

Customers, Markets, and Opportunities in 2010



Office of Strategic Planning
August 2001

Introduction

Market Futures in 2010



Selecting the Markets

The Postal Service must monitor 6 markets to guide its path forward.

- USPS operates in 4 industries - Communications, Advertising, Financial Services, and Logistics
- USPS has an unsurpassed Retail and Delivery infrastructure

The Current Postal Service Role by Market

- **Communications:** Letters, postcards, newsletters
- **Advertising:** Direct mail and First-Class Mail
- **Financial Services:** Checks in the mail, money orders, e-bill payments
- **Logistics:** One of the largest transportation networks in the US
- **Retail:** Retailer and universal access provider
- **Last Mile:** Leader in last mile services

Project 2010 Value Chain

Project 2010 Value Chain



- The six markets form a large, complex and increasingly integrated value chain that:
 - **Links customers accessing products and services**
 - **Via physical and digital retail channels**
 - **Sending messages, money, and merchandise**
 - **Via a variety of delivery channels**
 - **To recipients**

Agenda

- Customers
- Economics
- Markets
 - Communications
 - Advertising
 - Financial Services
 - Logistics
 - Last Mile
- Summary Implications



Customers

*More choices, less
time, more power*



The New Majority

Healthy, wealthy, wise ... and diverse

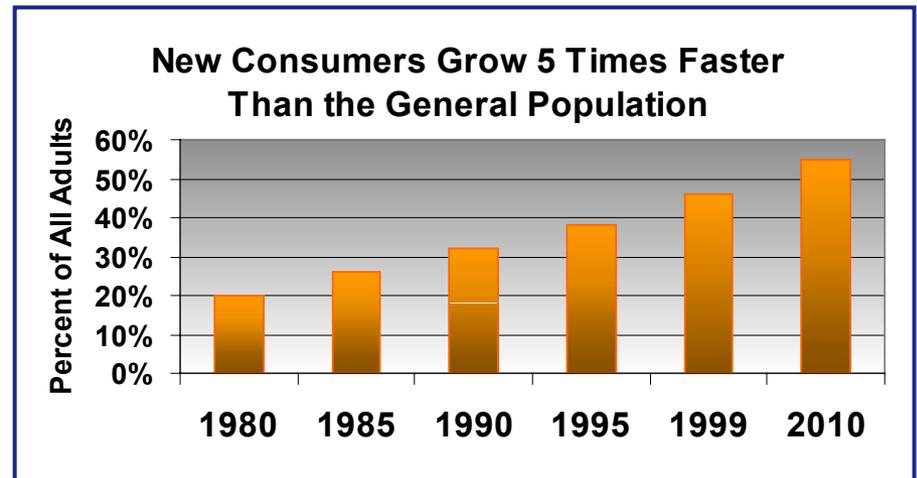
New Consumers will be the new majority

- In 2010, 54% attended some college, live in homes with PCs and income > \$50k
- Savvy shoppers, intensive users of information, value control

Baby Boomers retire, stay healthy, move to the city, and travel

Echo Boomers enter peak spending years expecting to interact

Latinos double share of New Consumers by 2010, concentrated in coast cities, median age 13 years < Whites



More money was spent last year on computer games than on movie theatre tickets

New Consumers

Costs, compromises and concerns

Time



- 73 hours per year in lines
- 2,700 advertising messages a day
- 1 day per year waiting for downloads

Opportunity



- Miss the Sopranos on Sunday
- Can't find the best products and services
- Forget key things
- Can't always act on impulse
- Don't know what we are missing, e.g., web sites or books

Money



- Finances are not optimal
- Can't connect various accounts and passwords
- Don't find the best offers
- Pay for redundancy, e.g., content we never absorb or watch

Peace of Mind



- 40% of new consumers feel “under great stress” several days a week
- Don't see families enough
- Worry about privacy, security
- Losing calendars, PAs, or mobiles is a disaster

Power to the people

Consumers will finally be in charge

- Information will be cheap and widely available; New Consumers will know how to use it
- Time-starved consumers will outsource life management tasks
- Businesses will interact with their customers, from R&D to after sales customer care
- Supply chains will be flexible enough to **mass customize, shorten product and fashion cycles, and postpone fulfillment**
- If they trust you, consumers will provide information in exchange for benefits



Economics

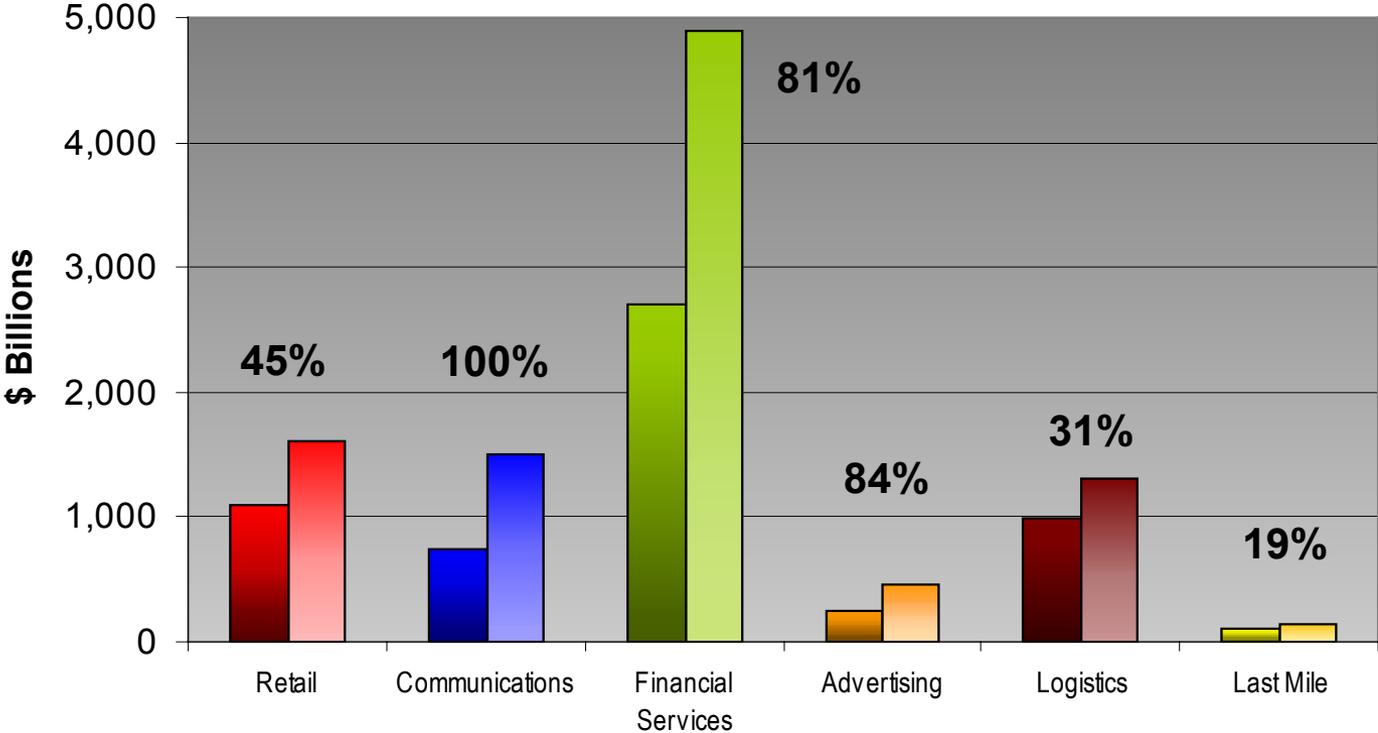


Growth across the board, with traditional products providing the fuel for new services

Economic Growth by Market

Messages and Money industries will grow faster than Merchandise services.

