

DRAFT



# Retail channel strategy



Discussion document

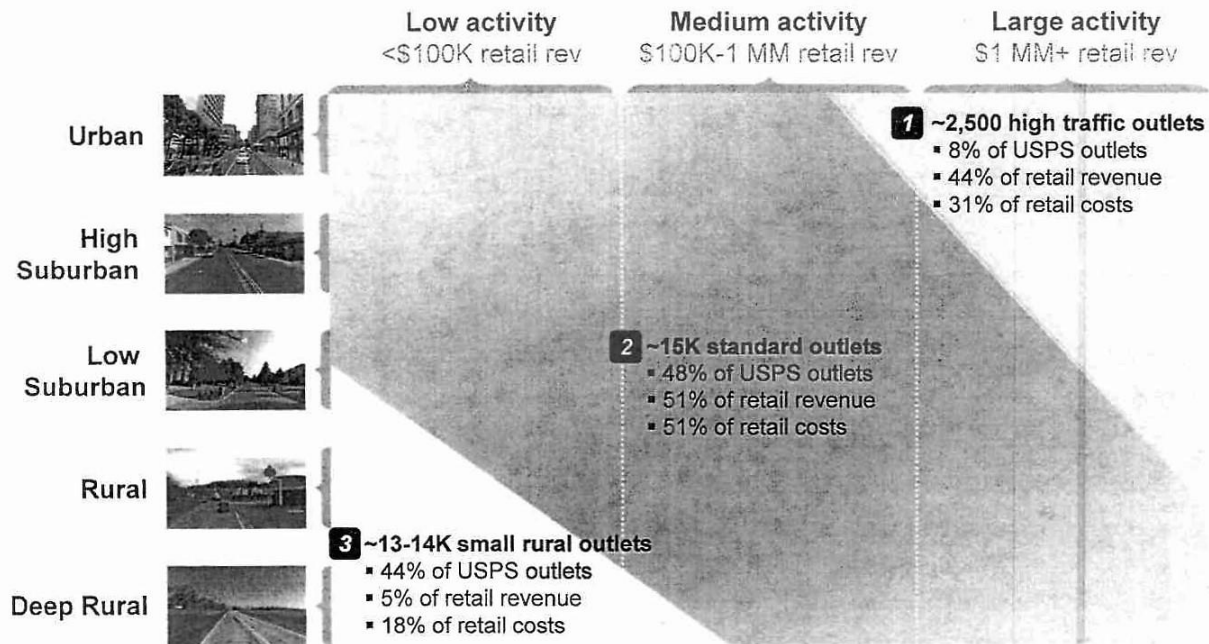
March 26, 2012

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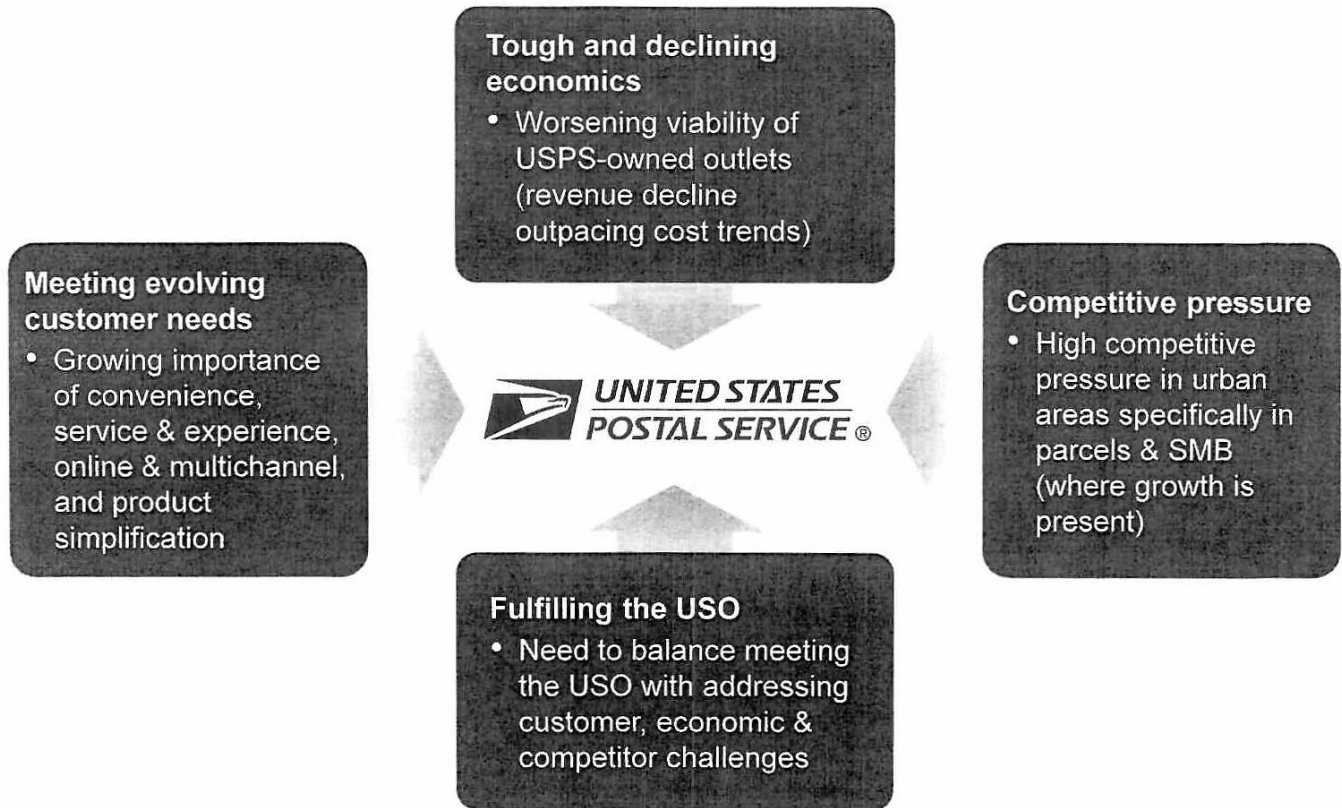
# The retail channel strategy will need to take a balanced approach