

Transportation Studies  
Questions 3 and 4: The Postal Service  
and Services to Small and  
Large Businesses

Presentation to

The Postal Regulatory Commission  
Direct Communications Group and Analytic  
Business Services

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# Study Questions

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 delivery 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?



## 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?



# Focus of Examination

- Small Businesses include two distinct market segments
  - Retail business customers
  - Commercial business customers
- Market segments determined by shipping volume
  - Retail business customers
    - Ship a couple of parcels or express items per month or less
  - Commercial business customers
    - Ship parcels or express items nearly every week
    - Ship between a couple and 1,000 items per week



# Detailed Review of Advantages/Disadvantages

- Five product characteristics evaluated
  1. Availability
  2. Convenience
  3. Perceived Service Quality
  4. Customer interface
  5. Price
- Relative importance of characteristic depends on shipment contents and price sensitivity



# Postal Service's Availability Advantages and Disadvantages for Small Businesses

- Advantages
  - Postal Service products available in all communities
  - Postal Service collects parcels and express on Saturday
  - Only Postal Service delivers to PO Box, APO/FPO, DPO addresses
- Disadvantages
  - Postal Service collection times are often set earlier than senders are prepared to send express and parcel items.



# Postal Service's Convenience Advantages and Disadvantages for Small Businesses

- Advantages
  - Parcel shipping services available on Saturday
  - In the three most rural strata, the Postal Service may be 10 miles or more closer than private sector carrier locations.
- Disadvantages
  - Postal Service retail facilities open fewer hours than retail outlets of competitors
  - Postal Service drop off times often earlier than competitors
  - Postal Service retail locations less likely to be in strip malls
  - Postal Service on-line services do not allow purchase of First Class parcels and parcel post



# Postal Service's Perceived Service Quality Advantages for Small Businesses

- Overnight and two-day shipments shipped on Friday and Saturday are received faster, as only USPS operates 6-days per week
- Priority Mail shipments going coast-to-coast offer a faster service than UPS or FedEx ground.
- Postal Service is perceived as a small parcel specialist
  - parcels under 2 pounds
- Parcel Post and Priority Mail are products for customers that do not need full track and trace capabilities





# Postal Service's Perceived Service Quality Disadvantages for Small Businesses

- Private sector carriers have an earlier guaranteed arrival time for Express Services than the Postal Service
- Ground delivery service of private sector carriers usually faster than Parcel Post and faster than Priority Mail for most origin destination pairs in zones 2 through 4
- Perceived quality of private sector service higher in independent surveys
- Current users of private sector alternatives rarely have a service failure that would cause them to switch to USPS



# Postal Service's Customer Interface

## Advantages for Small Businesses

- Carrier pickup of Priority Mail, Express Mail, returns, and certain international services
- Simpler purchasing process for small businesses without postage scales and items that fit flat rate boxes
- Simpler product structure makes purchasing Priority or Express items simpler on line (fewer options than private sector carriers)
- Postal Service offers easier pick-up of parcels when recipient is not at home
- Private Sector software and hardware for mail postage services can also be used for parcels/express



# Postal Service's Customer Interface Disadvantages for Small Businesses

- Private sector carriers have dedicated sales representatives for small businesses
  - Contact is primarily over the telephone
- Postal Service requires pre-shipment payment for all shipments
  - Private sector carriers allow customers to estimate weight and drop off parcel
  - Carrier then weighs parcel and adjusts price to actual weight in collection or sortation process



# Postal Service's Customer Interface

## Disadvantages for Small Businesses (cont'd)

- Track and trace
  - No end-to-end track and trace system for Priority Mail, Parcel Post or First Class Parcels
    - Only Express Mail has a continuous tracking system similar to private sector
  - Delivery Confirmation does not provide the same level of information as track and trace systems of private sector
- Service guarantees
  - Postal Service offers no money-back service guarantees for any parcel product other than Express Mail
  - Service commitments with money-back guarantees of private sector apply to all parcels transported by air and ground



# Retail and Commercial Small Businesses Face Different Prices

- Pricing advantages differ for retail and commercial small businesses
  - Retail Small Businesses
    - Pay retail rates of private sector carriers
    - Pay retail or Commercial Base rates of Postal Service
      - Pay Commercial Base rates for Express Mail and Priority Mail
  - Commercial Small Businesses
    - Pay discounted commercial rates of private sector carriers
    - Discounts vary with weekly volume
    - Pay Commercial Base rates of Postal Service
      - Assumes purchase on line on by using private sector software/hardware
    - Discounts sufficient to make private sector rates lower than the Postal Service for most rate cells