Growth by Market from 2001 to 2010



A Profit-Based Economy

The “New Economy” of 2010 will not be like the first one.

It will be profitable.

Mistakes Were Made

- **Hello and goodbye.** Last mile entrants didn't understand economics
- **Make it up in volume.** E-tailers gave away shipping
- **Build it and they will come.** Over capacity in telecommunications and logistics
- **Who needs a brand? We do.** Pure play on-line banks lacked brand and survivability
- **E-Advertising.** No one clicked through

Profits will come from the **intangibles**:

Information



Trust



Brand



Services



Core product cash cows will enable new services

Retail: Tangible assets will support intangible services

Information and Communications: Fixed line and voice will provide investment sources for mobile and data

Financial Services: Brick-and-mortar will be the base for multi-channel

Advertising: Traditional media channels will become interactivity

Logistics: Trucking will support 3PLs and consulting

Last Mile: Products will be leveraged to offer value-added services



Communications

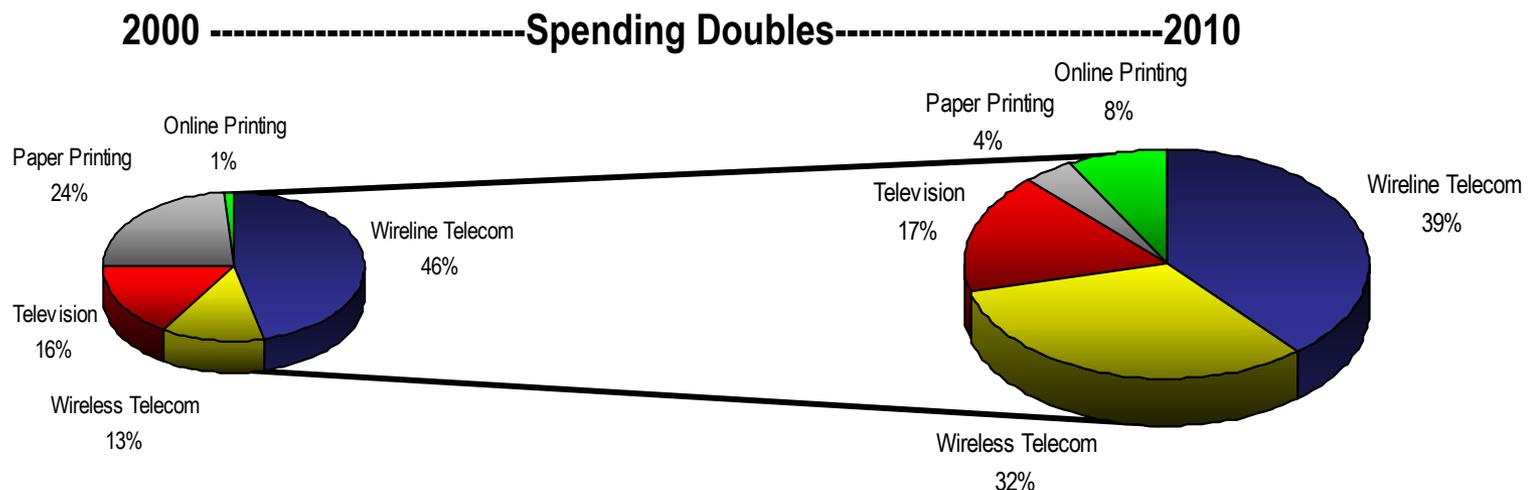
*The gateway to messages
and information*



The Communications Market

Communications is the management and transfer of messages and information between senders and recipients

- Includes voice, data, audio, and video
- The \$750B Communications market will double by 2010
- Traditional media, e.g., landline telephony and paper printing, holds its own
- Explosive growth will come from mobile communications and online printing



The Best of Both Worlds

So far, the Internet has tended to complement, not cannibalize, newspapers and magazines

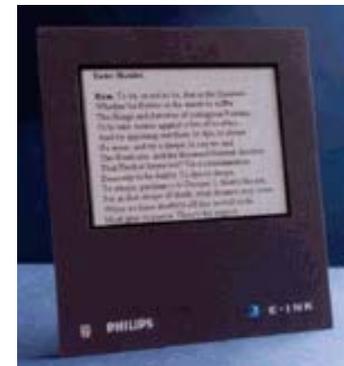
However, when technology combines the best of paper and ink (clarity, portability, low cost) with the strengths of digital (real-time updates, large storage capability), all bets are off



- eBooks allow traditionally static textbooks to incorporate animated graphics



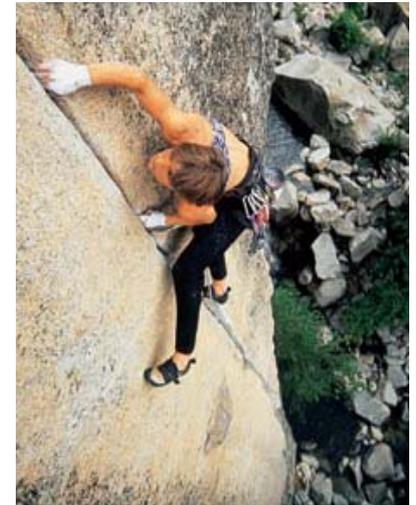
- New Electronic Ink will combine the black and white image clarity of books with an electronic screen



Distribution climbs up the printing value chain

Publishers will build distributed print facilities to take advantage of **Print-On-Demand technologies** that print customized, high-quality color output **closer to end customers**

Use of Hybrid Mail will increase as short run color printing and electronic document transmission become faster, less costly, and higher quality



TNT Post Group (TPG) will begin printing self-adhesive stamps directly at their post office counters



Move up the document value chain into distributed printing.



What will we do with all this paper?!

Businesses will increasingly create, manage, and transmit documents solely in electronic form

But **Financial Services, Legal, and Government** enterprises in particular will continue to manage vast amounts of paper

To provide platform-independent delivery, these paper documents must be **digitized** and **searchable**

A law firm launched a wireless-enabled web site that allows customers to connect with attorneys. A secure client extranet enables users to share docketing, case calendars, and research information, check e-mail and host online meetings, all from their mobile device.

25% of document life cycle costs come from retention and archiving

- Group 5 Group Ltd.

Data storage costs drop 50% to 60% each year – 1 GB of memory now costs less than \$20



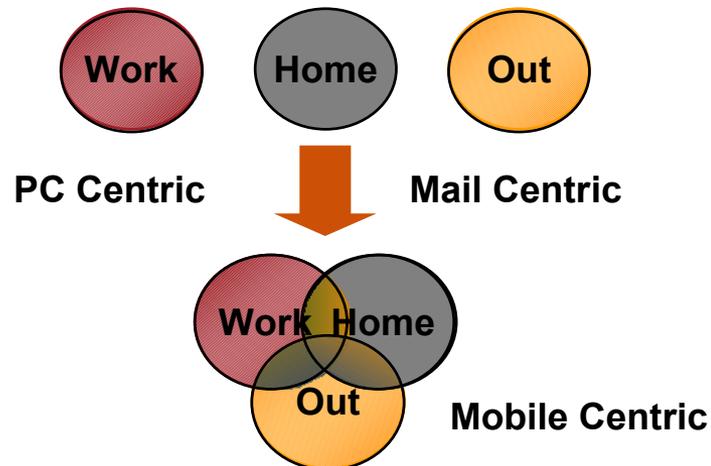
Provide paper to electronic conversion services.

