Rate
FCM	**477**	**108**	**297**	**69**	***62%***
Standard	1,073	233	387	84	***36%***
EPS	**271**	**90**	**94**	**31**	***35%***
Periodicals	121	40	-6	-2	***-5%***
International	59	8	14	2	***24%***
Subtotal w/o Retail	**2,001**	**479**	**786**	**184**	***39%***
Retail/Services	0	0	0	0	***0%***
Total	**2001**	**479**	**786**	**184**	***39%***

The best estimate for revenue and contribution diversion impacts were derived from a series of assumptions by class of mail, customer segment, and applications. As noted in the methodology, the following discussions will highlight the assumptions made by class and their impact to the revenue and contribution for Scenario A.

FIRST CLASS MAIL

(millions)	BASE REVENUE FY 2000	TOTAL REVENUE IMPACT	YEAR 1 REVENUE IMPACT	TOTAL CONTRIB. IMPACT	YEAR 1 CONTRIB. IMPACT
CONSUMER PAYMENTS	$4,000	$80	$11	$42	$6
BUSINESS PAYMENTS	$1,000	$0	$0	$0	$0
BILLS/STATEMENTS	$12,000	$59	$8	$38	$5
CORRESPONDENCE	$14,316	$42	$6	$22	$3
ADVERTISING	$4,200	$296	$83	$194	$54

TOTAL* *May not equal due to rounding	$35,516	$477	$108	$297	$69

Payments:

Consumers

The base Postal Service revenue for consumer bill payments was estimated as$4 billion in fiscal year 2000. The quantitative research conducted by ORC indicated that 1% of the respondents said "they would increase/start electronic bill payment" if the Five Day Delivery scenario were adopted. The responses were "top of the mind" unaided and therefore led to the assumption that a 2% adoption rate for electronic bill payments was reasonable. In addition, 24% bill presenters said that if five-day delivery were implemented "they would promote use of electronic bill payment and presentment to customers". This further validated the use of a 2% diversion rate for consumer payments. Market research would suggest that consumers will take some time to change their behavior therefore, the $80 million diversion was spread over seven years at the rate of $11.5 million per year.

Using the FY 2000 Cost and Revenue Analysis (CRA) data, the contribution to net income that would be lost was computed using a contribution rate of $.177 per piece, for a total of $42 million.

Businesses

Business payments accounted for $1 billion in revenue for the Postal Service in FY 2000. Conservatively, no revenue is estimated as subject to diversion. The major concern for businesses is the ability to process in-coming payments daily. Caller box service continues in Scenario B and banks are closed Saturdays. Further, businesses pay according to terms of the transaction (30, 60, 90 days), so one day less of delivery is assumed to have little impact.

Bills/Statements:

Business to Business

The presentation of bills and statements in the business to business environment is not anticipated to change with the implementation of Scenario "B". This segment of the revenue base is valued at $6.4 billion. There is no expected diversion in wholesale billing since businesses typically pay according to the terms of the transaction (30, 60, 90 days), not when bills are received. This approach has also been taken to ensure conservative estimates of revenue loss.

Business to Consumer

With a base revenue of $5.6 billion this Business to Consumer segment has a risk of diversion in the amount of $59 million over time. Currently 3% of consumers pay their bills electronically and it is assumed they would be willing to receive bills electronically. As with consumer payments, it is expected that this change would increase the diversion by 2% for a total diversion of 5% or $8 million per year for seven years. This 5% of consumers is applied to the 21% of businesses that the market research said would explore electronic alternatives to receive and pay their bills. Therefore, a factor of 1.05% was used to determine the diversion risk to bills and statements revenue. As noted above, many of the businesses are very concerned with impacts the change would have on "float" and 24% said they would encourage their customers to switch to electronic means to receive and pay their bills.

[redacted]

[redacted]t costs billers $1.50 more than electronic alternatives to produce hard copy statements and receive payments. Consumer's behavior has been slow to change and billers look to accelerate this process.
An acceleration of electronic bill presentment potentially removes $59 Million in revenue, and $38 Million in contribution from our hardcopy mailstream, without necessarily full recovery by the USPS eBillPay service.

