

**DEVELOPMENT AND COOPERATION IN THE NEW CENTURY:
THE SECOND U.S.-CHINA SYMPOSIUM ON POSTAL REFORM
AND EXPRESS DELIVERY SERVICES
Washington, D.C., September 18-19, 2008**

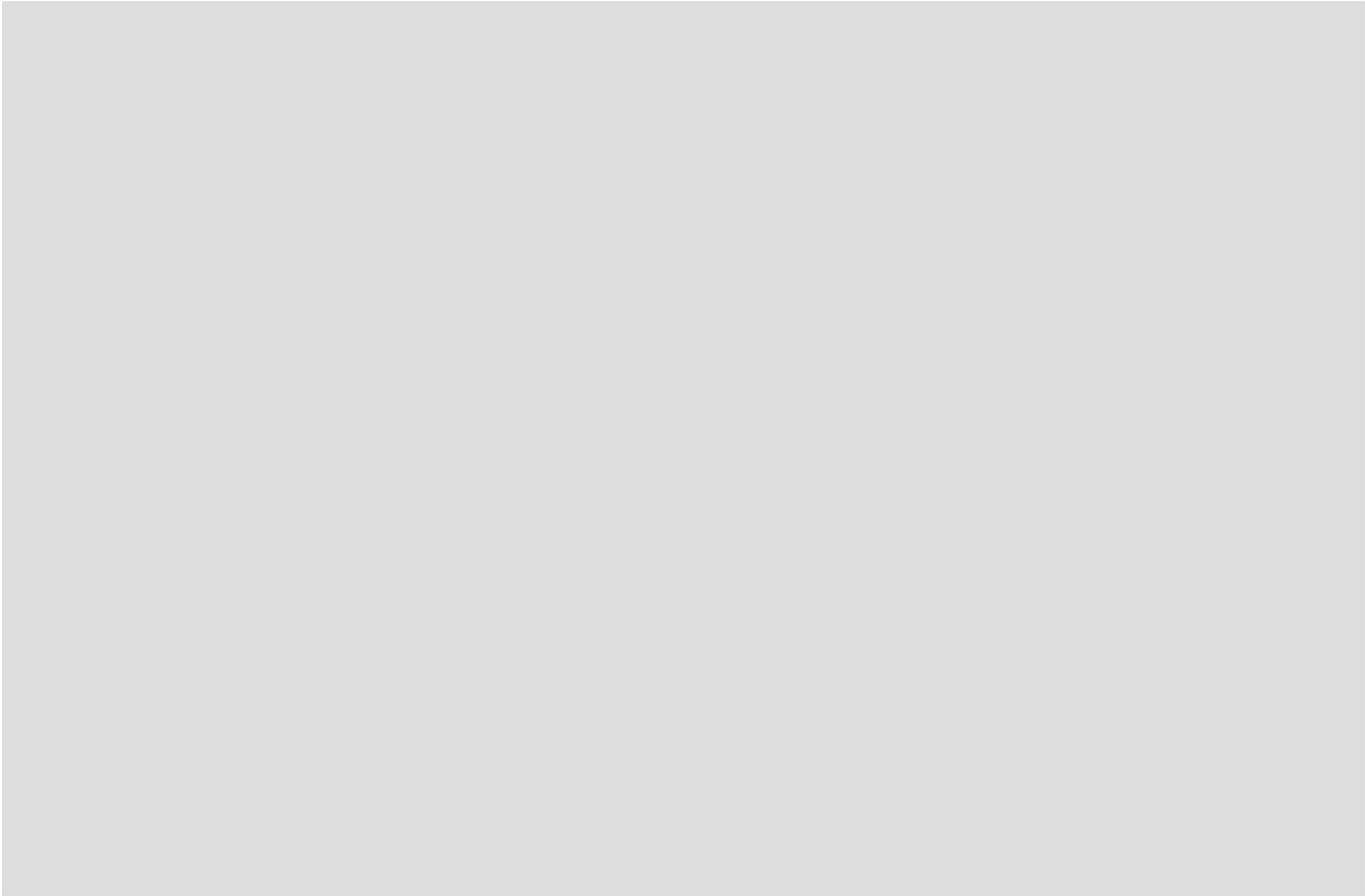
**The Advent of Express Delivery Services Companies in
Parcel and Document Delivery in the United States:
Basic Business Model, Growth and Development, Competition and
Work Share with the USPS, Technological Innovation, and
Economic Impact**

James I. Campbell Jr.

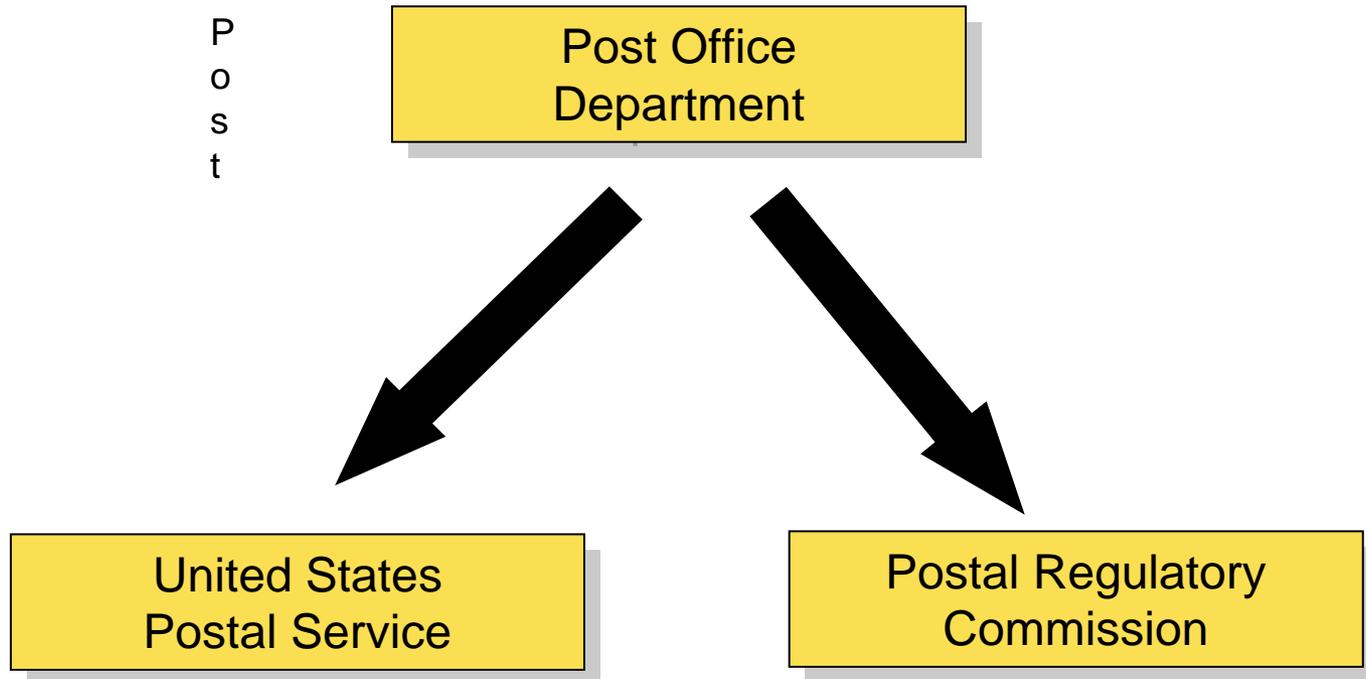
Topics

- 1. Basic Business Models**
- 2. Growth and Development**
- 3. Business Relations: Competition and Work Sharing**
- 4. Technological Innovation**
- 5. Economic Impact**
- 6. Conclusions**

1. Basic Business Models



Division of Post Office Department (1971)



U.S. Postal Service

- **Organization: independent executive agency**
 - 100 percent owned by government
 - Board of Governors: 9 members chosen by President for 9-year terms
 - Postmaster General and Deputy chosen by Governors
 - Substantially independent from President
 - Influenced by Congress
- **Objectives: “business-like” postal service**
 - Universal service obligation
 - Expressed in general policy terms only
 - “Written and printed matter, parcels, and like materials”
 - Nationwide service 6 days per week expected
 - Many local and small town post offices
 - Financed by internal cross subsidy; (almost) no public funds
 - Value for “stakeholders”: management, employees, government, mailers, consumers, etc.
- **Special legal framework**
 - Legal constraints: employment laws, restrictions on investment; limited to postal services
 - Legal privileges: monopoly, federal funding, exemption from local regulation
 - Regulation by Postal Regulatory Commission