Reaching Customers at the Intersection of Time and Place

A mobile society may render the notion of a permanent address obsolete, making the **Gateway to the Individual** key

Customers will be **“always on,”** always working, shopping, playing, communicating

Wireless devices plus location sensors will enable message providers to deliver **immediate location-specific information**

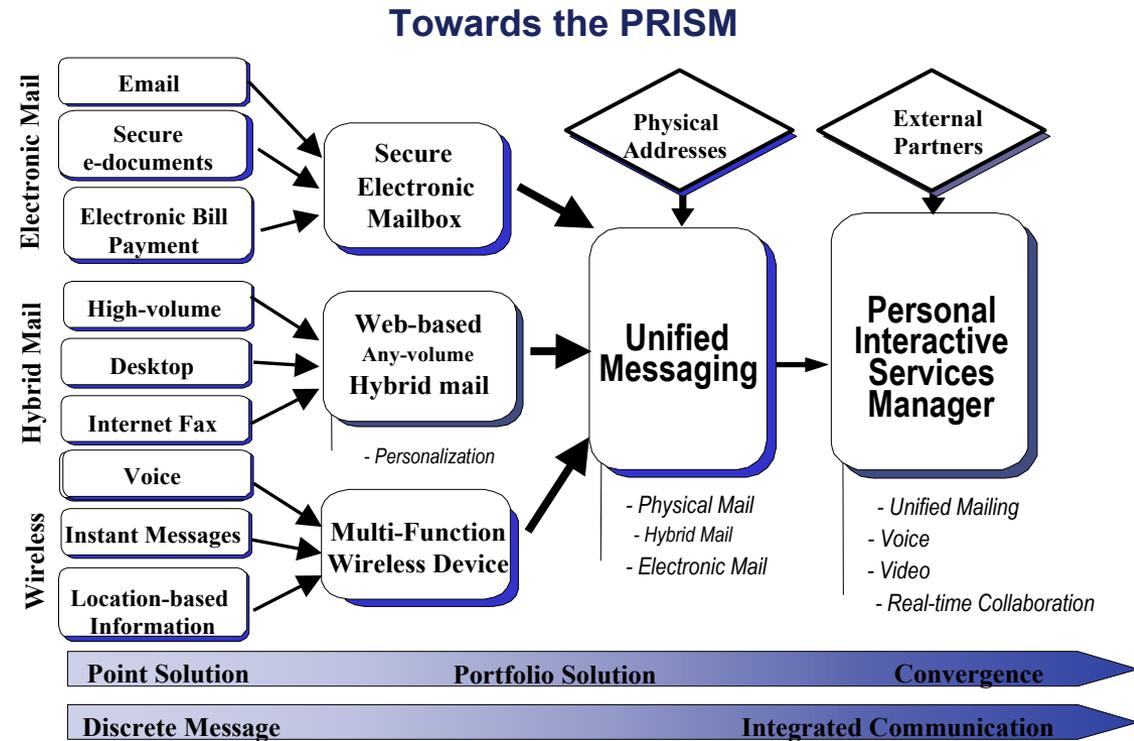


Become the bridge between the mobile individual and her ever-changing physical location.

Communications consumers need a switch hitter

In 2010, a Personal Interactive Services Manager (PRISM) will provide:

- **Personalized** content and applications customers want
- Through the **devices** they choose
- With the flexibility to **switch** the end device in real time



Source: PwC Analysis

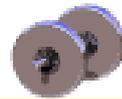


Develop platform-independent switching capabilities.

Communications Opportunities and USPS Strengths



Opportunities



Strengths

Offer distributed printing services	<ul style="list-style-type: none">• Huge facility infrastructure, leader in paper delivery
Become a paper to electronic converter	<ul style="list-style-type: none">• OCR/image lift capabilities, efficient paper processing, retail
Find the mobile consumer	<ul style="list-style-type: none">• Address management, local expertise
Become the electronic-paper switch	<ul style="list-style-type: none">• Addresses, trust, monopoly, hybrid mail
Become the portal for government information and communications	<ul style="list-style-type: none">• Retail network infrastructure, unique link to government

Advertising

*Acquiring and retaining
customers*

the night before
* * * * * Christmas



Photo: Robert Gering. TV set and woman made by Bell. © Bell Telephone Laboratories, Inc. 1955. Photo by Robert Gering.

put Packard-Bell
all through
your house



Packard-Bell

What a thrill to make Christmas evening in a home that will mean and joy! There's a beautiful, deluxe, Top-Frost-Freeing Packard-Bell TV with the most complete Remote Control ever for the whole family, a beautiful 3-tube Hi-Fi to put in the den, a Deluxe Clock Radio for Mom and Dad's room, a handsome Personal Radio for Dad's...and a stylish Personal Portable for Ma. Whether you're looking for one gift...or a haulload...the more the Packard-Bell, your GUARANTEE of lasting pleasure...An ever so peace, quiet and happy home for the year.

Advertising

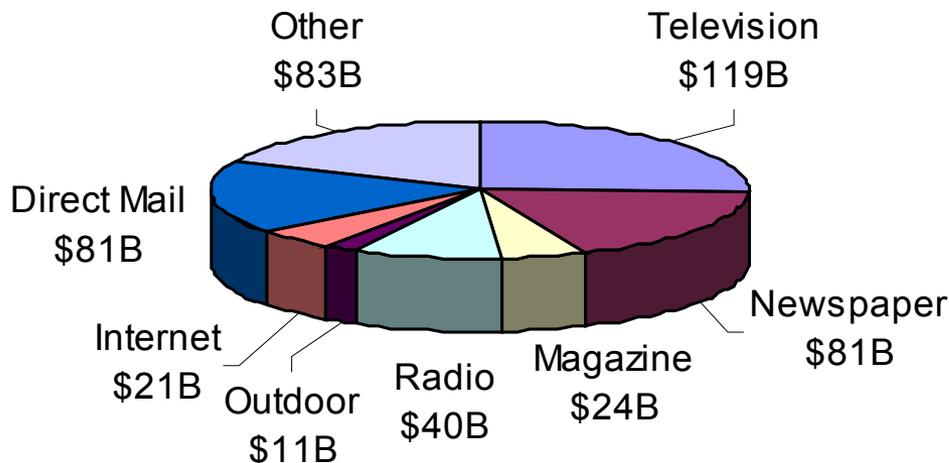
Advertising is the process of **planning** and **executing** the promotion of a good or service to **acquire** and **retain** customers

The \$250B advertising industry will grow at a 7% CAGR to \$460B in 2010

All media channels will grow, Internet and television the most

Direct Mail will lose 1% market share by 2010

2010 Advertising Spending by Medium



	<u>% Growth 2001-2010</u>
Internet	333%
Television	112%
Outdoor	102%
Radio	98%
Magazine	92%
Direct Mail	75%
Newspaper	64%



I've Had Enough!