Correspondence:

Consumer
The risk to consumer correspondence revenue was deemed to be low. The types of correspondence that could move would be birthday cards and some personal correspondence. In unaided response, 1 percent of consumers said they would "increase or start use of electronic means for sending or receiving communications." (ORC- M20A/M20B). As with consumer payments, a 2% factor was used to determine the $42 million impact to correspondence revenue from the consumer.

Based on $2.1 billion in base consumer correspondence revenues, the estimated amount subject to diversion is shown to be $42 Million with a contribution of $22 Million.

Business
It is not anticipated that there would be any change in this $12.2 billion worth of correspondence business mailings by eliminating Saturday delivery. Any urgent correspondence is already going via Express Mail or competition. Reports, notices, annual reports, and other general correspondence are not highly time sensitive or day sensitive. Some customers expressed concerns about the level of customer service that their customers have come to expect, however, we expect FCM will continue to be used, or a premium paid, for expedited services, where feasible. Further, by assigning no risk factor for diversion on this large revenue base, we are again ensuring that the scenarios are not considered overly aggressive.

Advertising:

Small/Medium Businesses
As indicated in our quantitative market research, 19% of the small/medium sized businesses would "increase or start use of advertising media other than direct mail" should the Postal Service implement the Five-Day Delivery scenario. Assuming that only half of those surveyed do what they indicated on the survey on a revenue base of $1 billion for First-Class advertising mail, this amounts to an estimated diversion of $100 million in revenue. [redacted]

[redacted]

It is presumed that the diversion of would happen fairly quickly so the total contribution impact of $65 million was spread over three years. [redacted]

Large Businesses
The larger sized businesses are quite automated in their businesses processes, thus more invested in mail and somewhat slower than smaller businesses to be attracted away from direct mail by easier to use radio and print media. [redacted]

This segment has a base of $3.2 billion in First Class advertising mail revenue. It is anticipated that the impact of the diversion will result in a loss of revenue approximating $197 million over four years, with a contribution of $129 Million.

STANDARD MAIL

Advertising:

Large and Small Businesses
Advertisers typically require a 2-3 day delivery window they can plan around consistently and are concerned that the elimination of one day will cause delays in the Standard Mail deferrable product. Lack of consistent delivery from potential backups in mail processing and delivery operations could harm their integrated advertising campaign financial returns, which include such costs as staffing the call center at the right time for responses and orders.

Interviews with retailers and their business partners say our product is very important to them, but they will need to use alternatives if we move to a Five-Day operation (or even Five-Day delivery). A major business partner has indicated that they currently use an alternate service for 3 million pieces weekly, and will move more business this way if their current operations were forced to change. Many of these businesses are concerned about effective strategies to drive store traffic on the weekends and need to place advertising in their customers and prospects hands on Fridays and Saturdays.

Our customer's lack of reliance on this growth product could reduce revenues $1.073 billion and contribution by $387 Million annually. It is estimated that $361 Million of this reduction in revenues would come from smaller businesses and $712 Million from Larger businesses.

For small/medium sized businesses, 19 percent say they would "increase or start using advertising media other than direct mail" (ORC B/19e). It is anticipated that diversion would occur over a four-year period, with 50 percent of revenues at risk of diverting in this time frame. The small and medium sized businesses are less automated in their business processes, thus less wedded to mail and faster to seek alternatives than larger businesses. [redacted]

For large businesses, 25 percent would "increase or start use of advertising media, other than direct mail" (ORC B/19e). It can be reasonably expected that diversion of 25 percent of the impacted revenues would occur over a five-year period. This relatively longer diversion period is based on the fact that the large businesses are quite automated in their business processes, thus more invested in mail and somewhat slower than small/medium businesses to be attracted to competitive products, like radio and print.

