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**SUBJECT:** Enhanced Progress Report: Transportation and Price Leadership Role of the USPS

**REF:** Social and Commercial Benefits of the Postal Service  
Contract 109909-10-0017 (UI Project 08557)

Attached is the Enhanced Progress Report for the Study of the Transportation and Price Leadership Role of the Postal Service.

# TRANSPORTATION AND PRICE LEADERSHIP ROLE OF THE POSTAL SERVICE

## DRAFT ENHANCED PROJECT REPORT

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## INTRODUCTION

This study examined four questions relating to the services that the Postal Service offers for parcel shipping, mailbox rentals and money orders.

- 1) Does the Postal Service offer greater access to parcel and express transportation, money orders, and post office boxes than the private sector?
- 2) Do Postal Service prices establish a competitive baseline for other delivery services, money orders, and mail box rentals constraining unfettered pricing?
- 3) Does the Postal Service offer competitive advantages to small and home-based business that would not exist without the services that they offer?
- 4) Does the Postal Service provide commercial customers with an economical means of shipping packages that would be more expensive if private sector carriers were used?

The questions were answered in this order as the analysis associated with each of the later questions builds on the work completed in the prior questions. For example, the impact of the Postal Service on prices charged by private sector carriers, as well as the advantages that the Postal Service may have are related to whether there are private sector alternatives to the Postal Service.

The analysis in this study employed public data supplemented by interviews and data purchased on the service commitments of UPS and FedEx of their ground delivery services.

As the approach used to answer the four questions is somewhat different, the remainder of this memo will discuss them in order.

### **QUESTION 1: Does the Postal Service offer greater access to parcel and express transportation, money orders, and post office boxes than the private sector?**

Parcel and express services, money orders and post office boxes, that both the Post Office and private sector competitors offer, require service points or retail locations to provide the service to either all customers or specific market segments.

The Postal Service provides these services primarily through its more than 30,000 retail Post Offices, although it does offer parcel shipping services in a limited number of contract locations and limited parcel shipping services at Office Depot Stores. The Postal Service's competitors offer their services through a mixture of both company owned, contract and franchise locations.

The examination of access focuses on two questions.

1. Does a potential customer have a private sector alternative to the Postal Service, and if so is it sufficiently more convenient (closer) to a customer to cause them to choose the Postal Service over a competitor? (Described below as the **access analysis**.)
2. What is the difference in the number of locations within a specified distance of a potential customer? (Described below as the **density analysis**.)

These questions have an important implication for the private sector parcel and express carriers. Both FedEx and United Parcel services provide express and parcel delivery services as common carriers. As such, they are required by common law to provide service from any origin and to any destination within their charter and/or identified on their website or other advertisement. Both FedEx and United Parcel Service offer both express and parcel delivery from all points in the continental United States and nearly all points in Alaska and Hawaii.<sup>1</sup> If accessing FedEx or UPS services is difficult, then while they may have a legal obligation to provide service, the effective level of access for customers needing an access point would be less than legal obligation.<sup>2</sup>

One of the key concerns in answering these questions is access to services in rural areas, and the study design described has the following three steps described in more detail in subsequent sections:

- selection of a sample of locations in the United States stratified to allow an analysis of the difference between urban and rural locations;
- collection of data on locations of the Postal Service and private sector competitors;
- analysis of data collected described below focuses on both collecting and analyzing data that can examine differences in access to services in urban and rural areas

### ***Selection of a sample of locations***

Examination of access required a structured way to limit the infinite number of points in the United States from which a comparison could be made between access to services offered by the Postal Service and private sector companies. Also, the selection of locations analyzed needed to ensure that an analysis could examine the impact of rurality on accessibility to service.

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<sup>1</sup> The service commitment from all locations may not be the same and some exclusions may apply in terms of overnight service from the most remote parts of Alaska.

<sup>2</sup> The common carrier obligation requires that service be provided, it does not require all points with the chart have the service provided in a similar manner. For points that FedEx does not have an access point, customers can always arrange for a parcel or express item to be picked up. Also, businesses that FedEx and UPS deliver to on a regular basis in areas with few retail locations can ship their parcels/Express items when shipments are delivered. The studies of less-than-truckload service, which looked at broad geographic charters, examined whether companies advertised service to points within their charter or not. These studies showed a significant difference between the common carrier obligation and the effort that carriers made to provide information that service was offered.

The sample of locations was developed in two steps. First, the sample selected a stratified sample of counties based on their rurality. Then we selected a particular point within the county to be examined.

The stratified sample used the rurality designation employed by the Department of Agriculture's 2003 urban-rural continuum code to identify counties with different levels of rurality and isolation from larger urban centers. This rurality measure classifies every county in the United States on a scale of 1 to 9 with 1 being the most urban and 9 the most rural. Table 1 provides description of the Rural — Urban Continuum Codes developed by the U.S. Department of Agriculture.

*Table 1: 2003 Rural - Urban Continuum Codes Code Description*

Code	Description
Metro Counties:	
1	Counties in metro areas of 1 million population or more
2	Counties in metro areas of 250,000 to 1 million population
3	Counties in metro areas of fewer than 250,000 population
Non-metro Counties:	
4	Urban population of 20,000 or more, adjacent to a metro area
5	Urban population of 20,000 or more, not adjacent to a metro area
6	Urban population of 2,500 to 19,999, adjacent to a metro area
7	Urban population of 2,500 to 19,999, not adjacent to a metro area
8	Completely rural or less than 2,500 urban population, adjacent to a metro area
9	Completely rural or less than 2,500 urban population, not adjacent to a metro area

Source: <http://www.ers.usda.gov/briefing/Rurality/RuralUrbCon/>

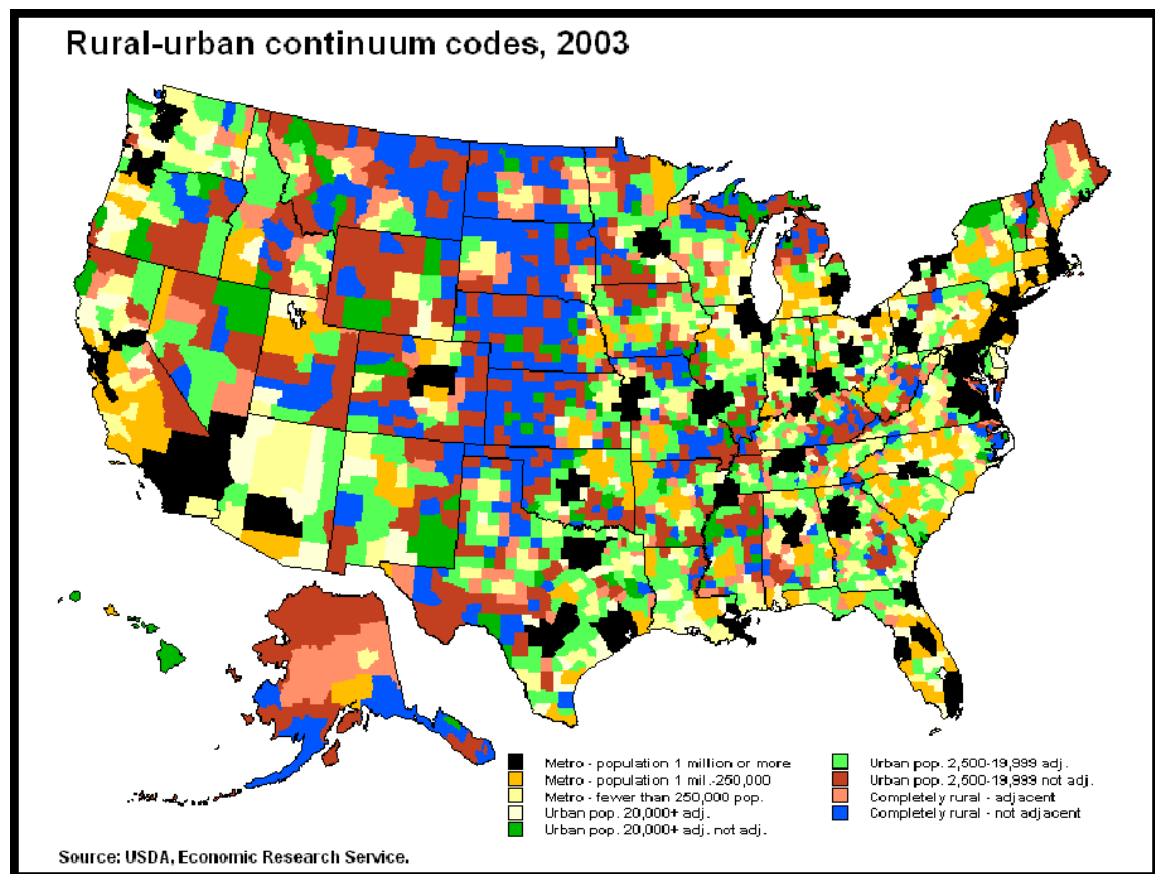
Table 2 shows the number of counties and population in each group from the 2000 census.

*Table 2: Number of Counties and Population in Associated with Each of the 2003 Rural - Urban Continuum Codes*

Code	Number of Counties	2000 Population
<b>Metro Counties:</b>		
1	413	149,224,067
2	325	55 514,159
3	351	27,841,714
<b>Non-metro Counties:</b>		
4	218	14,442,161
5	105	5,573,273
6	609	15,134,357
7	450	8,463,700
8	235	2,425,743
9	435	2,802,732
United States Total		281,421,906

Figure 1 provides a map that illustrates the location of counties designated by each code. The map shows that rural areas exist in all regions of the United States. The map illustrates that rural areas exist throughout the United States. The most rural areas (designated by the bright blue, light brown and dark brown) dominate much of the Great Plains, Mountain West and parts of states that include the Appalachian Mountains or the lower Mississippi Valley (including its tributaries).

Figure 1: Map of Counties Identified by 2003 Urban Rural Continuum Codes



Source: <http://www.ers.usda.gov/briefing/Rurality/RuralUrbCon/>

The study selected thirty counties randomly from a list of counties, and their associated code that the Department of Agriculture lists on its website.<sup>3</sup> In addition, all counties in Alaska and Hawaii were selected, to ensure representation of all locations in both states, including some of the most remote locations in the U.S. The list of counties included in the sample can be found in Appendix A.

Within each county, a single location was selected. As there was no easy method to randomly select locations with street addresses needed to collect data, an easily identifiable location, the city or town hall in the county seat, was used as the specific location from which the access to service offered by the Postal Service and the private sector was compared. The county seat was used as it usually represents a major population center or central location with

<sup>3</sup> The Department of Agriculture includes independent cities that exist in some states in the list of counties. Therefore the cities of Alexandria and Richmond, Virginia would have an equal probability of selection as all other counties and independent cities in their respective category.

a county, and in rural counties is often the major business center. In some of the more rural counties town halls did not exist in the county seat, so another public building was used, usually a public library or public school. As a last resort, the street address of the county courthouse or county clerk's office was used as the point in the county.

### ***Data Collected***

Access to services is determined by both whether services are available within a reasonable distance of the potential customer's home or work location and if multiple choices are available for services within a specified distance. This study collected information on access to services from the Postal Service and its primary competitors in parcel delivery, mailbox rental, and money order sales.

Company websites were used to mimic the most common method today for finding a nearby business other than the use of a web search engine.<sup>4</sup> Using company websites is generally superior than search engines for this purpose as they provide an unbiased list of locations offering a service. In addition, search engines appear to have a difficult time only locating places that provide the service of interest. In fact, in some locations, search engines did not locate the access points company websites did.

The study developed a database for each competitor that identified the closest location that offered the specific service to the address identified, as well as the number of locations within 1, 5, 10 and 25 miles of that same address.

As UPS and FedEx Express offer access to their express services primarily through self-service drop boxes, information was collected on these locations as well. Finally, data was collected on UPS and FedEx Express corporate pick-up locations in order to determine access to locations where shipments could be picked up if no one was home to sign for it.

In all cases, data was only collected only from competitors that listed their retail locations in a manner that allowed the determination of distance from a particular address. The specific method of collecting data from individual firms is as follows:

#### ***Parcel Delivery***

The Postal Service, FedEx and United Parcel Service websites easily allowed collection of the required data on access points. FedEx and United Parcel Service websites provided data on self-service, corporate, contract, and franchise locations. The Postal Service's website only had information on Post Offices, so no information was collected on Postal Service contract locations or Express Mail boxes that were not located at Post Offices.<sup>5</sup> Therefore, all Post Offices were assumed to be the self-service locations of the Postal Service in the analysis comparing access to self service locations offered by the private sector. Neither FedEx nor

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<sup>4</sup> Similar studies of less-than-truckload services in rural areas conducted in the 1970's used searches of Yellow Pages.

<sup>5</sup> It is unknown how many Postal Service locations are missing.



United Parcel Service websites list all locations where their services are offered as a number of independent businesses offer shipping services that are not on their lists.<sup>6</sup>

The information collected on Postal Service locations for parcel delivery was also used in the comparison of access for money order and mailbox rental services.

### *Money Orders*

The Postal Service has two competitors: MoneyGram and Western Union. Western Union's website provided the needed information to measure distance to its sales locations from a specified address. MoneyGram's website listed locations by state and city name and did not provide any way to identify distance to a specified address easily. For MoneyGram locations, data was collected on three of its larger franchisees that did provide a method to identify the distance from a specific point. The franchisees were:

- Ace Cash Express
- Advance America
- Wal-Mart

Data was not collected for CVS Pharmacies, small chains, and independent providers of check cashing/pay-day loan services that also sell money orders.

As money orders are sold in Post Offices, no additional data had to be collected on the Postal Service.

### *Mail Box Rental*

Mail boxes are rented by either franchisees of relatively small chains or independent shops. As there was no good search term in Google, Yahoo, or Bing that could be used to identify places that rented mailboxes, only those locations that are franchisees of the larger chains were included. Data was collected on locations of the following franchisees of businesses that have mailboxes for rent:

- Parcel Plus
- Postal Annex +
- Postal Connections
- Postal Depot
- Postnet
- UPS Store

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<sup>6</sup> Marquette County, Wisconsin has no locations that are listed in United Parcel Service's list of retail locations. However, two hardware stores in the county advertise that they offer UPS shipping on their websites. The number of these locations is unknown.

Conversations with executives of the trade associations, buying groups, and some of the franchisees suggest that data was collected on the majority of locations offering mailbox rentals. However, these individuals indicated that independent shops could represent between one-fifth and one-third of all locations in the United States.

As money orders are sold in Post Offices, no additional data had to be collected on the Postal Service.

#### *Databases Created*

The data collected was combined to create three databases that were used in the analysis. The databases are as follows:

- **Parcel Shipping** – This data base contains data for each of the addresses in the sample for four “competitors.” The competitors include the Postal Service, FedEx, UPS, and private sector carriers combined. The fourth “carrier” allows a determination of differences in access between the Postal Service and a private sector alternative.
- **Money Orders** – This data base includes data for the Postal Service and combined data for both MoneyGram and Western Union. This allows the comparison between the access to money orders sold by the Postal Service and money orders sold by any private sector competitor.<sup>7</sup>
- **Mail Box Rental** – This data base includes data for the Postal Service and all mail box rental locations combined. This allows the comparison between the access to money orders sold by the Postal Service and money orders sold by any private sector competitor.<sup>8</sup>

All of the databases include the data identified at the beginning of this section as well as well as the street address, county, and the urban-rural continuum code for each location in the sample.

#### *Data Analysis*

Two types of analyses were conducted for parcel shipping, money order sales, and mailbox rentals. The **access analysis** compared how close the nearest location was to the selected address. The **density analysis** compared the number of locations within 25 miles. The density analysis was conducted at 25 miles to maximize the probability that there would be at least one location available from a private sector supplier.

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<sup>7</sup> Arguably, Western Union may have higher name recognition, many of the big retail chains that would be convenient to potential customers, are MoneyGram franchisees.

<sup>8</sup> Only the UPS Store franchise has a nationally recognized brand name and more than a couple of hundred locations nationwide. The specific brand alternative available to a potential customer depends upon the decision that a local businessperson makes in choosing a particular franchise.

### *Access Analysis*

The access analysis developed distribution plots for each of the three services examined for each of the nine urban-rural continuum codes. This analysis selected distance for the 50<sup>th</sup> and 90<sup>th</sup> percentile for both the Postal Service and the private sector alternatives. For Parcel shipping the percentiles were calculated for both UPS and FedEx separately and combined. The higher the percentile, the further a customer would have to go to get a service from the Postal Service or the private sector. The choice of median and 90% allows for a comparison between the Postal Service and private sector alternatives at the median and at a percentile associated with locations that would have the most difficulty in getting access to service from the Postal Service or the private sector.

### *Density Analysis*

The density analysis developed distribution plots for each of the three services examined for each of the nine urban-rural continuum codes. This analysis selected distance for the 10<sup>th</sup> and 50<sup>th</sup> percentile for both the Postal Service and the private sector alternatives. For Parcel shipping, the percentiles were calculated for both UPS and FedEx separately and combined. The higher the percentile, the more options a customer would have within a 25 mile radius from either the Postal Service or the private sector. The choice of median and 10% allows for a comparison between the Postal Service and private sector alternatives at the median and at a percentile associated with customers that would likely have few options from either the Postal Service or the private sector.

### ***Results of the Data Analysis***

The cumulative distribution plots for all analyses and distance identified for the 50% and 90% percentile for the access analysis, and the number of locations identified for the 10% and 50% percentiles for the distribution analysis is contained in the PowerPoint document on Question 1. The distribution plots are also contained in Appendix B

### *Conclusions of the Access Analysis*

- Access to Services from the Postal Service is ubiquitous and is nearly the same regardless of urban-rural continuum code associated with the county.
  - Access to a post office from the county seat is quite similar for all nine urban-rural strata
- Parcel Shipping
  - Locations of a private sector carrier are comparable to the Postal Service for locations identified in all strata but the two most rural ones at the 50<sup>th</sup> percentile. At the 90<sup>th</sup> percentile, distance is comparable only for the two largest urban strata.
  - Locations are within a reasonable driving distance (under 12 miles) at the 90<sup>th</sup> percentile for all but the two most rural strata. This is likely the distance to the nearest area with a number of retail stores.

- If a customer must choose UPS or FedEx, then access to a brick and mortar location is significantly more difficult than access to a Post Office. This is true for all strata and reflects the fact that urban strata include counties that are in the core of a metropolitan area and exurban counties that are included in an urban area. For customers in outlying counties in a metropolitan area or in a county in any of the rural strata, a trip to a UPS or a FedEx location could involve a trip of 20 miles or more, and in some cases more than 50 miles.
- While the Postal Service may compete with a private carrier location in many locations, customers in more remote locations will have to choose between the Postal Service and either FedEx or UPS, but not both.
- Data collected on access to a self-service location for purchasing Express services produced similar results to the results for access to a brick and mortar facility. The one difference was access in remote rural counties with an urban population between 2,500 and 19,000 (strata 7), where access to a self-service location was nearly twice as far. However, customers in those counties obviously could choose to drive a shorter distance and go to a brick and mortar location selling UPS or FedEx services.
- In summary, the Postal Service's advantage in terms of access to parcel services is limited to the two most rural strata (counties with an urban population of less than 2,500) and less than half of all counties not adjacent to a metropolitan area with an urban population of between 2,500 and 19,999.
- Money Orders
  - Even with collecting data on less than 100% of all locations selling money orders, the access analysis suggests that customer access to a location selling money orders is equivalent between the Postal Service and the private sector in all strata at the 50<sup>th</sup> percentile, and equivalent at the 90<sup>th</sup> percentile for all but the three most rural strata.
  - In remote rural counties with an urban population between 2,500 and 19,000 (strata 7), the location selling money orders is about a dozen miles away. The private sector money order could still be the more accessible choice if the Postal Service is closed and the private sector location is open when the customer wants to buy the money order.
  - Private money orders are likely to be most difficult to get in the two least densely populated counties sampled.
- Mail box rental
  - Private sector mail box rental services appear to require a minimum level of population density for the service to be offered.
  - Locations renting mail boxes are nearly as easy to find as Post Office locations only in about half of all locations sampled in the three urban strata, and in rural strata that have an urban population of 20,000 or more.

- At the 90<sup>th</sup> percentile, private mailbox suppliers are significantly less available than similar services from the Postal Service in all nine urban/rural strata.
- In the four most rural strata, well less than half of all locations sampled have a location renting mailboxes within a short driving distance of the county seat.

#### *Conclusions of the Density Analysis*

In general, the Postal Service offers more locations within 25 miles than private sector carriers. Density of private sector outlets depends on density of demand. The services considered are ranked in order of density:

1. Money orders
2. Self-service express boxes
3. Parcel shipping – any carrier
4. Parcel shipping – specific carrier
5. Mailbox rentals

#### **QUESTION 2: Do Postal Service prices establish a competitive baseline for other delivery services, money orders, and mail box rentals constraining unfettered pricing?**

Question 2 examines the impact that Postal Service prices might have on prices offered by private sector firms offering delivery services, money orders and mail box rentals. The analysis conducted primarily looked at the current snapshot of prices charged by the private sector and compared that snapshot to what the Postal Service charged. In addition, historical information was collected on the size and time of rate changes associated with parcel shipping.

The approach and results associated with this question are described separately for money orders, mailbox rentals and delivery services, in that order. They are discussed separately, as differences in the market in how these services are offered to potential customers required different data collection methods resulting in very different data to be analyzed for each of these markets.

As will be seen in the following sections, the relationship between prices charged by the Postal Service and those charged by private sector competitors is very different in the three markets analyzed.

#### **Question 2A: Do Postal Service prices establish a competitive baseline for money orders constraining unfettered pricing?**

Postal Money orders are one of the oldest products of the Postal Service. They were originally designed as a safer method of sending money through the mail than putting cash in an

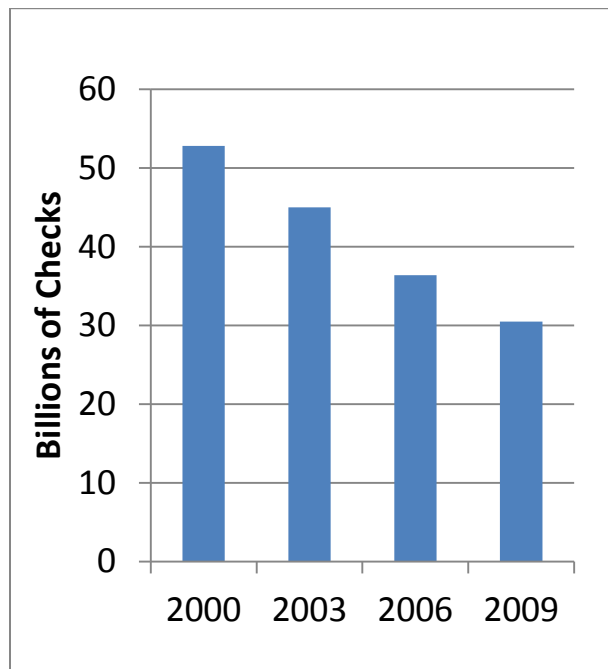
envelope. Postal money orders compete for customers with products offered by two private sector firms MoneyGram and Western Union.

Customers purchasing money orders use them for making purchases, paying bills, and as an alternative to checks that can be deposited directly into bank accounts or cashed at check cashiers, some banks and some retailers.

Money Orders are grouped by the Federal Reserve with checks in its periodic studies of payment methods in the United States. The Federal Reserve tracks Postal Service money orders but does not separate out private sector money orders from standard checks as a form of payment.

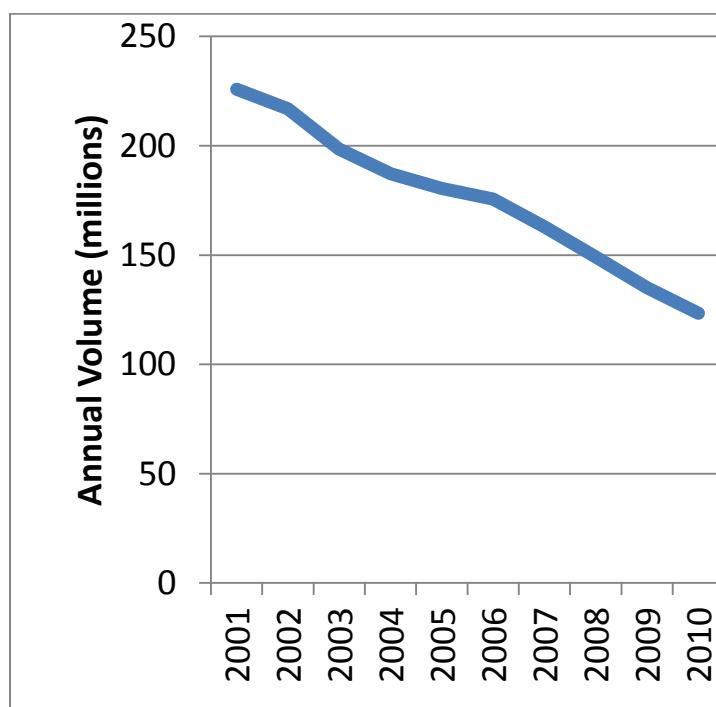
Both checks and Postal money orders are payment and money transfer methods that are losing favor in the United States. Figure 2 shows that the use of checks, which include private money orders, have dropped around 40% from 2000 to 2009.

*Figure 2: Checks Cashed in the United States (2000-2009)*



Similarly the use of Postal Money Orders has also declined. Figure 3 illustrates the decline in Postal Money orders over roughly the same period.