across activity and geography

## Overview of USPS owned outlets



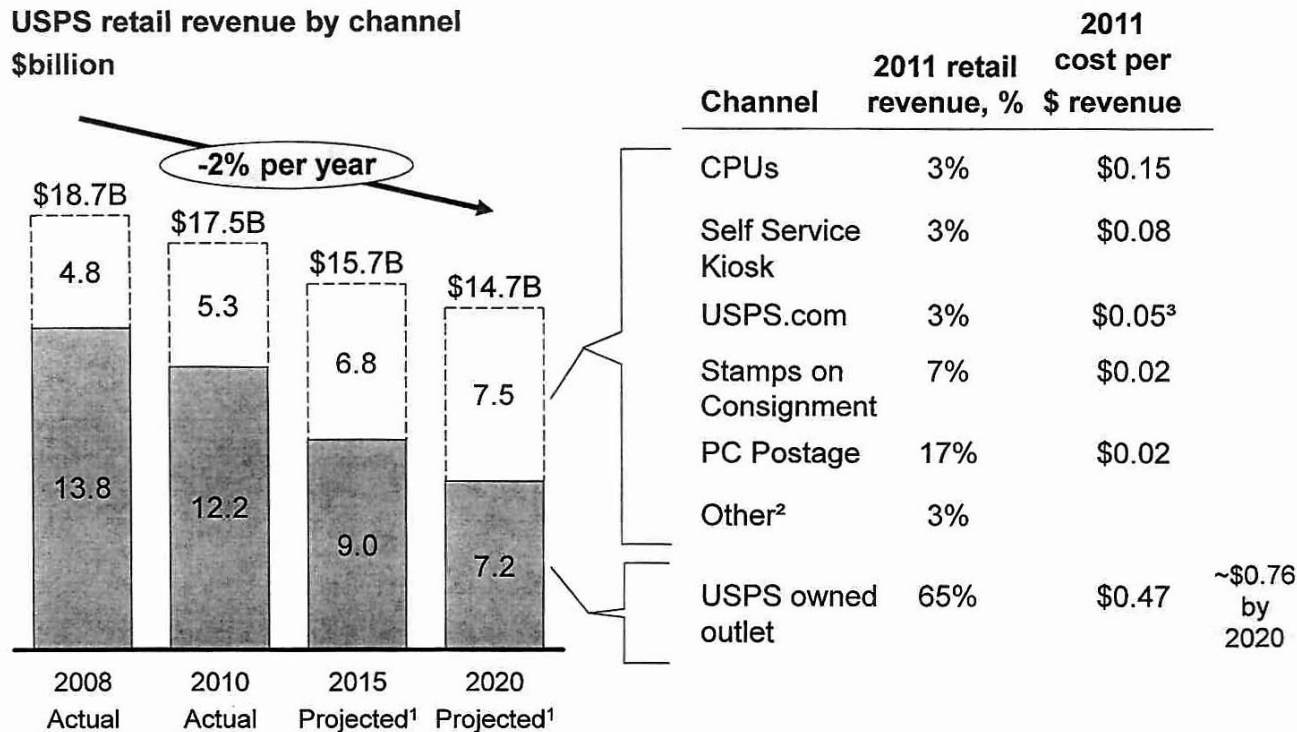
**Top 5K outlets generate 59% of revenue; top 10K generate 83% of revenue**  
**Bottom 5K outlets generate < 1% of revenue; bottom 10K generate < 3% of revenue**