Postal Regulatory Commission

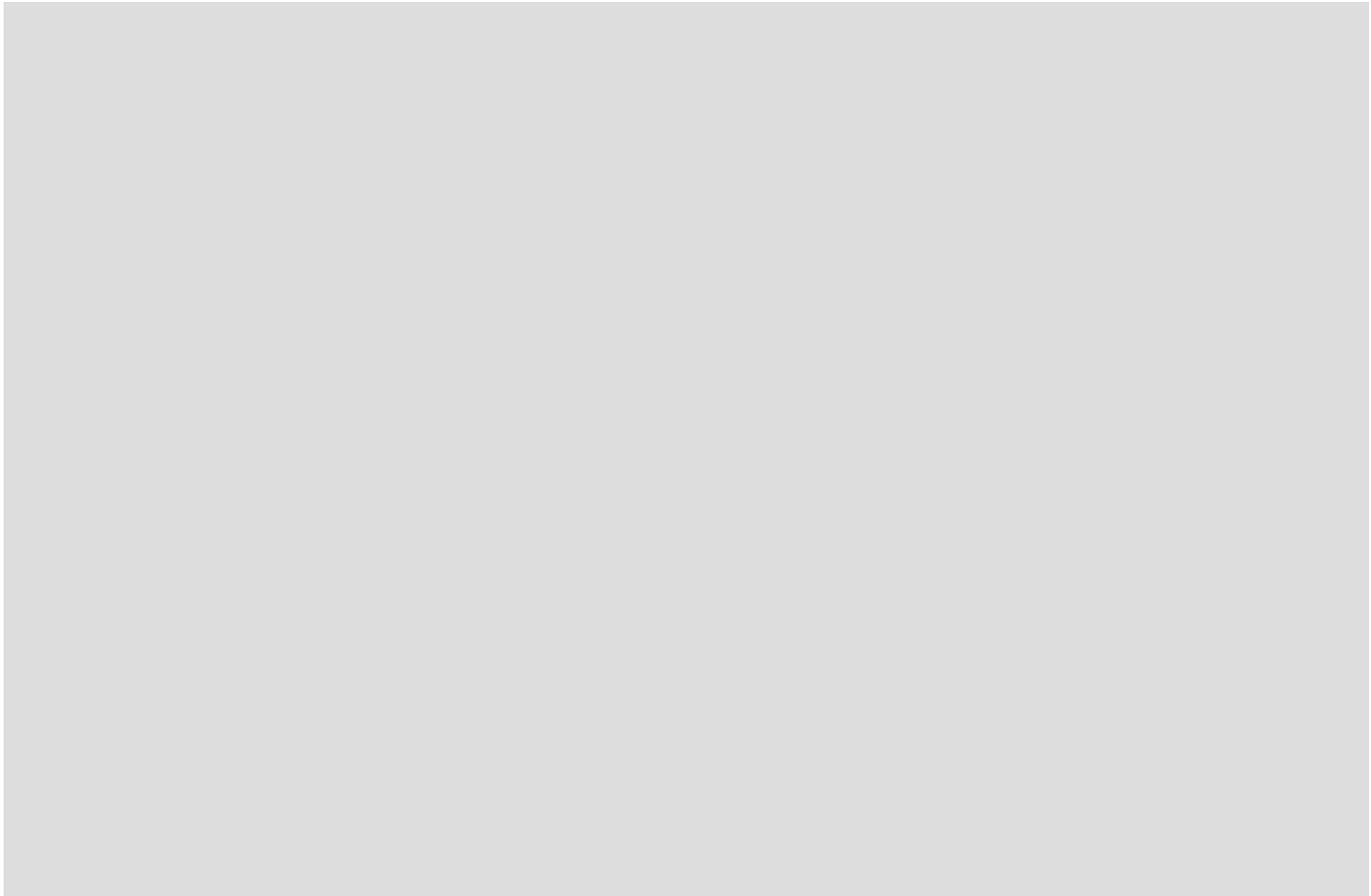
- **Postal Rate Commission**

- Independent executive agency: 5 members chosen by President
- Market dominant products
 - Prices must not increase more than inflation (Consumer Price Index)
 - Prices must comply with public policy criteria
 - Reduced rates for non-profit mail, mail for blind set by law
 - Ensures objective measurement of USPS's compliance with service standards (set by USPS and applicable only to USPS)
- Competitive products
 - Prices must cover attributable costs (individually) and appropriate share of overhead (collectively)
 - No cross subsidy from market dominant products

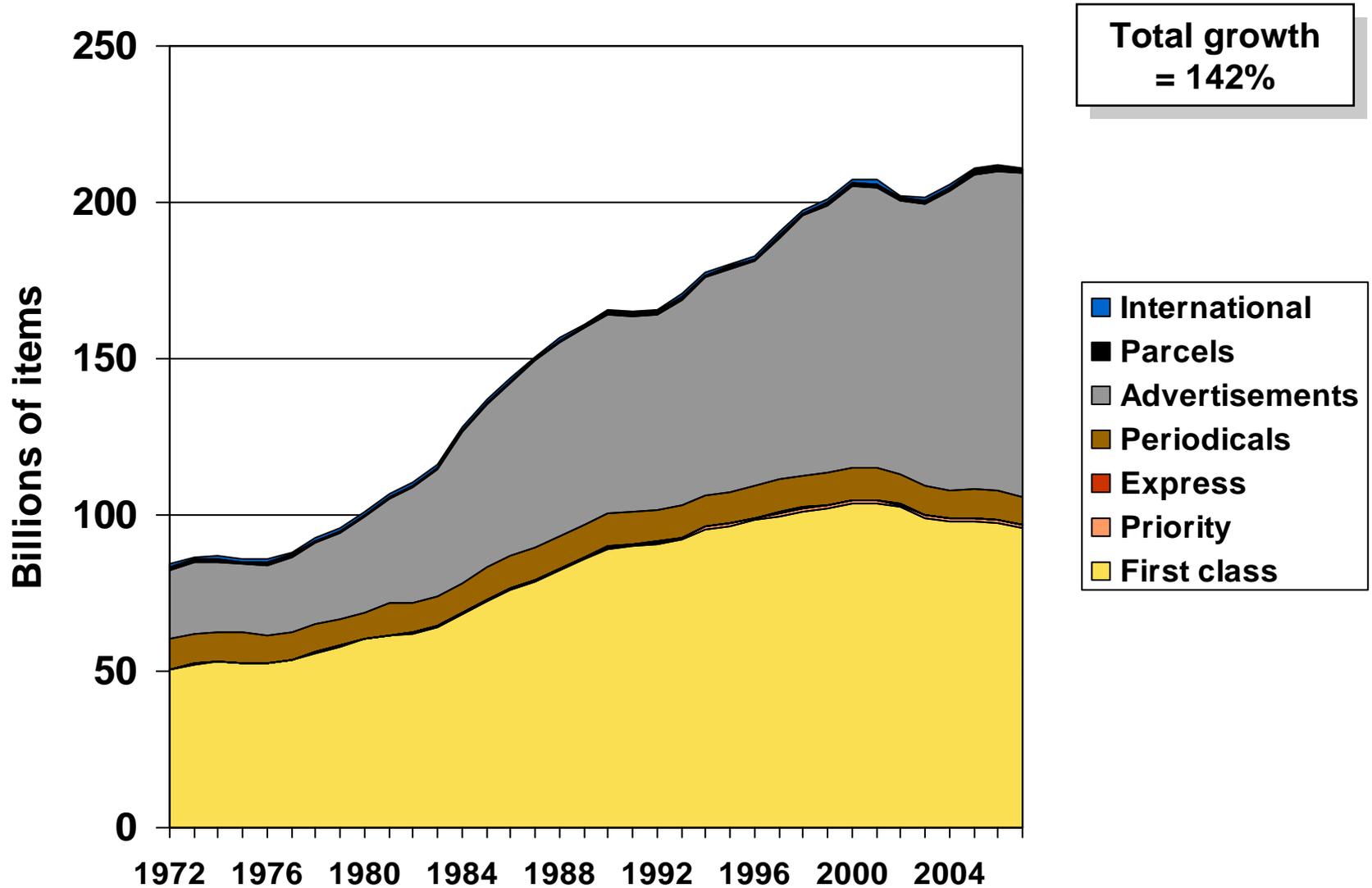
Private delivery services: business model

- **Organizations: limited liability company**
 - Private ownership
- **Objectives**
 - Value for shareholders
 - Serve customers better than competitors
- **Legal framework**
 - Normal business regulation (company law, securities law, antitrust, fair competition, etc.)
 - Safety regulation (aircraft, highway vehicles, hazardous materials)
 - Some international services regulated by intergovernmental agreements (GATS, aviation agreements, customs, etc.)