Flooded with advertisements
 Concerned about personal information
 Consumers respond: **ad blocking technology, privacy legislation, opt in advertising, safe communities, online agents**

The Direct E-Mail List Source
 NO SPAM!
 Directory of voluntary e-mail marketing lists
Get results with opt-in email lists!
 Directory of email lists for advertisers **Search now**

women.com™
an iVillage site

Daily Clicks: [Horoscopes](#) | [Weather](#) | [Free Stuff & S...](#)

FRIDAY, AUGUST 03, 2001

Search
on the iVillage network

iVillage Channels

- [Astrology](#)
- [Babies](#)
- [Beauty](#)
- [Books](#)
- [Diet & Fitness](#)
- [Entertainment](#)
- [Food](#)
- [Games](#)
- [Health](#)
- [Home & Garden](#)
- [Money](#)
- [Parenting](#)
- [Pets](#)
- [Relationships](#)
- [Work](#)

Drop a Dress Size
Lose weight without wasting time on crash diets or spending money on expensive gym equipment -- check out this exercise regime, and [drop a dress size](#) in just six weeks!

Make Your Kids Happy!

- [Kids Only Pepperoni Pizza Bagels](#)
- [Tuna Melt](#)
- [Peanut Butter and Jelly Brownies](#)

Check our [Recipe Finder](#) for more ways to get dinner done.

women.com is getting a **makeover!**

Are you ready for celebrities, style, quizzes and more? Soon women.com will be the best place on the web for



Provide opt-in service. Become trusted manager of lists across media.

Media companies will integrate channels

Media channels consolidate to provide integrated, focused, dynamic marketing campaigns

By 2010, we will track share by branded multi-channel owners, not by channels

amazon.com
IN THEATERS

Hello. Welcome to Amazon.com In Theaters

Get Movie Showtimes in Your Area
 → Your ZIP Code:

Now Playing
The Princess Diaries

When shy, awkward Mia Farrow moves to a European country, she becomes the granddaughter (Julie Andrews) of a royal family. Take a crash course on how to become a princess in this charming new family comedy. *Bride*.

★★★★★ Simply Irresistible, July 23, 2001

AOL Time Warner

Internet



Television



Magazines



Entertainment



Infrastructure



Align with a media conglomerate.

Moving upstream

- Media companies move into advertising
- Advertising agencies move into strategy consulting

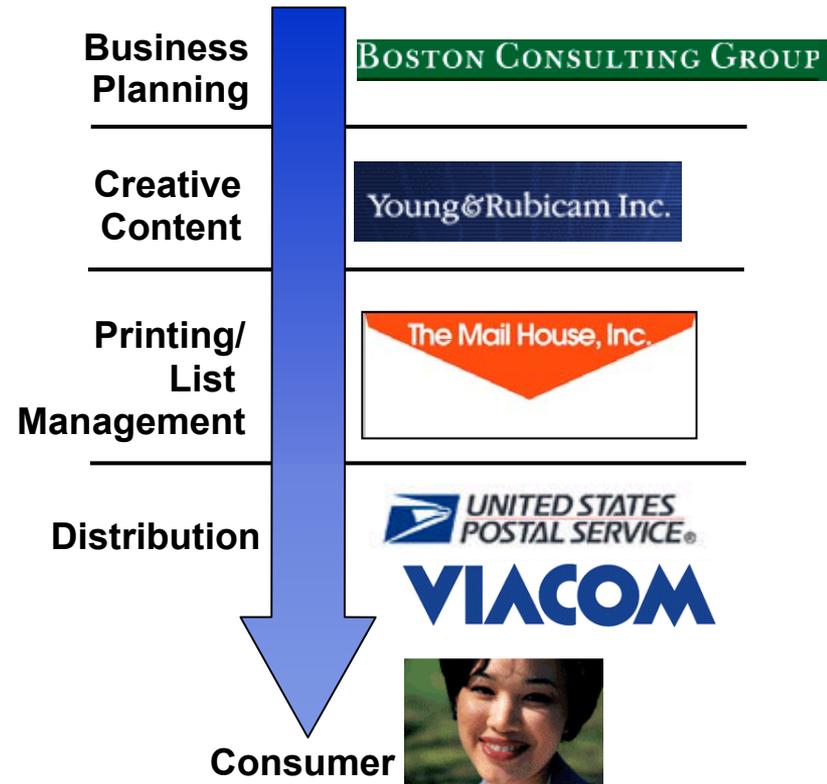


Digital Marketing Services, An AOL/ Time Warner online marketing company



Liberty Advanced Solutions, an ad agency with outsource marketing and project management expertise

Advertising Value Chain



Move up the value chain into content, printing/preparation, consulting.

From Mass to Interactive

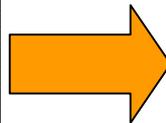
"Because news doesn't have to be one way."



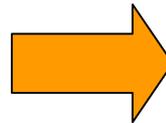
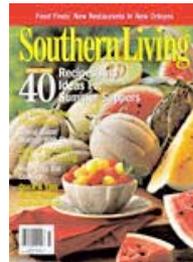
Today targeting, tomorrow interactive

- Targeted advertising benefits direct mail and e-mail, specialty magazines, local radio, and niche cable television
- Mass will survive, but only as part of integrated marketing campaigns
- With interactive television, consumers order products from ads, **or from their favorite soap stars**

Passive Mass



Passive Targeted



Interactive



 *Develop intelligent mail pieces and other interactive applications for Direct Mail.*

Mobile customers and mobile commerce will make local knowledge more valuable

Businesses will struggle to **find mobile** New Consumers and Baby Boomers

By 2010, wireless technologies will sell services **on street corners, in cars, and in shopping aisles** - wherever the propensity to buy is highest

Local ad agencies and content sites will flourish

Second Homes

- 415,000 sold over the last 6 years
- 1M more will be built by 2010



Mercedes-Benz offers Tele Aid Information Services providing drivers weather, sports, and stock prices from their cars

Which supermarket should I go to?

Did I leave the coupons at the house?



Which toothpaste should I buy?

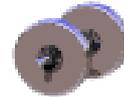


Sell local expertise.

Advertising Opportunities and USPS Strengths



Opportunities



Strengths

Provide opt-in services	• Control direct mail channel
Become list manager across media	• Trusted to protect privacy, deep relationship with advertisers
Align with media conglomerate	• Exclusive owner of one media
Move up the value chain	• Relationships with upstream providers (but will compete with customers)
Develop interactive mail	• Mail contents and envelope begin digitally, significant image lift capabilities
Sell local expertise	• Addresses, post offices, personnel

Financial Services

*Enabling commerce and
wealth*



Changing demographics require careful targeting

Two customer segments, **immigrants** and **unbanked**, offer opportunities for nontraditional financial services providers



Unbanked

- 10% of the population, pay usurious rates to check cashers
- Most cite distrust of banks
- Government must serve them better

Immigrants

- >10% of the population, pay usurious rates to Western Union and MoneyGram
- Will send \$50B home this year



Target products and services to under-served customer segments.