## The USPS retail network faces four fundamental challenges



## USPS faces further challenges as revenue expected to decline faster than cost reduction, driving up cost to serve

### USPS retail revenue by channel \$billion



1 Revenue based on FY2011 actual revenue and projected using USPS strategy planning forecasts for first class mail and packages. Portion attributed to Post Office revenue calculated based off of historical data trending to a 3% decrease of % of revenue through Post Offices per year

2 Other includes catalog, mail, phone, and fax sales and Approved Shippers

3 Click N Ship cost to serve only

Source: USPS financials (FPR/EDW) + McKinsey Growth & Trends Analysis

## USPS retail channel vision

**The retail channel strategy will focus on enhancing the customer experience, protecting revenue and reducing cost to serve while ensuring USPS remains a trusted American institution**

<b>Meet customer needs</b>	<ul style="list-style-type: none"> <li>▪ Ensure consumers and small businesses have the <b>customer service, convenience, speed and information</b> they require</li> <li>▪ Provide the <b>products and services the customer wants</b>, when and where they want them in all areas (e.g., urban, rural)</li> <li>▪ Improve the <b>customer retailing environment</b></li> <li>▪ Ensure a <b>seamless multichannel offering</b> integrating online/digital/mobile and self-service with physical channels</li> </ul>
<b>Ensure cost efficiency and financial sustainability</b>	<ul style="list-style-type: none"> <li>▪ <b>Demonstrate financial stewardship</b> by optimizing the network to migrate customers to the lowest-cost channels</li> <li>▪ <b>Reduce retail cost base by at least \$1.5 bn</b> to contribute to overall viability of USPS</li> </ul>
<b>Protect our revenues from competition</b>	<ul style="list-style-type: none"> <li>▪ <b>Maximize our retail revenues</b> where feasible</li> <li>▪ <b>Defend market share</b> from intensifying competition – particularly in the SMB segment</li> </ul>
<b>Remain a trusted American institution</b>	<ul style="list-style-type: none"> <li>▪ <b>Fulfill our USO</b></li> <li>▪ <b>Preserve the trust and integrity</b> of our brand</li> <li>▪ Work with <b>trusted partners</b> to support our retail proposition</li> </ul>

To achieve this vision, USPS will adopt a retail channel strategy that is tailored by market, which could deliver \$2.6bn savings by 2020

PRELIMINARY

## Pillars of Retail Channel Strategy

1

### Improve experience in high traffic outlets

- Invest in ~2,500 owned outlets (e.g., self service, training) to lower cost to serve

2

### Significantly expand retail partnerships

- Migrate majority of volume from owned standard outlets to ~12-22K retail partners (maintain 4K USPS-owned locations)

3

### Match costs to volume in low traffic outlets

- Fulfill USO cost effectively where no national retail partner available and continue to conduct PO studies where appropriate

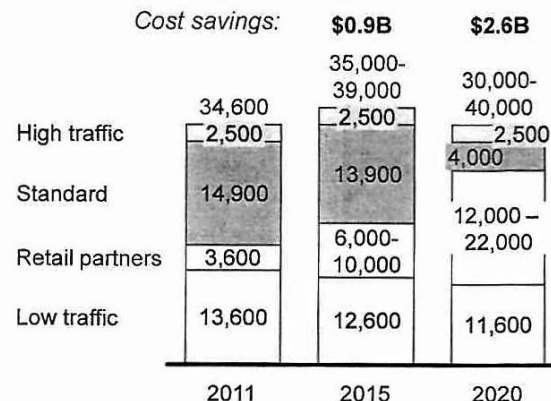
4

### Grow digital access

- Drive volume in .com and mobile platforms from SMBs & consumers while improving content and enhancing outlet support functionality

