

Network Optimization

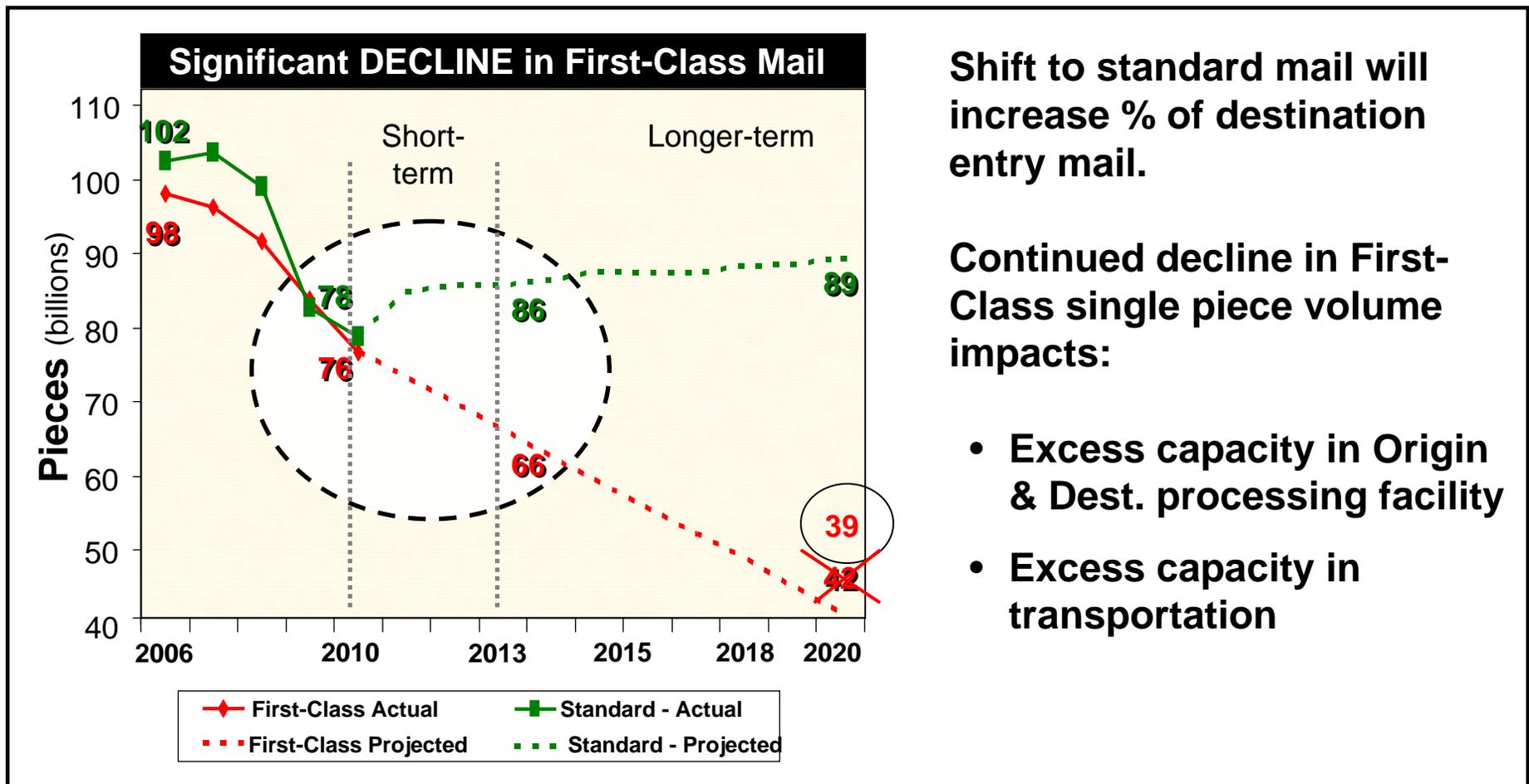
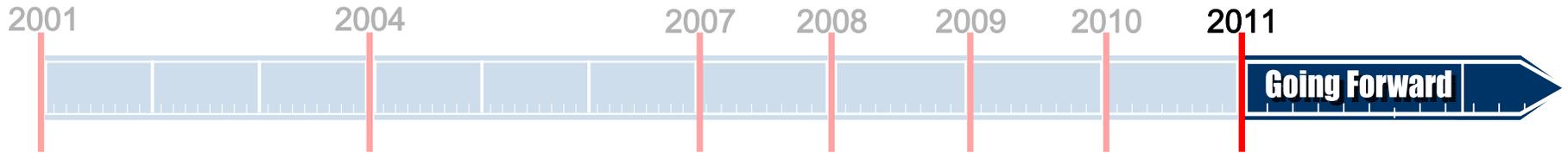
Strategy Meeting

