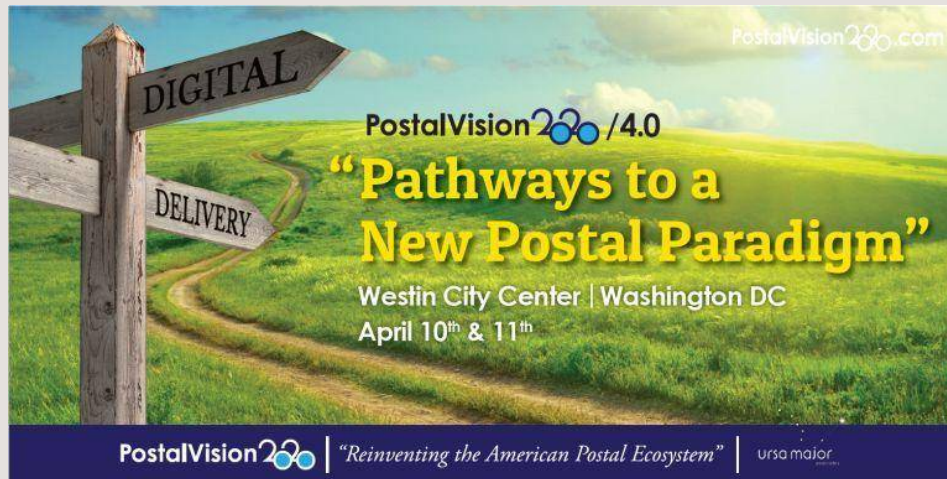


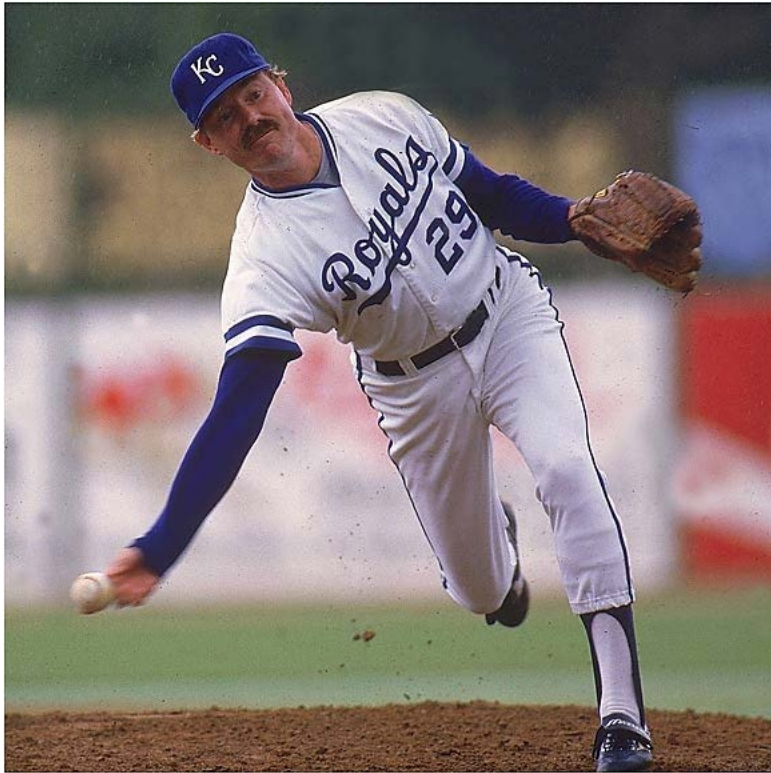
# Delivery In The Future



Lawrence G. Buc, President  
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# Dan Quisenberry: Famous Relief Pitcher and Futurist



I've seen the future  
and it looks a lot like  
the present, only  
longer.