## Resulting impact

### Number of outlets (preliminary)<sup>1</sup>



	2011	2015	2020
<b>Retail cost</b>	<b>\$5.9 bn</b>	<b>~\$5.0 bn</b>	<b>~\$3.3 bn</b>
<b>Overall cost to serve</b>	<b>\$0.35</b>	<b>\$0.31</b>	<b>\$0.23</b>
<b>USPS cost to serve<sup>2</sup></b>	<b>\$0.38</b>	<b>\$0.36</b>	<b>\$0.27</b>
<b>% of revenue - alternative access</b>	<b>~35%</b>	<b>~50%</b>	<b>~67%</b>

<sup>1</sup> Excludes ~67K stamps on consignment and ~4K approved shippers partners today

<sup>2</sup> Includes digital access

Source: USPS financials (FPR/EDW) + McKinsey Growth & Trends Analysis

## USPS is developing multiple options for retail partnerships

### Store-in-Store

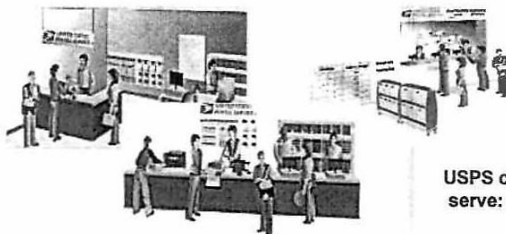
- Postal outlet located in a **dedicated space** at a partner retailer, operated by **dedicated staff** (employed by the partner), offering a full set of postal products and services



USPS cost to serve: \$0.20

### Over the counter

- USPS products and services sold through existing retailer space (retail till or customer service desk) leveraging existing retailer staff (not dedicated to USPS activities)



USPS cost to serve: \$0.07

### CPG (consumer packaged goods)

- Simplified mail & packages offerings sold off the shelf and paid for at a standard POS (via barcode scanning)



USPS cost to serve: \$0.08

### Self-service

- Retailer owns / rents / leases certified USPS self service machine and places it in their outlets with nearby merchandising



USPS cost to serve: \$0.09

All formats fully-integrated with digital access (.com & mobile channels)

# We are in the process of developing a detailed implementation plan centered around the retail channel strategy (1/2)

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Objectives	
<b>Strategic pillars</b>	<b>1 Improve experience in high traffic outlets</b> <ul style="list-style-type: none"> <li>▪ Deliver \$220M in annual cost saving by 2015 (and \$450M by 2020) by dramatically increasing deployment and customer adoption of self service (from ~10% to ~65% of transactions in 2,500 high traffic outlets) and mobilizing employees to support change</li> </ul>
	<b>2 Significantly expand retail partnerships</b> <ul style="list-style-type: none"> <li>▪ Migrate majority of volume from USPS owned standard outlets to ~12-22K retail partners (increasing access and convenience) to achieve estimated annual savings of \$90M by 2015 and \$1.3B by 2020</li> </ul>
	<b>3 Match costs to volume in low traffic outlets</b> <ul style="list-style-type: none"> <li>▪ Fulfill USO cost effectively in small rural areas through POST + VPO to achieve estimated annual savings of \$500M by 2015 (and continue to 2020) and conduct PO studies where appropriate (additional annual savings of \$100M by 2015, \$200M by 2020)</li> </ul>
	<b>4 Grow digital access</b> <ul style="list-style-type: none"> <li>▪ Significantly grow volume in .com and mobile platforms from SMBs &amp; consumers while improving content and enhancing outlet support functionality</li> </ul>
<b>Enablers</b>	<b>Rationalize products</b> <ul style="list-style-type: none"> <li>▪ Continue to rationalize and simplify the product set (e.g., flat rate) to enable self service, retail partnerships and digital access growth while providing a simpler experience to the consumer</li> </ul>
	<b>Upgrade supporting technology</b> <ul style="list-style-type: none"> <li>▪ Enable timely deployment of USPS retail strategy and continue to support operations to better understand the customer and meet their needs (e.g., RSS, CARS, ID management, 3rd party kiosk certification)</li> </ul>
	<b>Consumer marketing and messaging</b> <ul style="list-style-type: none"> <li>▪ Drive customer adoption of self service, migration to retail partners and use of digital access channels. Communicate overall strategy to key stakeholders (internal &amp; external)</li> </ul>
	<b>Build organization capabilities</b> <ul style="list-style-type: none"> <li>▪ Design the organization required to deliver on overall retail channel strategy (including PMO, new talent/skills at HQ, field support) and identify additional resource needs</li> </ul>