Expedited and Package Services:

Product revenue estimated to divert is shown to be $ 271 million with a contribution of $94 million. The majority of this diversion is from business shippers. [redacted]

Business:

Of business customers surveyed, 45 percent stated "they would increase or start use of competitors of the USPS for sending packages" (ORC B/19f). Only 10 percent of this amount is the best estimate of diversion. The shift would occur relatively quickly over a three-year period. [redacted]

The estimated amount of EPS diversion from businesses is $263 million in revenue with a contribution of $92 million.

Consumer:

Four percent of consumers stated they would "increase or start to use competitors of the Postal Service for sending or receiving packages" (ORC C/M20-A/M20-B). Since responses given were unaided, we raised the risk of diversion to 8%, as with payments and correspondence. Only 10 percent of this amount is assumed to be the best estimate to divert compared from 20% with elimination of Saturday post office access and delivery. The impact is spread over three years. Competition exists from UPS, FedEx, and Mail Box Etc., although pick-up of

packages from competitors is less convenient. There are no indications in our research that suggest that commercial service availability will change. As noted above, consumers may stop asking for Postal Service delivery if the sixth day is no longer an option.

The estimated amount of EPS diversion from consumers is $8 Million in revenues and with $3 Million in contribution.

Periodicals:

Customer interviews suggested diversions would be driven by time sensitive news in magazines, newspapers, and weekly newsletters delivered on weekends. The customers of these publications could quickly drop subscriptions and purchase a single copy at newsstands.

According to the US Postal Service's Household Diary study, fifty-nine percent of periodicals delivered to the home are weekly magazines.
It is conservatively estimated that 5.56 percent of current revenue will be impacted. Estimates are also based on the amount of periodical mail assumed to be magazines delivered to consumers on Saturday.

Product revenue subject to diversion is shown to be $121 Million with a contribution of -$6 Million. This is on an overall revenue base of $2.2 Billion.

International:

Product revenue estimated to divert is based on the overall size of the international expedited market. Potential loss is estimated as $59 Million with a contribution of $14 Million. This is on an overall revenue base of $ $1.7 Billion.

USPS Outbound EPS International mail is part of a $5 Billion international EPS market and growing at an estimated 5-10% per year. The US Postal Service's market share is very low, at 8%, with 1 % of the market share at risk.

USPS Inbound International mail is part of a $3.5 Billion international EPS market. An estimated 1% of the Postal Service's market share is assumed at risk. A factor of 25% has been applied to further estimate the portion of Express and Priority that would be impacted.

These estimates are considered to be the best estimate given the focus of the International Business Plan to grow Express and Priority business

Retail and Services:

No significant impact on retail services is assumed from elimination of Saturday delivery at this time. It is assumed that more customers would need to pick-up packages at their post office and there would be fewer re-deliveries. Our market research found that 56% of the general public felt that Saturday delivery is important. While inconvenienced, a majority of customers would adjust to the change. (ORC M14/M20)

Scenario C

Eliminate Tuesday street delivery services to both the residential consumer and the business customer. Elimination includes all delivery, but does not include mail processing, bulk mail acceptance, post office box and caller box service, and retail operations.

BEST ESTIMATE
REVENUE AND CONTRIBUTION DIVERSION
SCENARIO "C"

Mail Class/Service	Revenue Impact	Revenue Year 1	Contribution Impact	Contrib. Year 1	Contribution Rate
FCM	**572**	**122**	**336**	**74**	***59%***
Standard	1,073	233	387	84	***36%***
EPS	**534**	**178**	**186**	**62**	***35%***
Periodicals	121	40	-6	-2	***-5%***
International	59	8	14	2	***24%***
Subtotal w/o Retail	**2,359**	**581**	**917**	**220**	***39%***
Retail/Services	0	0	0	0	***0%***
Total	**2,359**	**581**	**917**	**220**	***39%***

The best estimate for revenue and contribution diversion impacts were derived from a series of assumptions by class of mail, customer segment, and applications. As noted in the methodology, the following discussions will highlight the assumptions made by class and their impact to revenue and contribution for Scenario "C".