August 02, 2011

CONFIDENTIAL – For Internal Review and Discussion Only

- Volume Realities
- Plan for Change
- Next Steps

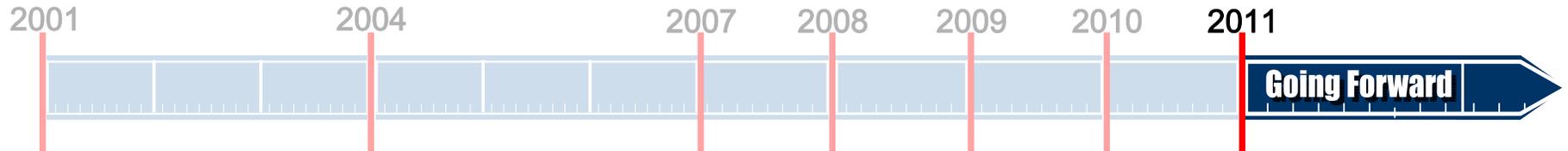
Network Design – Volume Reality



Shift to standard mail will increase % of destination entry mail.

Continued decline in First-Class single piece volume impacts:

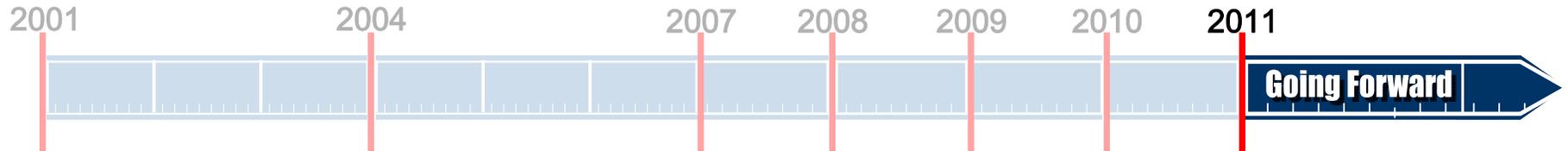
- Excess capacity in Origin & Dest. processing facility
- Excess capacity in transportation



Beyond 2011 Network Realities

- First-Class Mail drives the network requirements
 - Current operating windows in place support overnight service
- Total First-Class contribution will continue to erode and will not support the network infrastructure moving forward
- First Class Network Redesign is necessary to develop an infrastructure to support the mail volume realities of the future

- Volume Realities
- Plan for Change
- Next Steps



- Key Consideration Going Forward
 - Define the most efficient mail processing network and infrastructure to match the current and projected workload