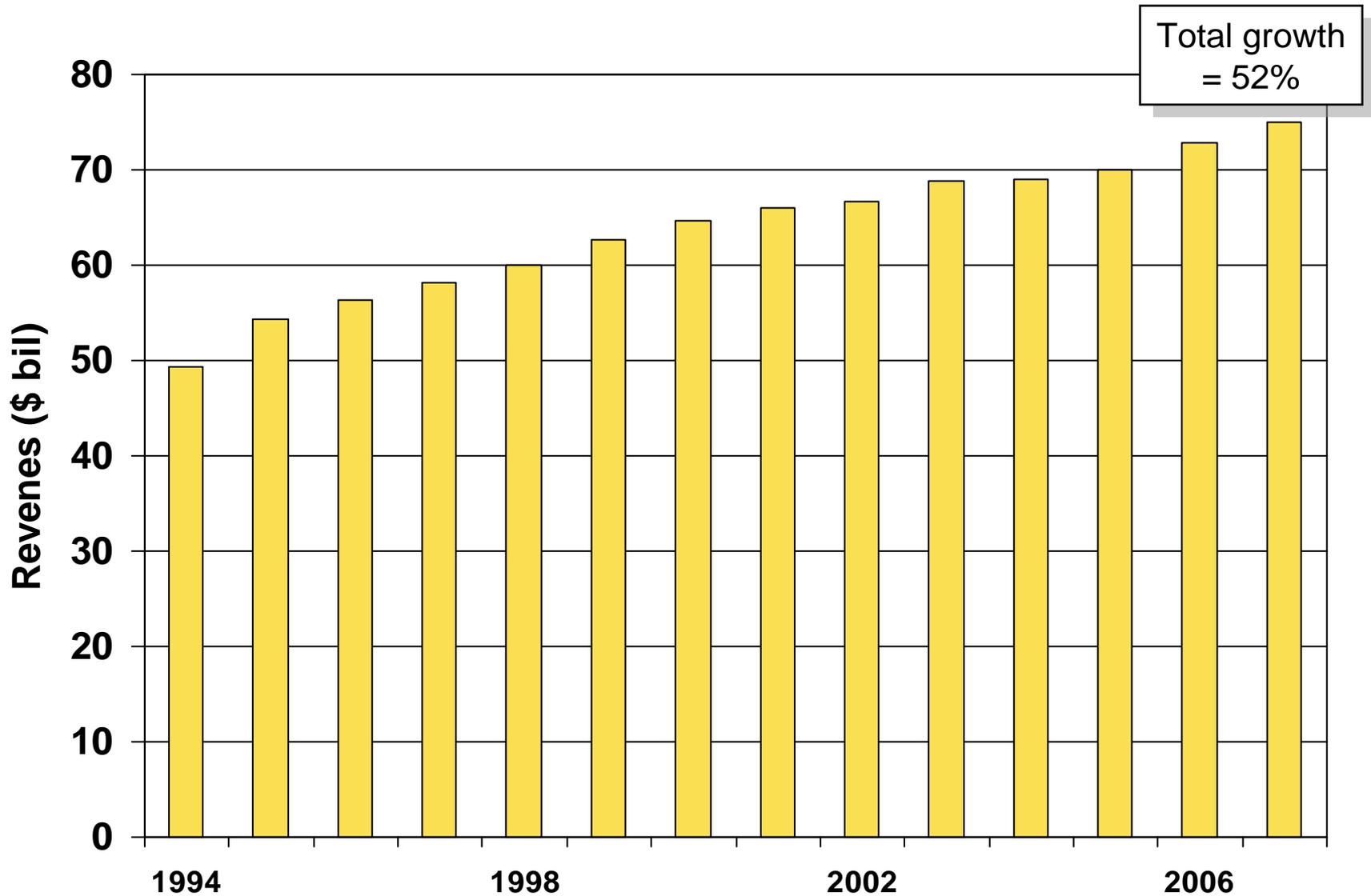
2. Growth and Development



USPS: Volume growth, 1972 to 2007

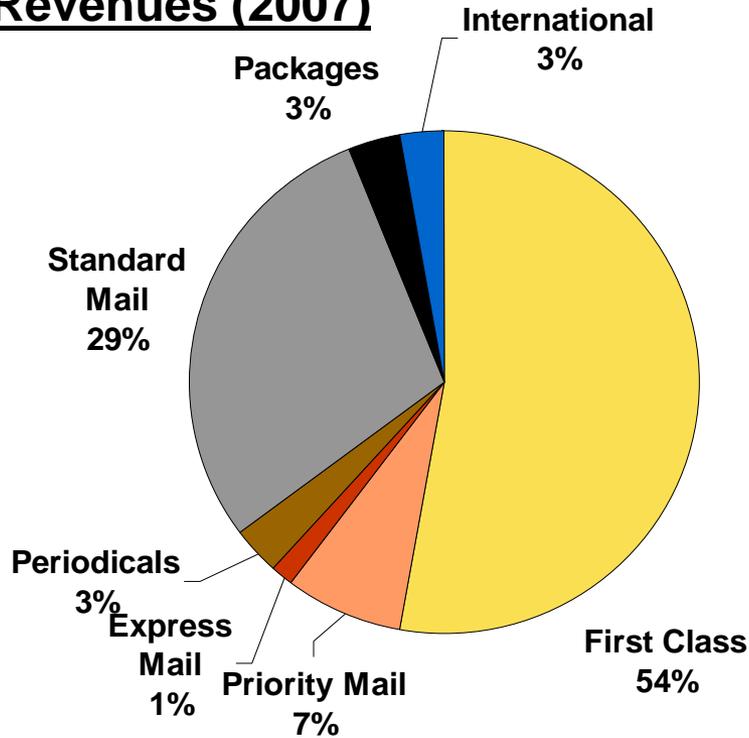


USPS: Revenue growth, 1994 to 2007

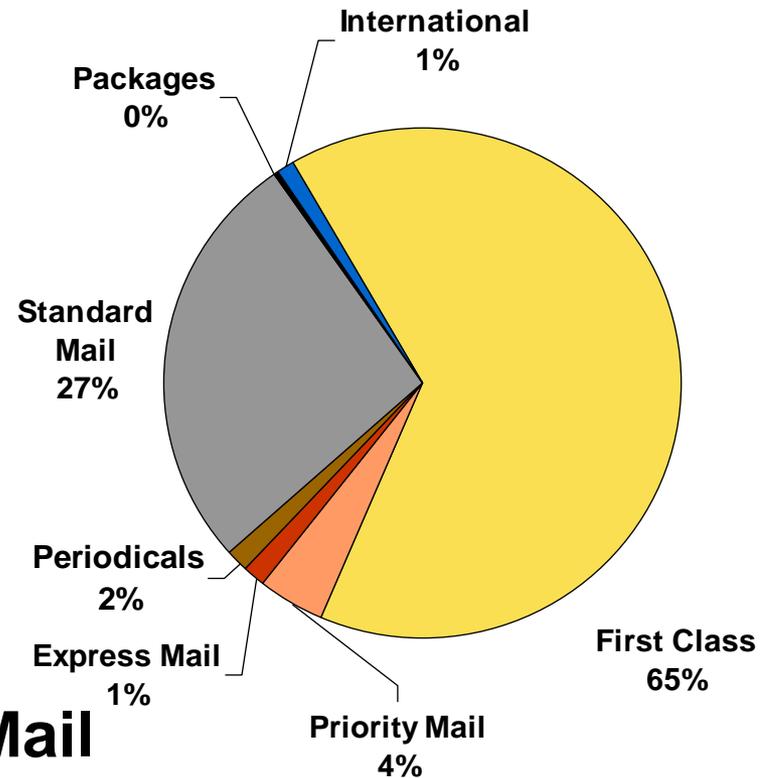


USPS: Core business is first class mail

Revenues (2007)

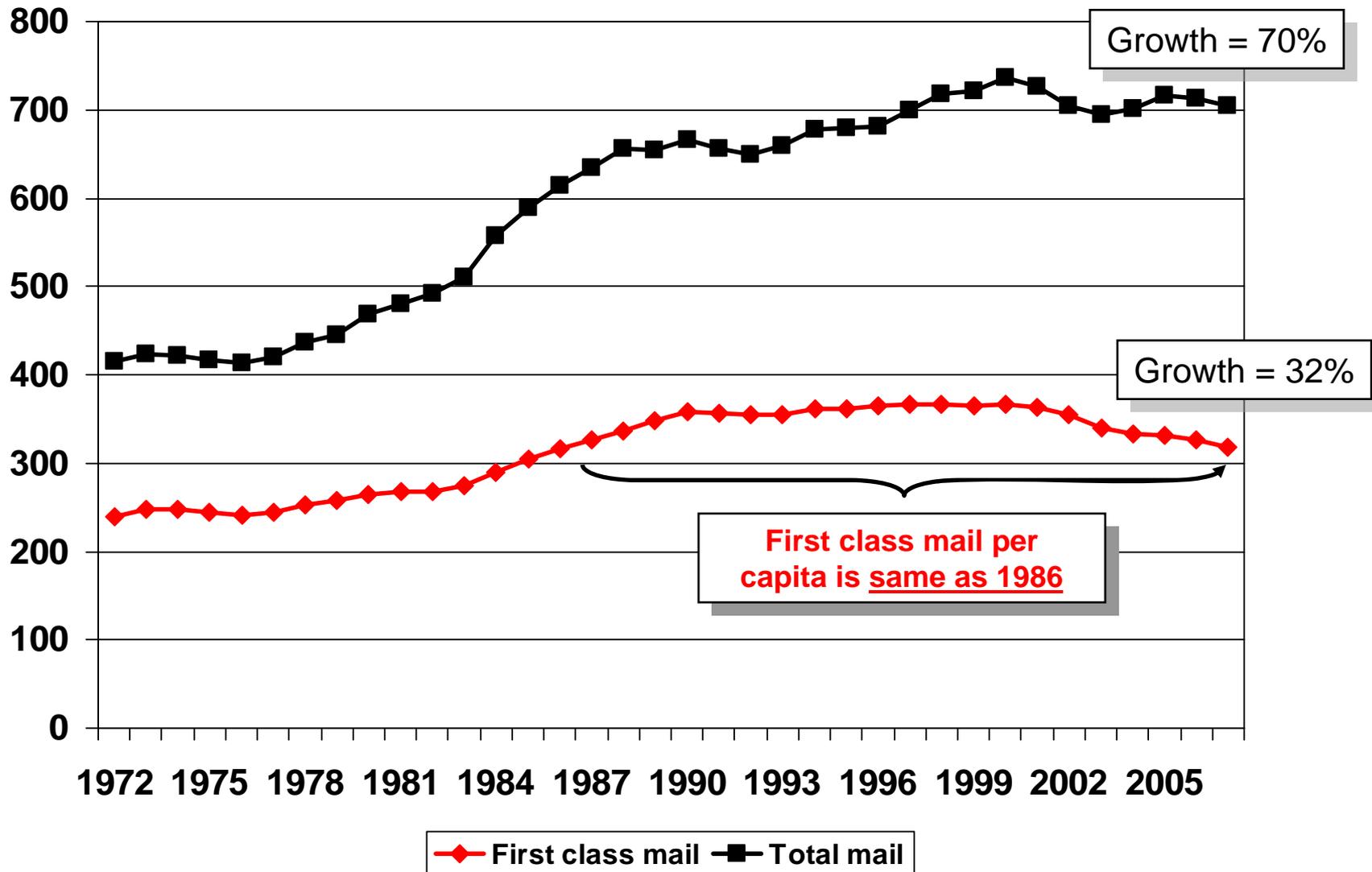


Institutional Contribution (2007)