# USPS Pricing Advantages and Disadvantages for Retail Small Businesses

- Retail small businesses often pay same prices as retail customers that buy services at a retail outlet
  - Advantage of Postal Service depends on weight and zone
  - Generally USPS has lower prices on the lightest weight items
  - Prices on long-distance Express and Priority Mail items much less than equivalent Overnight and 2-Day Service of Priority Mail
- Retail small businesses can take advantage of Click and Ship discounts that make Postal Service prices more competitive.
- UPS/FedEx Ground may be cheaper than Priority Mail for better or equal service in Zones 2 through 4



# Examples of Small Business Discounts: UPS 2011 Discounts to EBay Sellers

Total Weekly Gross Transportation Charges*	UPS Next Day Air® (Letter/Package)	UPS Next Day Air Saver® (Letter/Package)	UPS 2nd Day Air® (Letter/Package)	UPS 2nd Day Air A.M.® (Letter/Package)	UPS 3 Day Select® (Package)	UPS Worldwide Express® (Letter /Document /Package)	UPS Worldwide Saver®(Letter /Document /Package)	UPS Worldwide Expedited® (Document/Package)	UPS Standard to Canada	UPS Ground (Commercial & Residential)			
										(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%						



# 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 verses 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 Price Advantage / Disadvantage for Largest Commercial Small Businesses

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	3.15	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)



# Impact of Discounts on Other Products for Small Businesses

- Discounts have a different impact on Express Mail
  - USPS maintains price advantages over most rate cells
  - USPS advantages larger for residential deliveries
- Small businesses shipping B-2-B ground parcel shipments over 4 pounds still face higher prices even with Priority Mail Discounts
  - Postal Service prices remains competitive for shippers sending primarily to residences with items under 10 pounds
- Discounts by all carriers and UPS and FedEx pricing of lightweight items limits USPS advantages to a subset of the small business market



# Summary of Postal Services Advantages Retail Small Businesses

- Commercial small businesses
  - More convenient retail and self service locations in rural areas
  - Simple web site for occasional use
  - Simpler rate structure
    - Origin, destination, weight and box-size
    - Flat rate products which includes the cost of the box
  - Simpler pick-up options
    - Pick-up on demand
  - Lower rates for lighter weight items for residential delivery
  - Lower rates for lightest weight items for business delivery

Retail Small Business with high value items may still choose private alternative



# Summary of Postal Services Advantages Commercial Small Businesses

- Commercial Small Business
  - Simpler rate structure
    - Origin, destination, weight and box-size
    - Flat rate products which includes the cost of the box
  - Simpler pick-up options
    - Pick-up on demand
  - Lower rates for lighter weight items for residential delivery
  - Lower rates for lightest weight items for business delivery
  - Simpler rules for discounts
    - May be better value for seasonal shippers

Commercial Small Business with high value items may still choose private alternative.



# Primary Disadvantages of the Postal Service in Parcel Shipping

- **Service quality**
  - Shipping times on Priority Mail and Parcel Post below service levels of UPS and FedEx Ground for many origin-destination pairs
- **Billing**
  - Differences in billing method complicates switching
- **Perceived and Actual Reliability**
  - Perceived reliability of UPS/FedEx is higher
  - Track and trace system is superior for all but overnight parcels (Important for higher value parcels)



# Postal Service Faces Significant Disadvantages in Serving Commercial Small Businesses

- UPS and FedEx give commercial small businesses discounts based on volume.
- Discounts and rate structure often results in rates for UPS or FedEx being lower for both B-2-B and B-2-C shipments
- Price (with and without residential surcharges)
  - Volume thresholds for UPS/FedEx discounts discourage using multiple carriers and mixing and maxing carriers by weight/distance
- Commercial small businesses can use Click and Ship rate discounts only for Express and Priority Mail
  - Parcel Post and First Class rates are not included (at time of study)



## 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?



# Large Volume Shippers have Even Larger Discounts from UPS/FedEx

- Discounts can be as high as 50%
- Discounts often reduce accessorial charges
  - Residential Surcharges
  - Rural surcharges
  - DIM weight application
- Discounts may include a lower minimum charge
- Discounts often tailored to shippers shipment profile
  - Different discounts for specific weight cells and zones
- Discounts include tie-ins for international shipping and other products
- Contracts may also include IT support to install software





# Service also Creates Difficulties for the USPS When it is Price Competitive

- Large Shippers Focus on Service, Customer Interface and Price
- B-2-B Shippers find few instances when Postal Service products are competitive on all three factors
  - Large B-2-B Shipper customers often expect UPS or FedEx delivery
- Large B-2-C shippers face different pressures due to focus on free delivery
  - Price is a critical element for this shippers
    - Impact of delivery costs on sales drives parcel shipping price focus
  - B-2-C recipients more comfortable than B-2-B recipients with Postal Service delivery and accept slower service for free delivery