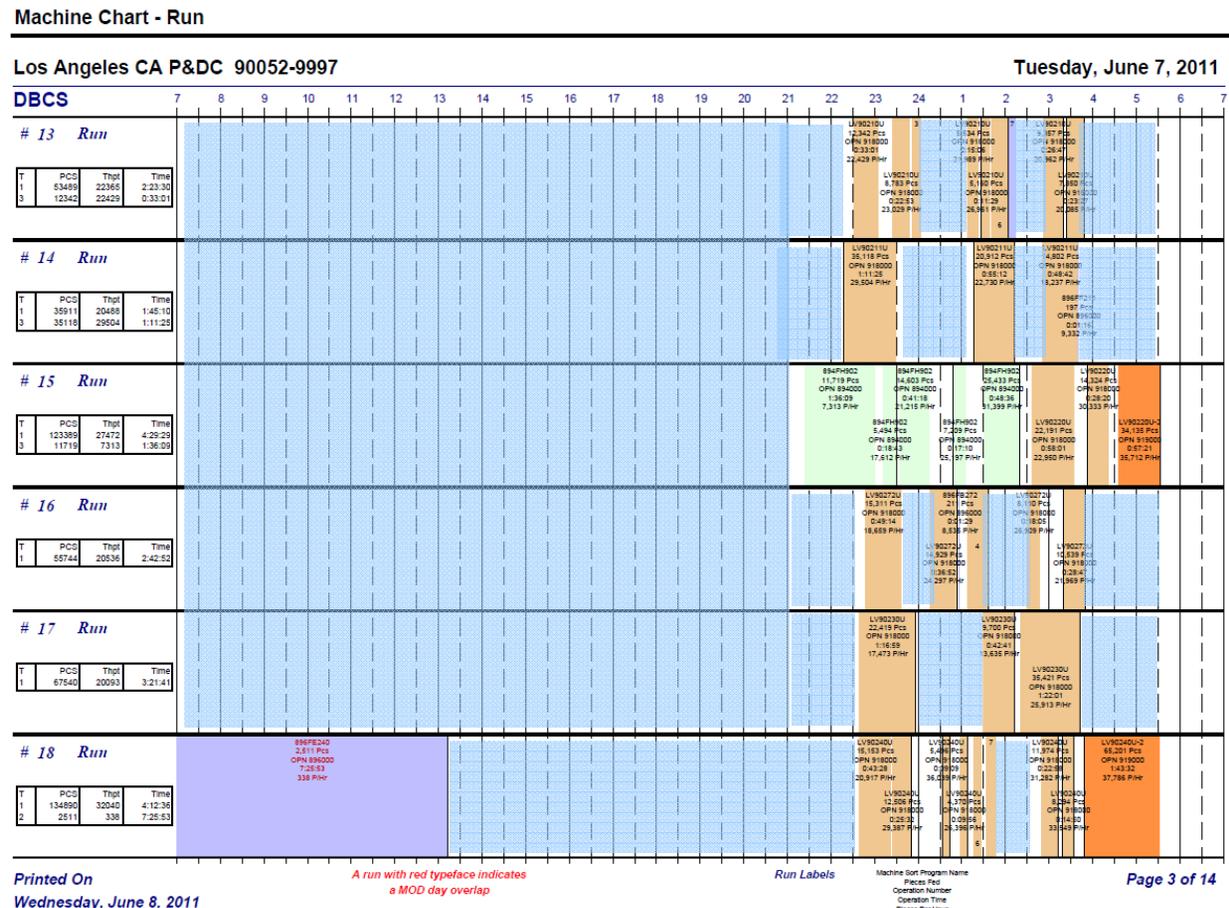
Plan for Change – Current Situation

- Network infrastructure is driven by operating windows which are constrained to meet current First-Class Mail overnight service commitments

Example:
Los Angeles
6 of 37 DBCSs



**More Machines
needed for
limited window**



- Develop a network based on delivery
 - Determine optimal plant locations based on the need to delivery point sequence letter mail volume
 - Develop an operating plan to fully utilize equipment based on a full operating day
 - Develop service standards based on the redesigned network