Figure 3: Volume of Postal Money Orders (2001 - 2010)



### **Data Collected**

Data was collected on the structure of the money order market, customers of locations that sell money orders, and money order prices.

### *Structure of the Money Order Market*

The size of the money market is unknown. While data exists on the number of money orders sold and the revenue they generate for the Postal Service, no data exists for MoneyGram or Western Union. MoneyGram is a private corporation and does not release data. Western Union reported income of \$43.3 million from its money order business but most of that revenue comes from interest generated from the float, so it provides no information about demand for Western Union money orders.

The three competitors in the money order market use very different approaches to selling and pricing their products. Table 3 provides a summary of differences between the three competitors.

Table 3: Characteristics of Money Order Competitors

	USPS	MoneyGram	Western Union
Purchase Locations	Corporate Locations	Agents	Agents
Price Setting	National prices set by regulator	Prices set by agents; agents do not all set a uniform price at all locations	Prices set by franchisees; agents do not all set a uniform price at all locations
Complementary Financial Services	Cash cards introduced in 2011	Wide range of complementary financial services offered by MoneyGram and Franchisees	Wide range of complementary financial services offered by Western Union and Franchisees
Complementary Non-financial services	Mail and parcel delivery	Complementary services depend on franchisee	Complementary services depend on franchisee

The major difference between the Postal Service and its competitors is the use of agents to sell their products and the freedom that these companies give their agents in setting prices. Franchises of MailGram and Western Union can be large national retail chains, (i.e., Wal-Mart, K-mart, CVS, Rite-aid, 7-11), regional grocery or convenience store chains (i.e., Giant Foods, Sunmart Supermarkets, Weis Market, Flash Market, Kwik Stop, Polk Pick It Up), national financial services companies /franchisors (i.e., Ace Cash Express, Advance America), and regional/local financial services companies (i.e. Kash King).

Agents often look at the money order, and more importantly money transfer and bill payment services offered by Western Union and MoneyGram, as a means of adding marginal revenue to their business. Western Union noted this in describing how it pays its agents in its 2010 annual report.

*“We generally pay our agents a commission based on a percentage of revenue. The commission is shared between the agent that initiated the transaction, the “send agent,” and the agent that paid the transaction, the “receive agent.” For most agents, the costs of providing the physical infrastructure and staff are typically covered by the agent’s primary business (e.g., postal services, banking, check cashing, travel and retail businesses), making the economics of being a Western Union agent attractive. Western Union’s global reach and large consumer base allow us to attract agents we believe to be of high quality.”*

No information exists on the amounts that MoneyGram or Western Union charge their agents for selling money orders. Western Union’s statement on the revenue generated from the money order business in its annual report suggests that most of the price that a consumer pays to buy a money order is kept by the agent.

#### Pricing Data

Data was collected on MoneyGram and Western Union money order prices by calling the nearest locations identified in a subset of the cities that had a private sector option in the



access analysis, and by looking at prices posted on money order agent websites. Postal Service money order price was collected from its website. As many of the locations are part of national or regional chains; a couple of locations were called to see if they used uniform prices.

Table 4 provides the data collected from MoneyGram and Western Union agents as well as the Postal Service for comparison.

*Table 4: Comparison of Money Order Prices for MoneyGram Agents and the Postal Service*

Money Order Vendor	Under \$500	\$500.01 to \$1,000.00	2 Money Orders Totaling \$500.01 to \$1,000.00
Postal Service	\$1.10	\$1.50	\$2.20
Ace Cash (Money Gram)	\$0.79	n/a	\$1.58
Advance America (Money Gram)	\$0.99	n/a	\$1.98
CVS (Money Gram)	\$0.99	n/a	\$1.98
Wal-Mart (Money Gram)	\$0.60	n/a	\$1.20
Kash King (Money Gram)	\$0.50	n/a	\$1.00
Kash King (Western Union)	\$0.00	n/a	\$0.00
Ataga's Market (Western Union)	\$1.00	n/a	\$2.00
Flash Market (Western Union)	\$0.49	n/a	\$0.98
Kangaroo Express (Western Union)	\$0.79 - \$0.99	n/a	\$1.58 - \$1.98
K Mart (Western Union)	\$0.59	n/a	\$1.18
Polk Pick-it-up (Western Union)	\$0.99	n/a	\$1.98
Rite Aid (Western Union)	0.79	n/a	\$1.58
Sunmart Supermarket (Western Union)	\$0.49	n/a	\$0.98
Weis Supermarket (Western Union)	0.79	n/a	\$1.58

### ***Data Analysis and Conclusions***

The data collected illustrates that the Postal Service's money order price may act as a ceiling on what sellers of money orders may charge. No agent called sold money orders for more than \$1.00, a 9% discount to the price the Postal Service charges. Many of the larger agents locations (i.e. K Mart, Ace Cash Express, RiteAid and Wal-Mart) sell money orders for 28% or more below the price that the Postal Service charges.

Charges that are as different for a similar product as the prices for Postal Service and private sector money orders suggest that other market forces may influence the final price charged for money orders more than the regulated price set for Postal money orders. This is further confirmed by the existence of money order agents that are willing to issue money orders for no charge, both indicating the cost of issuing a money order in the private sector must be

quite low and that the promotional value of low or even free money order prices has value for some agents.

Finally, our review of money order prices uncovered two alternatives that may be replacing traditional money orders. The first are denominated and non-denominated cash cards. These items can be refillable or fixed and are frequently sold by agents selling money orders as well as a number of locations that do not issue money orders. Second, electronic business-to-consumer (B-2-C) payments represent a replacement technology for money orders. Only a subset of the agents of Western Union and MoneyGram offer this service using either products offered by Western Union and MoneyGram or others offered by companies such as Fiserv.

**Question 2B: Do Postal Service prices establish a competitive baseline for mail box rentals constraining unfettered pricing?**

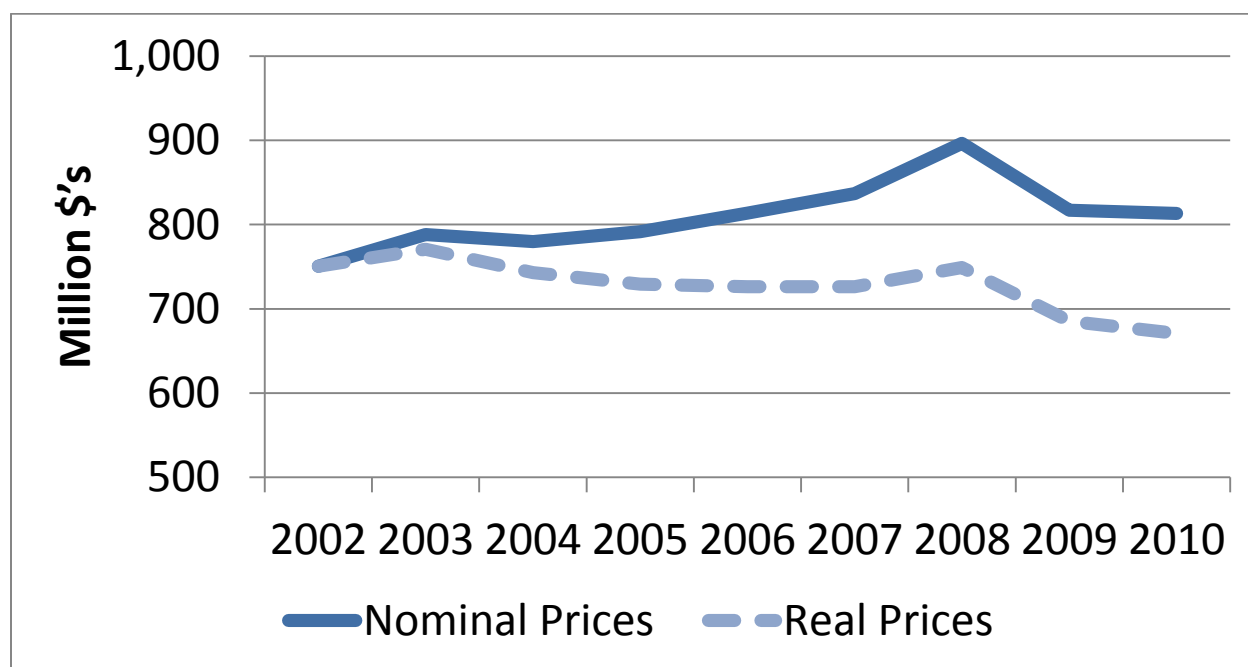
Both the Postal Service and private sector firms offer mail boxes that customers can use to receive mail. The study design included the following step:

- Review the competitive landscape for the rental of private mail boxes and where mail box rentals fit into the overall business model of these firms. Interviews were conducted by telephone and e-mail both with the firms providing mailbox rental services locally and firms that sell franchises that offer mailbox rental as one of the services offered.
- Review of mailbox prices charged by the Postal Service and the private sector. The review looked at prices charged by the Postal Service and private sector providers of mailbox rental in cities in our Access sample where a private sector vendor was identified.
- Analysis of the differences in the prices between the Postal Service and the private sector. The analysis included both statistical analysis of the data collected and additional questions for individuals in the private sector in order to better understand the significant price differences uncovered.

***Review of the competitive landscape***

The Postal Service rents mailboxes to provide an alternative location to receive mail. P.O. Boxes are mailing addresses and cannot be used to accept parcels from private sector carriers. Neither can they be used as a legal physical business or residential address. Postal Service revenue from mailbox rentals at the Postal Service has remained steady since 2002 but mailbox rentals have declined in real terms. (Figure 4)

Figure 4: Postal Service Revenue from Renting Mailboxes



Mailboxes rented in the private sector can be used to accept parcels from private sector carriers. They can also be used as a legal physical business or residential address.

Mailboxes are rented in retail outlets that are called commercial mail receiving agencies, private mail box operators, or more broadly retail shipping stores or neighborhood business centers. The broader names illustrate that these outlets offer a range of services despite the fact that the industry may be thought of as mailbox stores because Mailbox Etc. was the name of the largest franchisor in the industry before United Parcel Service purchased the business and changed the name of the local retail outlets to the UPS Store.

As part of our access study, we identified that mailboxes are rented in the private sector by independently owned local businesses. These businesses may operate as a franchisee, as a member of a buying cooperative, or totally independently. The franchisees and buying associations identified in Internet searches included:

- AIM Mail Centers,
- Goin' Postal,
- Mailbox Center,
- Mailsources,
- Pakmail,
- Parcel Plus,
- Postal Annex +,
- Postal Connection,
- Postal Depot,
- Postnet, and
- The UPS Store

As the names of these private mailbox operators suggest, they compete with the Postal Service for retail customers needing shipping services as well as the rental of mail boxes. In addition, these companies offer many other business and non-business services that the Postal Service does not offer including:

- Parcel packing;
- Office supplies;
- Packing and moving supplies
- Moving boxes,
- Printing and copying,
- Phone cards;
- Notary services;
- Mail forwarding;
- Receipt of parcels from DHL, FedEx, UPS and other private sector carriers;
- E-bay selling assistance
- Computer rental;
- Truck rental; and
- Dry cleaning

As the list of services illustrates, private mail box operators focus on the business customer market; analysis of access to private sector locations renting mailboxes showed that local businesses renting mailboxes only have opened in communities that have a minimum population of potential business customers in addition to a minimum overall population within the location's market area.

### ***Data Collected***

Data was collected on prices charged for renting a mailbox from both the Postal Service and private sector providers of mailbox services in all cities where a private sector location existed within 25 miles. Data was collected on prices charged by the Postal Service at each location examined from its website. Data was collected from private sector providers by calling up the individual locations. The study collected data on the three most common sizes rented by the private sector.

- Small, 3 in x 5.5 in;
- Medium, 5 in x 5.5 in; and
- Large, 11 in x 5.5 in.

The Postal Service rents larger mailboxes, but too few private sector renters of mailboxes rent boxes of these sizes to collect data.

Following collection of the pricing data, additional interviews were conducted in order to better understand the businesses that rent mailboxes in the private sector.

### ***Data Analysis***

The analysis of the data showed that rates charged by the Postal Service are significantly less expensive. Table 5 shows that the Postal Service charges less than half of the private sector.

Table 5: Average Price of Renting a Mailbox

	Small Mailbox	Medium Mailbox	Large Mailbox
USPS Price	\$45.90	\$68.18	\$116.51
Private Sector	\$132.38	\$185.27	\$254.63
Mean Difference	-\$86.48	-\$117.09	-\$138.12.

We also looked at differences in prices across the 9 urban-rural strata. Figure 5 shows the result for the Postal Service and Figure 6 for the private sector.

Figure 5: USPS Mailbox Prices by Urban-Rural Continuum Code

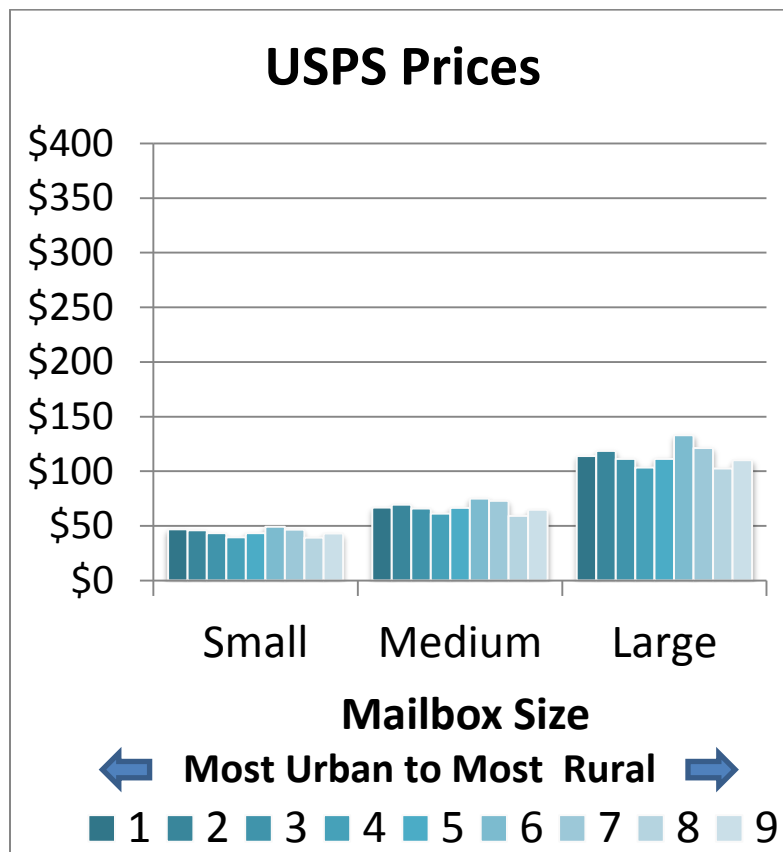
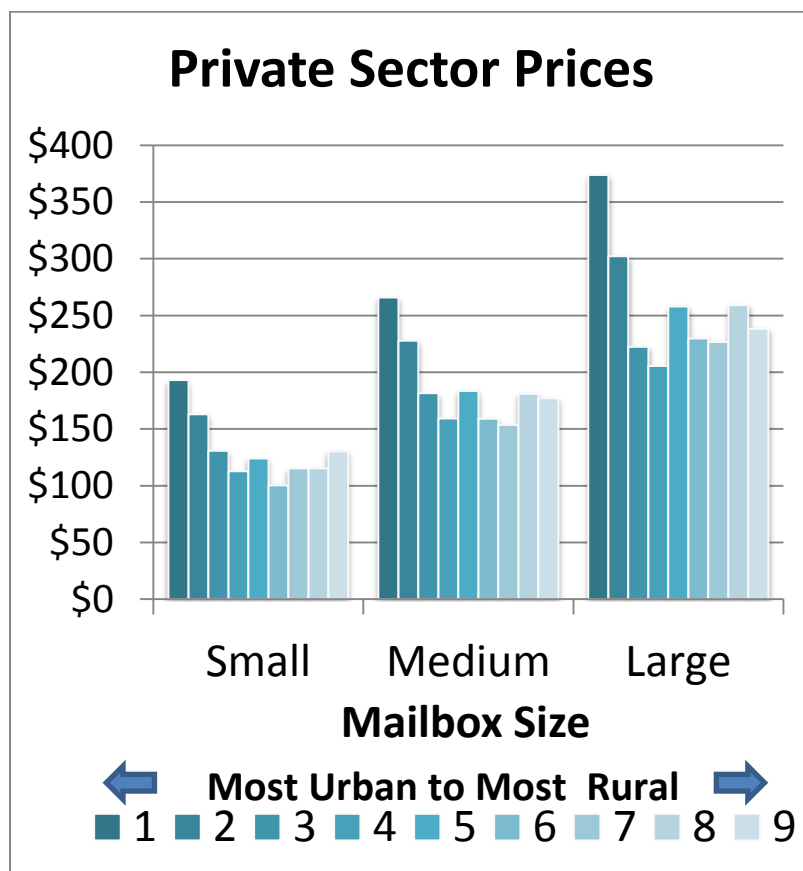


Figure 6: Private Sector Mailbox Prices by Urban-Rural Continuum Code



### Analysis of Results

The differences in prices between the Postal Service and the private sector suggest that private sector mailboxes are either providing a service that is perceived to be significantly different than Post Office Boxes or they are perceived to be much superior goods due to other services that the private sector operator provides for mailbox rentals.

Discussions with private sector operators and/or franchisors indicated that the three key features that increase the value of private sector mailboxes are: 1) the ability to use a private mailbox as a legal address for business or personal residency; 2) the ability of a private mailbox operator to also accept private sector parcels; and 3) the ability of private sector operators to forward mail to the actual physical address of the individual or business, especially when the actual physical address changes relatively frequently (i.e., individuals who travel and need mail delivered to hotels or RV parks.) In addition, private mail boxes operators also provide a

number of other “mailroom” type services that allow them to act as an extension of the business, something that the Postal Service cannot do.<sup>9</sup>

The difference between urban and rural pricing of mailboxes suggests that pricing is higher in larger urban areas than smaller ones. Price relationships in rural areas are somewhat similar to prices in the counties in the lowest strata of urban areas. There is no logical explanation as to why prices appear to rise in more rural areas, other than the need to spread a retail location’s fixed costs over a smaller customer base.

### ***Conclusions***

Private sector renters of mailboxes clearly face no constraints from the Postal Service as to the prices that they charge. The size of the difference in prices suggests that the similarity between the service offered by the Postal Service and the service offered by the private sector ends with the box itself.

#### **Question 2C: Do Postal Service prices establish a competitive baseline for other delivery services constraining unfettered pricing?**

The Postal Service faces competition in delivery services by FedEx, United Parcel Service and a number of much smaller regional and international competitors. The Postal Service is the smallest competitor of the three, although it has some strength in a limited number of market segments, as defined by shipment weight and delivery speed. This study did not look at pricing by the smaller competitors, mostly because they compete primarily in the business-to-business market of larger parcels, a market that is served primarily by the private sector.

Determining the influence that one competitor has on pricing in a market is difficult, particularly when the competitor is smaller than others in the market. Furthermore, traditional models examining pricing in oligopolistic markets is complicated — while all three carriers have limits in the volume of demand that they can handle, all three are required to handle all demand that customers may tender to them by law.<sup>10</sup>

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<sup>9</sup> In acting as a virtual office, these firms are doing much more than the Postal Service does. The virtual office that these firms offer is one step below services offered by companies such as Regis that offer shared office space, or just an address, receptionist and access to meeting rooms. Prices of firms like Regis are significantly more expensive than prices charged by private mailbox operators.

<sup>10</sup> The Postal Service is subject to a universal service obligation. FedEx and United Parcel Service are subject to a common carrier obligation. Effectively, the obligations of both carriers are similar. The one difference is that private sector carriers are permitted to limit demand in rare cases when they do not have the physical capability of providing the service, and the Postal Service cannot. This happened when United Parcel Service, which at that time had around 90% of the ground parcel market, went on strike, and FedEx Ground limited demand from new customers to preserve service levels. The Postal Service could not limit demand, but it also faced strains in providing required service quality.

The use of contracts to set rates for nearly all small business customers, and all medium and large business customers of the private sector, results in actual prices being set as part of a multi-person game with limited information involving carriers and their customers as they negotiate prices contained in these contracts. The Postal Service is rarely one of the participants in these negotiating games, although legally they have no restrictions to negotiate contracts with larger customers.<sup>11</sup>

The use of contracts to serve small, medium and large business customers clearly shows that the market is divided between customers that have an option of using a contract rate and those that do not.<sup>12</sup> Furthermore, contract customers can be further segmented by the extent that delivery companies are willing to negotiate a customer-specific price or use a price that large sets of customers that meet certain volume level and shipment attributes may receive.

The use of contracts for small medium and large business customers, and the impact that they have on prices and the competitive position of the Postal Service are covered in answering questions 3 and 4.

### ***Transportation Products Under Study***

The following three tables identify the products that were examined for services provided to individual, small business and large business customers that were examined under this study. No detailed pricing examination was conducted of Postal Service products offering delivery of items under 1 pound that are handled as First Class parcels or Standard parcels as neither of the private sector carriers offer a special product for items under one pound.<sup>13</sup>

Table 6 lists the competitive products provided to individual consumers (including business customers that buy services one at a time. The product names are the names associated with the carrier tariff that applies to these customers.

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<sup>11</sup> What is unclear is whether they are allowed to or feel comfortable with negotiating prices that offer discounts solely based on the volume of business tendered and not tied to a specific set of preparation or item characteristics.

<sup>12</sup> Legally, even individual customers buying delivery service from a private sector carrier has a contract with the carrier. The difference is that their contract uses a published tariff rate and not a rate that is specific to the customer.

<sup>13</sup> First Class parcels are limited to 13 ounces as Priority Mail rates apply between 13 ounces and one pound.



Table 6: Products for Individual Consumers

	USPS	FedEx	United Parcel Service
Express	Express Mail	Priority Overnight - retail	UPS Next Day Air – retail rate
2- Day service	Priority Mail	FedEx 2 day retail – long distances FedEx Ground retail – short distances	UPS 2 <sup>nd</sup> Day Air – retail rate – long distances UPS Ground retail rate – long distances –
Parcel Post	Parcel Post	FedEx Ground - retail	UPS Ground – retail rate

Individual consumer products offered to consumers by FedEx and United Parcel Service use rates specifically designed for retail customers, so the products that they offer to retail customers are partially defined by the rates under which the service is offered. As FedEx and United Parcel Service Ground service is equivalent to Priority Mail over shorter-distance origin-destination pairs, the ground service over these pairs is the equivalent service for Priority Mail. The analysis described below identified when private sector ground parcel services provided the competitive product to Priority Mail.

Table 7 lists the competitive products provided to small business customers. Small business customers that buy services one at a time are using the same rates of individual customers. The product names are the names associated with the carrier tariff that applies to these customers.

*Table 7: Products for Small Business Customers*

	USPS	FedEx	United Parcel Service
Express	Express Mail	Priority Overnight – standard rate	UPS Next Day Air – daily rate
2- Day service	Priority Mail, Priority Mail Commercial Base	FedEx 2 day standard rate – long distances FedEx Ground standard rate – short distances	UPS 2 <sup>nd</sup> Day Air – daily rate – long distances UPS Ground – daily rate – long distances
Parcel Post	Parcel Post	FedEx Ground – standard rate	UPS Ground – daily rate

The products for small business customers use the standard or daily rate tables of FedEx and United Parcel Service. The product offerings for small business and consumers are identical for the Postal Service. As FedEx and United Parcel Service Ground service is equivalent to Priority Mail over shorter-distance origin-destination pairs, the ground service over these pairs is the equivalent service for Priority Mail.

Table 8 lists the competitive products provided to large business customers. Small business customers that buy services one at a time are using the same rates as individual customers. The product names are the names associated with the carrier tariff that applies to these customers.

*Table 8: Products for Large Business Customers*

	USPS	FedEx	United Parcel Service
Express	Express Mail	Priority Overnight – standard rate	UPS Next Day Air – daily rate
2- Day service	Priority Mail, Priority Mail Commercial Base, and Priority Mail Commercial Plus	FedEx 2 day standard rate – long distances FedEx Ground standard rate – short distances	UPS 2 <sup>nd</sup> Day Air – daily rate – long distances UPS Ground – daily rate – long distances
Parcel Post	Parcel Post, Parcel Select	FedEx Ground – standard rate FedEx Smart Post	UPS Ground – daily rate UPS Mail Innovations

The products for large business customers are the same products offered to small business customers. To the extent that products differ for individual customers, it is determined by provisions in the individual contracts with the customer. As FedEx and United Parcel Service Ground service is equivalent to Priority Mail over shorter-distance origin-destination pairs, the ground service over these pairs is the equivalent service for Priority Mail. FedEx Smart Post and UPS Mail Innovations parcel products compete with the Postal Service's Parcel Post product as well as the services that FedEx Ground and UPS Ground offer using their own employees and non-postal contractors.

### ***Data Collected***

The study collected data on both the history of price changes and the actual prices charged.

#### ***Price History***

Data was collected on the history of price increases between 1998 and 2010. Data collected included the dates rates were announced and the dates they were implemented. We used this information to identify the first mover in price changes, percentage changes that adjusted base rates, and the changes in accessorial charges including remote delivery and home delivery surcharges.

#### ***Current Price data***

The data collected was reviewed to determine how UPS, FedEx and USPS compute rates. This review concluded that evaluating prices requires a form of reverse engineering of the prices that the carriers charge prior to looking at prices over specific origin-destination pairs.