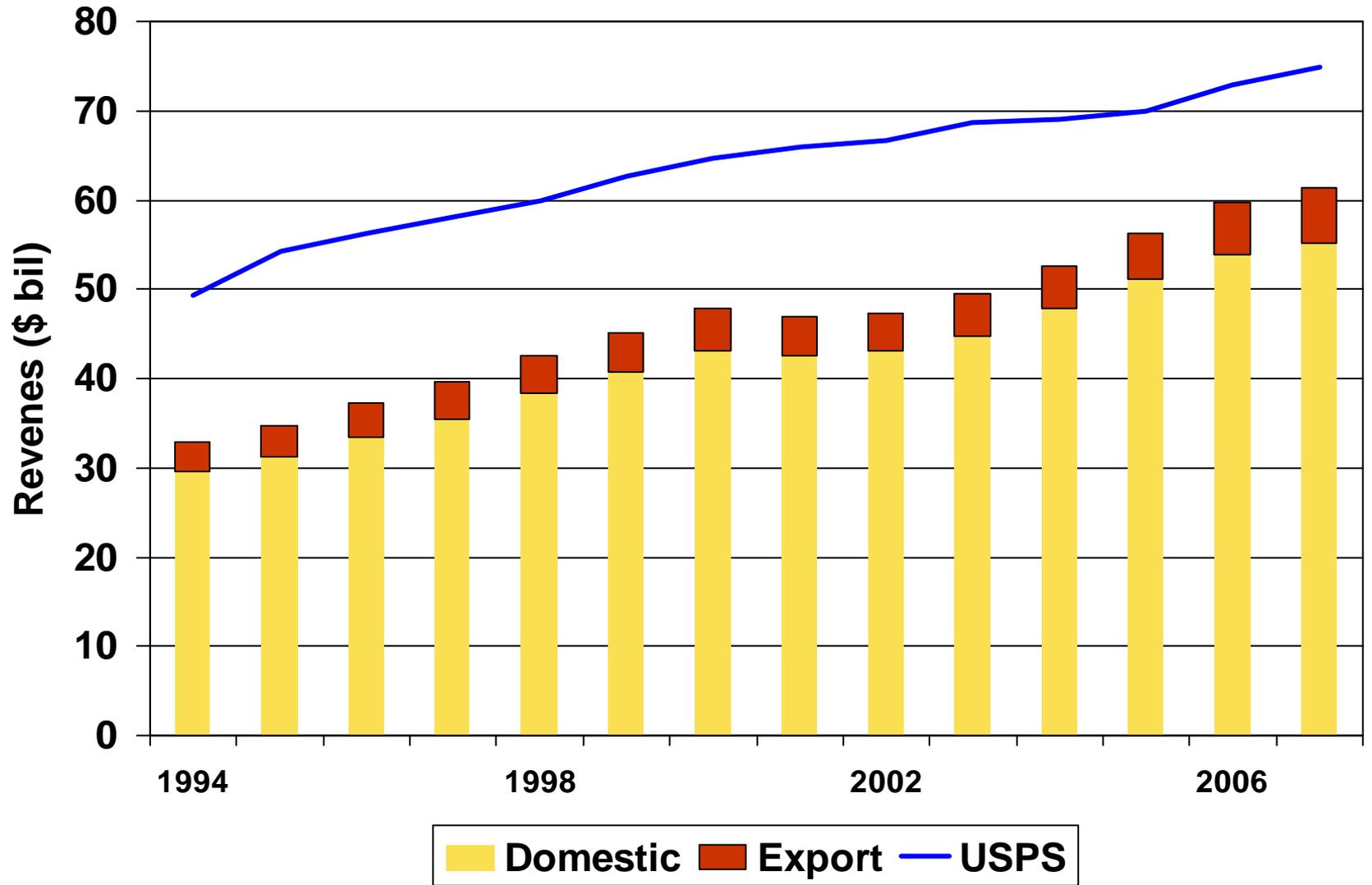
USPS depends on First Class Mail
(45% of volume)