FIRST CLASS MAIL

(millions)	BASE REVENUE FY 2000	TOTAL REVENUE IMPACTT	YEAR 1 REVENUE IMPACT	TOTAL CONTRIB. IMPACT	YEAR 1 CONTRIB. IMPACT
CONSUMER PAYMENTS	$4,000	$80	$11	$42	$6
BUSINESS PAYMENTS	$1,000	$95	$14	$40	$6
BILLS/STATEMENTS	$12,000	$59	$8	$38	$5
CORRESPONDENCE	$14,316	$42	$6	$22	$3
ADVERTISING	$4,200	$296	$83	$194	$54
TOTAL*	$35,000	$572	$122	$336	$74
*May not equal due to rounding					

Payments:

Consumers
The base Postal Service revenue for consumer bill payments was estimated as $4 billion in fiscal year 2000. The quantitative research conducted by Opinion Research Corporation (ORC) indicated that 1% of the respondents said they "would increase/start electronic bill payment" if the Five Day Delivery scenario were adopted. The responses were "top of the mind" unaided and therefore led to the assumption that a 2% adoption rate for electronic bill payments was reasonable. In addition, 24% bill presenters said that, "they would promote use of electronic bill payment and presentment to customers". This further validated the use of a 2% diversion rate for consumer payments. Market research would suggest that consumers will take some time to change their behavior therefore, the $80 million diversion was spread over seven years at the rate of $11.5 million per year.

Using the FY 2000 Cost and Revenue Analysis (CRA) data the contribution that would be lost was computed using a contribution rate of $.177 per piece, for a total of $42 million.

Businesses
Business payments accounted for $1 billion in revenue for the Postal Service in FY 2000. Of that amount approximately $95 million is estimated as subject to diversion. The ORC research indicated that 21% of the businesses would "increase or start use of e-bill presentment and payment". A further factor of 21% was applied to the Business to Business payments (1/2 of the $1B at risk) to reflect the assumption that only 21% of businesses will be able to receive electronically transmitted bill in the near future. Further, fewer payments are assumed to divert compared to Scenario A, as businesses will tend to keep payments in the accounts for as long as possible in the course of regular business. In the case of Business to Consumer payments an 80% factor was applied to reflect that many of these payments (e.g. social security, veteran's benefits, tax refunds, etc.) are already moving electronically to consumers.

The contribution per piece for this category of First Class mail was $.177 per piece. Considering the volume that would be impacted it would result in a diversion in contribution of approximately $40 million. It is anticipated that this diversion would happen slowly over time and was spread evenly over seven years.

Caller box service used by large remittance processors is not eliminated in this scenario. However, of particular concern to smaller businesses was the inability to process remittances daily with the elimination of Tuesday delivery. With both businesses and banks open on Tuesday, elimination of delivery would be a large inconvenience and considered a break in service. The preference is for a continuous schedule of processing and pick-up to improve cash flow into the banking system and their bank accounts. The risk for accelerated diversion longer term could be significant.

Delays in business's wholesale remittances cause high levels of reduced cash flows. Diversion risk on wholesale remittances is lower than retail remittances because electronic accounts payable systems are expensive due to non-standardization of methods and documents. Nevertheless, given that the value of one day's float is worth over a billion dollars for retail and wholesale remittances, many customers might raise a loud lobbying voice against elimination of Tuesday delivery of either type of remittance because it is a regular business day.

Bills/Statements:

Business to Business
The presentation of bills and statements in the business to business environment is not anticipated to change with the implementation of Scenario "C". This segment of the revenue base is valued at $6.4 billion. There is no expected diversion in wholesale billing since businesses typically pay according to the terms of the transaction (30, 60, 90 days), not when bills are received. This approach has also been taken to ensure conservative estimates of revenue loss.