Factors that go into the cost models that individual carriers use to set prices for a particular product include: 1) the transportation networks that the carriers use to transport express and ground shipments; 2) the individual carrier's understanding of the impact that weight and cube has on the transportation, sortation and other handling characteristics of the item; 3) the impact that delivery density over a route has on costs of delivery; 4) the minimum level of revenue that each carrier determines is necessary to ensure that delivery of a parcel is profitable; and 5) competition for the business of a particular customer as well as the distribution profile of a customer's parcel shipping business. In addition, rates differ based on the type of service offered and transit time.

All rates are computed based a fairly standard formula that includes a distance based factor, as defined by the zone for the particular origin-destination pair; a base rate that varies based on the zone and weight, surcharges for the location of the destination, and whether the destination is a household; and fuel surcharges. Rates are also adjusted based on the density of the parcel, but that was not examined in this analysis. Both FedEx and United Parcel Service have different base rate structures for shipments purchased from retail outlets and those purchased by customers that have an ongoing commercial relationship with the company as identified in the list of products used by retail, small business, and large business customers. For this reason, two sets of tariff data were collected.

On top of the basic rate calculation, larger shippers receive discounts off of the rates calculated using the various factors listed above. Companies limit these discounts by setting minimum charges that limit discounts, particularly for lighter weight shipments travelling short distances. These discounts will be discussed in more detail in Questions 3 and 4.

We collected the following information for our rate analysis:

- Zone charts for each of the three carriers.
- Base rates for both individual and commercial customers for all three carriers where applicable.
- Surcharges for location and type of destination for all three carriers where applicable.
- Fuel surcharges for all three carriers where applicable.

#### *Additional Data collected*

The actual pricing data was supplemented by published and unpublished information about pricing in the parcel markets and similar markets. We reviewed academic literature on pricing in competitive and oligopolistic markets, presentations made at industry conferences on pricing in the industry, investment analyst reports, and recent trade press on pricing in the industry. We interviewed individuals responsible for negotiating with private sector carriers and the Postal Service for shippers, and talked to relevant trade association executives and investment analysts covering the industry.

## ***Data Analysis***

Two analyses were conducted: an analysis of price history, and an analysis of retail prices.

### ***Analysis of Price History.***

The analysis of price history is important as all rates charged to customers are affected by these changes. The price history analysis reviews changes between 1998 and 2010 and includes data for all carriers except FedEx Ground<sup>14</sup>. The cumulative effect of rate changes over time has produced the vector of prices that customers see today.

### ***Timing of Price Changes***

Table 9 contains the data collected on the timing of price changes.

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<sup>14</sup> FedEx Ground service was provided by Roadway Package System (RPS) prior to the company's purchase of FedEx, and published reports on RPS were not identified.

Table 9: Timing of Rate Changes<sup>1.1</sup> Transportation Products Under Study

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
<b>Effective Increase Date</b>													
<b>UPS</b>	2/7/1998	3/15/1999	2/7/2000	2/5/2001	1/7/2002	1/6/2003	1/5/2004	1/3/2005	1/2/2006	1/1/2007	12/31//08	1/5/2009	1/4/2010
<b>FedEx</b>	2/15/1998	3/15/1999	2/1/2000	2/1/2001	1/7/2002	1/6/2003	1/5/2004	1/3/2005	1/2/2006	1/1/2007	1/7/2008	1/5/2009	1/4/2010
<b>USPS</b>		1/10/1999		7/1/2001	6/30/2002				1/8/2006	5/14/2007	5/12/2008	1/18/2009	1/4/2010
<b>Announcement Date</b>													
<b>UPS Air</b>	12/30/1997	12/29/1998	12/29/1999	12/28/2000	11/2/2001	11/8/2002	11/21/2003	11/6/2004	11/18/2005	11/18/2006	11/9/2007	10/19/2008	11/20/2009
<b>FedEx Express</b>	1/7/1998	2/8/1999	12/30/1999	12/27/2000	11/20/2001	11/20/2002	12/5/2003	11/5/2004	10/5/2005	11/3/2006	10/26/2007	9/18/2008	9/17/2009
<b>UPS Ground</b>	12/30/1997	12/29/1998	12/29/1999	12/28/2000	11/2/2001	11/8/2002	11/21/2003	10/29/2004	11/18/2005	11/18/2006	11/9/2007	10/19/2008	11/20/2009
<b>FedEx Ground</b>					11/20/2001	11/20/2002	12/5/2003	11/5/2004	12/2/2005	12/3/2006	11/30/2007	11/14/2008	12/3/2009
<b>USPS Announces</b>	7/11/1997	7/11/1997		1/12/2000	9/24/2001				4/8/2005	5/3/2006	11/30/2007	11/14/2008	11/4/2009
<b>USPS / PRC Approves</b>	5/11/1998	5/11/1998		4/10/2001	3/22/2002				11/1/2005	3/14/2007	2/11/2008		



First Mover



Second Mover



Last Mover

Our analysis of price history concluded that:

- Before PAEA, USPS rates were announced months earlier; afterwards, USPS announced changes last.
- Until 2004
  - UPS announced its rate changes first for both Air and Ground services and FedEx followed
- Starting in 2005
  - FedEx announced FedEx Express increase and UPS announcement of UPS Air increase followed
  - UPS announced UPS Ground rate increase and FedEx Ground's announcement followed.
- USPS rate increases have had no impact on timing of UPS or FedEx rate increases
- Current order of announcing rate changes reflects market share order:
  - FedEx Express, the largest overnight and two-day air carrier, announces first.
  - UPS, the largest ground parcel carrier, announces first.
  - The Postal Service as the smallest carrier, announces its rate increases last

The timing of rate increases suggests that the largest carrier in the air or ground parcel market leads in setting rate changes and other carriers follow. Analysis of actual rate changes illustrates how strong that leadership role is.

*Size of Price Changes, Accessorial Charges, Minimum Charges, and use of dimensional weight*

The following tables show the data collected looking at the changes in the major elements of the carrier tariffs.

**Basic Tariff Price Levels**

Table 10 shows that UPS rate changes are now followed exactly by FedEx Ground when it changes its rates. The Postal Service rate changes for Parcel Post were less frequent, but generally higher than the private sector prior to the Postal Accountability and Enhancement Act (PAEA), and less than the increases of the private sector afterwards.

PAEA appears to have restricted the Postal Service's ability to raise Parcel Post prices at the same rate as the private sector. It should be noted that Postal Service rate increases may or may not have resulted in parcel post rates being higher or lower.

*Table 10: Ground Delivery Rate Changes (1998-2010)*

	1998	1999	2000	2001	2002	2003	2004
UPS Ground	3.6%	2.5%	3.1%	3.1%	3.5%	3.9%	1.9%
FedEx Ground	3.7%	2.3%	3.1%	3.1%	3.5%	3.9%	1.9%
USPS Parcel Post		12.4%		2.7%	6.4%		
	2005	2006	2007	2008	2009	2010	
UPS Ground	2.9%	3.9%	4.9%	5.9%	5.9%	4.9%	
FedEx Ground	N/A	3.9%	4.9%	5.9%	5.9%	4.9%	
USPS Parcel Post		7.1%	15.9%	3.3%	4.6%		

Table 11 shows that FedEx Express rate changes are now followed exactly by UPS Air when it changes its rates. The Postal Service rate changes for its competitive services were less frequent but generally higher than the private sector prior to the Postal Accountability and Enhancement Act (PAEA), and less than the increases of the private sector afterwards. The lower rate increases after PAEA for the Postal Service do not necessarily reflect lower rates, as private sector carriers often lowered fuel surcharges when they increased the rates, resulting in a lower net percentage increase.

*Table 11: Percentage Changes in Air Delivery Services (1998-2010)*

	1998	1999	2000	2001	2002	2003	2004
UPS Air	3.3%	2.5%	3.5%	3.7%	4.0%	3.2%	2.9%
FedEx Express	3.5%	2.8%	0.0%	4.9%	3.5%	3.5%	2.5%
USPS Express		8.1%		3.8%	9.4%		
USPS Priority		5.6%		16.0%	13.5%		
	2005	2006	2007	2008	2009	2010	
UPS Air	2.9%	5.5%	4.9%	6.9%	6.9%	5.9%	
FedEx Express	4.6%	5.5%	6.9%	6.9%	6.9%	5.9%	
USPS Express		5.4%	12.5%	3.1%	5.0%	?	
USPS Priority		5.4%	13.6%	4.0%	5.0%	3.3%	



*Table 12: Cumulative Rate Increases for UPS, FedEx and the USPS  
(1998 through either 2009 or 2010)*

Service	Cumulative From 1998 Through 2009	Cumulative From 1998 Through 2010
<b>Air Services</b>		
UPS Air	166.45 %	177.93 %
FedEx Express	165.21 %	174.96 %
Express Mail	157.57 %	
Priority Mail	181.79 %	187.78 %
<b>Ground Services</b>		
UPS Ground	155.57 %	163.19 %
FedEx Ground	151.04 %	158.44 %
USPS Parcel Post	164.66 %	164.66 %
USPS Priority Mail	181.79 %	187.78 %

The cumulative rate changes over this extended period show that carriers have generally raised prices from 1998 by about the same amount. The slight differences should be reflected in differences in pricing, or they may reflect differences that existed in 1998 that the lower priced carrier at the time has worked to remove.

### ***Accessorial Charges and Minimum Charges***

For surcharges, carriers have generally set the same charge as the carrier that sets the surcharge first. FedEx uses its FedEx Home service primarily for home delivery so its FedEx Ground Surcharge should not apply for most residential deliveries. Carriers now set the same delivery area surcharge for commercial addresses at the same rate as that charged by the carrier that sets the surcharge first. Surcharges were somewhat different until 2006.

Private sector carriers set the same delivery area surcharge for residential addresses at the same rate as that charged by the carrier that sets the surcharge first.

Carriers limit the discounts that they offer business customers by setting a minimum charge. The minimum charge is the 1 pound Zone 2 rate. It should be noted that the minimum charge, once the fuel surcharge and other surcharges (if applicable) are added, is the primary private sector price that Priority Mail competes with and Priority Mail may have a competitive

advantage even with commercial shippers. Private sector minimum charges have been identical for the entire period examined.

*Table 13: Ground Residential Delivery Surcharges  
(1998-2010)*

	1998	1999	2000	2001	2002	2003	2004
UPS Ground	\$1.00	\$1.00	\$1.00	\$1.05	\$1.10	\$1.15	\$1.40
FedEx Ground	n/a	n/a	\$1.25	\$1.30	\$1.35	\$1.40	\$1.75
FedEx Home	n/a	n/a	\$1.00	\$1.05	\$1.10	\$1.15	\$1.40
UPS Air	n/a	n/a	n/a	n/a	\$1.10	\$1.15	\$1.40
FedEx Express	n/a	n/a	n/a	n/a	\$1.35	\$1.40	\$1.75
	2005	2006	2007	2008	2009	2010	
UPS Ground	\$1.50	\$1.75	\$1.85	\$1.95	\$2.05	\$2.20	
FedEx Ground	\$2.00	\$2.10	\$2.20	\$2.30	\$2.40	\$2.50	
FedEx Home	\$1.50	\$1.75	\$1.85	\$1.95	\$2.05	\$2.20	
UPS Air	\$1.75	\$2.10	\$2.20	\$2.30	\$2.40	\$2.50	
FedEx Express	\$2.00	\$2.10	\$2.20	\$2.30	\$2.40	\$2.50	

*Table 14: Delivery Area Surcharges for Commercial Addresses  
(1998-2010)*

	1998	1999	2000	2001	2002	2003	2004
UPS Ground	n/a	n/a	n/a	n/a	n/a	n/a	\$1.25
FedEx Ground	n/a	n/a	\$1.50	\$1.50	\$1.50	\$1.50	\$1.75
UPS Air	n/a	n/a	n/a	n/a	n/a	n/a	\$1.25
FedEx Express	n/a	n/a	n/a	n/a	\$1.50	\$1.75	\$1.25
	2005	2006	2007	2008	2009	2010	
UPS Ground	\$1.25	\$1.30	\$1.40	\$1.50	\$1.60	\$1.70	
FedEx Ground	\$2.00	\$2.10	\$1.40	\$1.50	\$1.60	\$1.70	
UPS Air	\$1.25	\$1.30	\$1.40	\$1.50	\$1.60	\$1.70	
FedEx Express	\$1.25	\$1.30	\$1.40	\$1.50	\$1.60	\$1.70	

Table 15: Delivery Area Surcharges for Residential Addresses (1998-2008)

	1998	1999	2000	2001	2002	2003	2004
UPS	n/a	unknown	\$1.50	\$1.50	\$1.50	\$1.50	\$1.75
FedEx	n/a	n/a	\$1.50	\$1.50	\$1.50	\$1.50	\$1.75
	2005	2006	2007	2008	2009	2010	
UPS	\$2.00	\$2.10	\$2.20	\$2.30	\$2.40	\$2.50	
FedEx	\$2.00	\$2.10	\$2.20	\$2.30	\$2.40	\$2.50	

Table 16: Minimum Charges for All Customers Regardless of Discount Negotiated (1998-2010)

	1998	1999	2000	2001	2002	2003	2004
UPS	n/a	n/a	\$3.02	\$3.11	\$3.23	\$3.39	\$3.45
FedEx	n/a	n/a	\$3.02	\$3.11	\$3.23	\$3.39	\$3.45
	2005	2006	2007	2008	2009	2010	
UPS	\$3.62	\$3.80	\$4.00	\$4.20	\$4.57	\$4.84	
FedEx	\$3.62	\$3.80	\$4.00	\$4.20	\$4.57	\$4.84	

#### Analysis of Retail Tariff Prices

While we have computed rates for both private sector commercial rates and retail rates, our analysis of prices focused on retail prices.

We have conducted the following analyses:

- Preliminary analysis examining the relationship between zones and distance for FedEx, UPS, and the Postal Service in order to determine if an analysis of zones across carriers would likely indicate that carriers are setting zones based on their own transportation network or based on distance alone. The results of that analysis is described below. The analysis allowed us to draw the conclusion that rates charged do not vary by type of origin.
- An Examination of service quality of UPS Ground and FedEx Ground in order to identify the probability that service between two points takes two days or less, and therefore is competitive with Priority Mail as well as Parcel Post.

- Analysis of prices of private sector carriers that compete with Express Mail, Parcel Post, and Priority Mail

#### *Analysis of Carrier Zones*

UPS and FedEx zones were compared over all origin destination pairs created in our sample of locations in the continental United States. The analysis determined that zones used by the two carriers were identical. Since the zone structure of the private sector carriers are identical, comparing price structure only requires looking at the tariffs themselves as all price differences will show up in the tariff.

The zone structure of UPS/FedEx was also compared with the zone structure used by the Postal Service. The zone classifications are highly correlated but not perfectly so, presumably reflecting different structures in the underlying transportation networks. Table 17 below shows the concordance between the FedEx/UPS zone classification and the USPS zone classification. The private sector carriers and the Postal Service carriers have different zones in around 2.5% of all origin-destination pairs examined.

We have looked at the relationship between zone and great-circle-mile distances for the three carriers and noted that they are nearly identical for all three. This allowed us to conclude that the rate structural differences are independent of the origin or destination. In other words, both urban and rural origins will pay the same rate to a point that falls into zones 2 through 8 (with the USPS's zone 1 included in zone 2 for comparison). Also given that zones are nearly identical across carriers and are correlated to great circle mile distances, the rate paid to ship a parcel to a point equidistant from an urban location and a rural location will be the same for any of the three carriers.

Table 17: Contingency Table

FedEx / UPS Zone		USPS Zone							
		2	3	4	5	6	7	8	
2	Count	2909	4	9	48	2	0	5	2977
	Total %	4.18	0.01	0.01	0.07	0.00	0.00	0.01	4.27
	Col %	98.74	0.07	0.06	0.22	0.02	0.00	0.11	
	Row %	97.72	0.13	0.30	1.61	0.07	0.00	0.17	
3	Count	9	6100	38	76	9	0	3	6235
	Total %	0.01	8.76	0.05	0.11	0.01	0.00	0.00	8.95
	Col %	0.31	99.46	0.24	0.35	0.08	0.00	0.06	
	Row %	0.14	97.83	0.61	1.22	0.14	0.00	0.05	
4	Count	7	11	16020	111	118	5	11	16283
	Total %	0.01	0.02	23.00	0.16	0.17	0.01	0.02	23.38
	Col %	0.24	0.18	99.32	0.51	1.00	0.08	0.23	
	Row %	0.04	0.07	98.38	0.68	0.72	0.03	0.07	
5	Count	16	11	32	21517	145	55	22	21798
	Total %	0.02	0.02	0.05	30.90	0.21	0.08	0.03	31.30
	Col %	0.54	0.18	0.20	98.61	1.23	0.90	0.46	
	Row %	0.07	0.05	0.15	98.71	0.67	0.25	0.10	
6	Count	0	0	0	2	11444	71	29	11546
	Total %	0.00	0.00	0.00	0.00	16.43	0.10	0.04	16.58
	Col %	0.00	0.00	0.00	0.01	97.17	1.16	0.61	
	Row %	0.00	0.00	0.00	0.02	99.12	0.61	0.25	
7	Count	0	0	0	10	51	5966	54	6081
	Total %	0.00	0.00	0.00	0.01	0.07	8.57	0.08	8.73
	Col %	0.00	0.00	0.00	0.05	0.43	97.85	1.14	
	Row %	0.00	0.00	0.00	0.16	0.84	98.11	0.89	
8	Count	5	7	30	57	8	0	4613	4720
	Total %	0.01	0.01	0.04	0.08	0.01	0.00	6.62	6.78
	Col %	0.17	0.11	0.19	0.26	0.07	0.00	97.38	
	Row %	0.11	0.15	0.64	1.21	0.17	0.00	97.73	
Total	Count	2946	6133	16129	21821	11777	6097	4737	69640
	Total %	4.23	8.81	23.16	31.33	16.91	8.76	6.80	
	Col %								
	Row %								

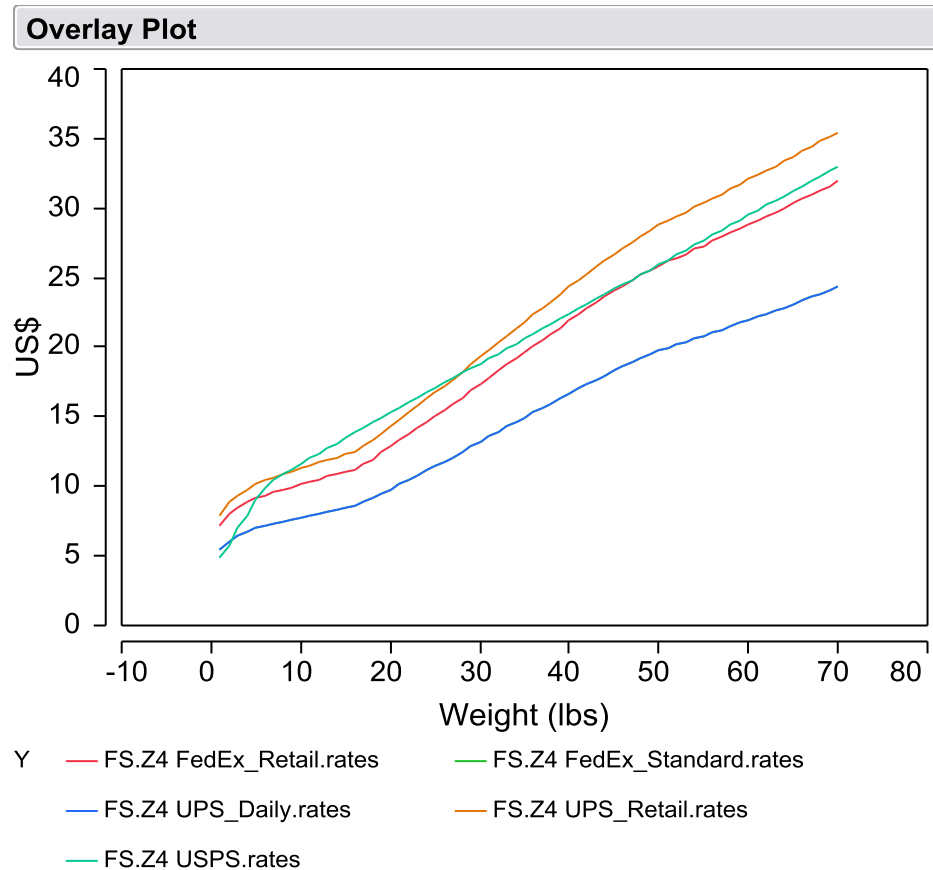
### Analysis of Rates

Since zones used by the three carriers are identical, there was no need to look at rates between individual points. The influence that the Postal Service could have on the retail rates of private sector carriers only required examination of the retail tariff rates by zone as adjusted by the fuel surcharge and the addition of area and residential surcharges. The impact of area and residential surcharges were not evaluated in the analysis.

We have conducted an analysis comparing the rates charged by zone for each of three carriers for products competing with Express Mail, Parcel Post and Priority Mail. This analysis developed individual charts of rates charged, including fuel surcharges, for each of the three product comparisons by zone.

Figure 7 illustrates rates for Zone 4 for Parcel Post, UPS Ground and FedEx Ground.

*Figure 7: Zone 4 Rates charged for Parcel Post in 2010 including fuel surcharge in December 2010*



The following conclusions can be drawn from this and the other charts for parcel rates:

- UPS and FedEx base rates for commercial customers, including fuel surcharges are identical. That is why only 4 lines can be seen on the chart. (The UPS daily rate blue line and the FedEx Ground Standard rate green line are identical.)
- The Postal Service appears to use a different pricing model to price light weight parcels than the model it uses for heavier parcels. This model produces a sharper relationship between weight increases and price than what exists for UPS or FedEx Ground.
- UPS and FedEx base rates for commercial customers are cheaper than rates for the Postal Service for all weight categories except for very light weight parcels. This means that even small business-to-business (B-2-B) commercial shippers can have lower shipping costs by using private sector carriers. Negotiated discounts make the differences even greater for large shippers.

- Retail rates charged by UPS, FedEx and the Postal Service appear to be developed using different underlying cost models. FedEx Ground rates are less than the Postal Service except for light weight parcels.
- Adding residential delivery and/or area surcharges would make UPS and FedEx rates much higher than USPS.

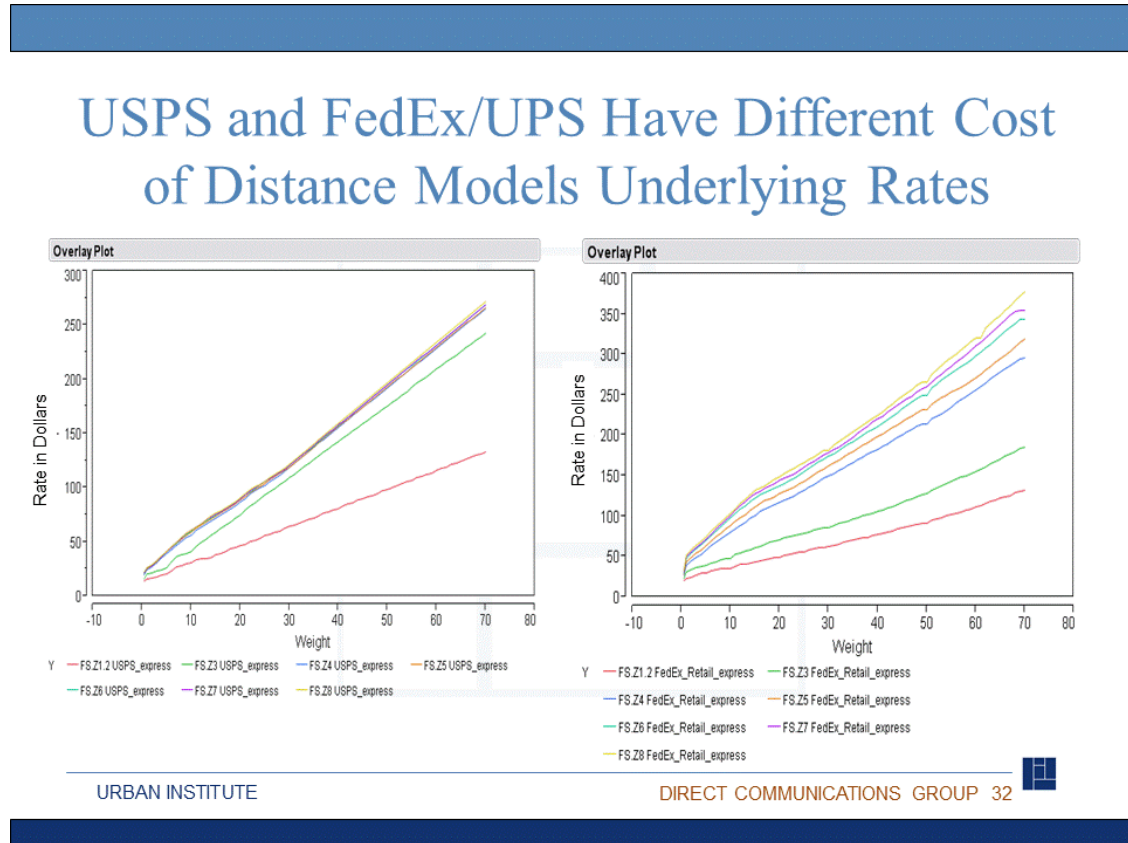
Based on the price/weight curves, it would appear that: 1) UPS and FedEx have different strategies for serving retail customers, thereby producing different rate structures; 2) FedEx is a price follower to UPS for commercial parcel rates as UPS sets its rates first and the rates are identical; and 3) neither carrier's rate structures appear to be influenced by the Postal Service's rate structure.