USPS: Trends in mail volume per capita

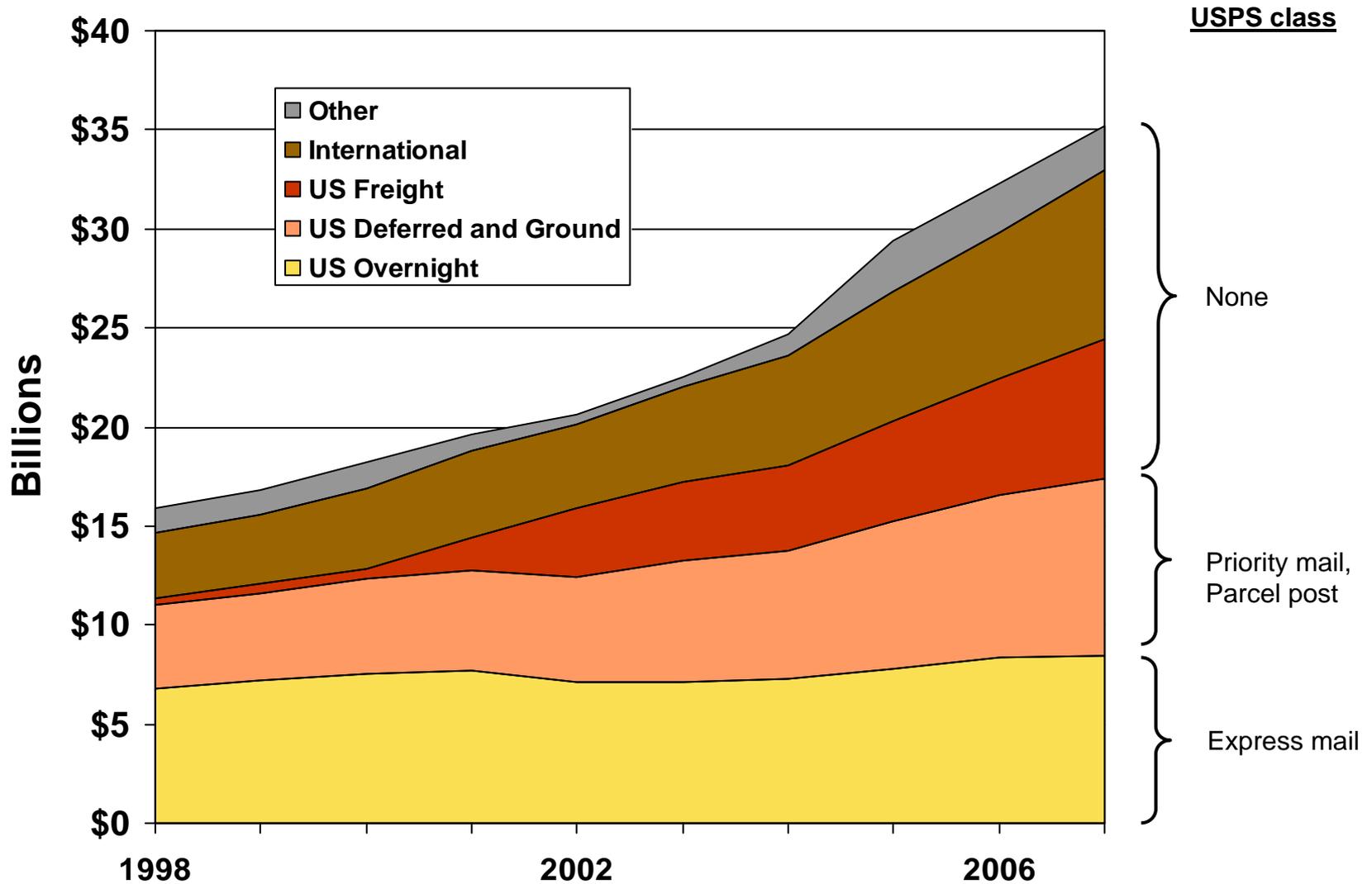


Private delivery services: Revenue growth, 1994 to 2007

Total growth
= 87%

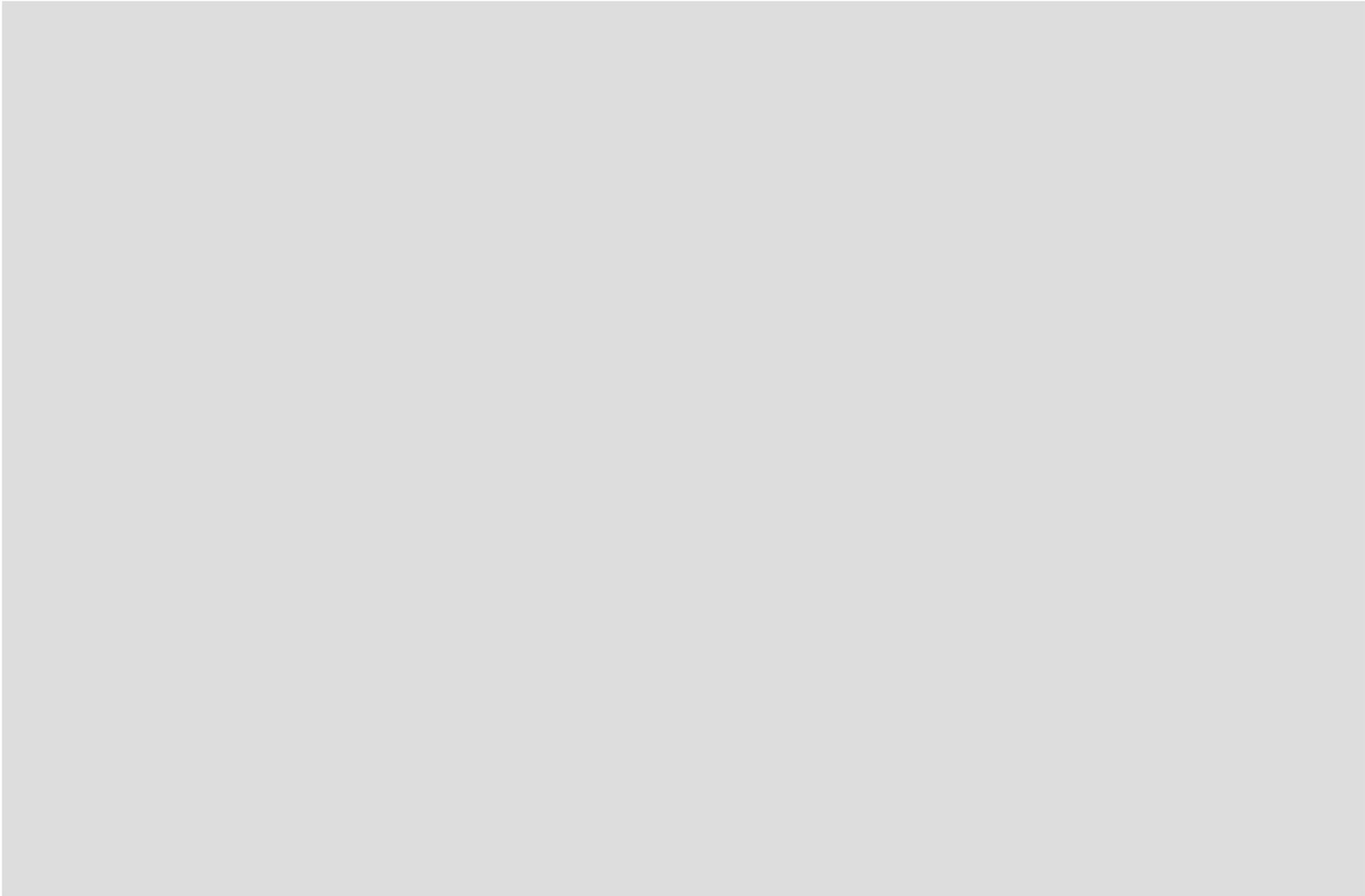


FedEx: Revenue components, 1972 to 2007



Source: FedEx Corporation

3. Business Relations: Competition and Work Sharing



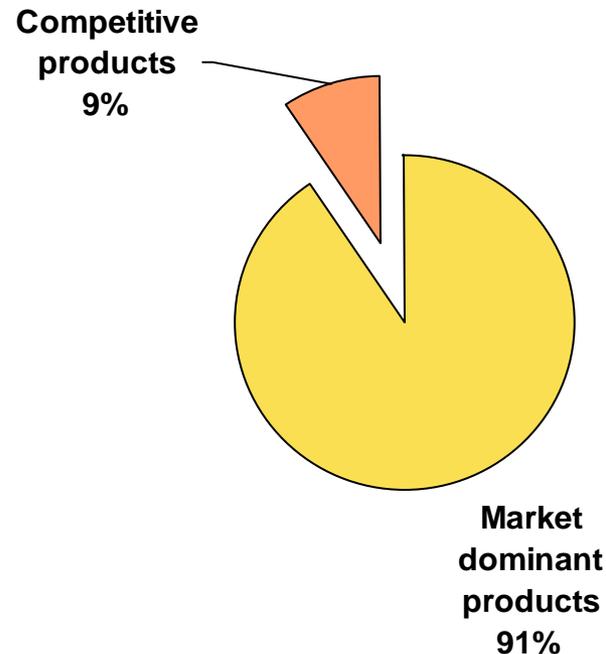
USPS: competition in the end-to-end market

“Competitive products” defined as those products in which USPS is not “market dominant” (includes some products outside the monopoly).

USPS competitive products :

- **Priority mail**
- **Express mail**
- **Bulk parcel post**
- **Bulk international mail**

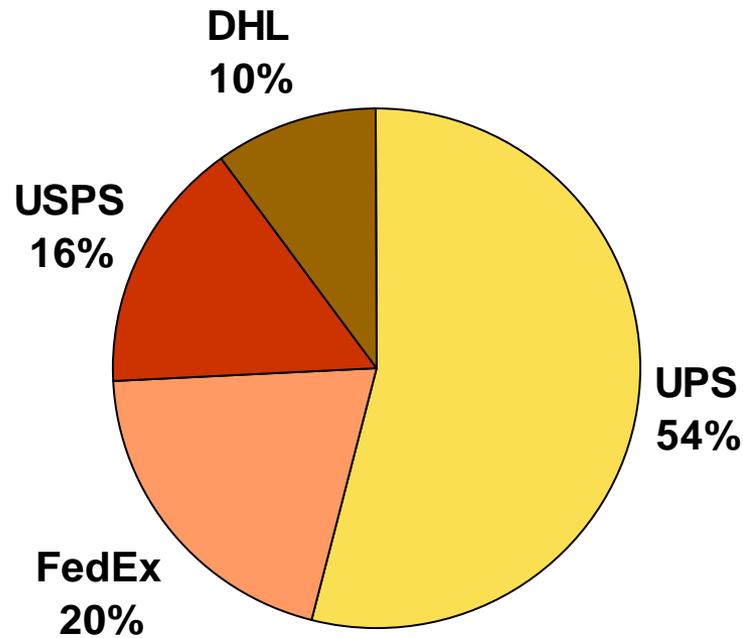
Competitive products account for about 9.4 percent USPS revenue (2006)



Approximate market shares, 2006

Source: Federal Trade Commission, “Accounting or Law that Apply Differently to the United States Postal Service and its Private Competitors” (2007)

Competitive products only: shares in end-to-end market



USPS competes primarily in parcel and express services

Approximate market shares, 2006

Source: Federal Trade Commission, "Accounting or Law that Apply Differently to the United States Postal Service and its Private Competitors" (2007)

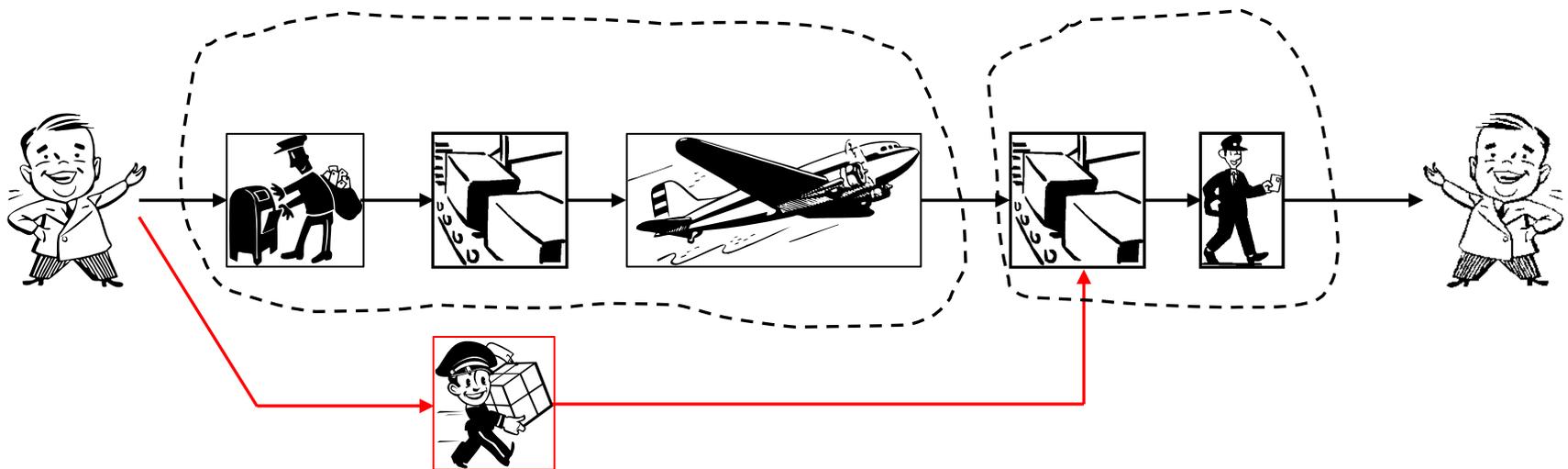
Federal Trade Commission study (2007) on competition and laws

- **Federally-imposed restrictions “impose economic burdens on the USPS” and create “implicit subsidies that provide the USPS an economic advantage”:**
 - Legal restraints on the USPS’s operations increase its costs to provide competitive products by an estimated \$330-\$782 million a year.
 - USPS’s competitive products operations enjoy an estimated implicit subsidy of between \$39-\$117 million a year.
- **These are “two distortions that compound each other and negatively affect the provision of competitive mail products.”**
- **Options for future**
 - Narrow postal monopoly and mailbox monopoly.
 - “Establishing the USPS’s competitive products division as a separate corporate entity – with either private or governmental ownership – arguably would eliminate many of the major remaining legal differences between the USPS and its private competitors.”

Worksharing: cooperation between USPS and private companies

“Upstream” activities: collection
outward sorting, and transport

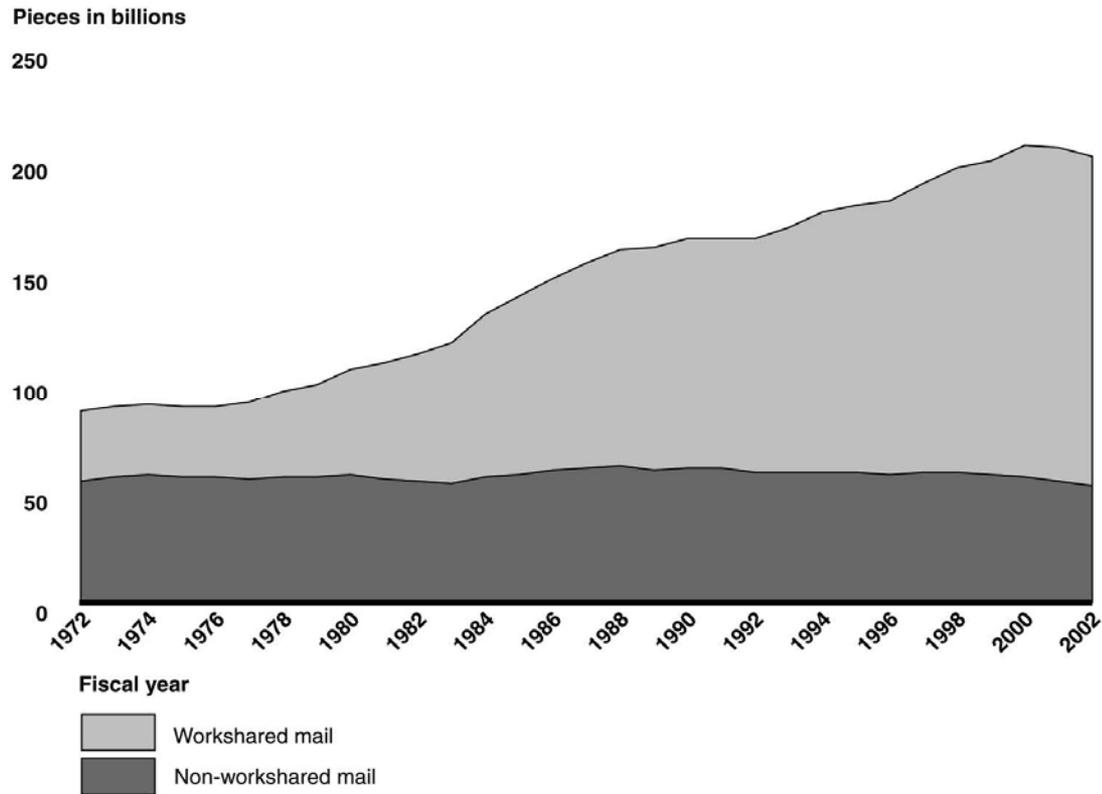
“Downstream” activities:
inward sorting and delivery