# Descriptive Statistics: Present

- In 2013 there were about 153 million Delivery Points in the US.
  - 140 million residential
  - 13 million business

<b>Residential Delivery Points</b>	<b>FY 2013</b>	<b>FY 2012</b>	<b>FY 2011</b>
City Delivery	81,297,883	81,040,591	80,792,112
Rural	40,111,620	39,449,400	39,067,740
PO Box	15,882,717	15,994,508	15,891,349
Highway Contract	2,736,005	2,678,508	2,639,061
<b>Total Residential Delivery</b>	<b>140,028,225</b>	<b>139,163,007</b>	<b>138,390,262</b>
<b>Business Delivery Points</b>			
City Delivery	7,554,231	7,525,979	7,487,332
Rural	1,524,741	1,493,644	1,468,861
PO Box	3,738,314	3,889,964	4,072,664
Highway Contract	74,922	73,957	72,872
<b>Total Business Delivery</b>	<b>12,892,208</b>	<b>12,983,544</b>	<b>13,101,729</b>
<b>Total Delivery Points</b>	<b>152,920,433</b>	<b>152,146,551</b>	<b>151,491,991</b>

# Descriptive Statistics: Present

- In 2013 the average delivery point got 1,036 pieces of mail.

	FY 2013	FY 2012	FY 2011	FY 2010	FY 2009
No. of Pieces (Millions)	158,384	159,859	168,297	170,859	176,744
Pieces/Delivery Point	1,036	1,051	1,111	1,133	1,177

# Descriptive Statistics: Future

- More delivery points but open question as to where those points are
- Less mail

# Descriptive Statistics: Present

- Almost 196 thousand City Delivery Carriers.
  - Approximately 160 thousand full-time on the old wage scale.
  - Approximately 30 thousand are CCAs
- 113 thousand Rural Carriers.
  - Almost 66 thousand are full-time.
  - Another 47 thousand are substitutes, etc.

# Descriptive Statistics: Present

- Last year, the Postal Service spent over \$20 billion on delivery.
  - \$3.6 billion on city carriers in the office.
  - \$12 billion on city carriers on the street.
  - \$6.8 billion on rural carriers.
- Craft labor costs only - do not include supervision, vehicle-related costs, and fuel.

# Inferences

- There are big RTS or RTD in carrier operations
- Cost elasticity about 50 percent for total street time
- Proof: UPS, FedEx, and DHL use Postal Service for many deliveries.
- FINAL MILE model - consolidators perform the upstream mail sorting and the Postal Service does the delivery.



# The Future

- Delivery is a natural monopoly.
- Inefficient to have multiple networks.
- Analysis and experience show even full market opening likely won't work.

# The Future

- Two Pricing Issues:
  - Revenue Levels
  - Price Relationships

# The Future: Revenue Levels

- Revenues raised through prices need to cover but not vastly exceed cost.
  - Generally agnostic about the mechanism: could be price cap, could be cost of service with incentives.
- Mechanism needs to provide incentives for cost controls.
- Strong case for a regulator.

# The Future: Price Relationships

- Good reasons for price to reflect both costs and demand.
- But it can't do both perfectly.
- Shapes drive costs and content may drive demand.

# The Future: Case for Access Pricing

- Don't want to let a monopolist squeeze out more efficient upstream competitors.
- Monopolist behaving badly is bad for society.
- Price accordingly.

# The Future: Case for Access Pricing

- Getting to these new structures will not be a walk in the park.
- There is no painless green field since considerable rents are embodied in the current structure.

# The Future and Current Rents

Product	Revenue (millions)	Cost Coverage
Single-Piece Letters	\$10,126.2	171.48%
Presort Letters	\$14,317.5	310.94%
Standard Flats	\$2,134.1	84.88%
Standard Letters	\$9,261.3	188.89%
High Density and Saturation Letters	\$805.2	235.84%
High Density and Saturation Flats & Parcels	\$1,929.8	229.01%
Priority Mail Express	\$794.1	189.22%
First-Class Package Service	\$1,191.7	118.97%
Priority Mail	\$6,374.3	131.13%
Ground	\$2,469.4	124.42%

# Questions?