### ***Overnight Services***

The analysis of overnight rates (Express Mail, UPS Air Standard Overnight, FedEx Express Standard Overnight) created graphs similar to one above for ground parcels. The primary difference is that UPS and FedEx charged identical retail rates and different rates for commercial customers. The charts for overnight service can be found in Appendix D

The primary finding of the analysis is that the Postal Service and the private sector carriers use a very different model for estimating the impact of distance on rates.

Figure 8: USPS and FedEx Overnight Delivery Rates by Zone



The difference in how distance, and to a lesser extent, weight enters the pricing equation results in the following:

- Postal Service retail rates for nearly all weight cells in zones 5 through 8 are much lower than rates charged by UPS or FedEx
- Rates for heavier weight cells for zone 3 are much cheaper using FedEx/UPS
- The advantage of the Postal Service or private sector carriers for zones 2 and 3 varies by weight cell.

The stark differences in the model used by the private sector to set their overnight rates suggest that the Postal Service has minimal influence over prices in this market, if it has any influence at all. Especially on longer distance parcels, the Postal Service does not constrain private sector carriers from charging higher rates to retail customers. On shorter distance parcels, similarity between rates may be more coincidental, as private sector carriers have seen little reason to make their rates conform to USPS rates in longer distance zones. These findings suggest that the Postal Service should seriously review its model and prices to see whether or not it is losing revenue, volume, and/or contribution.



## **2 – Day Air Services (Priority Mail and 2 Day Air Services of the Private Sector)**

The purpose of this analysis is to examine the impact that the Postal Service's Priority Mail Service has on prices of the services that are offered by UPS and FedEx. Analyzing the potential impact of Priority Mail prices on private sector carriers is complicated because Priority Mail has different competitors depending on the distance between origin and destination. Nationwide, private sector carriers guarantee nationwide 2-day delivery service under tariffs of UPS Air and FedEx Express. They also offer 3-day guarantee service under UPS Air and FedEx Express tariffs.

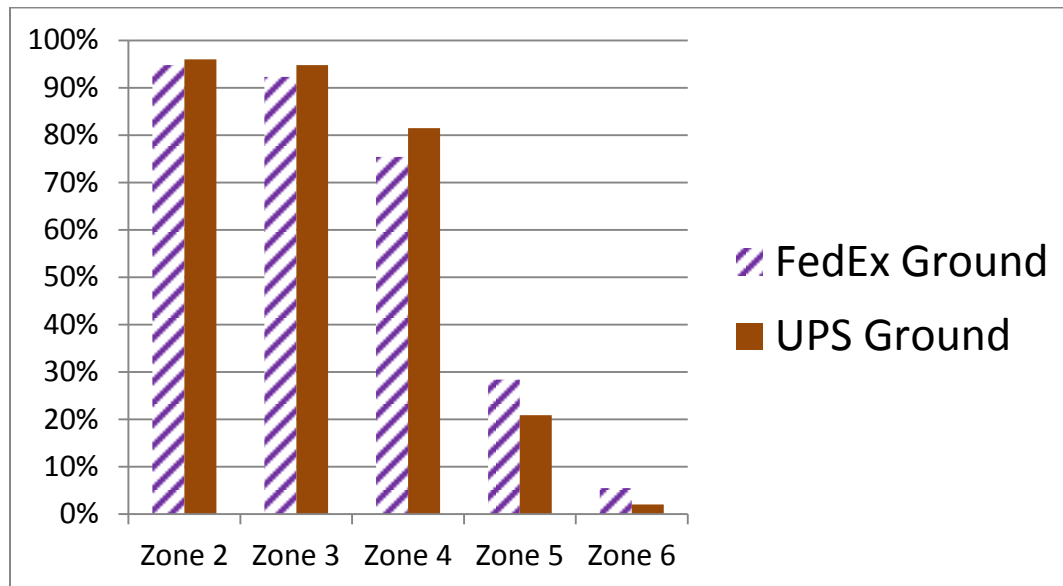
Priority Mail also competes with the private sector's ground delivery services for shorter origin-destination pairs. Ground delivery clearly competes with Priority Mail whenever UPS or FedEx can deliver a ground parcel shipment in 2 days or less. Ground delivery by UPS or FedEx competes with Priority Mail for those origin destination pairs for which either of the private carriers' ground service can deliver in 3-days and the Postal Service also has a 3 day service commitment.

Identifying all ground delivery competitive origin-destination pairs is not possible from publicly available information because none of the carriers publish information in a format that allows for an easy comparison. Private carriers only publish maps of their service commitments. The Postal Service does not provide this information in a manner that is easy for any customer to use.

Information on the service commitment is collected by firms that audit private sector freight bills in order to request refunds on shipments that do not make service commitments. We contracted with one of these firms to provide information on a sample of origin destination pairs drawn from the sample of origin-destination pairs created for analyzing access. We limited this sub-sample to Zones 2 through Zone. We did not sample origin-destination pairs that were in Zones 7 and 8, after discussion with the contractor about the likelihood that either ground delivery service could provide the service in two days or less. We limited our request to determining whether UPS or FedEx could provide the service in two days or less because then it was certain that UPS's or FedEx's Ground Service was equal to or better than service offered by Priority Mail.

The data on service quality in the private sector was used to estimate the proportion of origin-destination pairs within a particular distance zone that received service in 2 days or less, shown in Figure 9.

*Figure 9: Proportion of Origin Destination Pairs with Delivery Standard of 2-days Or Less From FedEx Ground or UPS Ground*



The service information was used to construct a private sector rate for comparison with Priority Mail. For example, for zone 2, FedEx's constructed rate was created by multiplying FedEx Ground's Zone 2 rate by .9479 and adding it to FedEx Express's 2-day air rate times .0521. Similar calculations were made for the other zones for FedEx and all zones for United Parcel Service. In Zones 7 and 8, the 2-day air rate was used as it represented the comparable service, and that rate was used for UPS and FedEx<sup>15</sup>.

An analysis similar to the one for Parcel Post and Express Mail was conducted for the constructed rate for 2-day parcel delivery services. The results showed that Postal Service rates were generally higher for Zones 2 and 3 when USPS competed against UPS or FedEx Ground for shipments weighing more than 8 pounds for retail customers. An analysis similar to the one for Parcel Post and Express Mail was conducted that compared a constructed rate for retail customers for FedEx Ground and UPS Ground to the Priority Mail rate charged by the Postal Service for 2-day parcel delivery services. The results showed that Postal Service rates were generally higher for Zones 2 and 3 when it competed against UPS or FedEx Ground for shipments weighing more than 8 pounds for retail customers. For Zones 6 and above, the Postal Service was generally much less expensive, as in these Zones the price comparison was primarily with the 2-day air delivery rates of the private sector carriers. Rates for Zones 4 and 5 were higher or lower depending on weight, with the Zone 5 rate comparison looking more like the comparison seen for the longer-distance zones for heavier weights.

<sup>15</sup> It should be noted that in Zones 7 and 8 the comparable service most likely is FedEx Express and UPS Air's 3 day service. The 2-day standard was used as that is

## **Conclusion**

Currently, rates that are used to serve retail customers are set first by the largest competitor in the respective market, FedEx in Express services, and UPS in Ground parcel delivery. While the other private sector carrier does not have to follow rate changes set by the leader, it now matches them. UPS and FedEx follow each other's rates so closely that their published rates are identical for their overnight and 2-day air services for retail customers, and for ground delivery services for commercial customers. The Postal Service now is the last carrier to announce rates and can match rates and rate increases on all products except Parcel Post, which is subject to a price cap under PAEA.

The cumulative rate increases are similar for the three carriers over the past dozen years, and it is more than likely that if our analysis was done for prior years, it would show similar patterns. To the extent that the graphs of rates show different approaches to relating weight and distance to prices for retail customers, those different approaches represent long-standing approaches for price setting. The similarity of the rate structures suggests that, to the extent that UPS or FedEx are constrained by Postal Service rates, those constraints entered their pricing structure a decade or more earlier.

Today, the Postal Service often uses a different pricing model, suggesting that the private sector carriers have found over time that their competitive position is not harmed by acting independently from Postal Service pricing decisions. On light weight shipments, neither carrier is constrained by the Postal Service price structure, as they both charge higher rates to retail customers. Similarly, on long-distance overnight shipments, neither carrier is constrained by the much lower Postal Service rates.

Finally, Postal Service rates for Priority Mail appear to make little sense relative to the competitive private sector competition. Shipments sent shorter distances are priced much higher than the service competitive product offered by UPS or FedEx and the opposite is true for long distance shipments. Priority Mail could be a more competitive product with a more rational pricing structure.

## **COMMON RESEARCH ISSUES FOR QUESTIONS 3 AND 4**

Questions 3 and 4 both focus on advantages that the Postal Service has in serving commercial shippers of parcels and express items. These questions focus on different market segments, and the research conducted shows that the Postal Service and private sector competitors offers these customers different products, prices, and levels of customer service.

Small and large commercial shippers are similar in that they look at their parcel/shipping options based on the ability of the various competitors to serve their needs in terms of service quality, price, and a whole set customer service attributes that may make one carrier more attractive than the other. While the set of factors that commercial shippers consider is similar regardless of size and what they ship, how they weight those factors varies greatly both between and within market segments.

The access and pricing analysis conducted as part of answering Questions 1 and 2 identified that the Postal Service had locations where its services were accessible and where

competitive services were not. It also identified a limited number of rate cells where USPS was or could be price competitive. This information was used to frame the issues for Questions 3 and 4.

We then looked at how small and large businesses examined the factors that affect carrier choice for both small and large shippers with a focus on services for which the Postal Service had a competitive product. This analysis examined trade journals, published information on discounted rates, presentations of industry experts and carriers, and interviews with parcel shipping consultants.

Finally, we looked at services the Postal Service marketed to small and large business and assessed if those products and the rates charged were competitive.

### ***Market Segments***

Small and home based businesses represent two of four market segments of commercial customers that are defined by their negotiating clout with private sector carriers. These market segments are:

- Retail small business customers who are occasional users of parcel/express shipping that require a retail counter to ship their item. They pay the same rates as retail customers when using private sector carriers.
- Commercial small businesses customers who spend up to about \$50,000 annually on parcel/express shipping. These shippers are large enough to ship a couple of items per week. Depending on the volume these customers ship, they may have a regular pick-up from UPS or FedEx or use a retail outlet or self-service drop box to send their items. These customers get discounts from private sector carriers that are set based on their annual volume.
- Mid-sized commercial shippers generally spend between \$50,000 and \$500,000 on parcel/express shipping with a single carrier. They will get more personal attention from the sales forces of private sector carriers and have discounts that are larger than commercial small businesses. These customers are unlikely to have a formal negotiating process with private sector carriers.
- Large commercial shippers are customers that spend more than \$500,000 annually on parcel/express shipping with one carrier. These shippers are likely to go through a formal negotiating process over rates with UPS or FedEx. They are also likely to use consultants to audit their freight bills in order to ensure that rates charged match their contract and that refunds are requested on all shipments that miss service commitments. Large shippers may have a personal sales representative for their account.

Question 3 focuses on advantages that the Postal Service has in serving the first two market segments. Question 4 examines advantages that the Postal Service has for large commercial parcel shippers and sometimes medium commercial shippers.

### ***Factors Used to Evaluate Competitive Alternatives***

Commercial Shippers use a broad range of factors to evaluate commercial alternatives. These alternatives can be grouped into one of five categories:

- Availability
- Convenience
- Perceived Service Quality
- Customer Interface
- Price

#### ***Availability***

A private sector or USPS alternative exists if the service required is offered by the carrier where the carrier is located. Legally, all FedEx, UPS, and the Postal Service offer service in all zip codes. However, since services are not identical, it is possible that a service required may not be offered by one or more carriers.

#### ***Convenience***

Convenience relates to whether or not a competitor has the service available where and when the customer wants. For example, customers that require a retail outlet or self-service kiosk or drop box to make the service “available” do not have an alternative if a competitor does not have an outlet or self-service location where they need it.

Similarly, operating hours of retail locations, and pick-up times of self-service locations affect convenience. When multiple options are available, carriers often have different operating hours, and pick-up times. Carriers with earlier pick-up times or fewer retail hours than a competitor would be less convenient. Carriers with Saturday pick-up times are more convenient.

Finally, convenience affects customers that want a pick-up service. Pick-up service may be regularly scheduled or set on demand. For customers needing pick-up service, how the various carriers handle the scheduling of pick-up services, and the time when those services occur, affects convenience. For very large shippers, pick-up service may also involve dropping empty carrier trailers at a customer site and picking up full trailers from a customer’s loading dock or parking lot.

#### ***Perceived Service Quality***

Service quality is more than just the time it takes to deliver a shipment and the carrier’s reliability in meeting that commitment. In addition, the perception of quality is also important, as shippers perceive quality differences among the carriers even when actual service quality is similar. Some shippers may see a business advantage in using one carrier or another in response to customer perceptions.

At a minimum, a carrier must offer a service that can deliver the shipment when the customer needs it delivered. Service commitments differ for USPS, FedEx, and UPS for all of

their competitive products, but they offer competitive service only when the delivery times match the customer's needs. Between FedEx and UPS, there are slight differences in delivery times in their ground service between particular origin-destination pairs.

Service quality also is defined by the ability of a carrier to meet advertised and expected service commitment, or its reliability or consistency. Reliability is often a necessary requirement for choosing a specific carrier. Customers are justifiably wary of switching carriers when their current supplier reliably meets their service needs, even if an alternative is superior on other factors influencing competition.

### *Customer Interface*

Customer interface relates to a large set of customer service attributes. These include the carrier's sales force, web site, weighing, rating, billing and payment systems, and customer support in handling special needs or service failures.

The Postal Service is most different from its private sector competitors in terms of its weighing, rating, billing, and payment systems. The Postal Service is the only carrier that requires pre-payment of services. The Postal Service uses private sector postage vendors for small business shippers and a permit system for larger customers.

Private sector carriers use customer accounts for nearly all commercial customers, from the smallest to the largest. The use of customer accounts allows carriers to bill all customers. For smaller customers, monthly bills are usually tied to a credit card or checking account. For larger customers, bills are handled in a manner similar to other suppliers of the carrier's customers.

The billing system allows carriers to track business from all customers from the smallest to the largest. This allows them to set prices for customers based on shipping volume which can be measured over a quarter or year, thus encouraging customer loyalty.

The billing system, combined with other internal operating and accounting systems, allows the private sector carriers to set the charge based on what was exactly shipped and where it was shipped regardless of what was listed on the bill of lading. For example, small shippers can estimate a weight on the shipping form, knowing that the actual charge will be based on the actual weight, whether it is higher or lower.

### *Pricing*

Pricing is the characteristic that describes the price that the various carriers offer a customer. With the exception of the smallest businesses, commercial shippers pay a rate lower than retail customers. The size of the discount primarily depends on the annual volume that a company ships with a single carrier.

All carriers use a different, lower, base rate for commercial customers than retail customers. Private sector carrier contracts with their customers include discounts that vary based on shipping volume, with the largest customers getting the largest discounts, although shipment characteristics, the distribution origin-destination volumes and shipper location may affect the size of the discount. Large commercial customers negotiate discounts in both the list rates and accessorial charges, such as residential and delivery area surcharge. Larger shippers may also negotiate different discounts for different weight and distance cells in the carrier's tariff depending upon the nature of their shipments.

Complicating pricing somewhat is the existence of joint-line services that involve the Postal Service providing the last or first mile of the end-to-end service. In such cases, there are two price negotiations involved. One negotiation is between the shipper and the private sector carrier, and a second negotiation is between the Postal Service and the joint-line carrier. The Postal Service's rates, as is the case for Parcel Select and Standard Parcels, may be published or they may be set under contract with the carrier.

**QUESTION 3: Does the Postal Service offer competitive advantages to small and home-based business that would not exist without the services that they offer?**

### ***Retail Small Businesses***

For small businesses that require retail services, the Postal Service has a significant advantage in communities where only the Postal Service has a conveniently located retail location. In communities where both the Postal Service and either UPS or FedEx has a retail outlet, the advantage of the Postal Service still exists for those shipping on Saturday. On other days of the week the existence of an advantage for the Postal Service depends on hours the retail outlets are open and the pick-up time for the Postal Service and its private sector competitors.

Small businesses that require retail services pay retail rates charged by private sector carriers. Therefore, the Postal Service has pricing advantages on low weight shipments for all zones for all products. Above 5 pounds, the Postal Service's advantage depends on both weight and zone. Commercial base pricing of Priority Mail that retail parcel shippers can use by buying postage on the web gives the Postal Service some pricing advantage in a number of additional weight/zone cells against private sector competitors. Retail small businesses get a small pricing advantage from the free boxes for Priority Mail shippers.

Retail small businesses may also find that flat rate boxes offer advantages due to the simplicity of the tariff. Flat rate boxes may also offer a pricing advantage in some cases as well.

### ***Commercial Small Businesses***

We have reviewed the advantages that the Postal Service may have for commercial small businesses for all the evaluation factors. Our evaluation is summarized in the discussion of small businesses. The evaluation shows that the advantages depend upon the relative importance of each of these factors.

The Postal Service's advantages for small businesses are limited by the discounts that UPS and FedEx offer small businesses. These discounts are usually not published, but UPS has published its discounts for E-bay shippers that industry consultants believe are typical of discounts offered small business customers. Table 18 displays these discounts.

The discount structure shows that discounts grow based on shipping volume and can be as much as 32% for UPS Air services. These discounts significantly limit the impact of Postal Service Commercial Base rates.

Table 18: UPS Discounts for EBay Shippers 2011

Total Weekly Gross Transportation Charges*	UPS Next Day Air® (Letter/Package)	UPS Worldwide Express® (Letter/Document/Package)	UPS Standard to Canada	UPS Ground (Commercial & Residential)			
	UPS Next Day Air Saver® (Letter/Package)	UPS Worldwide Saver® (Letter/Document/Package)					
	UPS 2nd Day Air® (Letter/Package)	UPS Worldwide Expedited® (Document/Package)					
	UPS 2nd Day Air A.M.® (Letter/Package)						
	UPS 3 Day Select® (Package)						
				(1-5 lbs.)	(6-10 lbs.)	(11-20 lbs.)	(21-150 lbs.)
\$0-\$49.99	16.00%	8.00%	5.00%	8.50%	10.00%	15.00%	20.00%
\$50-\$99.99	20.00%	15.00%	6.00%	9.00%	10.50%	15.50%	20.50%
\$100-\$199.99	22.00%	18.00%	7.00%	9.50%	11.00%	16.00%	21.00%
\$200-\$499.99	24.00%	21.00%	8.00%	10.00%	11.50%	16.50%	21.50%
\$500-\$999.99	26.00%	24.00%	9.00%	11.00%	12.50%	17.50%	22.50%
\$1,000+	32.00%	25.00%	10.00%	11.50%	13.00%	18.00%	23.00%

While the discounts are large, there are limits. Discounts are limited by the minimum charge, so if a shipper sends items that are likely to be charged the minimum or require a home delivery, the Postal Service will likely be more price-competitive.

Figures 10 and 11 illustrate the impact of discounts on the types of shipments where the Postal Service will have a competitive rate against UPS ground rates. These charts show that the Postal Service does not have a price advantage for shippers sending shipments that usually fall out of the range of weight/zone cells for which Priority Mail Commercial base prices are cheaper. Some cells have the same price for small and large businesses of minimum charges.



Figure 10: Slide illustrating USPS price advantage/disadvantage for Smallest Small Businesses shipping to residences

## Illustration of Minimum UPS Small Business Discount Shows Limits of USPS Discount

Price Difference Key

Advantage

(Disadvantage)

UPS Prices include both fuel surcharge and \$2.75 standard residential surcharge

USPS less competitive for B-2-B shippers

Priority Mail Commercial Base versus UPS Ground							
Weight	Zone 2	Zone 3	Zone 4	Zone 5	Zone 6	Zone 7	Zone 8
1	3.54	3.44	3.29	3.25	3.39	3.32	3.08
2	3.37	3.33	3.33	1.88	1.62	1.23	0.46
3	3.18	2.70	2.20	0.96	0.17	(0.38)	(1.56)
4	2.53	1.97	1.50	(0.64)	(2.06)	(2.57)	(3.48)
5	1.67	0.96	0.67	(2.02)	(3.52)	(4.19)	(5.32)
6	0.93	0.12	(0.51)	(3.64)	(5.20)	(6.19)	(7.71)
7	0.72	(0.49)	(1.18)	(5.32)	(6.66)	(8.19)	(9.83)
8	0.37	(1.16)	(2.50)	(6.73)	(8.09)	(9.75)	(11.95)
9	0.14	(1.79)	(3.22)	(7.91)	(9.65)	(11.13)	(14.09)
10	(0.36)	(2.61)	(4.27)	(9.21)	(10.93)	(12.73)	(15.77)
11	(1.32)	(3.57)	(5.77)	(11.11)	(12.81)	(14.96)	(18.18)
12	(1.87)	(4.30)	(6.79)	(12.59)	(14.59)	(16.61)	(19.80)
13	(2.39)	(4.99)	(7.62)	(13.65)	(16.11)	(17.15)	(20.21)
14	(2.95)	(5.69)	(8.57)	(15.01)	(17.14)	(18.36)	(21.24)
15	(3.38)	(6.34)	(9.51)	(16.35)	(17.82)	(18.33)	(21.49)
16	(3.66)	(7.12)	(10.48)	(17.67)	(19.13)	(19.73)	(23.03)
17	(4.10)	(7.76)	(11.34)	(18.84)	(20.22)	(20.88)	(24.40)
18	(4.27)	(8.18)	(12.16)	(19.86)	(21.45)	(22.13)	(25.73)

USPS less competitive for B-2-B shippers

Figure 11 Slide illustrating USPS price advantage/disadvantage for Largest Small Businesses shipping to residences

## USPS Price Advantage / Disadvantage for Largest Commercial Small Businesses

Price Difference Key		Priority Mail Commercial Base versus UPS Ground						
Advantage (Disadvantage)	Weight	Zone 2	Zone 3	Zone 4	Zone 5	Zone 6	Zone 7	Zone 8
UPS Prices include both fuel surcharge and <b>\$2.75 standard residential surcharge</b>  <b>USPS less competitive for B-2-B shippers</b>	1	3.54	3.44	3.29	3.15	3.20	3.12	2.88
	2	3.37	3.26	3.13	1.68	1.39	1.00	0.22
	3	3.18	2.51	1.98	0.73	(0.07)	(0.62)	(1.82)
	4	2.53	1.77	1.27	(0.88)	(2.31)	(2.83)	(3.76)
	5	1.53	0.76	0.43	(2.27)	(3.78)	(4.46)	(5.61)
	6	0.73	(0.09)	(0.75)	(3.89)	(5.46)	(6.47)	(8.01)
	7	0.52	(0.71)	(1.43)	(5.58)	(6.93)	(8.48)	(10.14)
	8	0.15	(1.38)	(2.75)	(7.00)	(8.37)	(10.05)	(12.28)
	9	(0.08)	(2.02)	(3.47)	(8.17)	(9.94)	(11.44)	(14.44)
	10	(0.58)	(2.84)	(4.53)	(9.48)	(11.22)	(13.07)	(16.14)
	11	(1.55)	(3.81)	(6.03)	(11.39)	(13.12)	(15.31)	(18.57)
	12	(2.11)	(4.55)	(7.06)	(12.87)	(14.91)	(16.99)	(20.22)
	13	(2.63)	(5.25)	(7.89)	(13.95)	(16.45)	(17.55)	(20.66)
	14	(3.20)	(5.95)	(8.84)	(15.31)	(17.49)	(18.78)	(21.72)
	15	(3.63)	(6.61)	(9.79)	(16.66)	(18.19)	(18.77)	(21.99)
	16	(3.92)	(7.40)	(10.76)	(17.98)	(19.52)	(20.19)	(23.55)
	17	(4.36)	(8.05)	(11.63)	(19.17)	(20.63)	(21.36)	(24.95)
	18	(4.54)	(8.47)	(12.46)	(20.20)	(21.87)	(22.63)	(26.31)

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In conclusion, price sensitive small business customers get discounts from private sector carriers that may overwhelm any advantage that the Postal Service may have. To fully understand this impact, additional work is required looking at Express Mail, Parcel Post, and a blended rate for UPS that would compete with Priority Mail Commercial Base rates.

**QUESTION 4: Does the Postal Service provide commercial customers with an economical means of shipping packages that would be more expensive if private sector carriers were used?**

Our assessment of the advantages for large businesses started with the assumption that they had larger discounts than small businesses. Therefore, if the Postal Service is more expensive for small businesses it would be more expensive for large businesses

We have completed the qualitative analysis that is contained in the Part IV of our presentation. In general, the Postal Service offers price advantages to two groups of large businesses.

- Large businesses that only send parcels under 10 pounds that do not require delivery signatures. In particular, this applies to shippers that send items that would likely be subject to the minimum charges of UPS or FedEx.
- Price sensitive shippers that are not sensitive to delivery times. These shippers use the joint-line service involving USPS Parcel Select, Standard Parcel, and Parcel Return services.

Further examination of contracts employed by the Postal Service for Express Mail or Priority Mail is required to see if additional market segments exist in which the Postal Service offers a price competitive product. Also additional analysis examining the sensitivity of private sector discounts on the competitiveness of Postal Service's Priority Mail Commercial Plus rates is required, with a focus on discounts that are 10 points higher than those available to small businesses.