**Mailer or private mail consolidator
(including private delivery services)**

USPS: Growth of worksharing

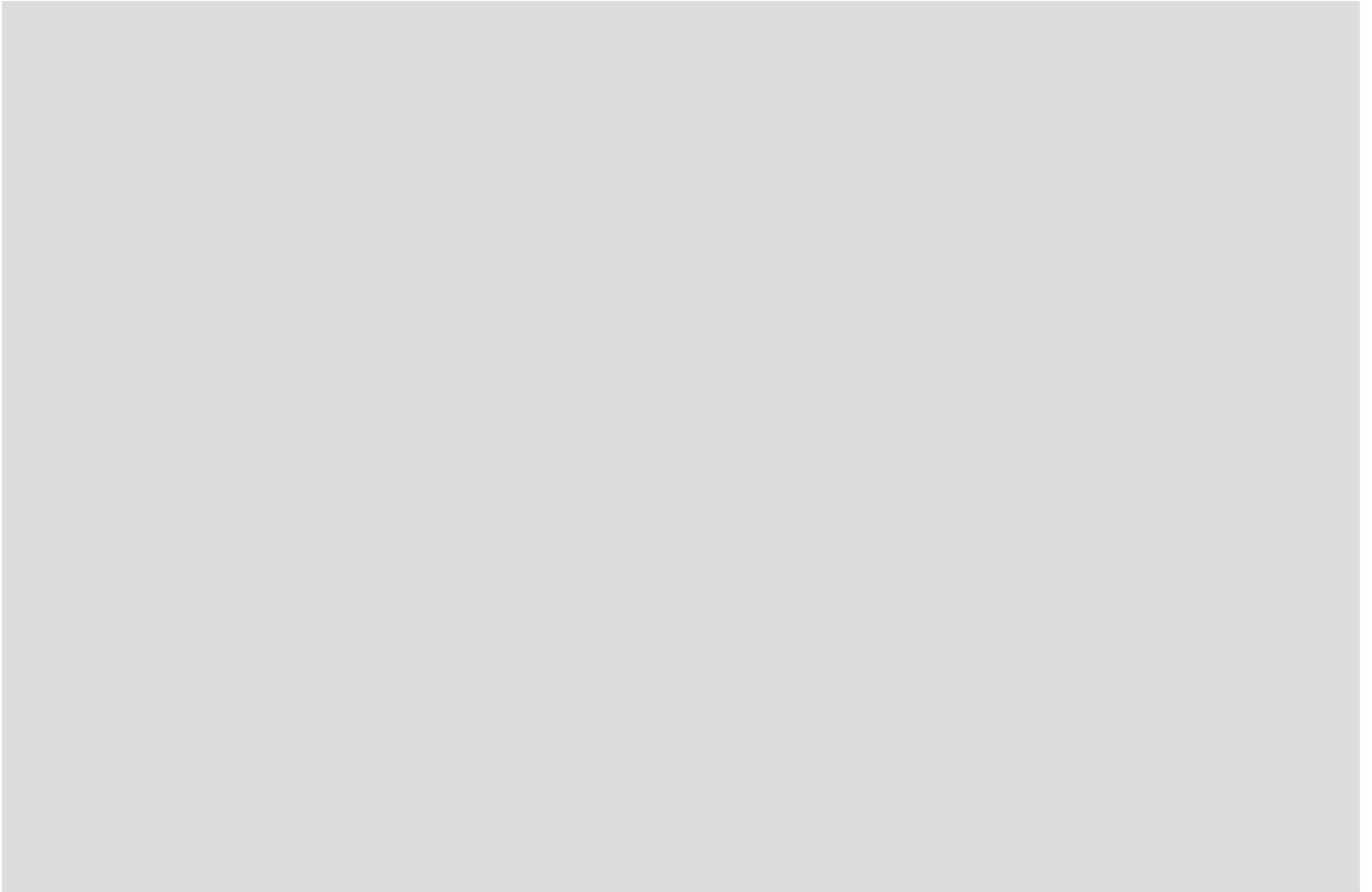
Figure 1: Growth in Workshared Mail Volume Between Fiscal Years 1972 and 2002



Source: GAO analysis of Postal Service data.

Private companies such as mailers, and consolidators (including private delivery services) have helped USPS grow.

4. Technological Innovation



Private delivery services: built on technological innovation

In the realms of supply chain management, few companies are as dependent on the efficiency of their chains than international courier operations, and this has put arch rivals Federal Express and UPS in the forefront of technological innovation.

"The information about a package is as important as the delivery of the package itself," said FedEx founder Frederick Smith in 1979, and both his company and its competitors have taken the dictum to heart.

-- Rethink IT (2004)

Private delivery services: Innovations

- **Tracking and tracing of packages**
- **Automated package sorting**
- **Hub and spoke air cargo systems**
- **Computer-directed routing of vehicles**
- **Handheld scanning devices for drivers**
- **Advanced wireless networks**
- **Web-based tracking systems and other tools for customers**
 - E.g., fedex.com, ups.com.
- **Supply chain software for customers**
- **Customs automation**

USPS: technology innovation

- **Letter and flat sorting equipment**
- **Address quality systems**
- **Handwriting recognition software**
- **Bar codes**
- **Web-based interface: www.usps.gov**