FS providers will struggle with 4 customer requirements

Choice & Convenience



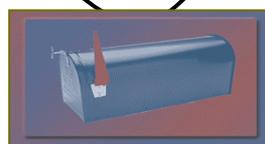
Weak Responses

- One stop financial services, any time, anywhere, any way

- Internet-only banks go broke
- E*Trade gets 8,000 ATMs, retail presence at Target
- Schwab, an e-pioneer, will increase its branch network 20%
- “Pay all” services struggle to make EBPP convenient, cost-effective



*Provide a retail presence.
Solve the “pay all” problem.*



FS providers will struggle with 4 customer requirements

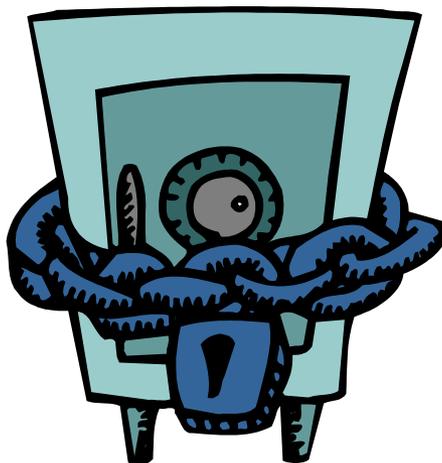
Trust & Control



- 17% of US experienced card fraud last year
- 80% are concerned about privacy
- Bank mergers and product complexity will continue to dismay

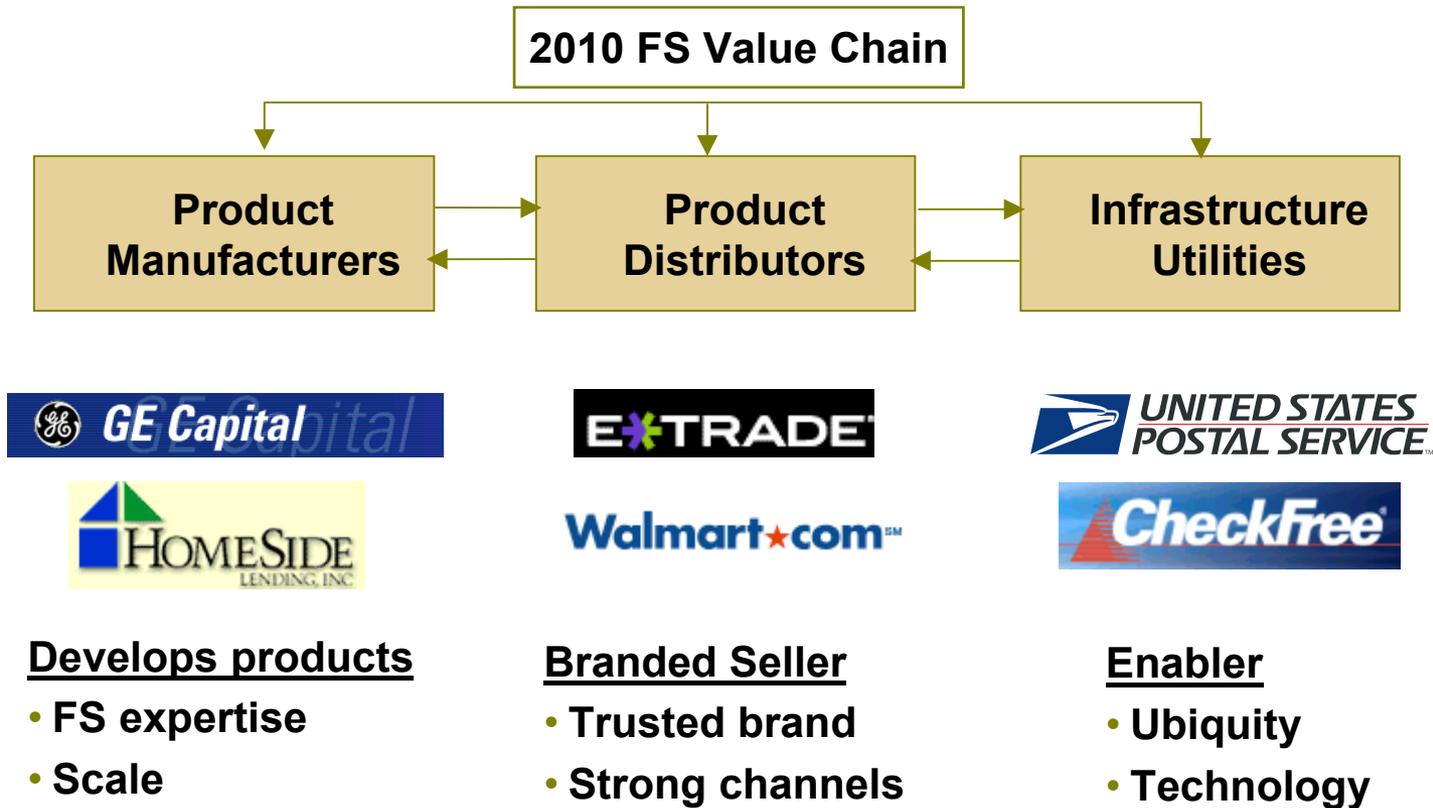
Weak Responses

- Public key technology remains cumbersome
- Major advertising required to reduce anxiety during mergers
- New account aggregation technology provides some respite from complexity



Leverage trusted brands, develop security-based services.

All but the biggest will focus on one link of the FS chain



Expand traditional infrastructure role to better serve product manufacturers and distributors.

The government's role in Financial Services



Regulator



1999 repeal of Glass-Steagall Act - allowing banks, insurance companies and investment banks to merge - is only the first step in the deregulation of FS

Customer



Privatization of social security could put \$100B/year into the private sector

Service provider



Fannie Mae and Freddie Mac enable or compete, depending on your perspective - just like USPS

Change agent



78% of Social Security payments (was 1% of FCM) are now electronic
Smart card and unbanked services emerge early in the public sector



Become the leading financial services provider for the government.



The perfect storm



Citi - the most aggressive FS provider, interesting alignment with USPS

C2C	C2it online payments
Unbanked	2/3 of state EBT programs
Immigrants	Owens Mexico's largest bank
Bill payment	Lost partnership with MS and FDC to CheckFree
Employees	Insurance, investment banking
Few branches in the US	
Big branding problem	

Annotations on the screenshot:

- Access both Citi and non-Citi accounts in one secure place. (points to Citibank and Wells Fargo sections)
- Link directly to your accounts without separate log in. (points to Citibank and Wells Fargo sections)
- Get account details, including transactions and payment due dates. (points to Citibank Credit Card and American Express sections)

FREE
Online Bill Payment
with Citibank® Online.

 Or the perfect partner?

“Pure Plays” will struggle, but new entry will continue

Deregulation and technology will bring new entrants into banking

They will need strong brands and convenient distribution channels to survive

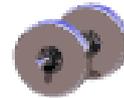


Offer financial services distribution to new entrants, portal to employees, financing to customers.

Financial Services Opportunities and USPS Strengths



Opportunities



Strengths

Target the under-served	• Immigrants use USPS products
Provide retail presence	• Largest retail infrastructure in US
Solve “pay all” problem	• Exclusive provider of check delivery
Offer security services	• Trusted brand, federal police force
Expand infrastructure role	• Partnerships, like CheckFree, in place
Serve government	• Unique relationship, “financial institution”
Mega-partnership	• Employees & customers are huge draws

Retail

The gateway to the marketplace



Urban real estate is valuable



Large cities and 24-hour cities will become increasingly attractive locations for retailers.