**APPENDIX A: SAMPLE OF LOCATIONS USED IN THE ANALYSIS OF RETAIL ACCESS AND RETAIL DENSITY**

State	County Name	2003 Rural-urban Continuum Code	County Seat	Zip Code
AK	Anchorage Municipality	2	Anchorage	99501
AK	Fairbanks North Star Borough	3	Fairbanks	99701
AK	Juneau City and Borough	5	Juneau	99801
AK	Ketchikan Gateway Borough	7	Ketchikan	99901
AK	Matanuska-Susitna Borough	2	Palmer	99645
AK	Nome Census Area	7	Nome	99762
AK	Yakutat City and Borough	9	Yakutat	99689
AK	Yukon-Koyukuk Census Area	8	Galena	99741
AL	Baldwin County	4	Bay Minette	36507
AL	Choctaw County	9	Butler	36904
AL	Crenshaw County	8	Luverne	36049
AL	Washington County	8	Chatom	36518
AR	Bradley County	6	Warren	71671
AR	Clark County	7	Arkadelphia	71923
AR	Franklin County	2	Ozark	72949
AR	Fulton County	9	Salem	72576
AR	Howard County	7	Nashville	71852
AR	Ouachita County	7	Camden	71701
AR	Scott County	6	Waldron	72958
AR	Washington County	2	Fayetteville	72701
AZ	Coconino County	3	Flagstaff	86001
AZ	Gila County	4	Globe	85501
AZ	Santa Cruz County	4	Nogales	85621
CA	Del Norte County	7	Crescent City	95538
CA	Fresno County	2	Fresno	93721
CA	Marin County	1	San Rafael	94901
CA	Mono County	7	Bridgeport	93517
CA	San Mateo County	1	Redwood City	94063
CA	Shasta County	3	Redding	96001
CA	Tulare County	2	Visalia	93291

State	County Name	2003 Rural-urban Continuum Code	County Seat	Zip Code
CA	Ventura County	2	Ventura	93001
CA	Yolo County	1	Woodland	95695
CO	Dolores County	9	Dove Creek	81324
CO	Fremont County	4	Cañon City	81212
CO	Larimer County	2	Fort Collins	80521
CO	Prowers County	7	Lamar	81052
CT	New London County	2	New London	06320
FL	Glades County	6	Moore Haven	33471
FL	Gulf County	6	Port St. Joe	32456
FL	Liberty County	8	Bristol	32321
FL	Volusia County	2	De Land	32720
GA	Atkinson County	9	Pearson	31642
GA	Franklin County	8	Carnesville	30521
GA	Jasper County	1	Monticello	31064
GA	Jeff Davis County	7	Hazelhurst	31539
GA	Morgan County	6	Madison	30650
GA	Rabun County	9	Clayton	30525
GA	Tattnall County	6	Reidsville	30453
GA	Taylor County	8	Butler	31006
GA	Terrell County	3	Dawson	39842
HI	Hawaii County	5	Hilo	96720
HI	Honolulu County	2	Honolulu	96813
HI	Kalawao County	9	Kalaupapa	96742
HI	Kauai County	5	Lihue	96766
HI	Maui County (1)	5	Kaunakakai	96748
HI	Maui County (2)	5	Wailuku	96793
IA	Adair County	8	Greenfield	50849
IA	Audubon County	8	Audobon	50025
IA	Black Hawk County	3	Waterloo	50701
IA	Buchanan County	6	Independence	50644
IA	Cerro Gordo County	5	Mason City	50401
IA	Clayton County	8	Elkader	52043
IA	Des Moines County	5	Burlington	52601
IA	Dubuque County	3	Dubuque	52001
IA	Franklin County	7	Hampton	50441
IA	Hancock County	7	Garner	50438
IA	Harrison County	2	Logan	51546

State	County Name	2003 Rural-urban Continuum Code	County Seat	Zip Code
IA	Louisa County	8	Wapello	52653
IA	Wright County	7	Clarion	50525
ID	Ada County	2	Boise	83702
ID	Bonneville County	3	Idaho Falls	83402
ID	Clark County	8	Dubois	83423
ID	Franklin County	3	Preston	83263
ID	Twin Falls County	5	Twin Falls	83301
ID	Washington County	6	Weiser	83672
IL	Adams County	5	Quincy	62301
IL	DeKalb County	1	Sycamore	60178
IL	Franklin County	5	Benton	62812
IL	Hardin County	9	Elizabethton	62931
IL	Jasper County	7	Newton	62448
IL	Mercer County	2	Aledo	61231
IL	Pike County	7	Pittsfield	62363
IL	St. Clair County	1	Belleville	62220
IL	Whiteside County	4	Morrison	61270
IN	Gibson County	2	Princeton	47670
IN	Hamilton County	1	Noblesville	46060
IN	LaGrange County	6	LaGrange	46761
IN	Wayne County	5	Richmond	47374
KS	Elk County	8	Howard	67349
KS	Ford County	5	Dodge City	67801
KS	Geary County	5	Junction City	66441
KS	Johnson County	1	Olathe	66061
KS	Kiowa County	9	Greensburg	67054
KS	Meade County	9	Meade	67864
KS	Sherman County	7	Goodland	67735
KS	Wyandotte County	1	Kansas City	66101
KY	Boyle County	7	Danville	40422
KY	Bullitt County	1	Shepherdsville	40165
KY	Clay County	7	Manchester	40962
KY	Edmonson County	3	Brownsville	42210
KY	Jessamine County	2	Nicholasville	40356
KY	Letcher County	9	Whitesburg	41858
KY	McCracken County	5	Paducah	42003
KY	Owsley County	9	Booneville	41314
KY	Pulaski County	5	Somerset	42501

State	County Name	2003 Rural-urban Continuum Code	County Seat	Zip Code
KY	Todd County	8	Elkton	42220
KY	Union County	6	Morganfield	42437
LA	Concordia Parish	7	Vidalia	71373
LA	Iberville Parish	2	New Iberia	70560
LA	Orleans Parish	1	New Orleans	70113
LA	Terrebonne Parish	3	Houma	70360
MA	Dukes County	7	Edgartown	02539
MD	Allegany County	3	Cumberland	21502
MD	Harford County	1	Bel Air	21014
ME	Sagadahoc County	2	Bath	04530
ME	York County	2	Alfred	04002
MI	Arenac County	8	Standish	48658
MI	Baraga County	9	L'Anse	49946
MI	Clare County	7	Harrison	48625
MI	Clinton County	2	St. Johns	48879
MI	Isabella County	5	Mt. Pleasant	48858
MI	Kalamazoo County	2	Kalamazoo	49001
MI	Manistee County	7	Manistee	49660
MI	Presque Isle County	7	Rogers City	49779
MI	St. Joseph County	4	Centreville	49032
MN	Aitkin County	8	Aitkin	56431
MN	Big Stone County	9	Ortonville	56278
MN	Blue Earth County	5	Mankato	56001
MN	Nicollet County	5	St. Peter	56082
MN	Norman County	8	Ada	56510
MN	Otter Tail County	6	Fergus Falls	56537
MN	Ramsey County	1	Saint Paul	55102
MN	Renville County	9	Olivia	56277
MN	Steele County	5	Owatonna	55060
MN	Todd County	6	Long Prairie	56347
MN	Wabasha County	3	Wabasha	55981
MO	Audrain County	6	Mexico	65265
MO	Bates County	1	Butler	64730
MO	Camden County	7	Camdenton	65020
MO	Christian County	2	Ozark	65721
MO	Clinton County	1	Plattsburg	64477
MO	DeKalb County	3	Maysville	64469

State	County Name	2003 Rural-urban Continuum Code	County Seat	Zip Code
MO	Henry County	6	Clinton	64735
MO	Johnson County	4	Warrensburg	64093
MO	Lewis County	9	Monticello	63457
MO	Marion County	5	Palmyra	63461
MO	Mississippi County	7	Charleston	63834
MO	St. Francois County	4	Farmington	63640
MS	Adams County	5	Natchez	39120
MS	Jackson County	3	Pascagoula	39567
MS	Lee County	5	Tupelo	38804
MS	Prentiss County	7	Booneville	38829
MT	Lewis and Clark County	5	Helena	59601
MT	Mineral County	8	Superior	59872
MT	Silver Bow County	5	Butte	59701
MT	Wibaux County	9	Wibaux	59353
MT	Yellowstone County	3	Billings	59101
NC	Beaufort County	6	Washington	27889
NC	Buncombe County	2	Asheville	28801
NC	Carteret County	4	Beaufort	28516
NC	Cleveland County	4	Shelby	28150
NC	Dare County	5	Manteo	27954
NC	Davidson County	4	Lexington	27292
NC	Graham County	9	Robbinsville	28771
NC	Halifax County	4	Halifax	27839
NC	Hoke County	2	Raeford	28376
NC	Lee County	4	Sanford	27330
NC	Onslow County	3	Jacksonville	28540
NC	Pender County	2	Burgaw	28425
NC	Perquimans County	9	Hertford	27944
NC	Rutherford County	4	Rutherfordton	28139
ND	Golden Valley County	9	Beach	58621
ND	Slope County	9	Amidon	58620
ND	Ward County	5	Minot	58701
NE	Boyd County	9	Butte	68722
NE	Harlan County	9	Alma	68920
NE	Johnson County	8	Tecumseh	68450
NE	Keya Paha County	9	Springview	68059
NE	Scotts Bluff County	5	Gering	69341
NE	Wheeler County	9	Bartlett	68622



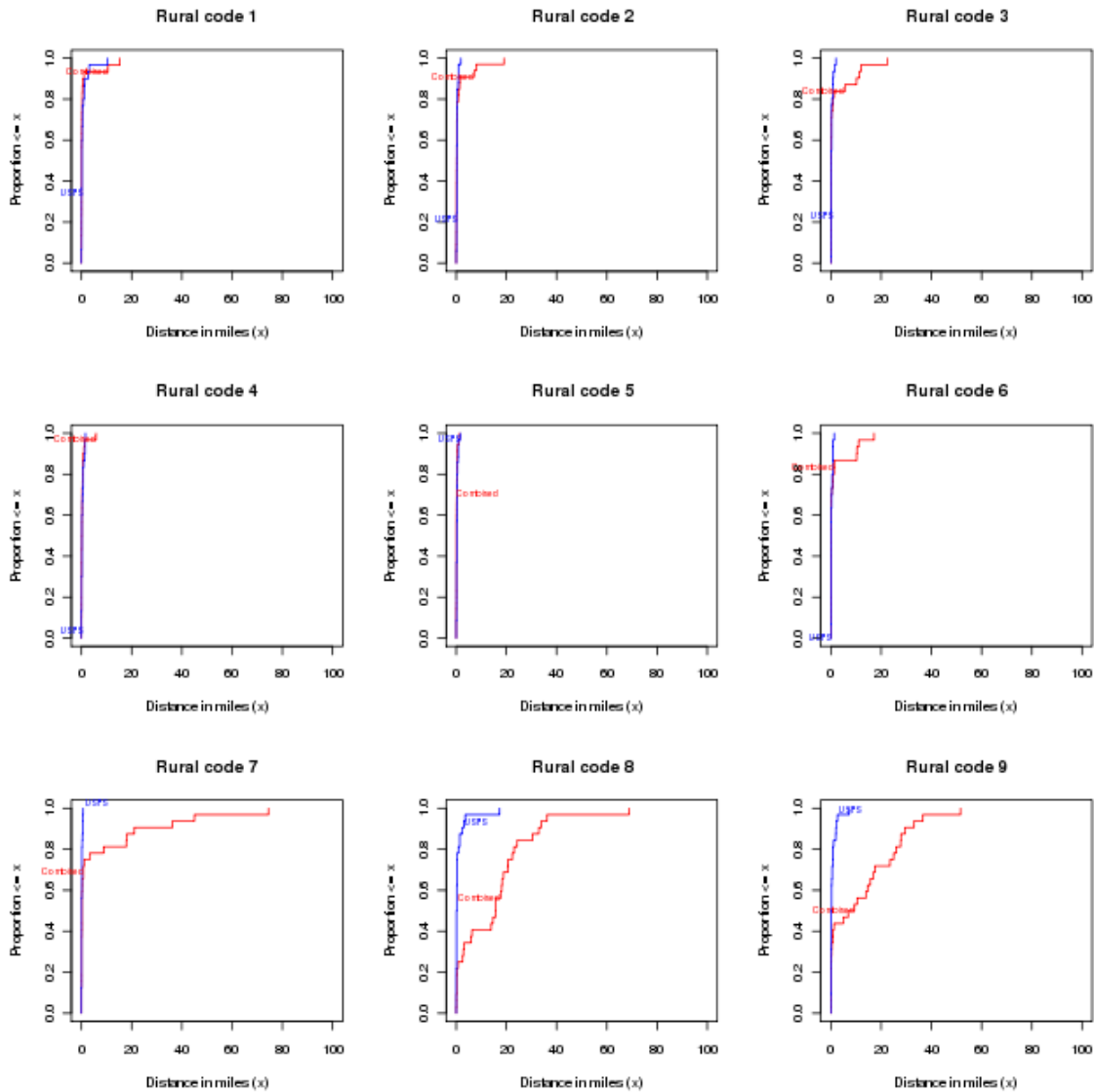
State	County Name	2003 Rural-urban Continuum Code	County Seat	Zip Code
NJ	Cumberland County	3	Bridgeton	08302
NM	Dona Ana County	3	Las Cruces	88001
NM	Eddy County	5	Carlsbad	88220
NM	McKinley County	4	Gallup	87301
NM	Roosevelt County	7	Portales	88130
NY	Franklin County	5	Malone	12953
NY	Fulton County	4	Johnstown	12095
NY	Seneca County	6	Waterloo	13165
NY	Steuben County	4	Bath	14810
NY	Sullivan County	4	Monticello	12701
NY	Wayne County	1	Lyons	14489
OH	Allen County	3	Lima	45801
OH	Ashland County	4	Ashland	44805
OH	Cuyahoga County	1	Cleveland	44199
OH	Fulton County	2	Wauseon	43567
OH	Morrow County	1	Mount Gilead	43338
OH	Ross County	4	Chillicothe	45601
OH	Scioto County	4	Portsmouth	45662
OH	Wayne County	4	Wooster	44691
OK	Cherokee County	6	Tahlequah	74464
OK	Hughes County	7	Holdenville	74848
OK	Jefferson County	8	Waurika	73573
OK	Muskogee County	4	Muskogee	74401
OK	Stephens County	4	Duncan	73533
OR	Benton County	3	Corvallis	97333
OR	Sherman County	9	Moro	97039
OR	Wallowa County	9	Enterprise	97828
OR	Washington County	1	Hillsboro	97123
OR	Wheeler County	9	Fossil	97830
PA	Centre County	3	Bellefonte	16823
PA	Lawrence County	4	New Castle	16108
PA	Mercer County	2	Mercer	16137
PA	Northumberland County	4	Sunbury	17801
PA	Sullivan County	8	Laporte	18626
PA	Westmoreland County	1	Greensburg	15601
RI	Newport County	1	Newport	02840
RI	Providence County	1	Providence	02903

State	County Name	2003 Rural-urban Continuum Code	County Seat	Zip Code
SC	Abbeville County	6	Abbeville	29620
SC	Aiken County	2	Aiken	29801
SC	Beaufort County	5	Beaufort	29902
SC	Chester County	6	Chester	29706
SC	Lexington County	2	Lexington	29072
SC	Marion County	6	Marion	29571
SC	Pickens County	2	Pickens	29671
SC	Spartanburg County	2	Spartanburg	29306
SD	Brown County	5	Aberdeen	57401
SD	Haakon County	8	Philip	57567
SD	Moody County	8	Flandreau	57028
SD	Walworth County	7	Selby	57472
TN	Campbell County	6	Jacksboro	37757
TN	Carter County	3	Elizabethton	37643
TN	Coffee County	4	Manchester	37355
TN	Lincoln County	6	Fayetteville	37334
TN	Putnam County	4	Cookeville	38503
TN	Sullivan County	3	Blountville	37617
TX	Anderson County	5	Palestine	75803
TX	Angelina County	5	Lufkin	75901
TX	Cass County	6	Linden	75563
TX	Collin County	1	McKinney	75070
TX	Concho County	8	Paint Rock	76866
TX	Dawson County	7	Lamesa	79331
TX	Gonzales County	6	Gonzales	78629
TX	Hockley County	6	Levelland	79336
TX	Kerr County	4	Kerrville	78028
TX	Maverick County	5	Eagle Pass	78852
TX	McMullen County	8	Tilden	78072
TX	Runnels County	6	Ballinger	76821
TX	San Jacinto County	1	Coldspring	77331
TX	Sterling County	8	Sterling City	76951
TX	Throckmorton County	9	Throckmorton	76483
TX	Wilbarger County	6	Vernon	76384
UT	Millard County	7	Fillmore	84631
VA	Amherst County	3	Amherst	24521
VA	Arlington County	1	Arlington	22201
VA	Bristol City	3	Bristol	37621

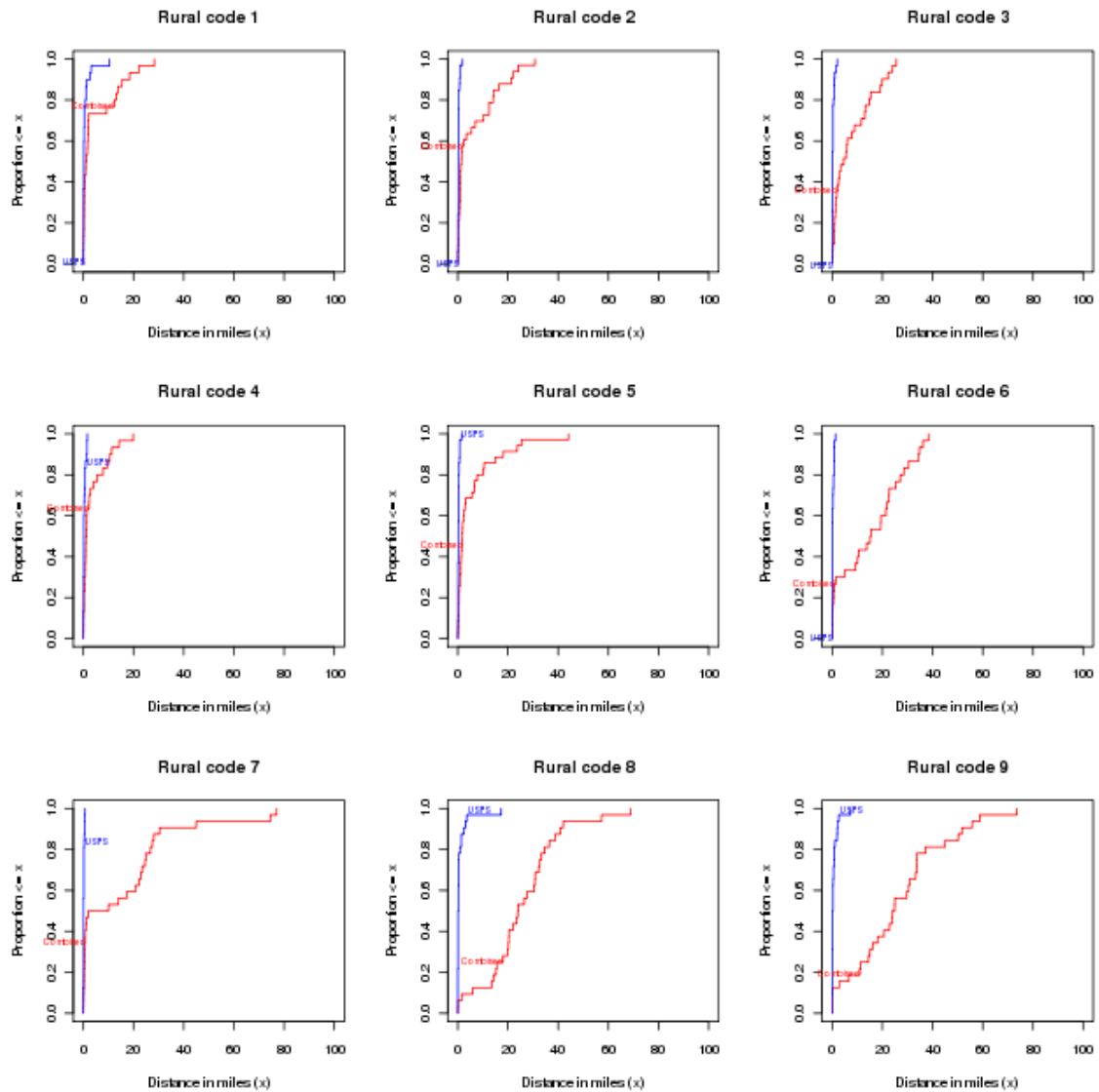
State	County Name	2003 Rural-urban Continuum Code	County Seat	Zip Code
VA	Caroline County	1	Bowling Green	22427
VA	Cumberland County	1	Cumberland	23040
VA	Franklin City	6	Franklin	23851
VA	Giles County	3	Pearisburg	24134
VA	Greene County	3	Stanardsville	22973
VA	Highland County	9	Monterey	24465
VA	Nelson County	3	Lovingston	22949
VA	Patrick County	8	Stuart	24171
VA	Rappahannock County	8	Washington	22747
VA	Richmond City	1	Richmond	23219
VA	Scott County	3	Gate City	24251
VT	Lamoille County	8	Hyde Park	05655
VT	Rutland County	5	Rutland	05701
WA	Pacific County	7	South Bend	98586
WA	Walla Walla County	4	Walla Walla	99362
WI	Eau Claire County	3	Eau Claire	54703
WI	Florence County	9	Florence	54121
WI	Marquette County	8	Montello	53949
WI	Menominee County	8	Keshena	54135
WI	Milwaukee County	1	Milwaukee	53202
WI	Oconto County	2	Oconto	54153
WI	Pepin County	8	Durand	54736
WI	St. Croix County	1	Hudson	54016
WV	Lincoln County	2	Hamlin	25523
WV	Monroe County	8	Union	24983
WV	Taylor County	6	Grafton	26354
WV	Tyler County	6	Middlebourne	26149
WY	Laramie County	3	Cheyenne	82001
WY	Park County	7	Cody	82414
WY	Sublette County	9	Pinedale	82941

## APPENDIX B: CUMULATIVE DISTRIBUTION PLOTS OF RETAIL DATA

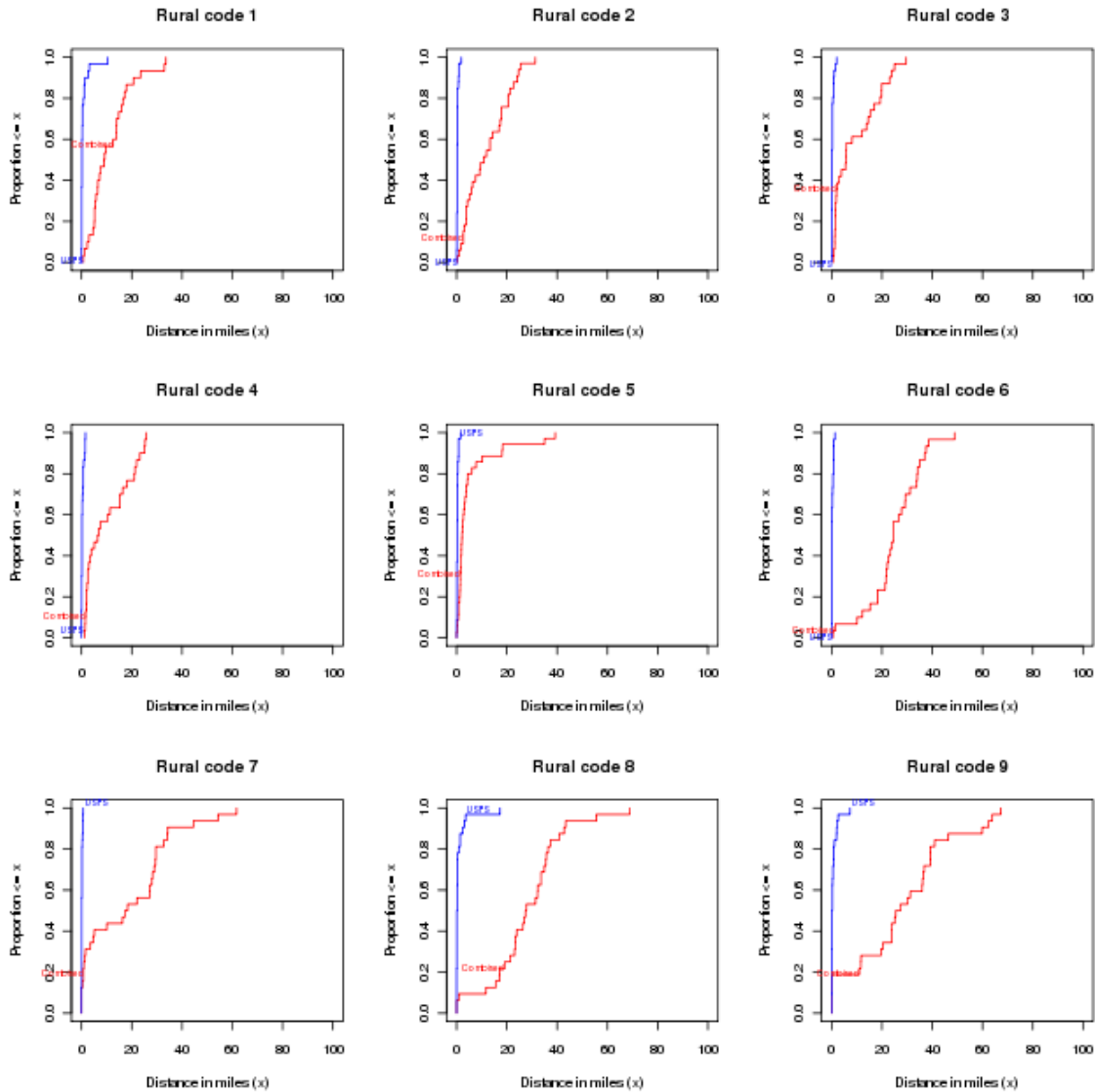
Cumulative distribution plot, distance to nearest parcel express drop box. USPS (blue) v. combined FedEx/UPS (red).



