Appendix G

APPENDIX G — Global Postal Competitors in the United States†

The U.S. Postal Service delivers more than 200 billion pieces of mail each year, accounting for over 40 percent of the world's mail, making the United States the largest national market for parcel, express, and direct mail services. As international postal competition intensifies, global postal operators are looking to the U.S. market as one of the most attractive opportunities for business expansion.

Several global postal operators now enjoy extensive commercial freedoms. They are rapidly gaining global market share by way of numerous acquisitions. They have the financial ability, commercial ambition, and international presence needed to go after the U.S. postal market. In fact, many of these players are already here.

Exhibit 1 highlights key financial data and strategic observations for Deutsche Post World Net (Germany), TNT Post Group (TPG) (The Netherlands), Consignia (United Kingdom), and the U.S. Postal Service. A second exhibit lists selected acquisitions, equity stakes, and alliances for seven international postal competitors, and a third exhibit illustrates the broad presence of key foreign posts in the United States.

† This appendix was prepared for the United States Postal Service by PricewaterhouseCoopers' Mail, Package, and Freight industry group, Washington, DC.

EXHIBIT 1: KEY FINANCIAL DATA AND STRATEGIC OBSERVATIONS

	Deutsche Post World Net	TNT Post Group	Consignia	U.S. Postal Service
2000 Revenue	$29.4 B	$8.9 B	$10.8 B	$64.5 B
Average Annual Revenue Growth Rate	27% 1996 to 2000	16% 1996 to 2000	6% 1997 to 2001	3% 1996 to 2000
2000 Revenue by Division	Mail: 34.5% Express: 17.7% Financial: 23.5% Logistics: 24.3%	Mail: 36.9% Express: 41.3% Logistics: 21.8%	Mail: 85.8% Counters: 15.5% Other: 3.5% Sales between segments: -4.8%	Mail: 96.6% Special Services: 3.4%
Cumulative 5-Year Net Income	$3,747 M 1996 to 2000	$1,657 M 1996 to 2000	$2,468 M 1997 to 2001	$3,545 M 1996 to 2000
Average Annual Net Income Growth Rate	58% 1996 to 2000	22% 1996 to 2000	2% 1997 to 2001	-66% 1996 to 2000
2000 Net Income by Division	Mail: 74.3% Express: 2.8% Financial: 18.7% Logistics: 4.2%	Mail: 69.5% Express: 19.2% Logistics: 11.3%	Mail[1]: 75.3% Counters[1]: 12.1% Other[1]: 12.6%	
Other	▪ Has established a Political Action Committee in the United States	▪ Consignia/TPG/Singapore Post alliance: Reposition Royal Mail and TNT International Mail brands in United States as: "Spring"	▪ Consignia/TPG/Singapore Post alliance: Reposition Royal Mail/ TNT Intl. Mail brands in U.S. as: "Spring" ▪ USPS/Consignia Outbound deal	▪ USPS/DHL Global Priority Mail Guaranteed partnership ▪ USPS/Consignia Outbound deal
Possible Next Steps	▪ Buy competitor? ▪ Alliance/merger with parcel/mail consolidator ▪ Alliance/merger w/ parcel/express competitor ▪ Extend relations with South Am. posts.	▪ Buy competitor? ▪ Alliance/merger with parcel/mail consolidator ▪ Alliance/merger with parcel/express competitor		

[1] Consignia Profit by Division is before "exceptional items."

Source: Annual reports from USPS, Deutsche Post World Net, TNT Post Group, and Consignia. 1996 – 2001.
Note: Revenue and net income data is based on varying national accounting standards.
Note: Revenue and net income data is based on 12/13/2001 foreign exchange rates.

Global Postal Market Leaders

The global postal/parcel/express market is evolving rapidly. As recent trends continue, anticipating further acquisitions and alliances would be prudent. Because acquisitions and alliances are generally kept confidential until consummated, this overview can only suggest logical possibilities based on past developments and known tendencies. As such, the opinions presented below are proposed simply as educated guesses based on historical industry observations and are not based on partial or substantial facts.

TNT Post Group (TPG)

The Dutch postal operator, TPG, is the second largest express company in the world and a global player present in more than two hundred countries, largely due to its 1996 acquisition of global courier company TNT. Today, TNT Post Group—publicly traded on the New York, London, Frankfurt, and Amsterdam stock exchanges—is one of the largest global postal operators. It has experienced an average revenue growth rate of 16 percent from 1996 through 2000. Domestic mail represents 36.9 percent of its revenues and as much as 69.5 percent of its profits. TPG has experienced an average profit growth rate of 22 percent from 1996 through 2000, as a result of its prolific acquisition activity during the same period, illustrated in Exhibit 2. TPG is the dominant partner in a three-way alliance with Consignia and Singapore Post called *Spring*, which bills itself as "the world's largest business mailing partnership." Currently, this alliance is present in the United States through the TNT International Mail and Royal Mail services, but these brands will be replaced with the Spring moniker over the course of 2002.