Business to Consumer
With a base revenue of $5.6 billion this Business to Consumer segment has a risk of diversion in the amount of $59 million over time. Currently 3% of consumers pay their bills electronically and it is assumed they would be willing to receive bills electronically. As with consumer payments it is expected that this change would increase the diversion by 2%, for a total diversion of 5% or $8 million per year for seven years. This 5% of consumers is applied to the 21% of businesses that the market research said would explore electronic alternatives to receive and pay their bills. Therefore, a factor of 1.05% was used to determine the diversion

risk to bills and statements revenue. As noted above, many of the businesses are very concerned with impacts the change would have on "float" and 24% said they would encourage their customers to switch to electronic means to receive and pay their bills.

An effort may be made by biller services to capitalize on the reduction in service to promote reduction of trust in the Postal Service and improve their advantage with their own electronic bill presentment and payment services. It costs billers $1.50 more than electronic alternatives to produce hard copy statements and receive payments. Consumer's behavior has been slow to change and billers look to accelerate this process. An acceleration of electronic bill presentment potentially removes $59 Million in revenue, and $38 Million in contribution from our hardcopy mailstream, without necessarily full recovery by the USPS eBillPay service.

Correspondence:

Consumer
The risk to consumer correspondence revenue was deemed to be low. The types of correspondence that could move would be birthday cards and some personal correspondence. In unaided response, 1 percent of consumers said they would "increase or start use of electronic means for sending or receiving communications." (ORC- M20A/M20B). As with consumer payments, a 2% factor was used to determine the $42 million impact to correspondence revenue from the consumer.

Based on $2.1 billion in base consumer correspondence revenues, the estimated amount subject to diversion is shown to be $42 Million with a contribution of $22 Million.

Business
It is not anticipated that there would be any change in this $12.2 billion worth of correspondence business mailings by eliminating Tuesday delivery. Any urgent correspondence is already going via Express Mail or competition. Reports, notices, annual reports, and other general correspondence are not highly time sensitive or day sensitive. Some customers expressed concerns about the level of customer service that their customers have come to expect, however, we expect FCM will continue to be used, or a premium paid, for expedited services, where feasible. Further, by assigning no risk factor for diversion on this large revenue base, we are again ensuring that the scenarios are not considered overly aggressive.

Advertising:

Small/Medium Businesses
As indicated in our quantitative market research, 19% of the small/medium sized businesses would "increase or start use of advertising media other than direct mail" should the Postal Service implement the Five-Day Delivery scenario. Assuming that only half of those surveyed do what they indicated on the survey on a revenue base of $1 billion for First Class advertising mail, this amounts to an estimated diversion of $100 million in revenue. [redacted]

It is presumed that the diversion of would happen fairly quickly so the total contribution impact of $65 million was spread over three years. [redacted]

[redacted]

Large Businesses
The larger sized businesses are quite automated in their businesses processes, [redacted]

This segment has a base of $3.2 billion in First Class advertising mail revenue. It is anticipated that the impact of the diversion will result in a loss of revenue approximating $197 million over four years, with a contribution of $129 Million.

STANDARD MAIL

Advertising:

Large and Small Businesses
Advertisers typically require a 2-3 day delivery window they can plan around consistently and are concerned that the elimination of one day will cause delays in the Standard Mail deferrable product. Lack of consistent delivery from potential backups in mail processing and delivery operations could harm their integrated advertising campaign financial returns, which include such costs as staffing the call center at the right time for responses and orders.

Interviews with retailers and their business partners say our product is very important to them, but they will need to use alternatives if we move to a Five-Day operation (or even Five-Day delivery). A major business partner has indicated that they currently use an alternate service for 3 million pieces weekly, and will move more business this way if their current operations were forced to change. Many of these businesses are concerned about effective strategies to drive store traffic on the weekends and need to place advertising in their customers and prospects hands on Fridays and Saturdays.

Our customer's lack of reliance on this growth product could reduce revenues $1.073 billion and contribution by $387 Million annually. It is estimated that $361 Million of this reduction in revenues would come from smaller businesses and $712 Million from Larger businesses.