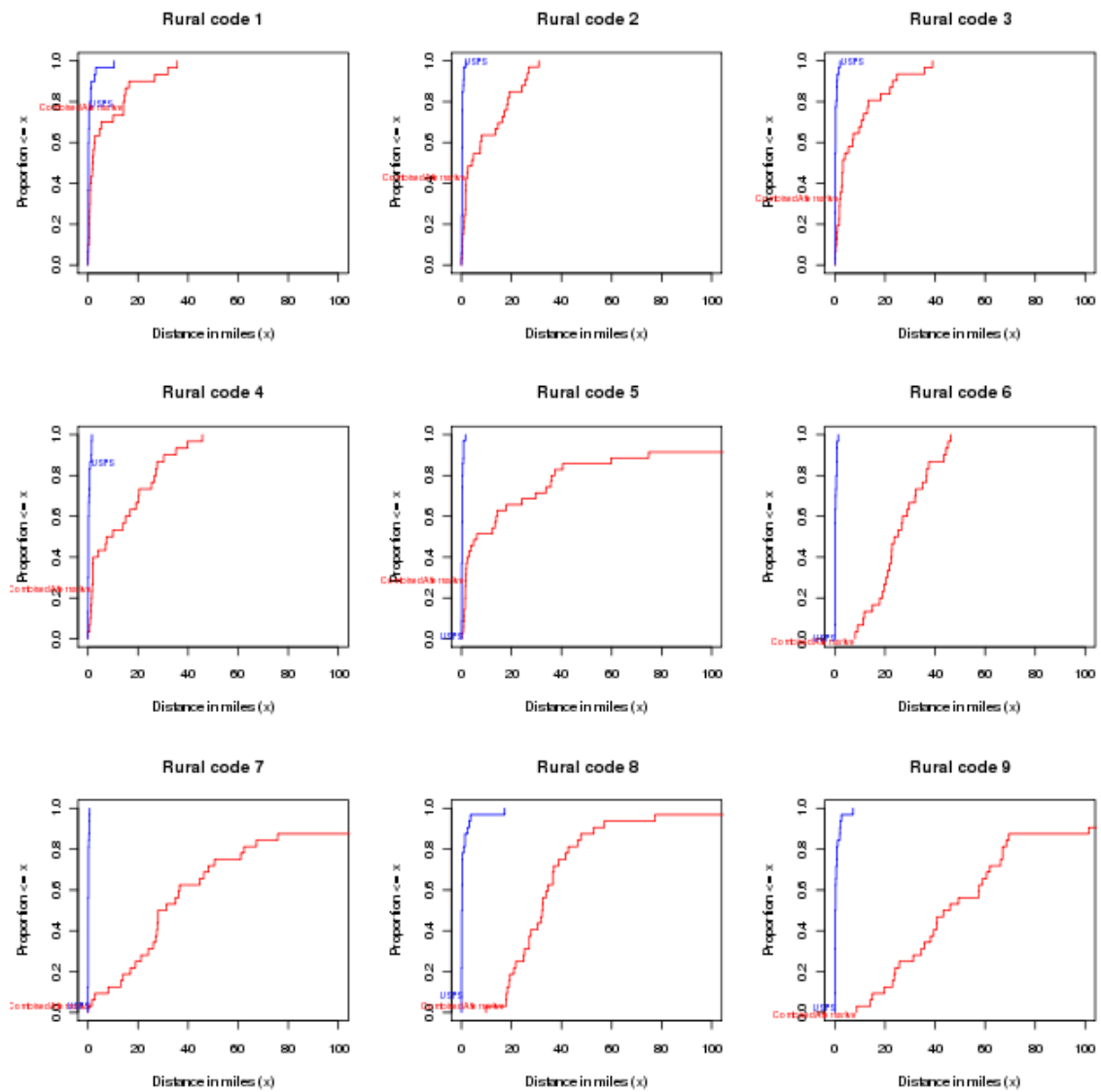
Cumulative distribution plot, distance to nearest parcel retail shipping outlet. USPS (blue) v. combined FedEx/UPS (red).



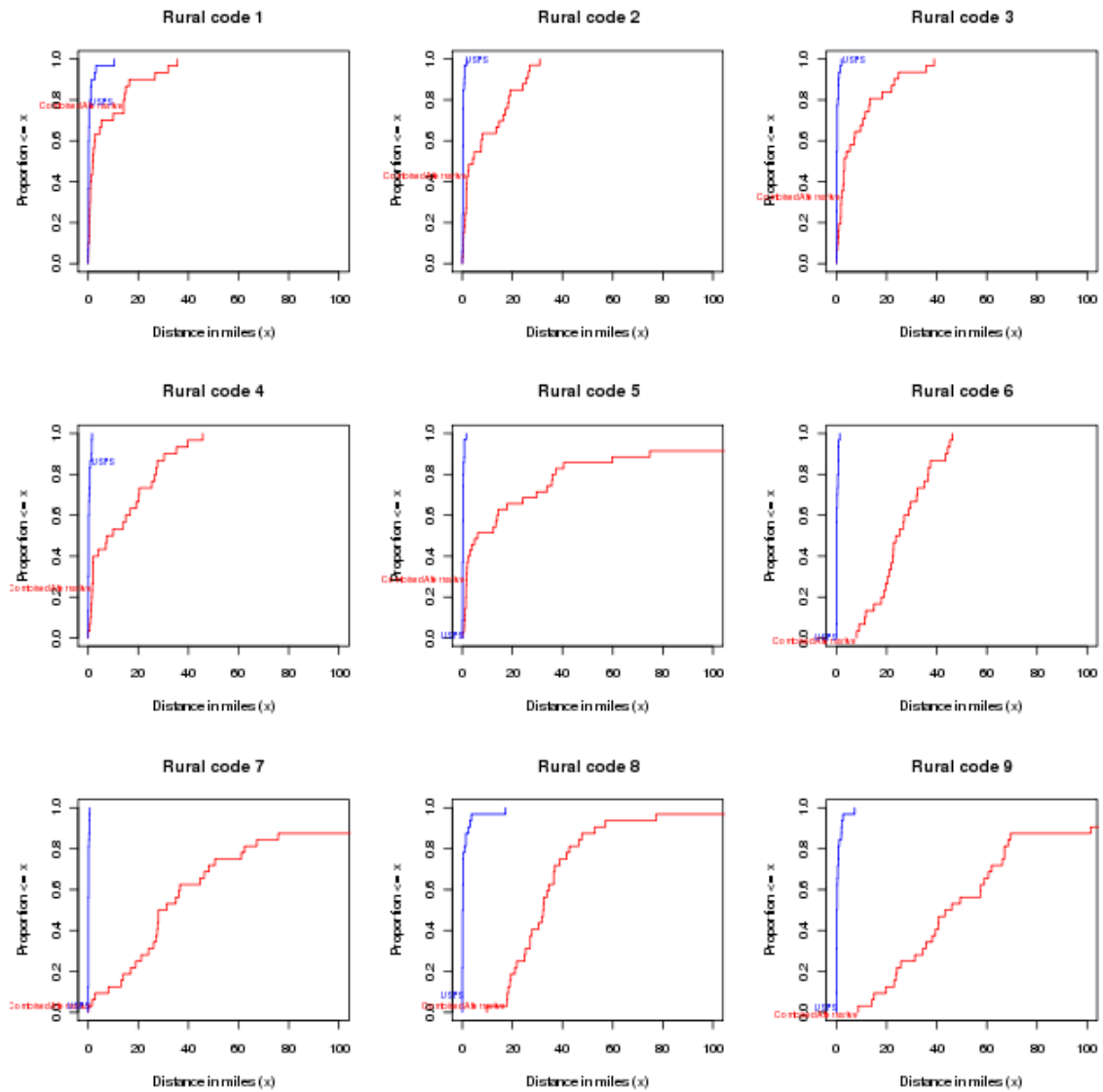
Cumulative distribution plot, distance to nearest parcel corporate pickup location. USPS (blue) v. combined FedEx/UPS (red).



Cumulative distribution plot, distance to nearest Money Orders location USPS (blue) v. combined private sector competitors (red).



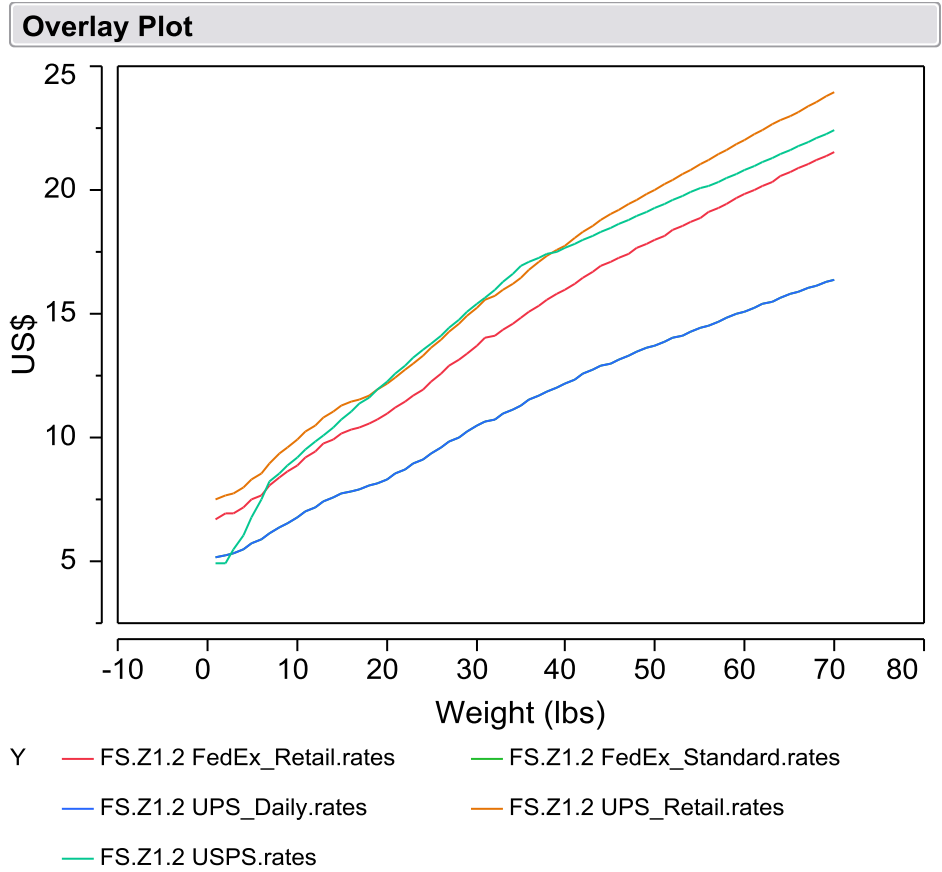
Cumulative distribution plot, distance to nearest Mailbox; USPS (blue) v. combined private sector competitors (red).