# Private Sector Price Structure, Discounts and USPS Advantages on Specific Services/Customers

- Items sent to residential addresses
- Light weight/small items
  - Primarily shipments subject to private sector minimum charges
  - Also Media (i.e. books, video, music, etc.) due to preferential rate
- Lower value shipments
  - Shipments that do not have sufficient value to require recipient signature
- Less time sensitive shipments
  - Shipments sent to customers that value low shipping cost over shipping speed



# Postal Service Products that Serve Needs of Larger Shippers

- First Class Commercial Parcels
- Standard Mail Commercial Parcels
- Parcel Select
- Parcel Return Service
- Media Mail
- Priority Mail Contracts



# First Class Commercial Parcels

- Parcels under 13 ounces
- Shipments to customers that do not expect a delivery from a higher priced private sector carrier
- Low value items not requiring tracking and often not requiring delivery confirmation
- Parcels requiring reasonably speedy delivery, although often slower than ground service of UPS or FedEx
- Parcels sent directly from sender to recipient (Rarely used in conjunction with a consolidator)



# Standard Mail Commercial Parcels

- Parcels under 1 pound
- Shippers focused on cost of shipping
- Low value items not requiring tracking and often not requiring delivery confirmation
- Parcels not requiring speedy delivery,
- Often used in combination with a consolidator such as Neugistics, FedEx SmartPost, UPS Sure Post, or DHL Global Mail
  - Consolidator charge and USPS postage less than First Class parcel rate



# Standard Mail Non-profit Parcels

- Shippers that qualify for non-profit rates
- Parcels under 1 pound
- Shippers focused on cost of shipping
- Low value items not requiring tracking and often not requiring delivery confirmation
- Parcels not requiring speedy delivery,
- Often used in combination with a consolidator such as Neugistics, FedEx SmartPost, UPS Sure Post, or DHL Global Mail
  - Consolidator charge and USPS postage less than First Class parcel rate



# Parcel Select

- Shipments destined to primarily residential addresses
- Large Volume parcel shippers of parcels weighing
  - More than 1 pound
  - Usually less than 10 pounds
  - Most frequent parcel weight: 1 - 5 pounds
- Shipments with lower dollar value
  - For low value items, shipping costs could determine sale.
- Shippers more concerned with delivery costs than:
  - Speed of delivery
  - Availability of full track and trace service
  - Signature upon delivery



# Parcel Return Service

- Shippers offering free returns
  - Usually shippers with residential customers
  - Exceptions':
    - Returns that require quick delivery
  - Returns that require full track and trace and/or signature receipt
- Shippers requiring a drop-off location convenient to all of its customers for returns.
  - Particularly important for shippers with customers in rural locations who want to offer this service
- Shippers with contracts with an authorized Third Party Logistics supplier (e.g., Neugistics and FedEx Smart Post)





# Media Mail

- Price sensitive shippers of Media items that meet USPS criteria
  - Books, sound recordings, recorded video tapes, printed music, and recorded computer-readable media
- Shippers not requiring speedy service
- Shippers not requiring full track and trace service
- Shippers not requiring signature on receipt



# Priority Mail Contracts

- Shippers with items that send many items that can fit
  - Flat rate boxes
  - Standard Priority Mail boxes
- Shippers generally sending parcels under 10 pounds
- Shippers generally focused on serving customers with residential addresses
- Shippers with sufficient volumes
- Shippers that want the Postal Service to pick up shipments from warehouse
- Shippers that want faster service than available with combined Parcel Select / consolidator service



# Conclusions

- Discounts offered by UPS and FedEx limit the set of small and large customers that the Postal Service can offer a price competitive product
  - Parcels under 5 to 10 pounds (market share data supports this)
- Discount thresholds may make using USPS and a private sector not cost effective
  - Dividing shipping volume between USPS and a second carrier may reduce discount sufficiently to eliminate cost savings from using the Postal Service when it is cheaper.
- Even when the USPS is less expensive, less price sensitive customers may prefer product attributes of UPS and FedEx



## Conclusions (cont'd)

- Discounts offered by UPS and FedEx are such that USPS rates compete with private sector rates that include residential surcharges
- USPS Rates less competitive with B-2-B shipments as rates appear designed to compete in higher priced B-2-C delivery market
- Postal Service may have an advantage in providing return services due to retail network
- Postal Service may have an advantage in rural areas due to greater access to retail facilities.