- Urban locations possess large populations of affluent customers
- Less risky than non-urban locales



Develop new uses for real estate.

From the tangible to the intangible

Retailers will outsource non-core functions in order to focus on core strengths.

Value in retailing will increasingly come from intangible assets such as **knowledge, information, brand, culture, and relationships.**

Tangible Assets



Intangible Assets



Fulfill outsourcing needs of other businesses.

Converging on new markets

Retailers are transporting their customer relationships to other value chains and product categories.

- Supercenters are moving customers into food
- Nordstrom's is trying financial services
- Opportunities abound in travel, entertainment, and health care



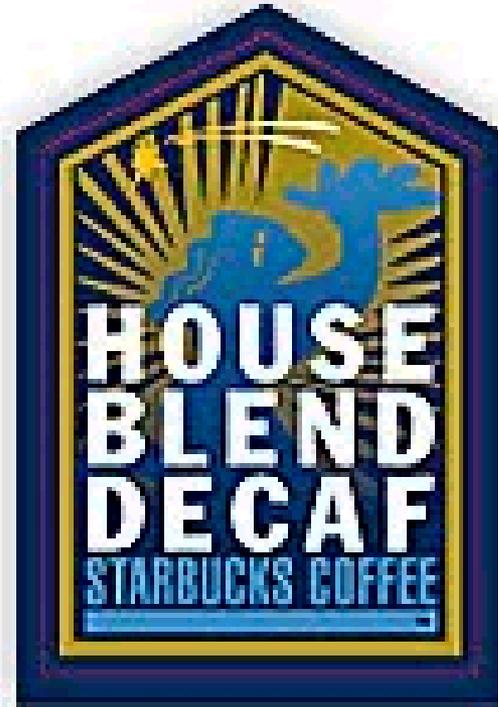
Move into new but relevant value chains.

The Next \$4 Cup of Coffee

Consumers are looking for new goods and services that:

- Possess an emotive quality
- Provide exceptional service
- Facilitate a lifestyle

Companies that can redefine an existing market will thrive.



Redefine a market.

Retail - Opportunities and USPS Strengths



Opportunities



Strengths

Divest valuable real estate or co-locate with other businesses

Resell core competencies within current value chain

Move into new but relevant value chains

Redefine a market

• Huge retail infrastructure, established customer base

• Strong brand, trust

• Government agency affiliation, infrastructure

• Huge retail infrastructure, established customer base

Logistics

*Managing the flow of
goods and information*



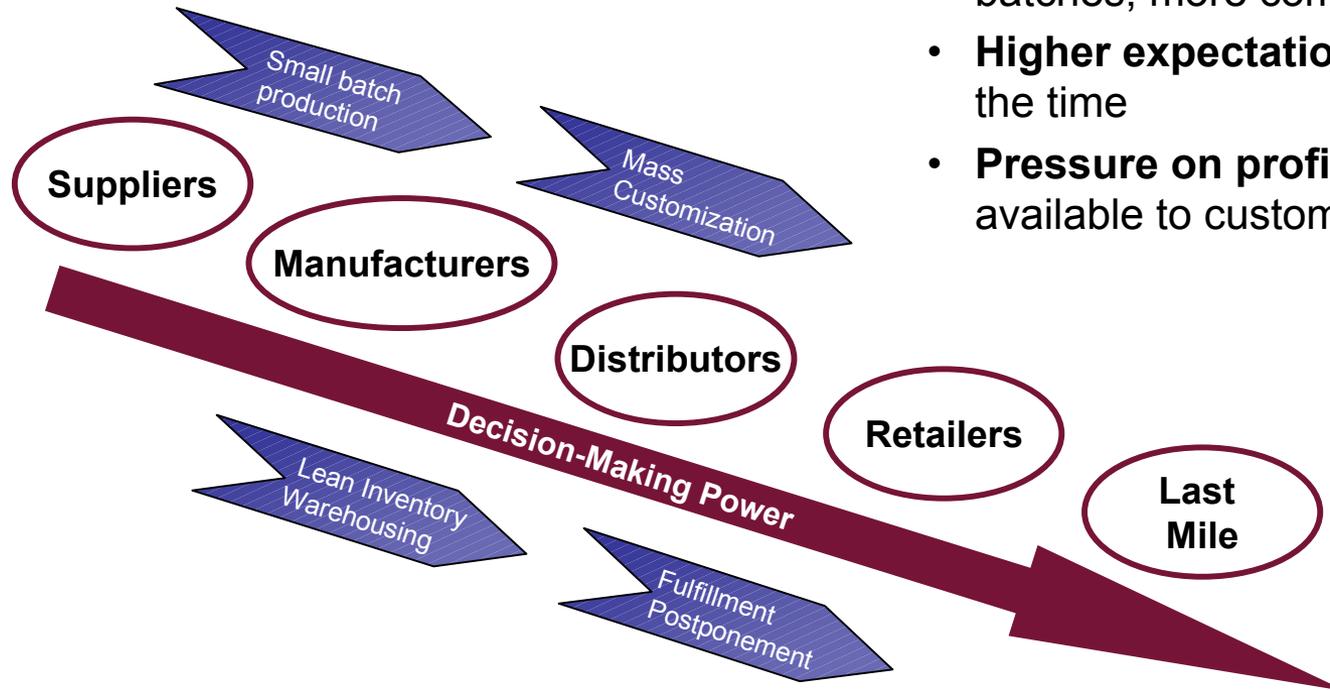


Customer power will drive 3 logistics trends

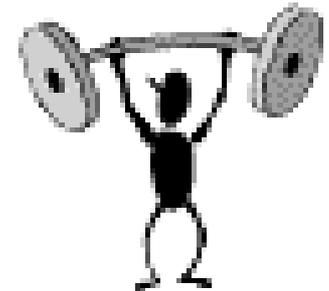
Information savvy **end customers** will **have the power** in the 2010 value chain

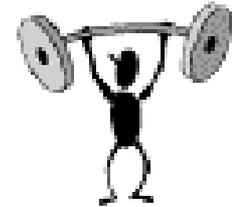
Customer power means:

- **Increased complexity** - smaller batches, more components of the chain
- **Higher expectations** - just in time all the time
- **Pressure on profits** - more choices available to customers



End Consumers





Implications of Customer Power

Increased complexity →

Outsource logistics

- 3PLs will grow 15% per year, **4X faster** than total logistics

Higher expectations →

Complex services required

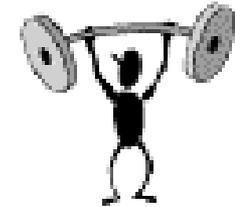
- Network optimization
- Inventory control
- Full product visibility
- Order fulfillment tied to CRM
- Insurance
- Customs brokerage
- Foreign exchange
- Risk arbitrage
- Assembly/installation
- Returns and repairs
- Spare parts management

Skin in the game

- Long-term relationships
- Compensation based on performance
- With **Vector SCM**, the joint venture between CNF and GM, CNF profits only if it reduces GM's costs. The JV is expected to be worth \$6B in 2004.



Manage transportation services for others.