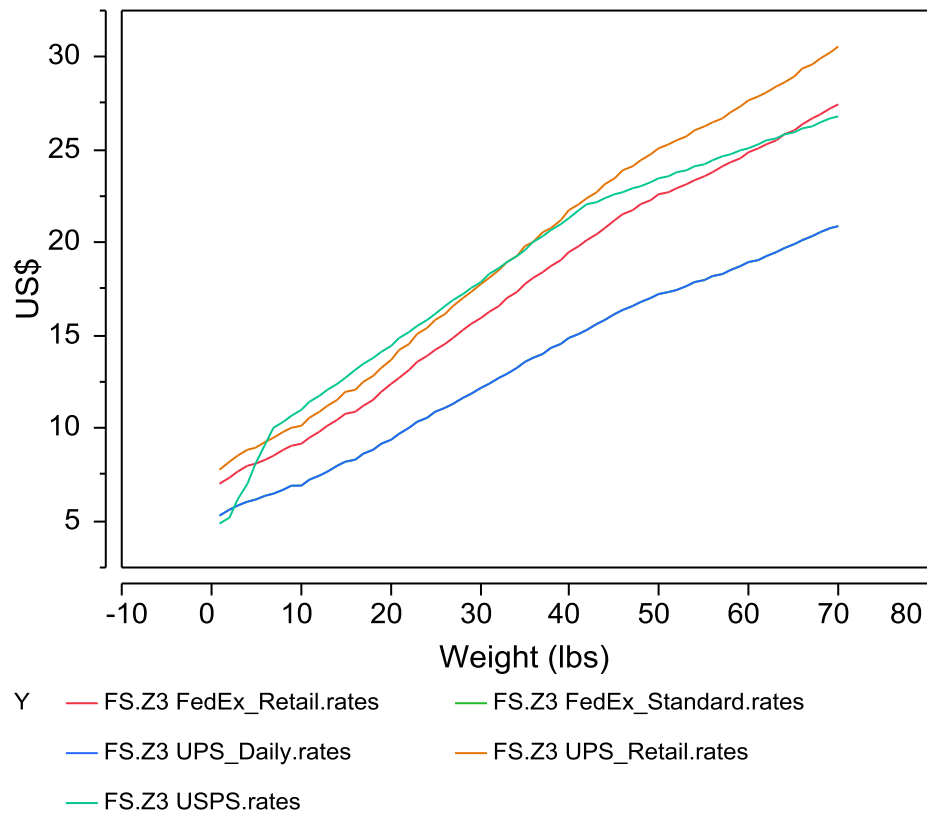
# APPENDIX C: GROUND PARCEL PRICE CHARTS BY ZONE

## Ground Parcel Zone 2

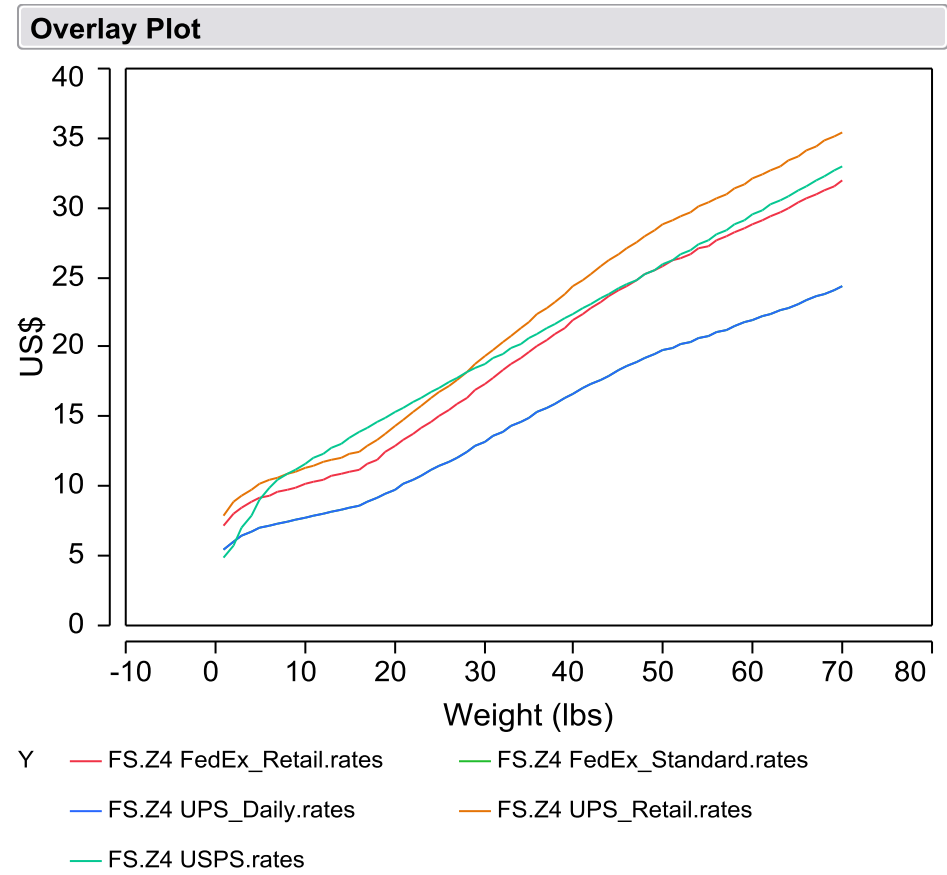


Ground Parcel Zone 3

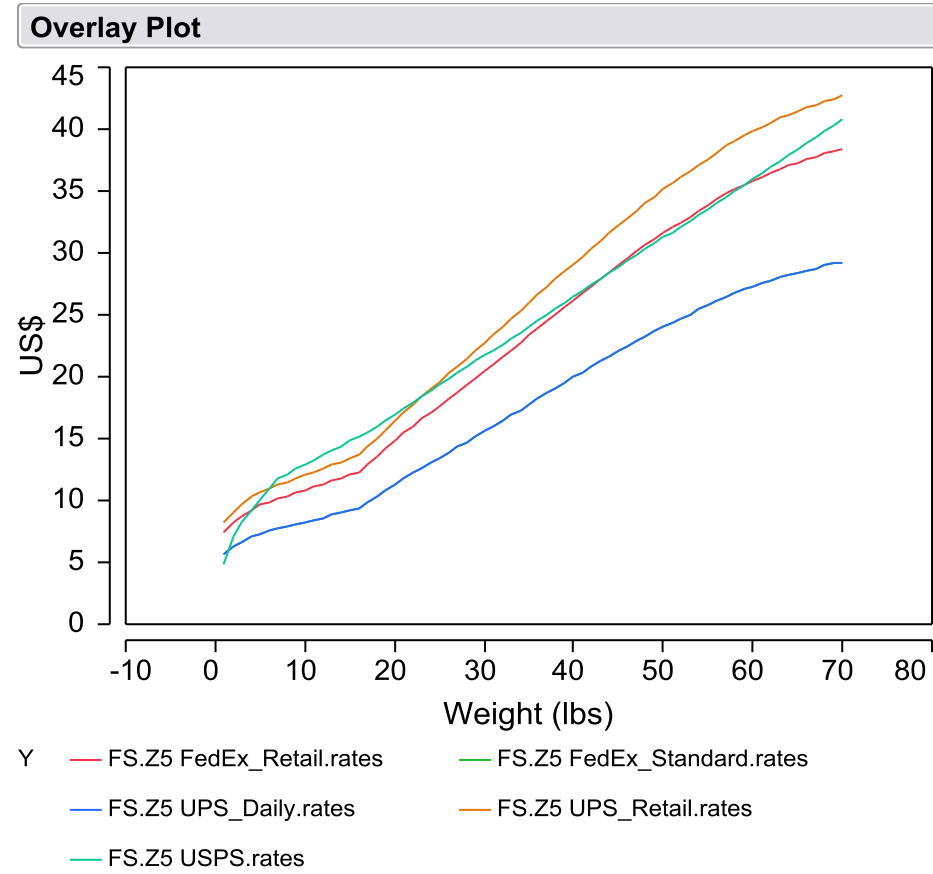
Overlay Plot



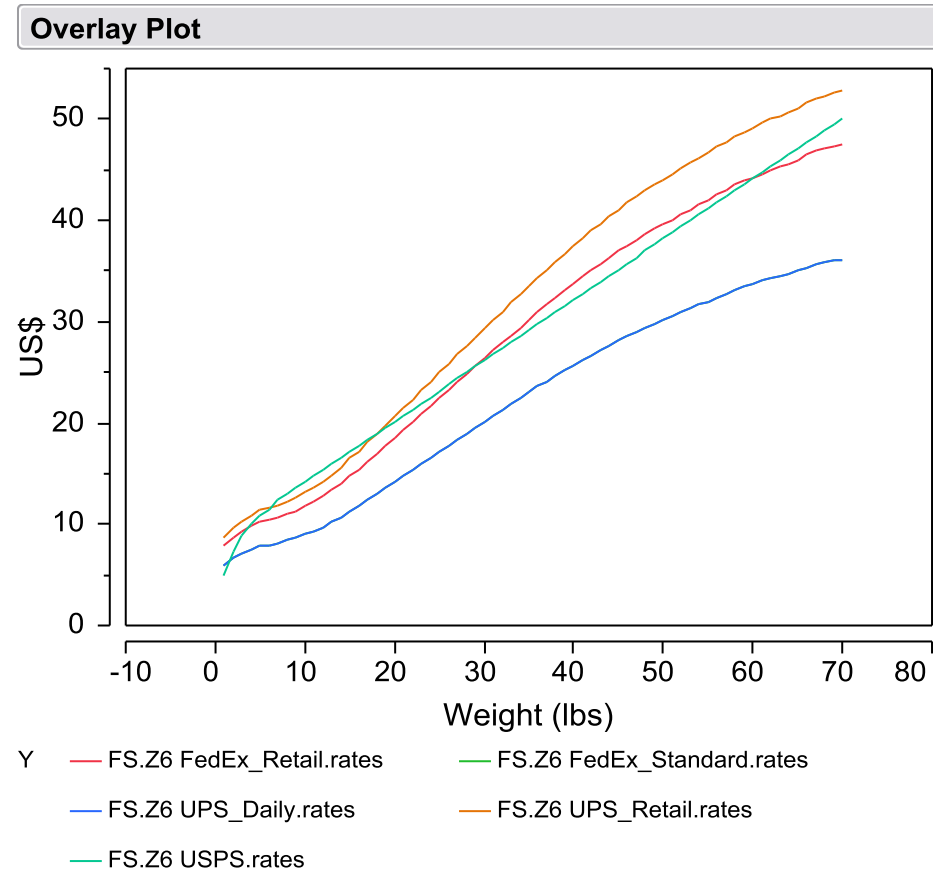
## Ground Parcel Zone 4



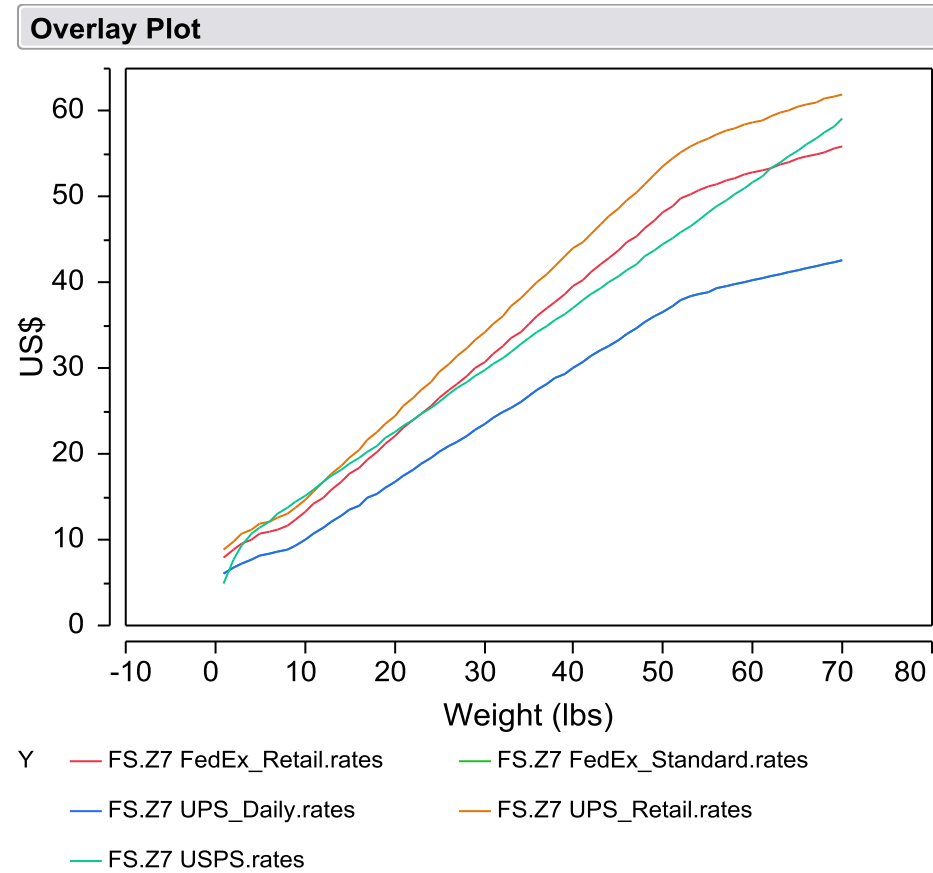
Ground Parcel Zone 5



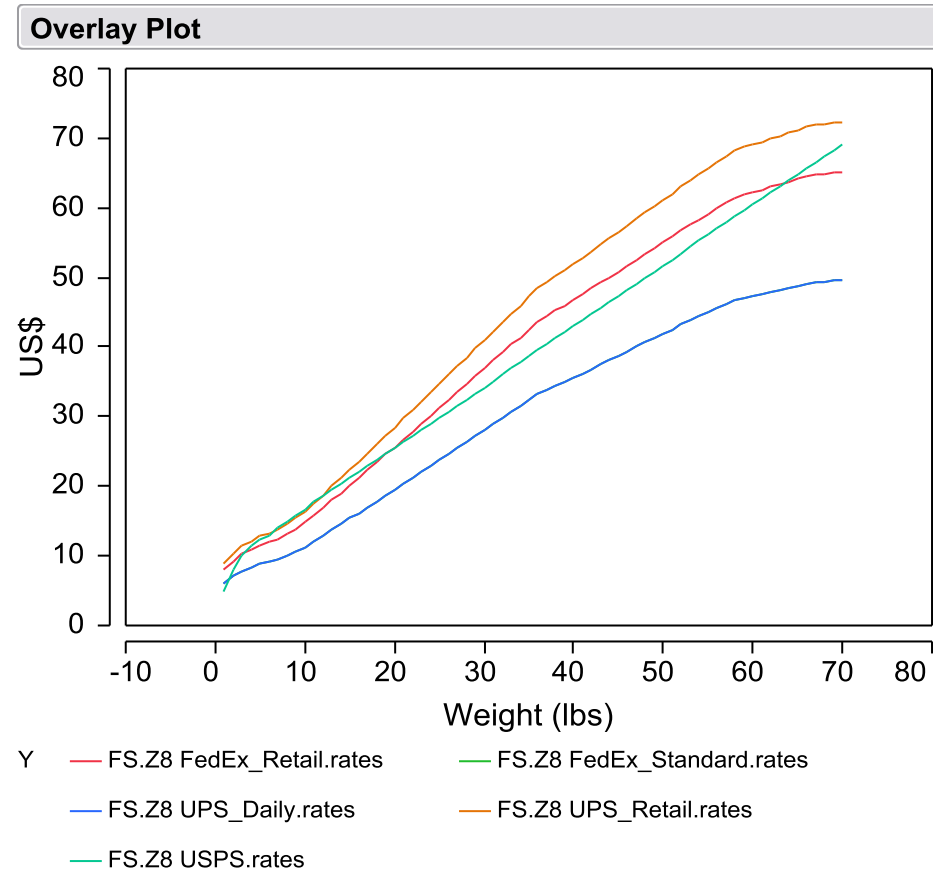
## Ground Parcel Zone 6



Ground Parcel Zone 7

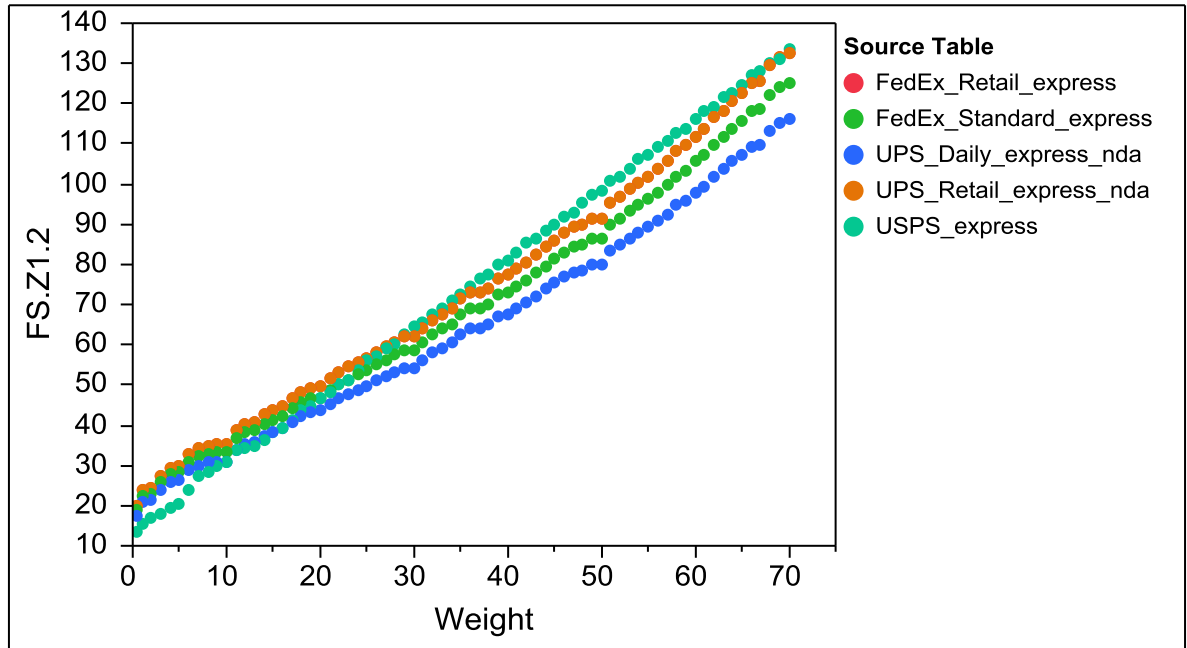


## Ground Parcel Zone 8



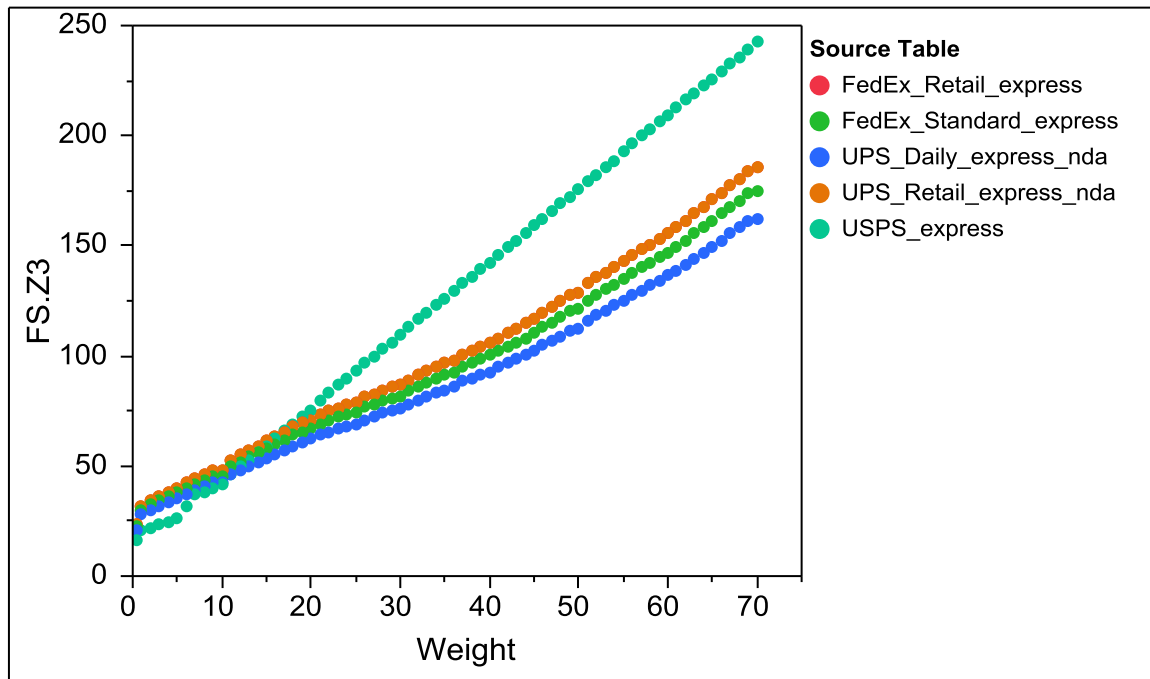
## APPENDIX D: 2010 OVERNIGHT RATES BY ZONE AND CARRIER

Overnight Zone 2 (also 1 for USPS)

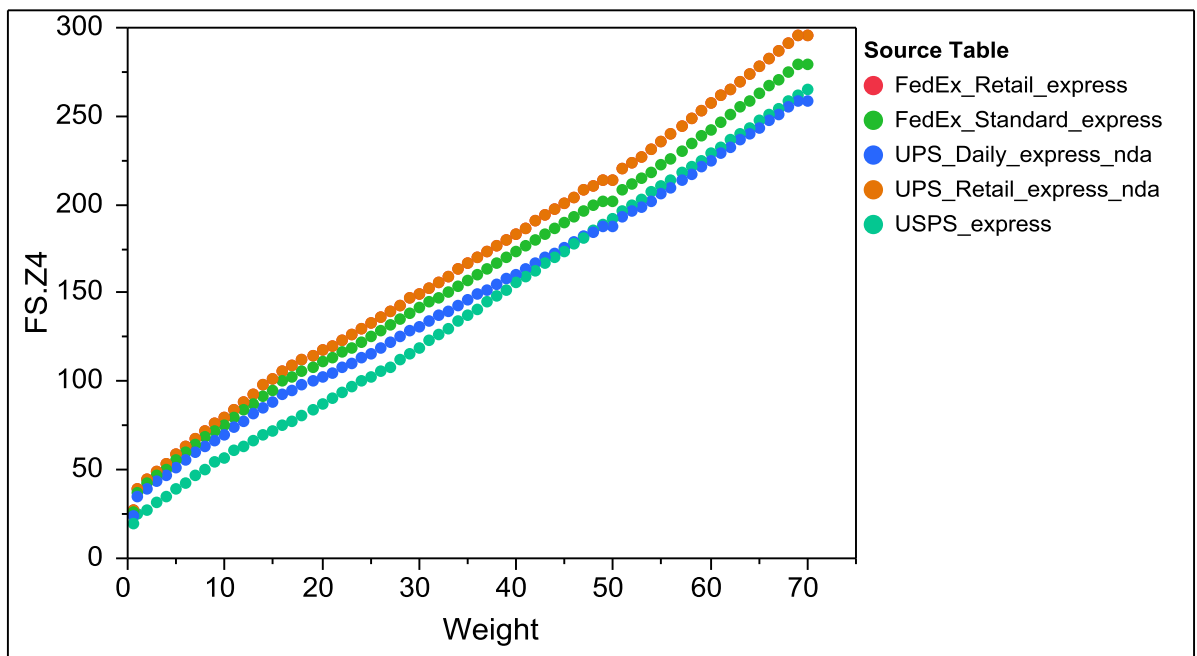




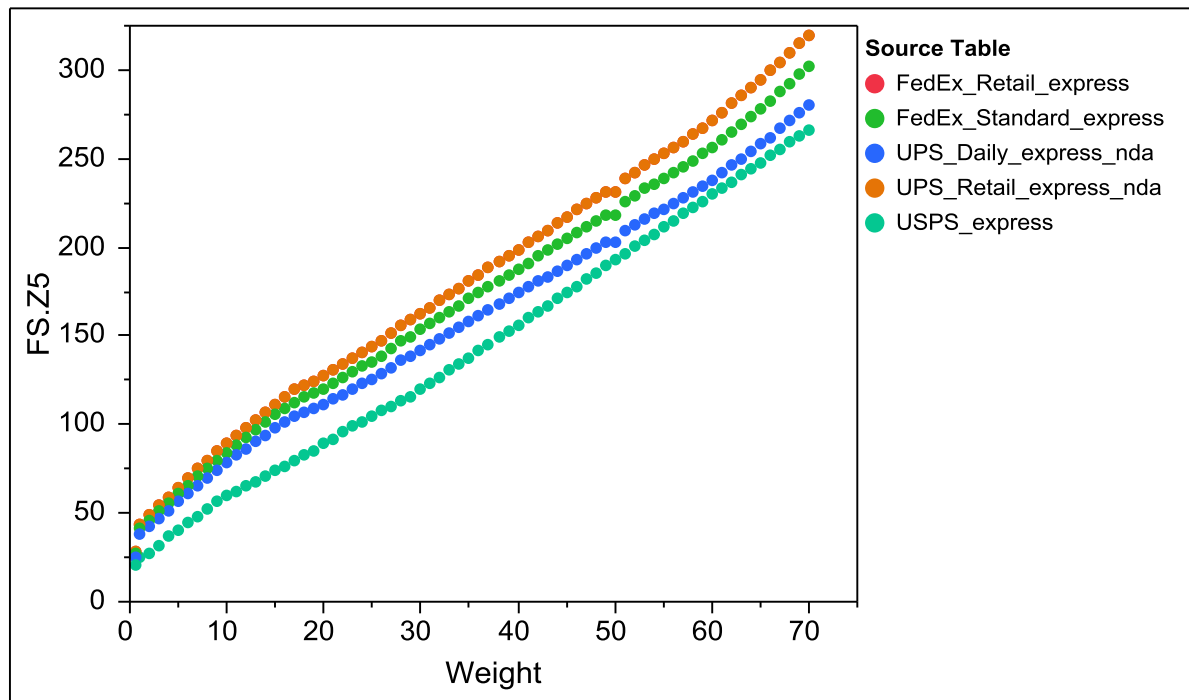
### Overnight Zone 3



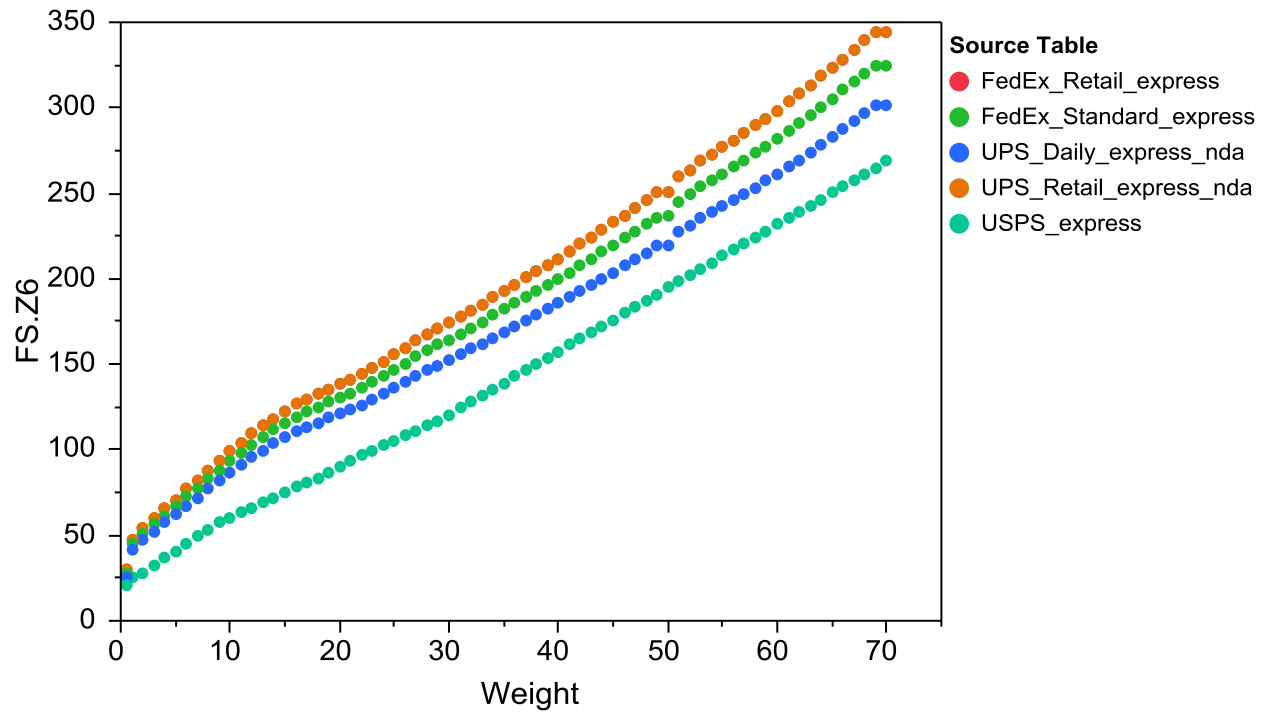
### Overnight Zone 4



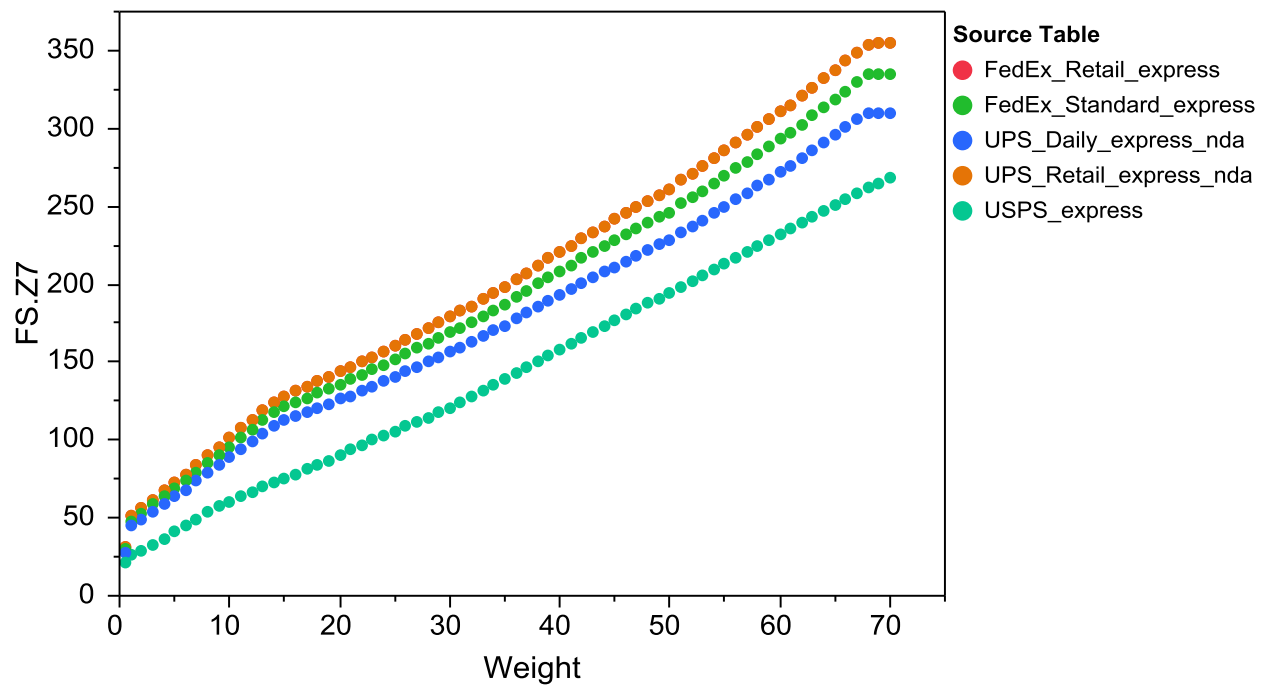
# Overnight Zone 5



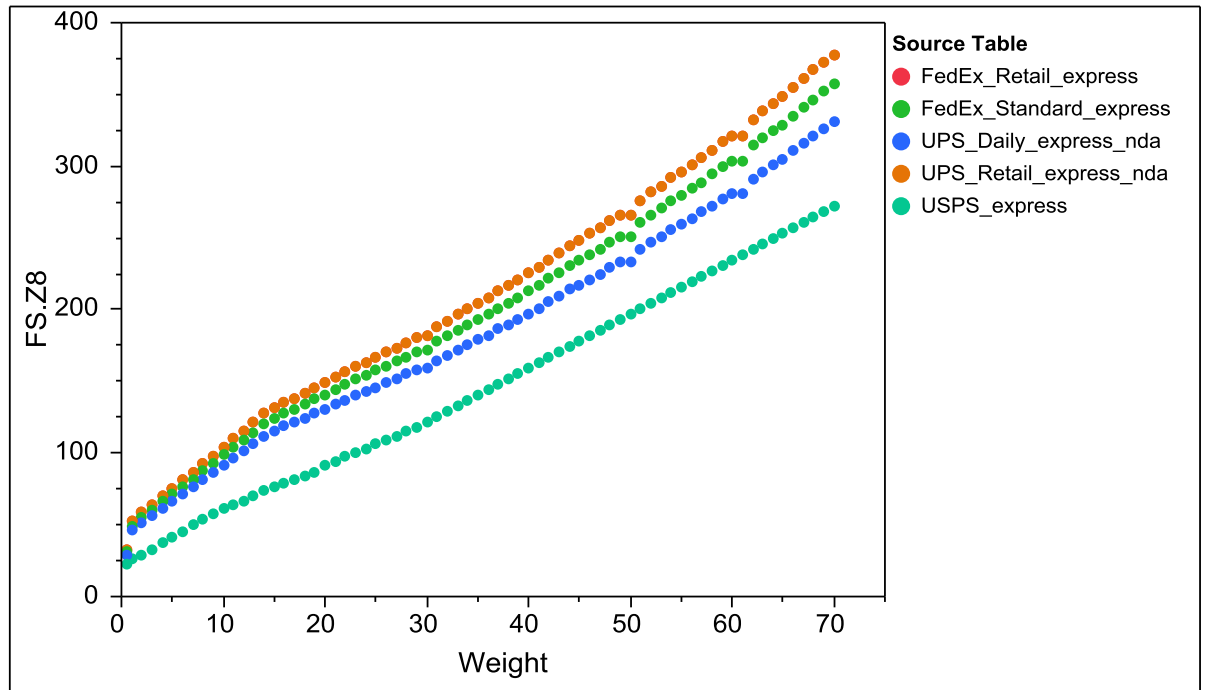
### Overnight Zone 6



### Overnight Zone 7



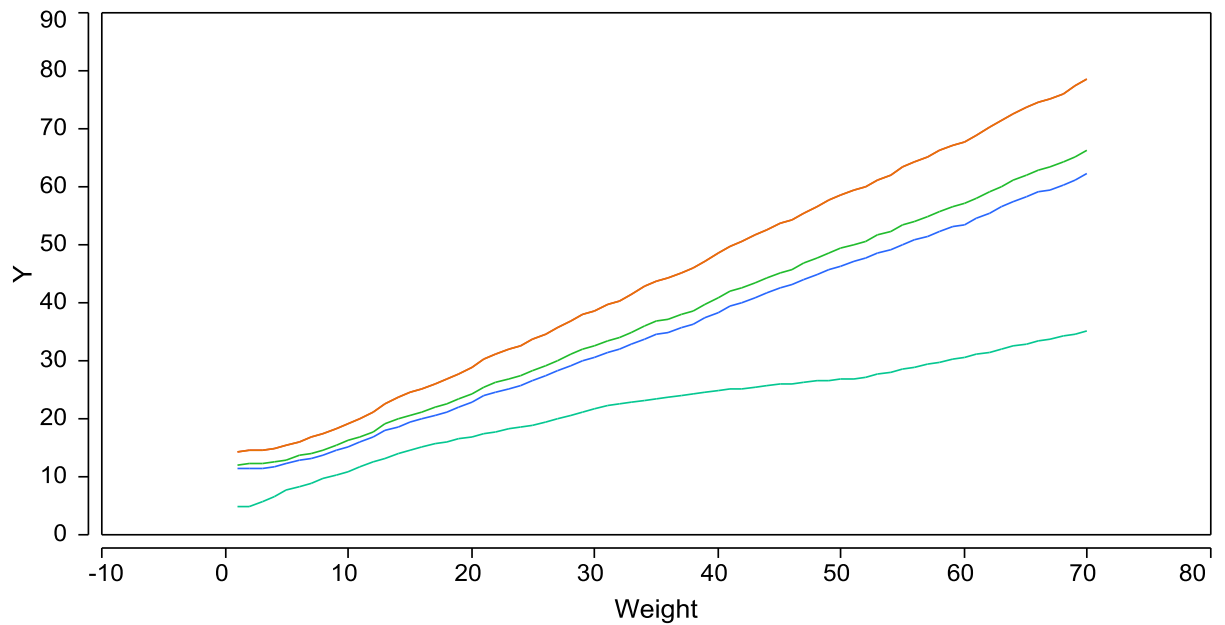
Overnight Zone 8



## APPENDIX E: 2-DAY AIR RATE COMPARISON CHARTS (PRIORITY MAIL, UPS AIR 2-DAY, AND FEDEX AIR 2-DAY)

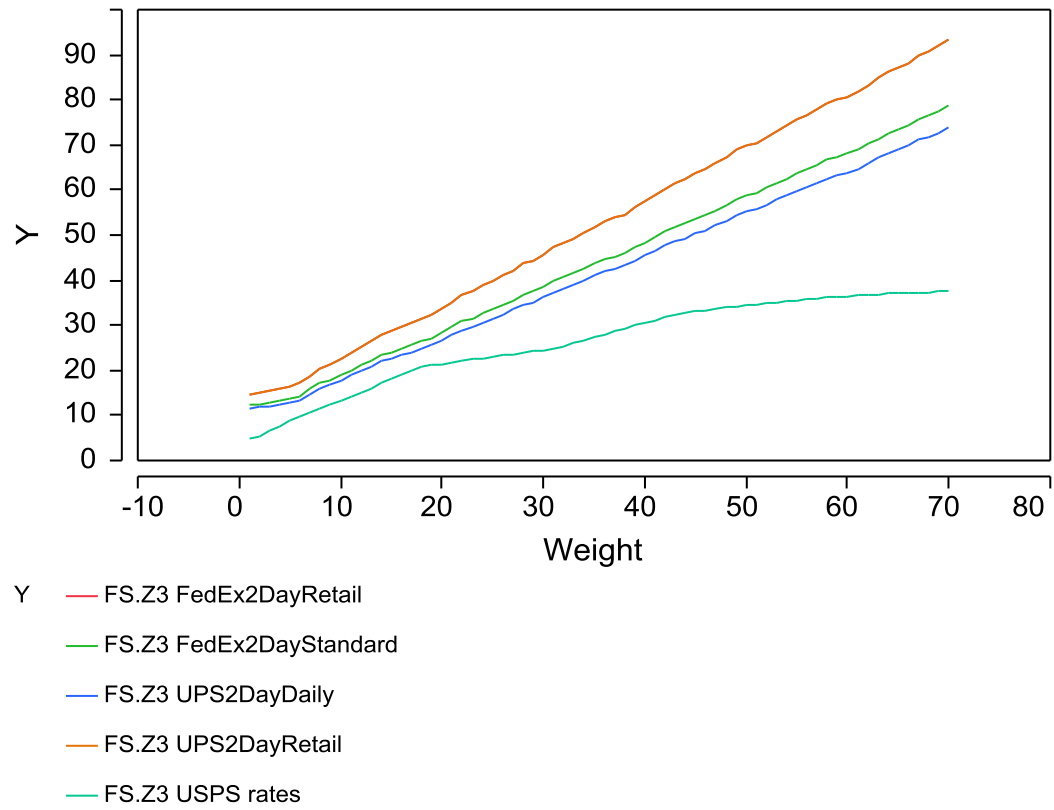
Note: For the 2 Day Service Product, FedEx and UPS have the same retail rates. The red/orange line represents the retail rate of both carriers.