For small/medium sized businesses, 19 percent say they would "increase or start using advertising media other than direct mail" (ORC B/19e). It is anticipated that diversion would occur over a four-year period, with 50 percent of revenues at risk of diverting in this time frame. The small and medium sized businesses are less automated in their business processes, thus less wedded to mail and faster to seek alternatives than larger businesses. [redacted]

For large businesses, 25 percent would "increase or start use of advertising media, other than direct mail" (ORC B/19e). It can be reasonably expected that diversion of 25 percent of the impacted revenues would occur over a five-year period. [redacted]

Expedited and Package Services:

Product revenue estimated to divert is $ 542 million with a contribution of $189 million. The majority of this diversion is from business shippers. Based on market research, 85 percent of this revenue is from businesses and 15 percent from consumers. Estimates are on a base of $6.876 Billion in Express, Priority, and Parcel Post revenues. Express Mail revenues are included because the assumption was made that businesses typically would not split their EPS business among delivery service vendors.

Business:

Of business customers surveyed, 45 percent stated "they would increase or start use of competitors of the USPS for sending packages" (ORC B/19f). Only 20 percent of this amount is assumed to plausibly divert. The shift would occur relatively quickly over a three-year period. Competition form UPS, FEDEX, Mail-Box Etc., and others, offers customers immediate opportunity to switch to competitors and give the competitors opportunities to gain market share. [redacted]

Business customers would tend to move more quickly toward the discounts, if our offer were diminished. Further, consumers may stop asking for USPS because they know the 6th delivery day is not an option.

[redacted] The estimated amount of EPS diversion from business is $526 million in revenue with a contribution of $183 million.

Consumer:

Four percent of consumers stated they would "increase or start to use competitors of the Postal Service for sending or receiving packages" (ORC C/M20-A/M20-B). Since responses given were unaided, we raised the risk of diversion to 8%, as with payments and correspondence. Only 10 percent of this amount is assumed to be the best estimate to divert compared with 20% from elimination of Saturday post office access and delivery. The impact is spread over three years. Competition exists from UPS, FedEx, and Mail Box Etc., although pick-up of packages from competitors is less convenient. There are no indications in our research that suggest that commercial service availability will change. As noted above, consumers may stop asking for Postal Service delivery if the sixth day is no longer an option.

The estimated amount of EPS diversion from consumers is $8 Million in revenues and with $2 Million in contribution.

Periodicals:

Customer interviews suggested diversions would be driven by time sensitive news in magazines, newspapers, and weekly newsletters delivered on weekends. The customers of these publications could quickly drop subscriptions and purchase a single copy at newsstands.

According to the US Postal Service's Household Diary study, fifty-nine percent of periodicals delivered to the home are weekly magazines. It is conservatively estimated that 5.56 percent of current revenue will be impacted. Estimates are also based on the amount of periodical mail assumed to be magazines delivered to consumers on Saturday.

Product revenue subject to diversion is shown to be $121 Million with a contribution of -$6 Million. This is on an overall revenue base of $2.2 Billion.

INTERNATIONAL:

Product revenue estimated to divert is based on the overall size of the international expedited market. Potential loss is estimated as $59 Million with a contribution of $14 Million. This is on an overall revenue base of $ $1.7 Billion.

USPS Outbound EPS International mail is part of a $5 Billion international EPS market and growing at an estimated 5-10% per year. The US Postal Service's market share is very low, at 8%, with 1 % of the market share at risk.

USPS Inbound International mail is part of a $3.5 Billion international EPS market. An estimated 1% of the Postal Service's market share is assumed at risk. A factor of 25% has been applied to further estimate the portion of Express and Priority that would be impacted.

These estimates are considered to be the best estimate given the focus of the International Business Plan to grow Express and Priority business.

Retail and Services:

No significant impact on retail services is assumed from elimination of Tuesday delivery at this time. It is assumed that more customers would need to pick-up packages at their post office and there would be fewer re-deliveries. Our market research found that 55% of the general public felt that Tuesday delivery is important. While inconvenienced, a majority of customers would adjust to the change. (ORC M14/M20)