USPS: Intelligent mail



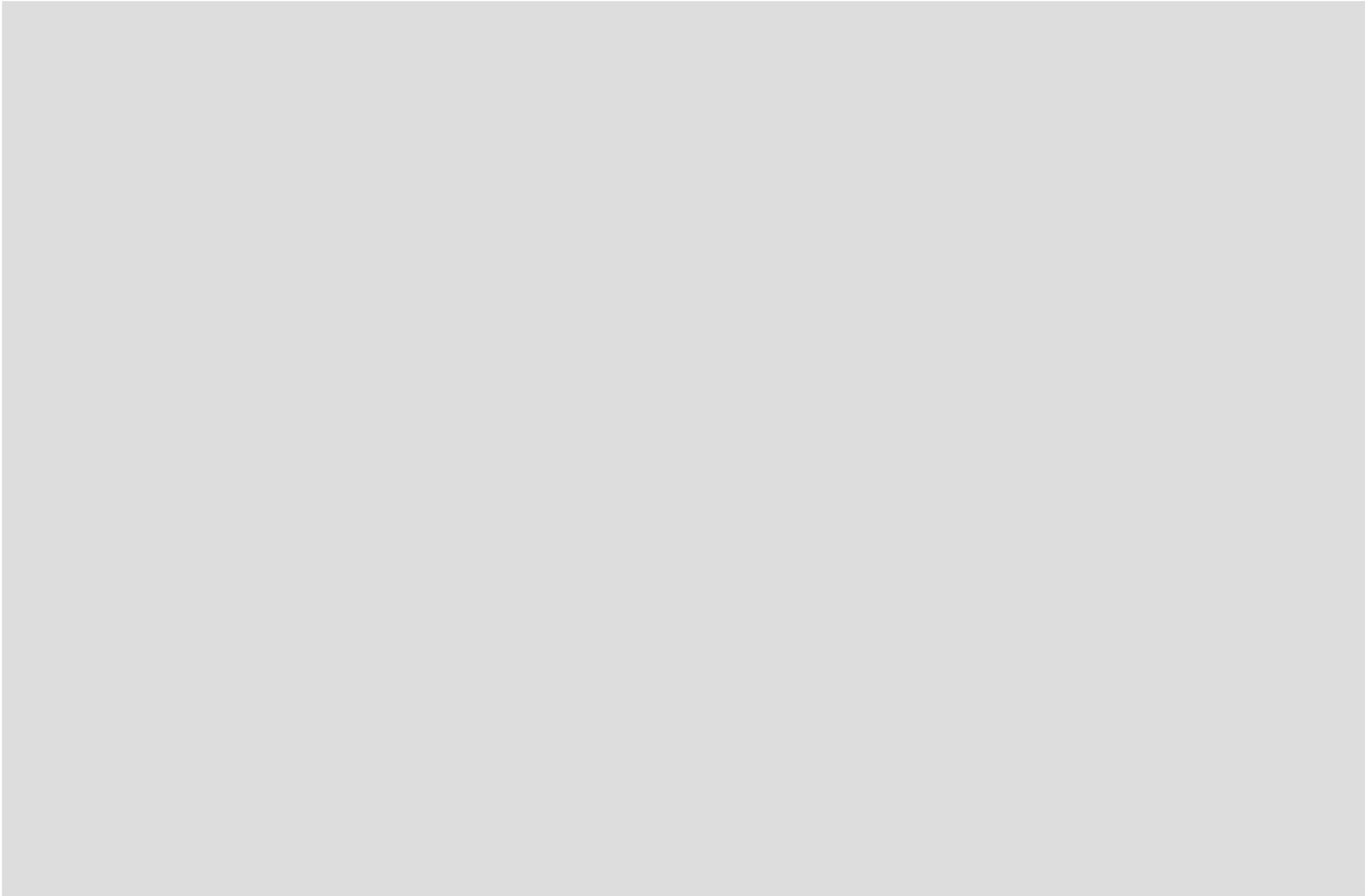
Strategic Transformation Plan Update

Intelligent Mail

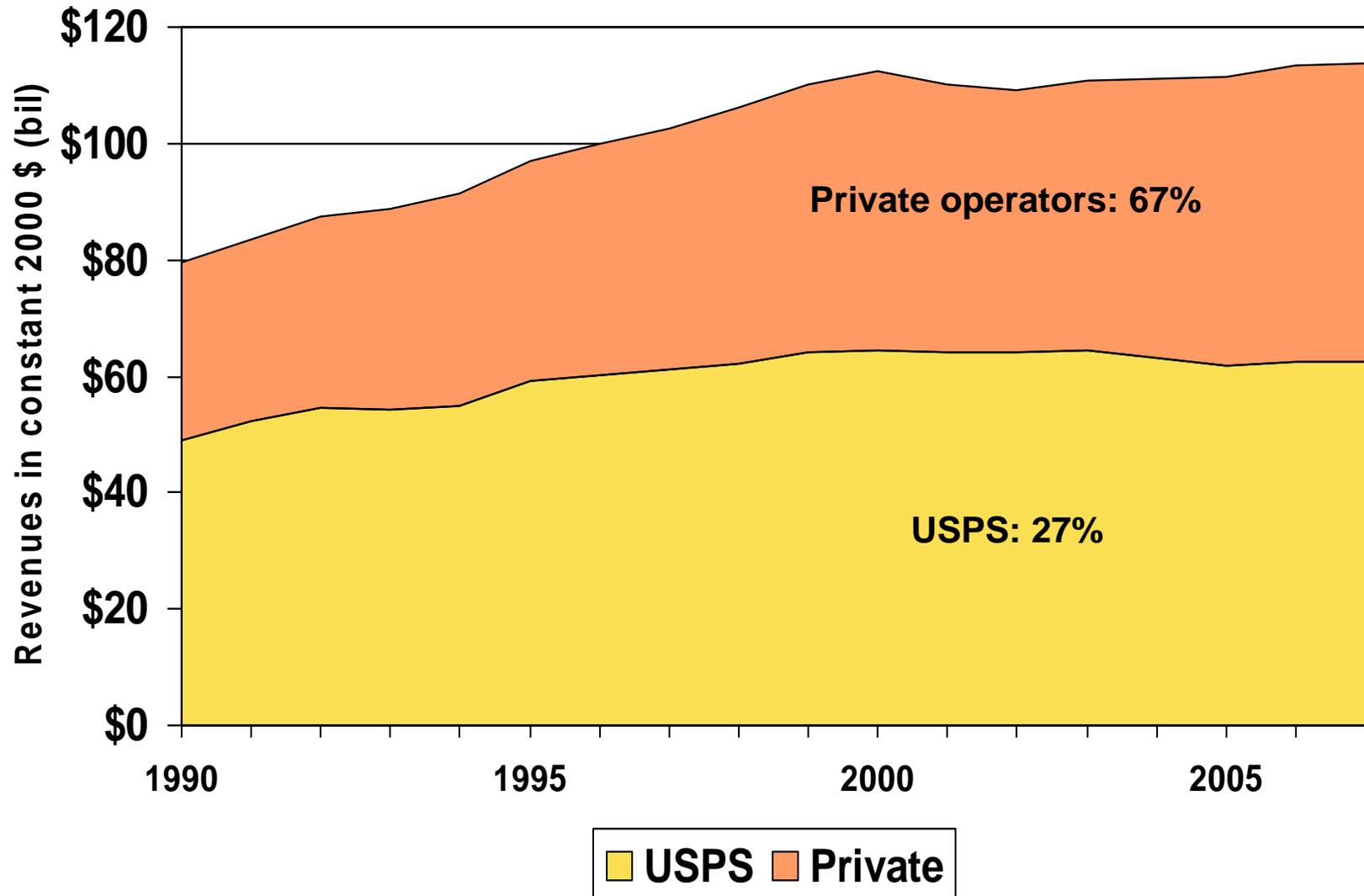


Source: "Strategic Transformation Update," Alixe Johnson, USPS, May 2, 2008

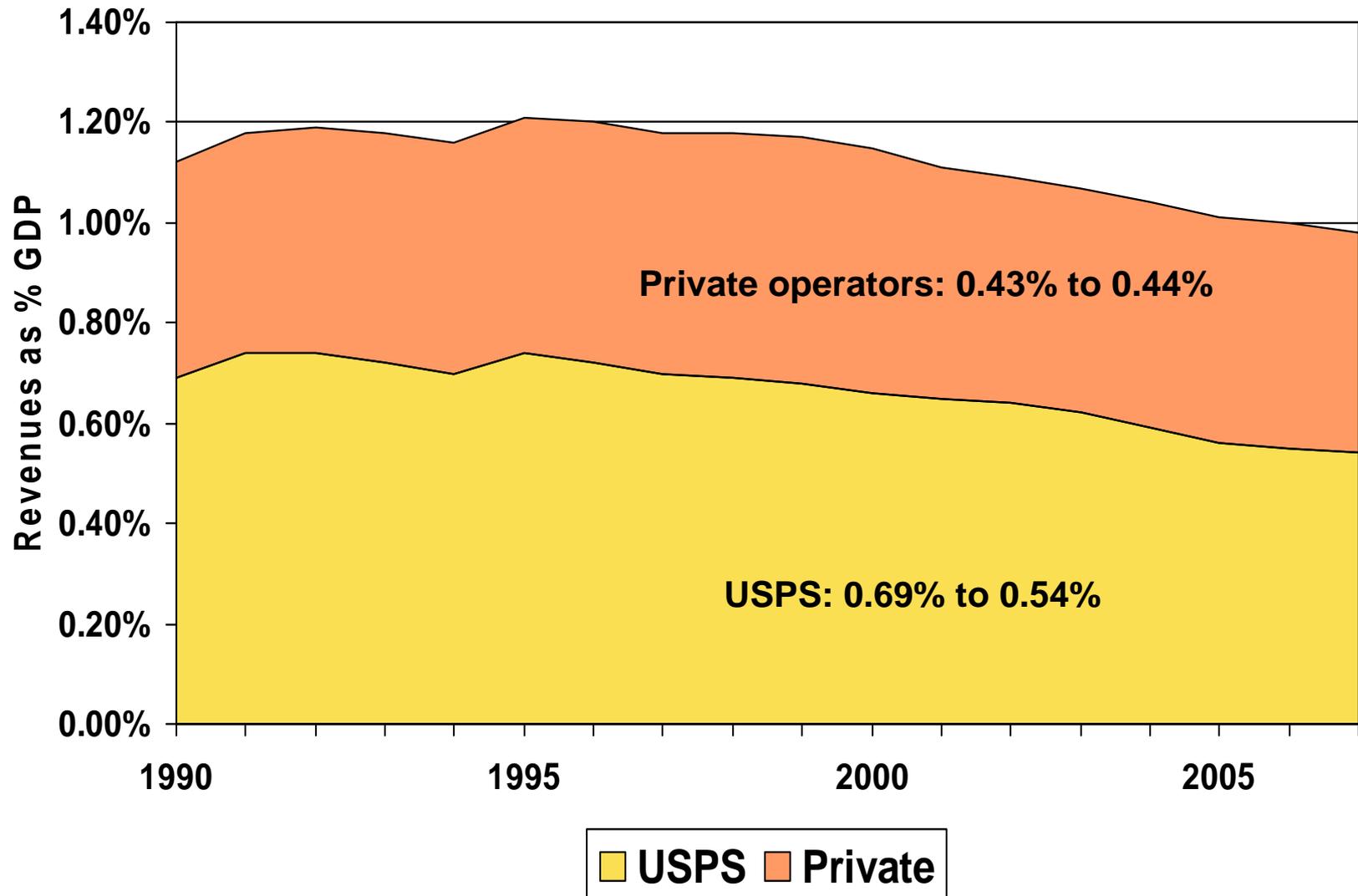
5. Economic Impact



Real revenue growth, 1990 to 2007



Delivery services as percent of Gross Domestic Product, 1990-2007



USPS: Primary service to/from households

Total Domestic Mail Flows (Billions of Pieces)

From:	To:		
	Household	Business	Totals
Household	5.9	15.3	21.2
Business	145.0	45.2	190.2
Totals	150.9	60.5	211.4

Source: USPS, HDS Diary Sample, FY 2007.

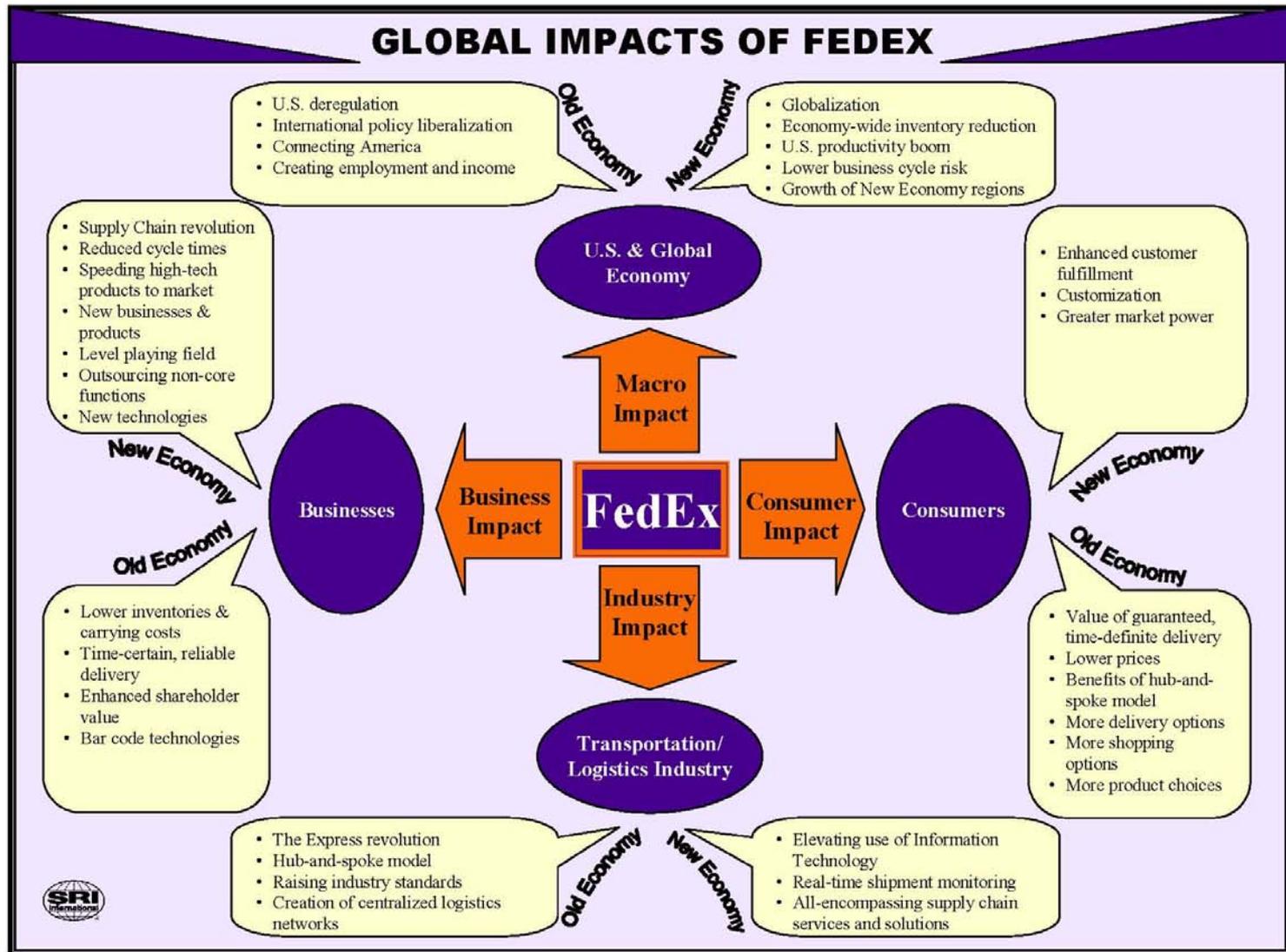
USPS: Main types of mail sent to/from households

Household Mail Volume Received and Sent by Market Served (Billions of Pieces)

Market	2005	2006	2007
Correspondence	16.6	15.3	14.6
Transactions	42.7	42.7	43.3
Advertising*	101.9	104.9	100.3
Periodicals	6.7	6.7	6.6
Packages	3.1	3.2	3.1
Unclassified	3.8	5.0	6.2
Total	167.0	170.2	166.2

Source: USPS, HDS Diary Sample, FY 2005, 2006 and 2007.