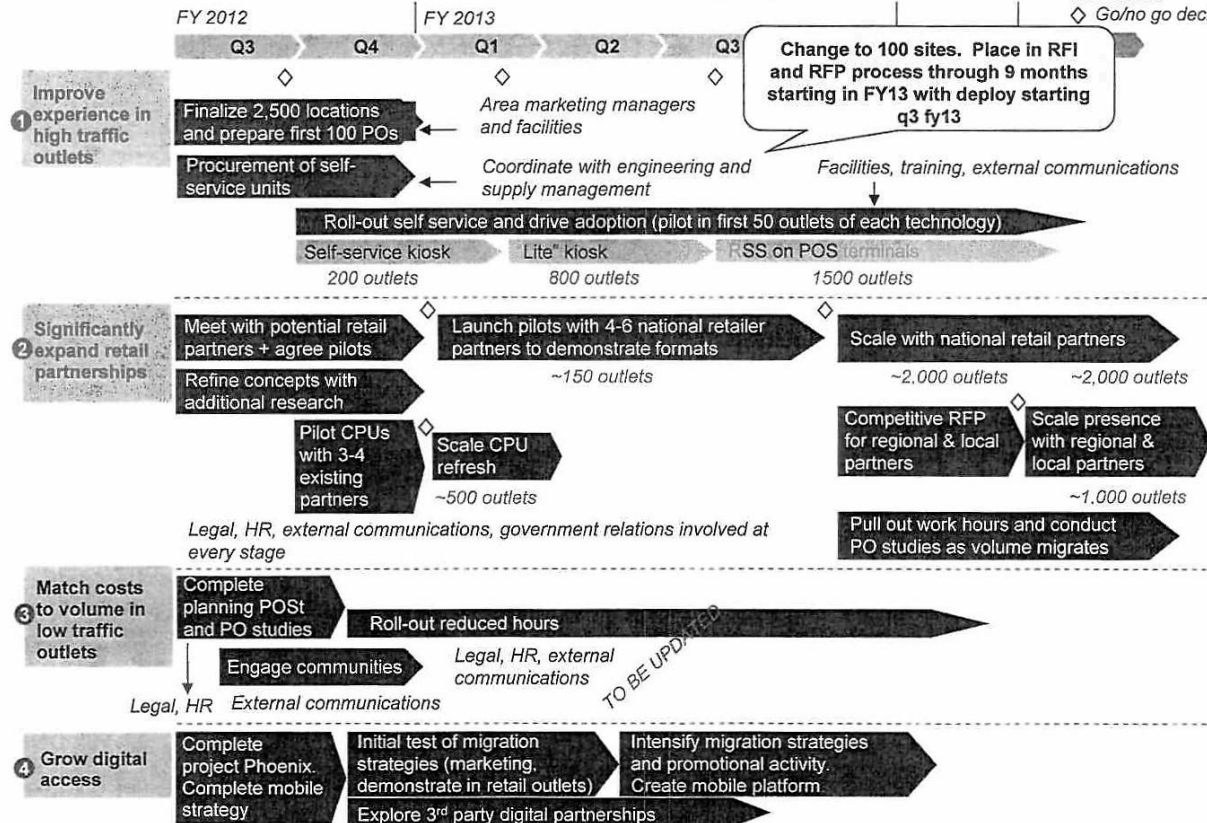


# We are in the process of developing a detailed implementation plan centered around the retail channel strategy (2/2)

Requires input / coordination

# of outlets

◇ Go/no go decision



# Overview of investment required

			Total capital / startup expense	HIGHLY PRELIMINARY Annual estimated savings (\$M)
<b>1</b>	<b>Improve experience in high traffic outlets</b> <ul style="list-style-type: none"> <li>Invest in ~2,500 owned outlets (e.g., self service, training) to lower cost to serve</li> </ul>	<ul style="list-style-type: none"> <li>Rapidly deploy "Lite APCs" pre-RSS in ~1K outlets in 2012-13</li> <li>Deploy self service POS w/ RSS across all outlets 2014-15</li> </ul>	<ul style="list-style-type: none"> <li>3 heavy APC @ \$14K each in 100 outlets in 2012</li> <li>4 lite APC @ \$6K each in 800 outlets in 2013</li> <li>4 POS w/ RSS @ \$3K each in ~1,500 outlets</li> <li>\$18K/outlet + \$2K/machine build-out</li> <li>\$1K training &amp; cust. adoption</li> </ul>	<ul style="list-style-type: none"> <li>~\$100M</li> <li>\$220M by 2015</li> <li>\$450M by 2020</li> </ul>
<b>2</b>	<b>Significantly expand retail partnerships</b> <ul style="list-style-type: none"> <li>Migrate majority of volume from owned standard outlets to ~12-22K retail partners (maintain 4K USPS-owned locations)</li> </ul>	<ul style="list-style-type: none"> <li>Invest to pilot new formats w/ retailers</li> <li>Establish ~13K new partner outlets</li> <li>Encourage migration to retail partner (mktg)</li> <li>Upgrade ~500 current CPUs</li> </ul>	<ul style="list-style-type: none"> <li>~\$33K capital upgrade<sup>1</sup> for all pilots with new retailers (10% of outlets = 1,300)</li> <li>~\$1.5K setup per new outlet (e.g., training)</li> <li>~\$10K per retail partner for cust. migration (mktg, awareness)</li> <li>~\$2K per CPU upgrade (e.g., counter, signage)</li> </ul>	<ul style="list-style-type: none"> <li>~\$45M</li> <li>~\$20M</li> <li>~\$127M</li> <li>~\$3M</li> <li>\$90M by 2015</li> <li>\$1,300M by 2020</li> </ul>