Implications of Customer Power

Pressure on profits



Collaboration

- Build private transportation exchanges with suppliers and customers to maximize transportation asset utilization

Supply Chain Synchronization

- 19% of back hauls are empty
- Early transportation exchanges have disappointed because of their focus on “spot buys”
- Successful exchanges will form long-term online communities of partners that share transportation

CarrierPoint™

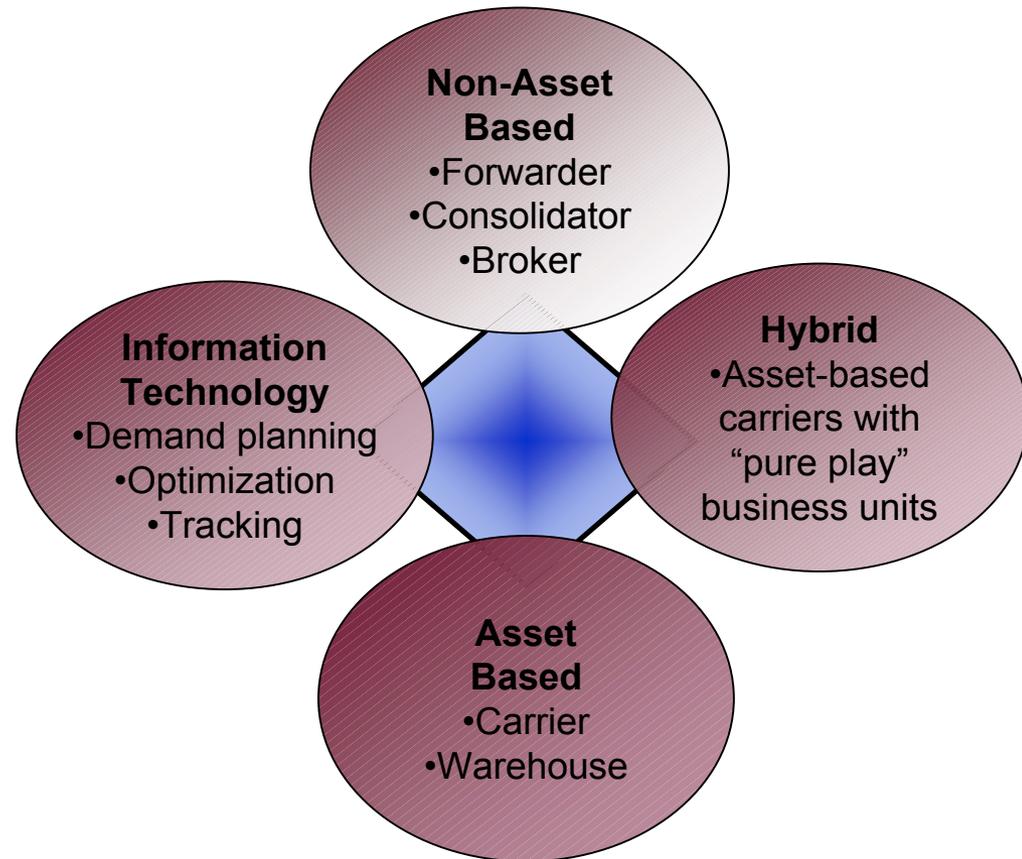


Create an online transportation community to share capacity across major mailers and contractors.

When Less is More

Four logistics business models

- Hybrids blend the stability and control of asset ownership with the higher margins of “pure plays”
- Financial markets reward low asset intensity
- Non-asset based providers fare better during recessions
- IT players like i2, Logistics.com and Manugistics may try to compete with 3PLs



Create a 3PL business unit or company.

Beyond Transportation

Transportation providers, including Posts, have long offered upstream services

- Warehousing
- Consulting
- IT capabilities
- Management and training
- Order fulfillment
- CRM, e.g., call centers and web sites
- Financial services

IT demands will raise the bar for success

Sample Posts in Warehousing

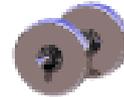


Move up the value chain.

Logistics Opportunities and USPS Strengths



Opportunities



Strengths

Manage transportation for others	• Long-term transportation contracts at good rates
Create an Online Transportation Community	• Destination entry mailers create imbalance opportunity
Spin off a 3PL company	• Would be largest non-asset based provider in the world (?)
Move up the value chain	• Strong relationships with catalogers and e-tailers

Last Mile

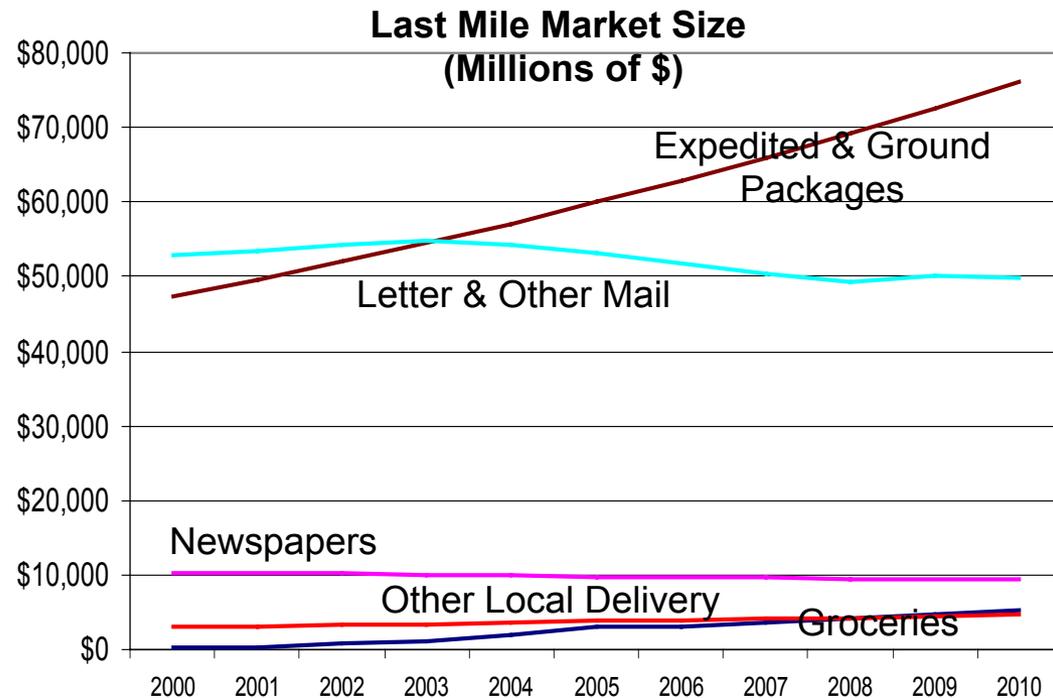
Gateway to the individual



The Last Mile

The last mile market is the delivery gateway into every American household and business.