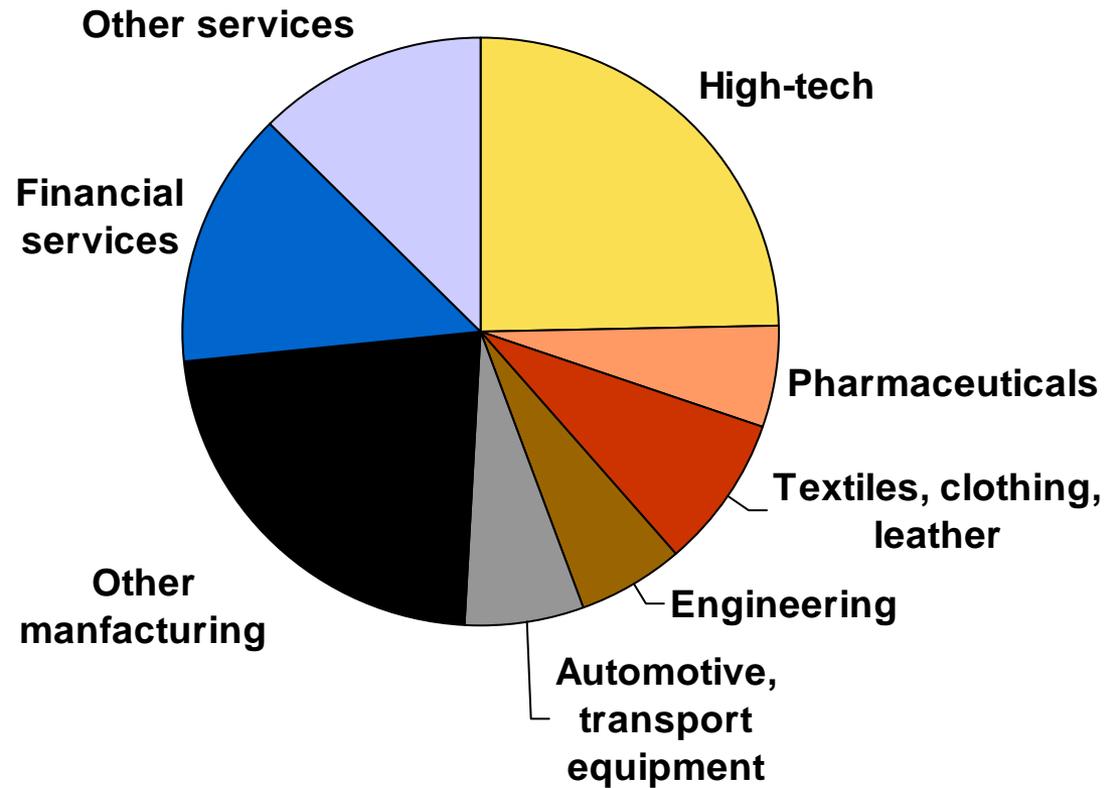
Economic impact: Private delivery services



Economic impact: Private delivery services

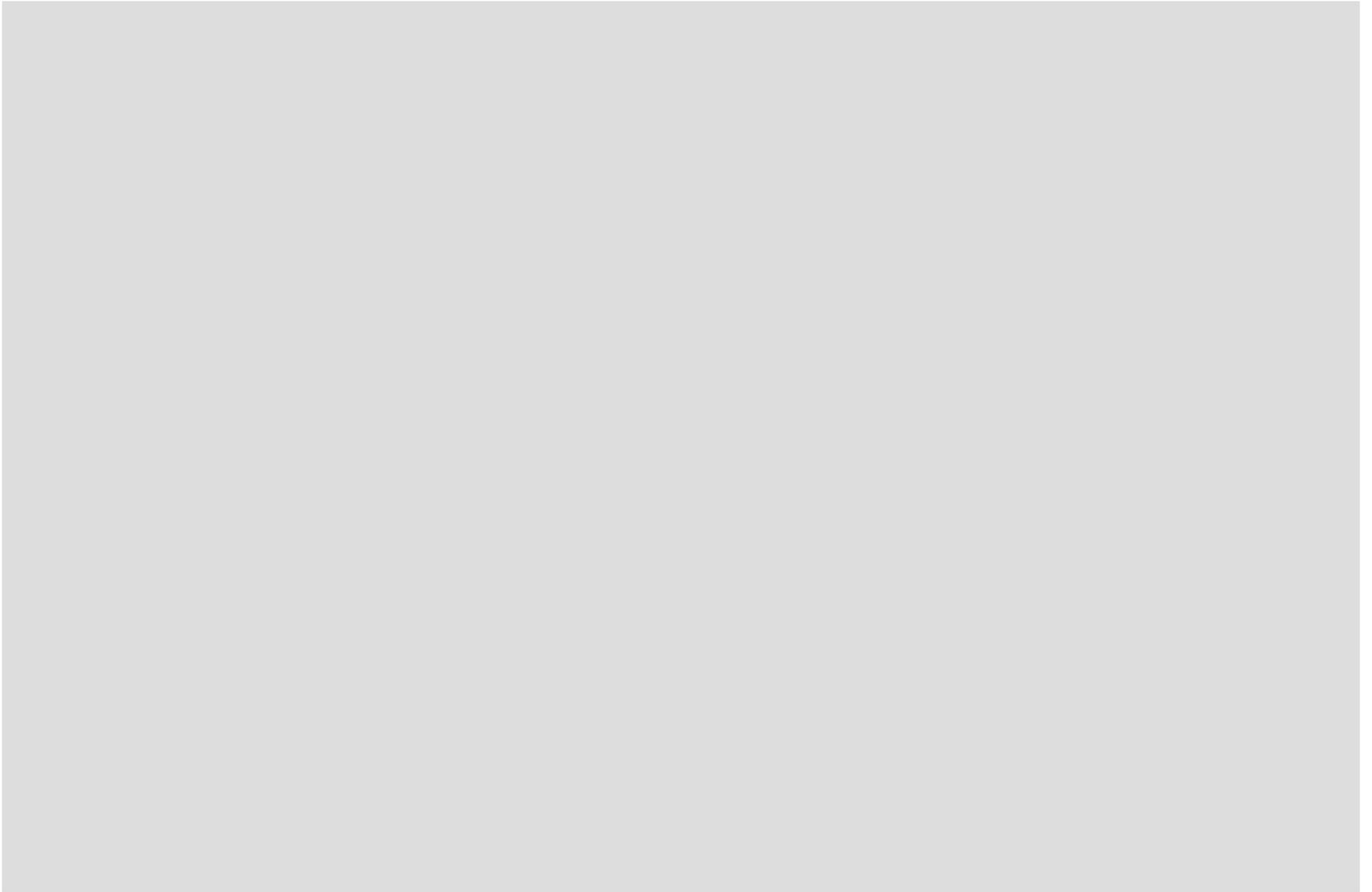
- **Customers**
 - Reducing cycle time, raising profits; speeding high-tech products to market
 - Enabling new businesses and products
 - Leveling the playing field for small businesses
 - Improved outsourcing of non-core functions
 - Pioneering new business technologies and supply chain techniques for the future
- **Consumers**
 - Improved direct marketing services
 - More customization and market power for consumer
- **Transportation/logistics sector**
 - Elevating the use of information technology
 - Sharpening visibility through real-time shipment monitoring
- **Global economy**
 - Linking the world's businesses and peoples through globalization
 - Reducing economy-wide inventory
 - Contributing to the U.S. productivity boom
 - Lowering business cycle risk

Private delivery services: primary customers (approximate)



Source: Oxford Economic Forecasting, "The Impact of the Express Delivery Industry on the Global Economy" (2005)

6. Conclusions



Conclusions

1) Both USPS and private delivery services have grown in last 15 years.

- USPS is dependent on first class mail business but future of first class mail is uncertain.
- Private delivery services are shifting from “pure” express to deferred parcel services, freight, and international services.

2) USPS and private delivery services have mixed business relationship

- USPS and express companies compete in express and parcel markets but have different core businesses.
- USPS and private delivery services are largely complimentary in the supply of delivery services in the U.S. as shown by worksharing and public/private partnerships

3) Technology innovations have benefit everyone

- Innovations pioneered by private delivery services have improved postal operations.
- Technology developed by Postal Service (e.g. addressing, sorting) may help private companies.

Conclusions

4) Economic impacts of USPS and private delivery services are large and approximately equal

- Economic role of USPS has declined as share of national economy since 1990 and it is increasingly focused on distribution of advertisements and transactions to households.
- Economic role of private delivery services as share of national economy has remained stable since 1990 and they are focused on high tech and advanced manufacturing industries.
- Growth of private delivery services has added to total delivery services market and not reduced market for Postal Service