<b>3</b>	<b>Match costs to volume in low traffic outlets</b> <ul style="list-style-type: none"> <li>Fulfill USO cost effectively where no national retail partner available and continue to conduct PO studies</li> </ul>	<ul style="list-style-type: none"> <li>Implement POST in ~10K small rural outlets</li> <li>Conduct PO studies in ~3K outlets (where appropriate)</li> </ul>	<ul style="list-style-type: none"> <li>-</li> <li>-</li> </ul>	<ul style="list-style-type: none"> <li>~\$5M (TBC)</li> <li>-</li> <li>\$500M by 2015</li> <li>\$500M by 2020</li> <li>\$100M by 2015</li> <li>\$200M by 2020</li> </ul>
<b>+</b>	<b>Incremental cost to implement program</b>	<ul style="list-style-type: none"> <li>Bring in necessary skills &amp; expertise to team</li> <li>Program mgmt. &amp; field oversight</li> </ul>	<ul style="list-style-type: none"> <li>~\$30M (TBC)</li> <li>~\$15M (TBC)</li> </ul>	<ul style="list-style-type: none"> <li>-</li> <li>-</li> </ul>
<b>TOTAL:</b>			~\$345M	<ul style="list-style-type: none"> <li>~\$0.9B by 2015</li> <li>~\$2.5B by 2020</li> </ul>

<sup>1</sup> Assumed 1/3 pilots are store in store (70K), 2/3 are over the counter (15K)

## Strategic overview of USPS retail channel strategy

### Retail channel vision

- Meet customer needs
- Ensure cost efficiency and financial sustainability
- Protect our revenues from competition
- Remain a trusted American institution

### Pillars of Retail Channel Strategy

- 1** **Improve experience in high traffic outlets** through step change increase in self service lowering cost to serve
- 2** **Significantly expand retail partnerships** increasing convenience for consumers and lowering cost to serve for USPS
- 3** **Match costs to volume in low traffic outlets**, fulfilling USO where no national retail partner available and continue to conduct PO studies where appropriate
- 4** **Grow digital access** across .com and mobile platforms while improving content and enhancing outlet support functionality

### Retail channel transformation will result in the following by 2020:

- **Balanced and segmented outlet strategy** (mix of USPS high traffic outlets, standard host outlets, USPS small rural outlets and retail partnerships)
- **67% of retail revenue flowing through alternative channels**
- **>\$1.5B costs savings** with investment case currently being developed