- Utilize existing plant infrastructure to consolidate mail processing

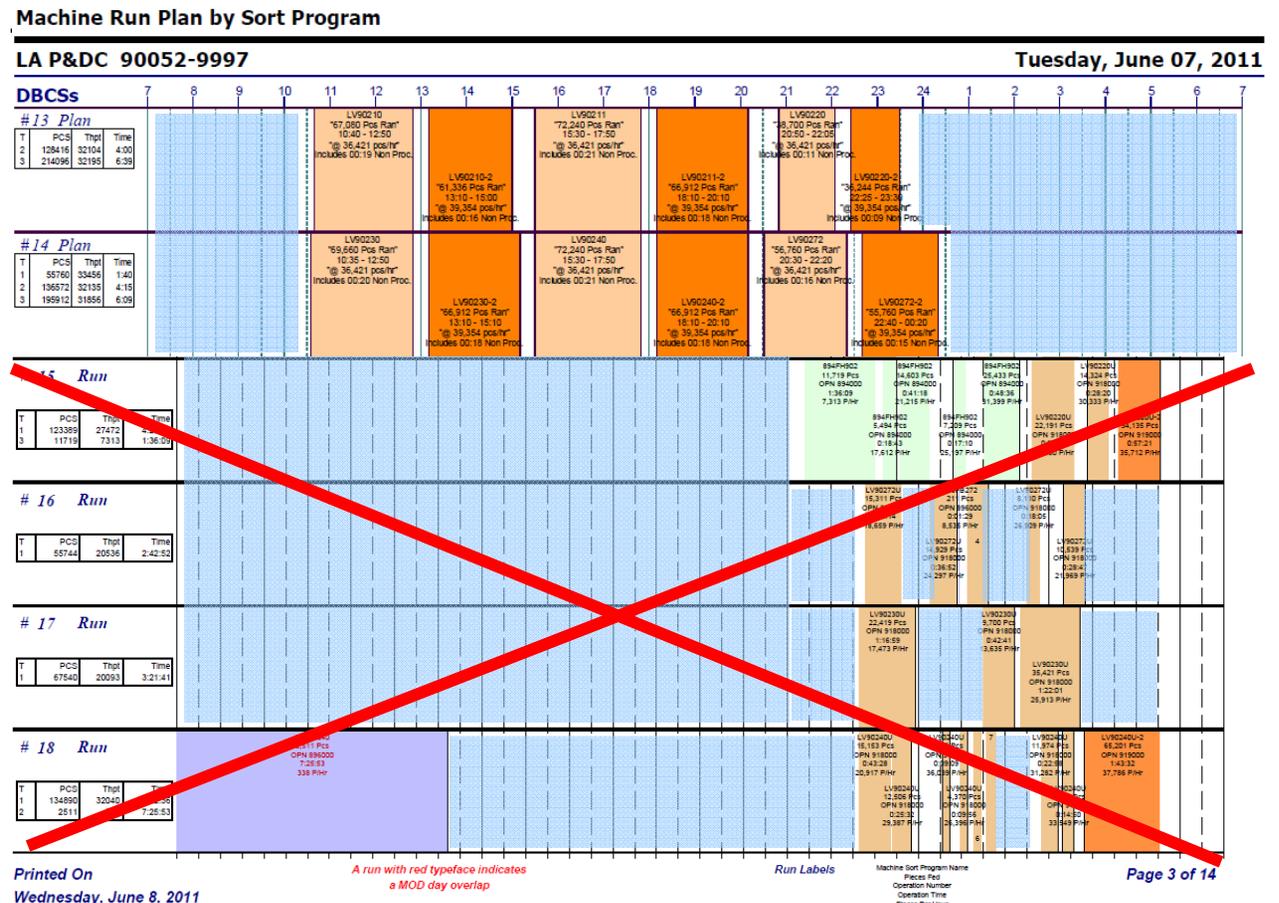
- Eliminate First-Class Mail Overnight
 - Eliminate overnight First-Class Mail service standards to realize full facility consolidation opportunities through operating window changes