### 2-Day Air Zone 2

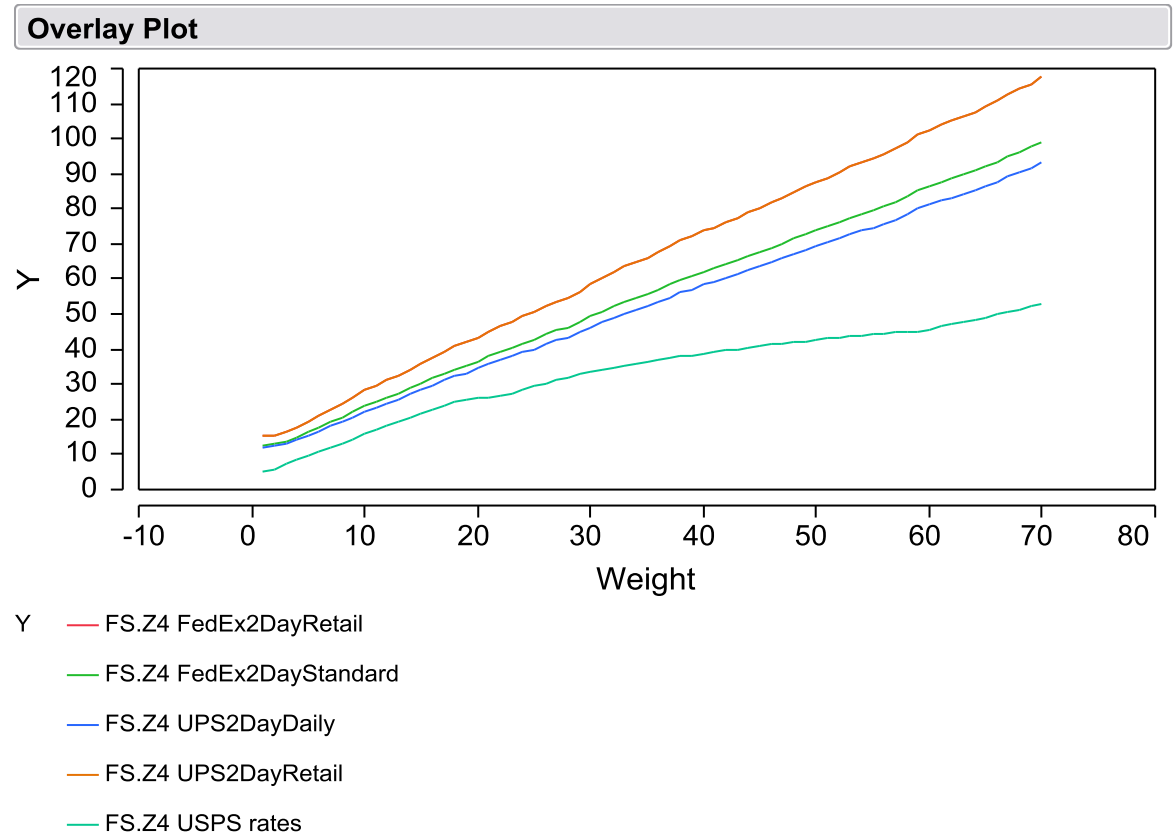


- Y
- FS.Z1.2 FedEx2DayRetail
  - FS.Z1.2 FedEx2DayStandard
  - FS.Z1.2 UPS2DayDaily
  - FS.Z1.2 UPS2DayRetail
  - FS.Z1.2 USPS rates

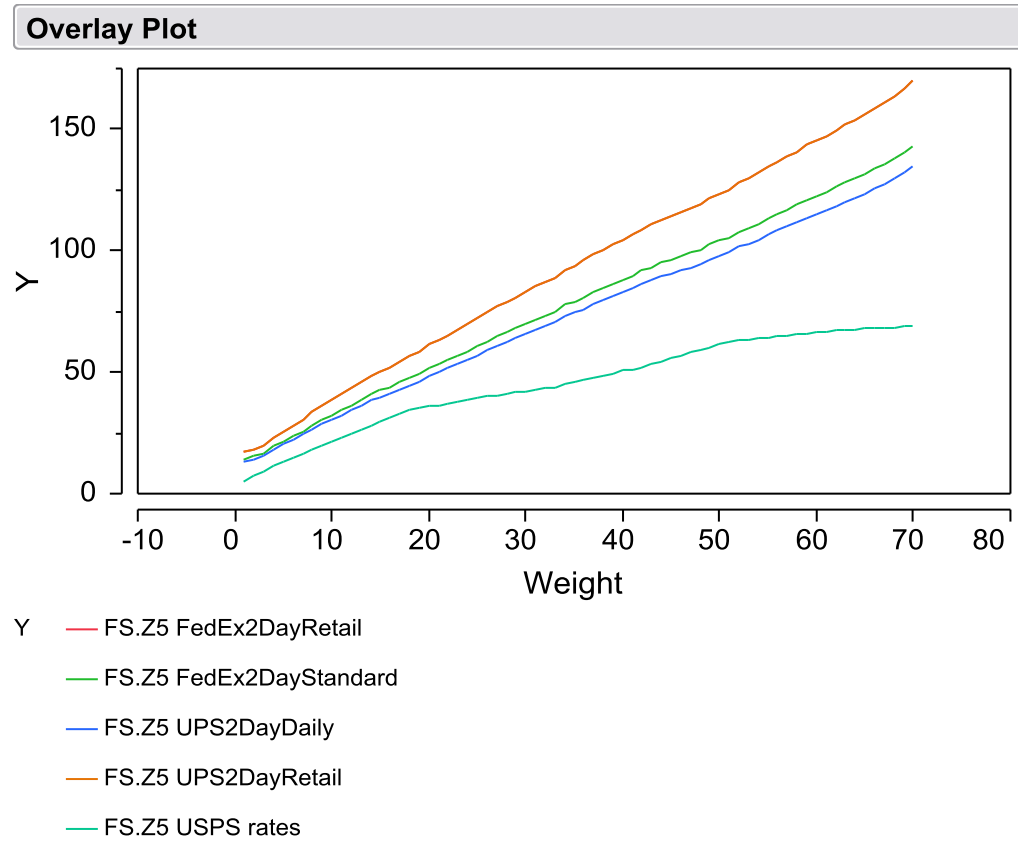
2-Day Air Zone 3



## 2-Day Air Zone 4

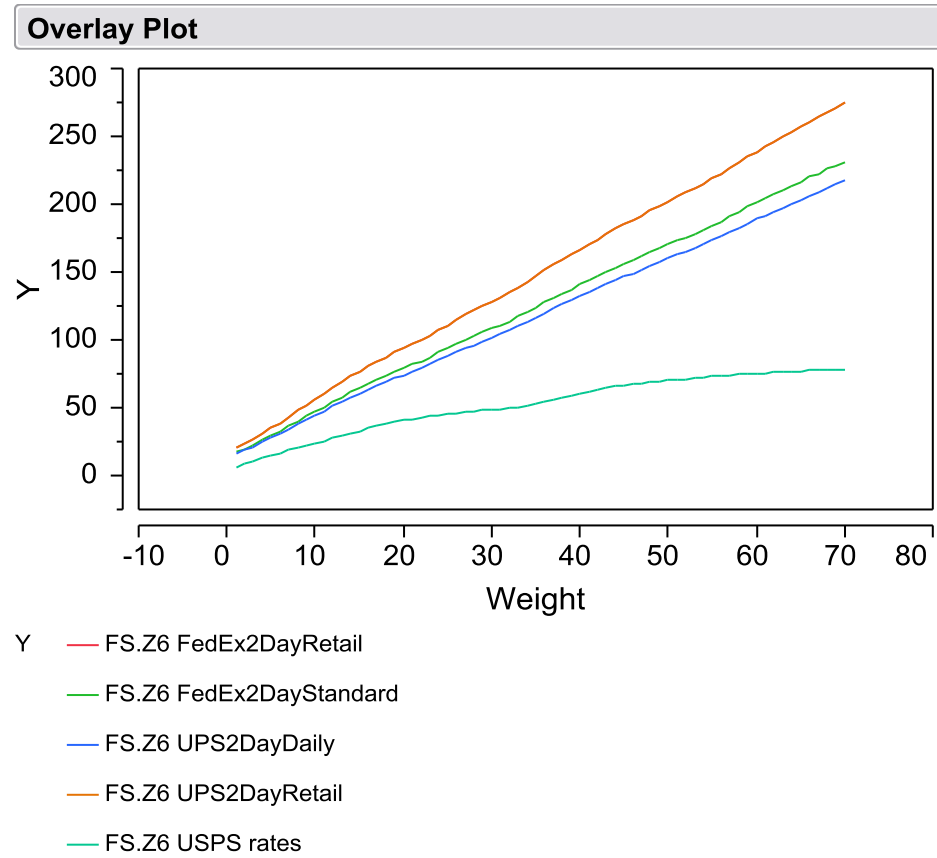


2-Day Air Zone 5

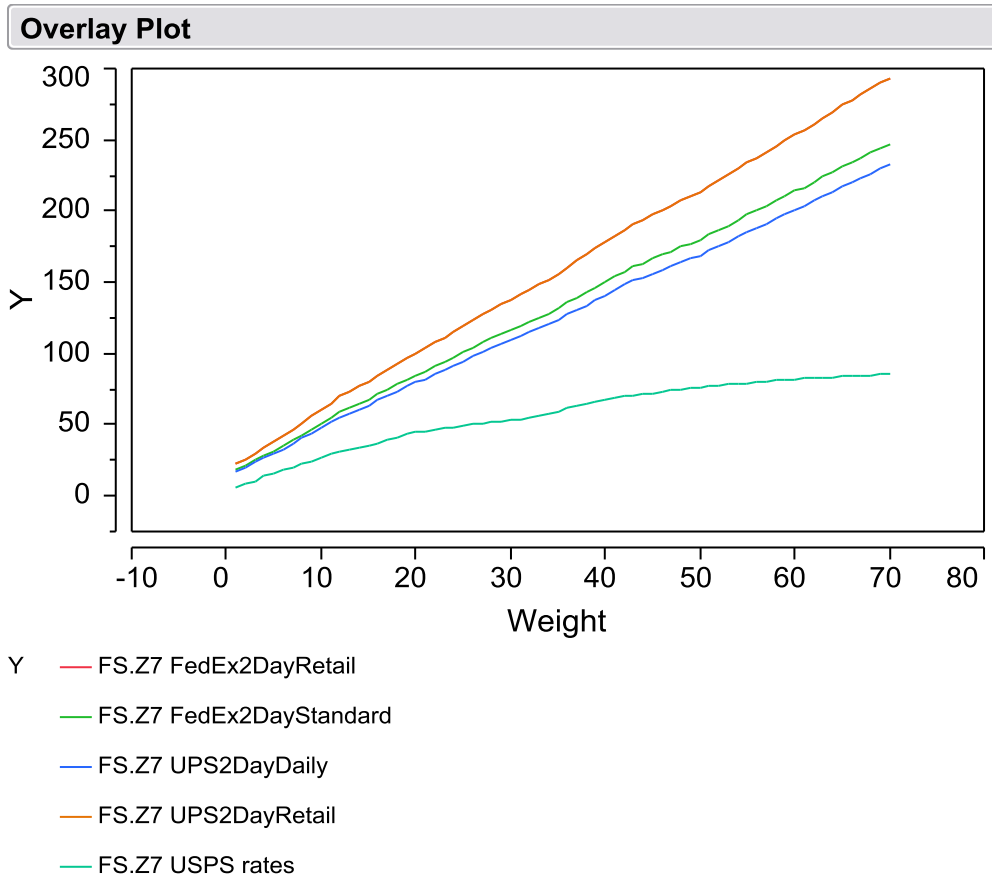




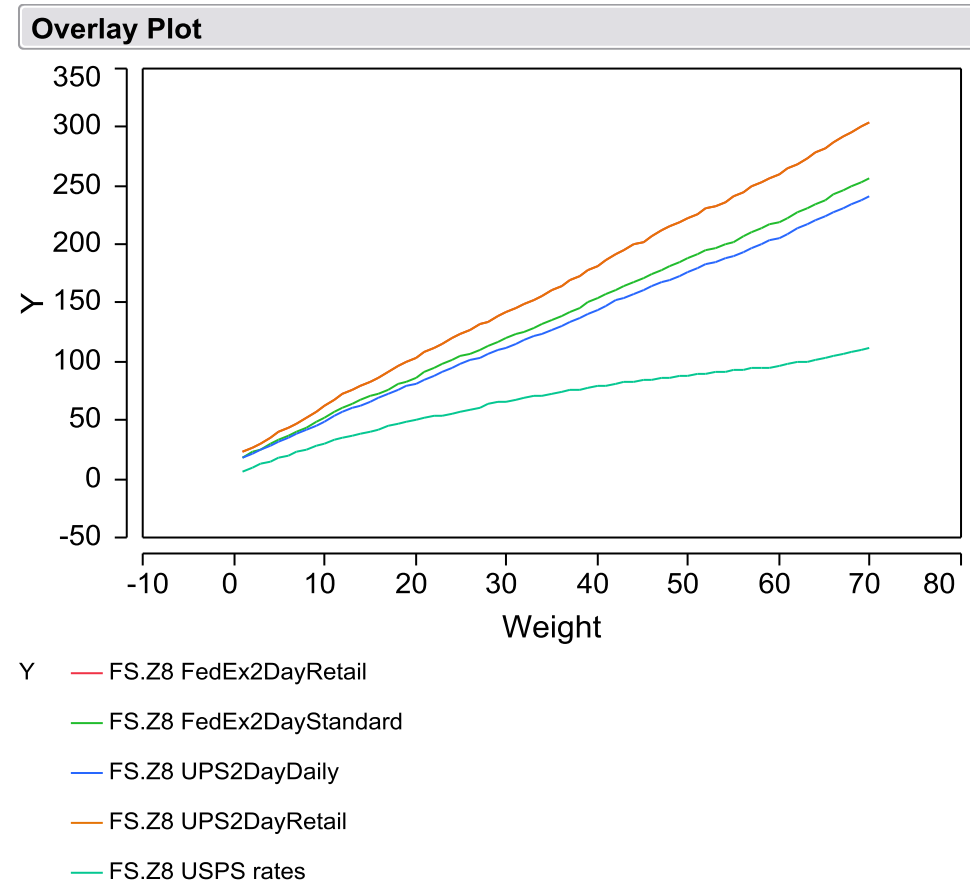
## 2-Day Air Zone 6



2-Day Air Zone 7



## 2-Day Air Zone 8

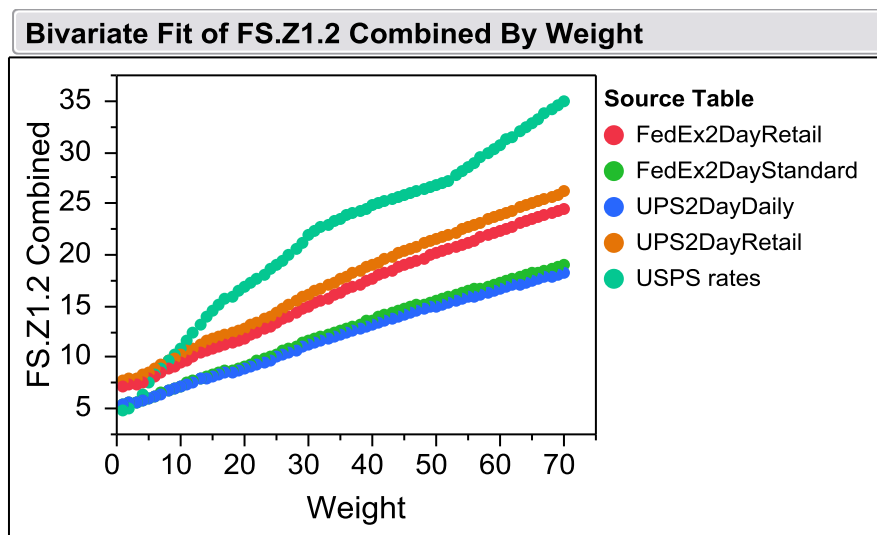


## APPENDIX F

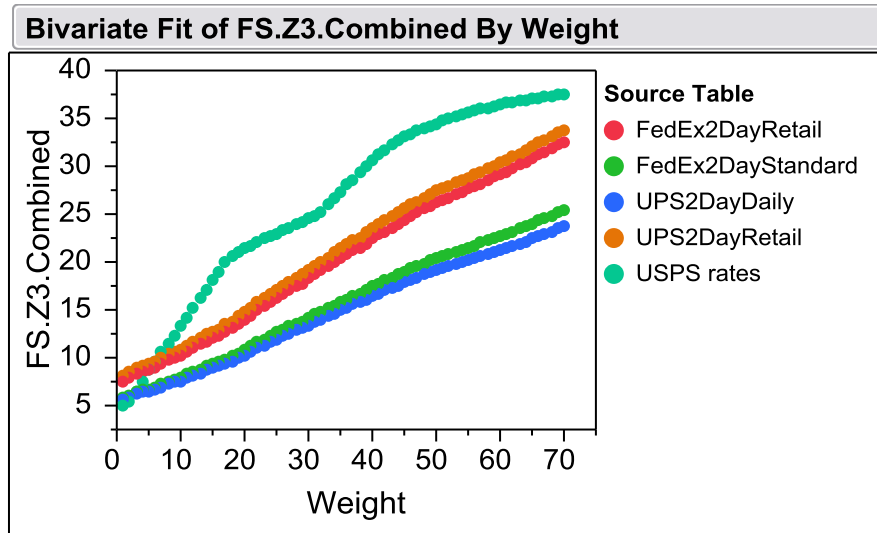
### 2010 BLENDED RATES BY ZONE AND CARRIER

Blended Rates in the following chart use a constructed rate for UPS and FedEx. The blended rates creates a rate that combines rates used by UPS 2-day air and UPS Ground based on the proportion of origin destination rates that receive 2-day service using UPS ground. If 75% of the origin-destination pairs get 2 day service from UPS ground then the rate used is  $.75 \times \text{UPS Ground rate} + .25 \times \text{UPS 2-day Air rate}$ . A similarly constructed rate is created for FedEx using the rates for FedEx Express 2-day Air and FedEx Ground.

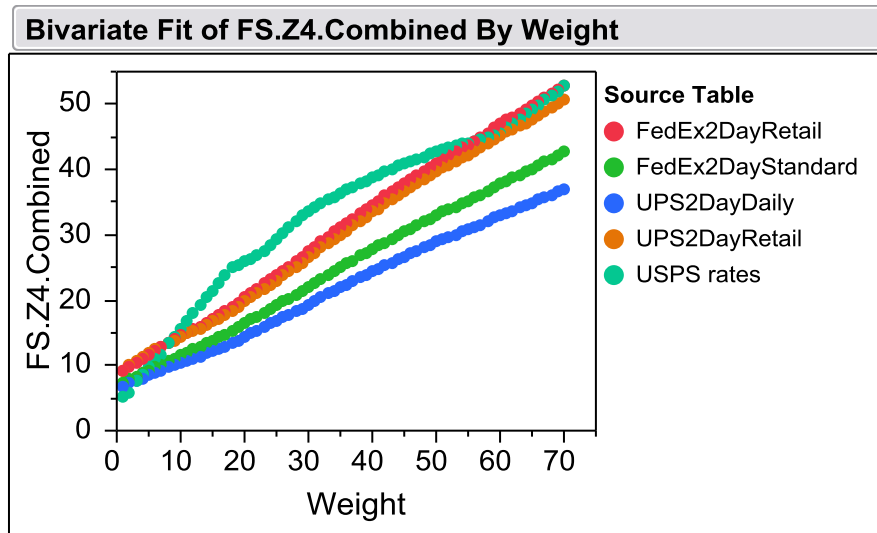
#### 2-Day Blended Rate Comparison Zone 2



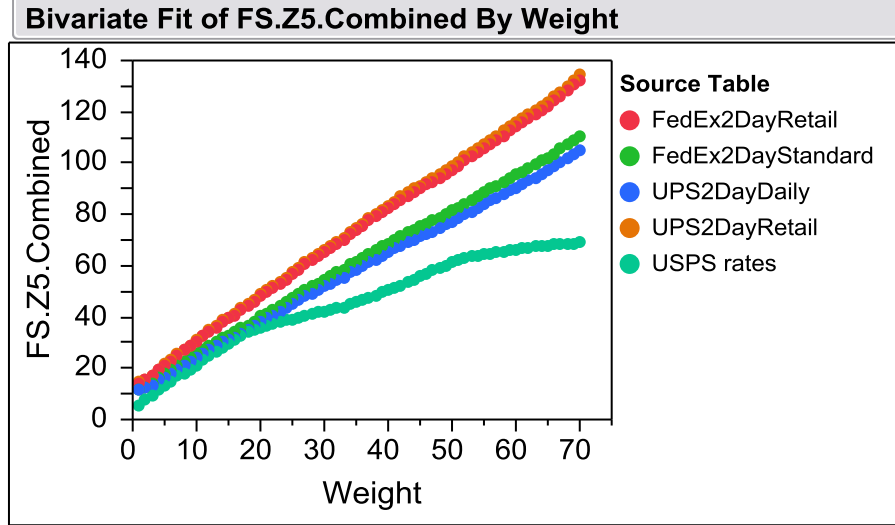
### 2-Day Blended Rate Comparison Zone 3



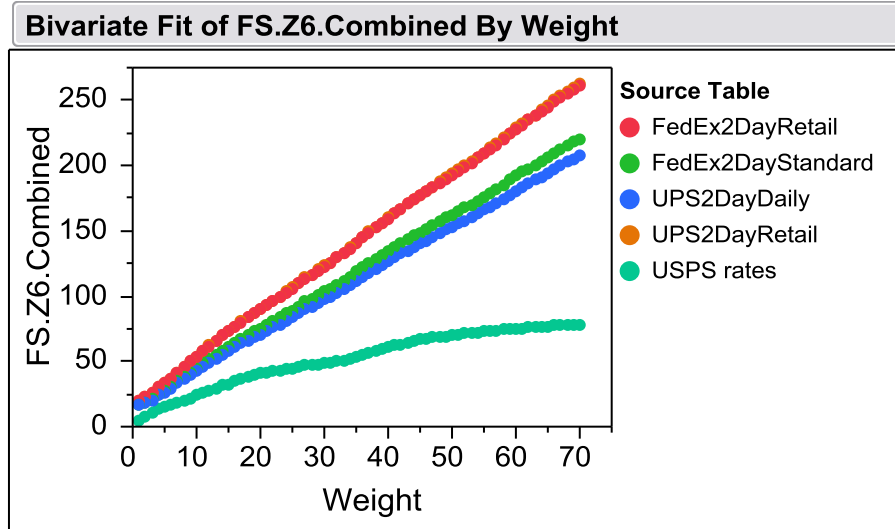
### 2-Day Blended Rate Comparison Zone 4



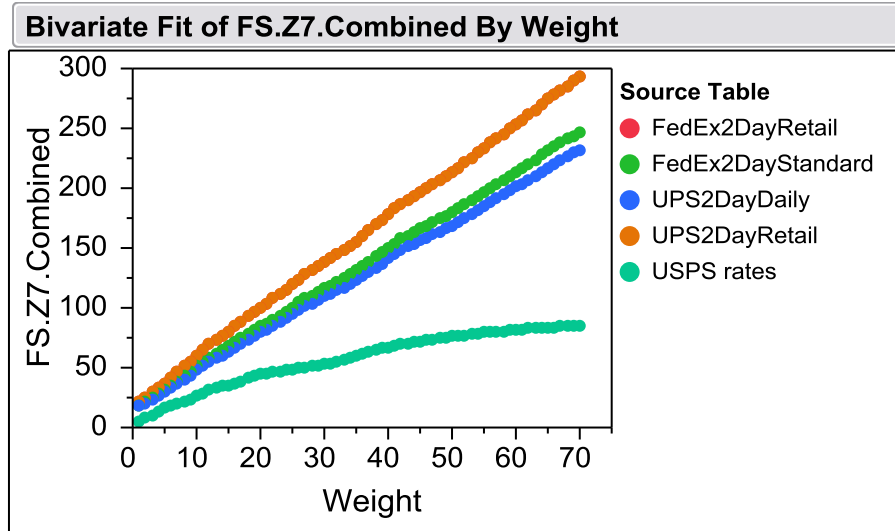
## 2-Day Blended Rate Comparison Zone 5



## 2-Day Blended Rate Comparison Zone 6



## 2-Day Blended Rate Comparison Zone 7



## 2-Day Blended Rate Comparison Zone 8