- Includes letters, direct mail, packages, newspapers, and groceries
- Business deliveries are low volume, episodic, and sporadic
- The \$114B market will grow at 2% to 3% CAGR to \$145B by 2010
- Some segments will experience explosive growth, while others will grow incrementally or decline



Hello and goodbye

New entrants misjudged the economies of home delivery

- Fulfillment operations too costly
- Delivered at prices below marginal costs
- Tried to “make it up” on volume, which never came

We Hardly Knew Thee

Failed last mile entrants:

- Kozmo.com
- UrbanFetch.com
- Streamline.com
- Webvan.com
- Homeruns.com



Peapod.com®

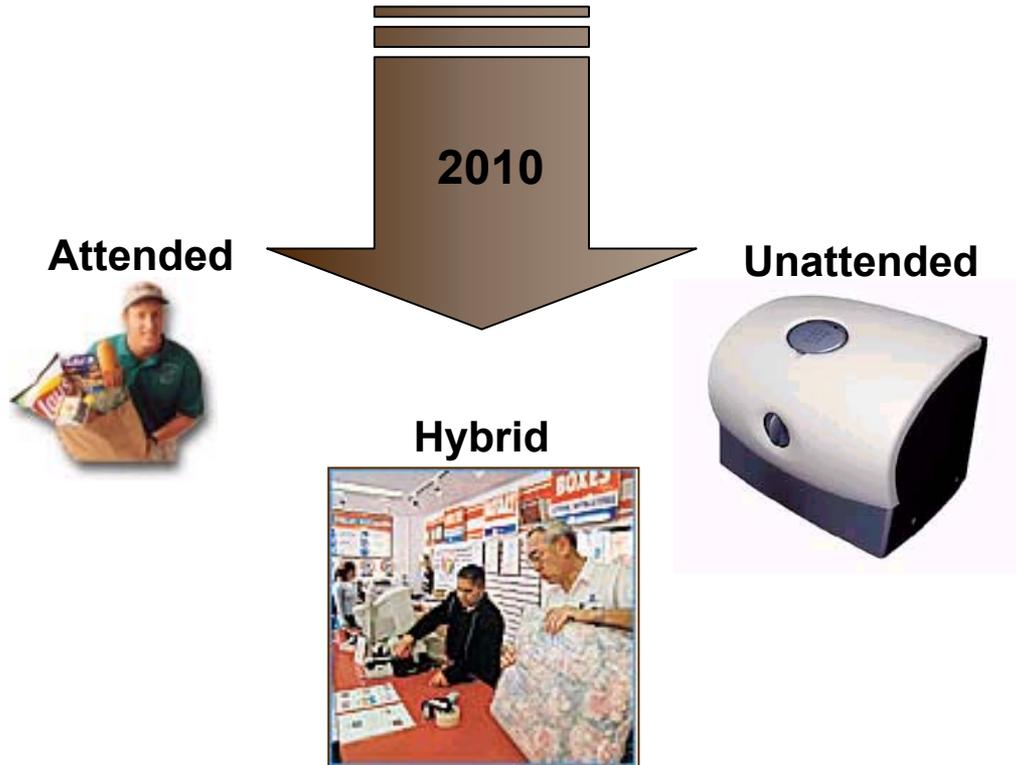
New focus is on integrating on-line with existing brick-and-mortar

- Royal Ahold purchases PeaPod
- Safeway purchases Groceryworks.com
- Order on-line, pick up at stores (Peachtree Network and Piggly Wiggly)



Integrate on-line with brick and mortar.

Three Last Mile business models will dominate



Last mile providers in 2010 will view the market in three segments, and need business models that correspond to each segment. The how, what, where, and when will determine the success of these models.

- **Attended** deliveries when the customer is home
- **Unattended** deliveries when the customer is not at home
- **Hybrid** delivery with a central service center to act as an intermediary

At Consignia, customers can now have packages delivered to the post office



Create a hybrid delivery service.

Some assembly required

Last mile providers will do more than deliver goods

- In-home assembly and installation of delivered products
- Returns and sales advice linked to call centers
- The salesman at your door



TNT Logistics and IKEA recently launched a global home delivery service for IKEA's customers that will include furniture assembly. The service will be rolled out in Europe, and then expanded to the rest of the world.

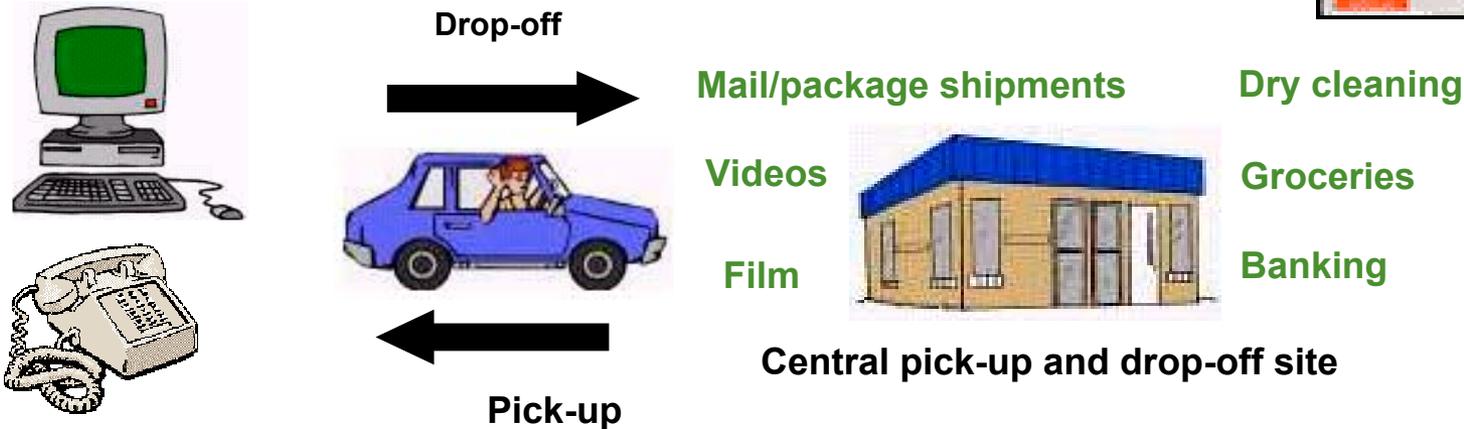


Provide value-added services.

Would you like fries with that package?

Successful last mile providers in 2010 will think of themselves as agents for their customers

- Customers will require the ability to switch delivery locations, sometimes after the goods are in transit
- The last mile will become a two-way street - delivery staff may drop off a package and pick up film for processing, dry cleaning, or returns - requiring a trusted agent



 Offer "smart delivery" services.

The real Y2K last mile crisis?

Competitive last mile providers must devote significant portions of capital budgets to the IT platform

- Create a more efficient delivery force
- Develop new products and services
- Make the supply chain more visible
- Facilitate real time transactions
- Automate the returns processes
- Gain critical customer information



Last Mile providers, even the IT leaders, have significant investments ahead of them

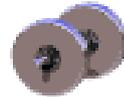


IT-enable the last mile to better serve and target customers.

Last Mile Opportunities and USPS Strengths



Opportunities



Strengths

Integrate online and brick and mortar		<ul style="list-style-type: none">• Largest delivery infrastructure, trucks available at night
Create a hybrid delivery service		<ul style="list-style-type: none">• Retail infrastructure is huge, likely will be underutilized
Provide value added services		<ul style="list-style-type: none">• Career, high-paid work force can handle complexity
Offer “smart delivery”		<ul style="list-style-type: none">• Customers trust carriers
IT-enable the last mile		<ul style="list-style-type: none">• A start with delivery confirmation



Summary Implications

- Think of the Internet as a channel, not a competitor
- Talk *with* your customers, provide solutions that save time and reduce anxiety
- Provide a gateway to the individual, not just the household
- Expect new entry from old companies
- Stick to your knitting
- Partner to move up and down the value chain
- Offer solutions that link channels, media, and enterprises
- Focus on services more than products
- Leverage employees and suppliers as customers