- Processing can be consolidated onto significantly fewer machines

Example:
6 Machines
consolidated to 2



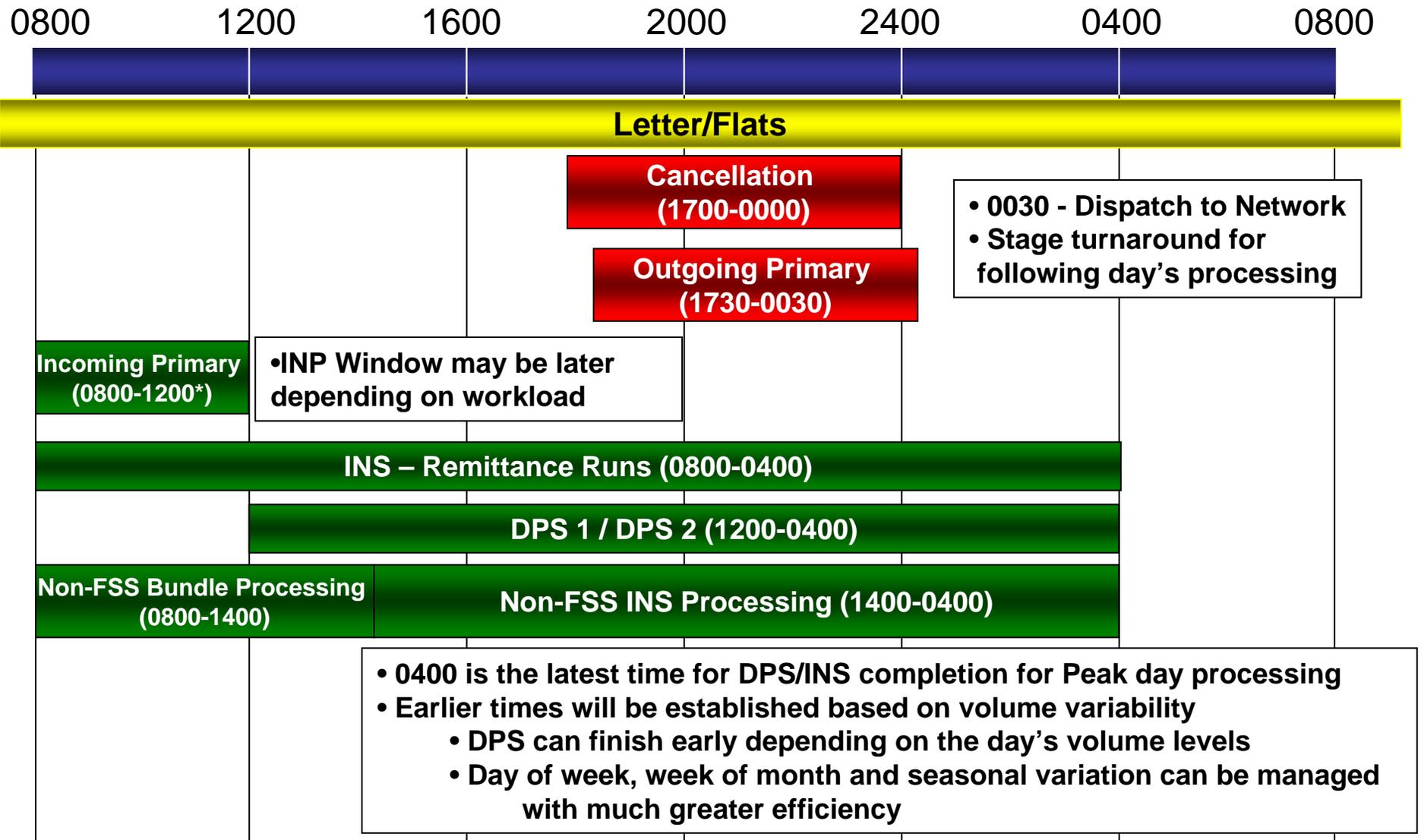
**Less Machines
needed for
longer window**



- Mail Processing Changes
 - Longer processing windows allows significant equipment and facility consolidation
 - ~50% reduction in equipment
 - Required network of ~175 Plants
 - Maximize DPS on all zones
 - Reduce night-differential employment
 - Reduce wait time associated with volume arrival profiles

- Transportation Changes
 - Reduce network transportation as a result of facility consolidation
 - Reduce plant-to-Post Office transportation

No ON Letter and Flat Operating Plan



- History of Network Redesign
- Plan for Change
- Next Steps

- Advanced notice of proposed rulemaking and request for comment will be filed for public comment mid-August
- A service standard change case will be filed the Fall of 2011 seeking a non-binding advisory opinion from the PRC for a change in First Class service standards which would eliminate the overnight service standard

- Future network will require significantly less equipment and facilities
 - ~50% reduction across equipment sets
 - ~50% reduction in facilities
- Significant complement realignment will be necessary
- Significant operational changes will be required
 - Change to when plants are operating