EXHIBIT 2: SELECTED LIST OF ACQUISITIONS, EQUITY STAKES, AND ALLIANCES BY REGION

EUROPE

Deutsche Post World Net

Acquisitions

A Post A/S, DK
Ascoli, IT
ASG, SE
Correct Express, NL
Danzas, CH
Deutsche Postbank, DE
Deutsche Telekom, DE
DHL International, BE
Ducros, FR
Herald International Mailings, UK
ITG Internationale Spedition, DE
McPaper Aktiengesellschaft, DE
Merkur Direktwerbeges, DE
Nedlloyd ETD, NL
Pakedienst GP Paketlogistik, CH
Qualipac, CH
Trans-o-flex, HU
SAV, IT
Schnell-Lieferdienst, AT
Selektvracht, NL
Servisco, PL
Van Gend & Loos, NL
Vindo Logistik, AT
VOP Colli-Service, BE

Equity Stake

GFT Technologies, DE
Global Freight Exchange, UK
Guipuzaoana, ES
MIT, IT
Narrondo Desarrollo, ES
Securicor, UK
zouk Holding Ltd, UK

Alliances

Amazon.de, DE
BPD, AT
Bright Station/Sparza, UK
Cardo Door, SE
Deutsche BA, DE
Fiat Auto, IT
GMX, DE
Hapag-Lloyd Group, DE
Lufthansa Cargo, DE
Nexgo, DE
Ricardo, DE
Scandinavian Garment Service, DK
TOMORROW Internet, DE

TPG

Acquisitions

Advanced Logistics Services, IT
ASE Transport, IT
ATOS/ Direct Marketing, BE
Barlatier, FR
BBR, IT
Bleckmann Group, NL
Broos Fouya, FR
Cargotech, TR
Convoi, NL
Datus/CAK, NL
Florentia, ADRA, Bologna & Modena, IT
Genova Sprint, IT
GFW, AT
GMA Verwaltungs, DE
Go Express, IT
Goldair Super Express, GR
Great Glen, IE
Holland Districare, NL
IVA Data Entry Services, NL
Jet Services, FR
Lason UK Group, UK
Logistics Taylor Barnard, UK
Mendy, FR
Motomail, IT
Olaf Jepsen, DE
Omnidata, NL
Pony Express, IT
Rinaldi, IT
Romcargo, RO
Schrader Group, DE
Spedimacc, IT
Taylor Barnard, UK
Tecnologistica, IT
Tesselaar Marketing Services, NL
Tranjato, PT
Treviso & Patavina, IT

Equity Stake

CD Marketing Services Group, UK

Alliances

Consignia, UK
Hermes Versand Service, NL
Koc Group, TR
P&T LU, LU
Poste Italiane, IT
Styria Medien, AT
Swiss Post, CH
VNU and Sanoma Uitgevers, NL

Consignia

Acquisitions

Crie Group, FR
City & Financial Intl, UK
Der Kurier, DE
Direzione Gruppo Executive, IT
Domberger Paket Dienst, DE
Extand, FR
Nederlandse Pakket Dienst, NL
Pakke-Trans A/S, DK
Williames Group, IE

Equity Stake

General Parcel, DE
Stafetten, DK
Szybka Paczka Spolka, PL

Alliances

Opus Trust, UK
Selektvracht, NL
TPG, NL

La Poste

Acquisitions

Ae'ropostale, FR
Caisses d'Epargne, FR
Denkhaus, DE
Deutscher Paket Dienst, DE
DPD, FR
Geodis, FR
INSA, FR
Interlink Express, IE
Mikros, IT
Mayne Nickless Europe, AU
Parceline, UK
Soge'poste, FR

Equity Stake

CNP, FR
Modeus, FR
Moneo, FR

Alliances

Caisse des De'pots et Consignations, FR
BNP Paribas, FR
Post eCS, FR
Poste Italiane, IT
SAGEM, FR

USPS

Alliances

Consignia, UK
Lynx Express, UK

EXHIBIT 2: CONTINUED

NORTH AMERICA

Deutsche Post World Net

Acquisitions
Air Express Intl, US
BHF Holdings, US
Global Mail, US
Skymail International, US
QuickMAIL, US
Yellowstone International, US

Equity Stakes
DHL International Ltd, BM
Open Harbor, US

Alliances
Amazon.com, US
First Data Merchant Svcs, US
IBM, US
Netship, US

TPG

Acquisitions
Classic Cold, CA
CTI Logistx, US

La Poste

Acquisitions
INSA, US

Equity Stake
Brokers Worldwide, US

Alliances
FedEx, US

Consignia

Acquisitions
CitiPost, US

Alliances
USPS, US

Canada Post

Acquisitions
Progistix-Solutions, CA
Purolator, CA

Alliances
Bank of Montreal, CA
BigOrangeBOB.com, CA
Cebra, CA
Clic.net Telecom, CA
Deloitte & Touche, CA
Desjardins, CA
MSN.ca, CA
Planet411, CA
Post eCS, CA
Postlinx, CA
SAP CA, CA
Scotia Bank, CA
Silanis Tech, CA
USPS, US

USPS

Alliances
AT&T, US
Airborne, US
CA Post Corporation, CA
CheckFree, US
DHL Airways, US
FedEx, US
IBM, US
Imagitas, US
Mailboxes Etc, US
Overnite Express, US
Post eCS, US
Returns Online, US
Swift Rivers Inc, US
Switchboard Inc, US
Warner Brothers, US
Youraccounts.com, US

REST OF WORLD

Deutsche Post World Net

Acquisitions
Letterbox AUtralia, AU
Skymail AUtralia, AU

Alliances
AEI Maruzen, JP
OCA, AR

TPG

Acquisitions
Ansett Air Freight, AU
Caxton Distributors, HK
PQR Delivery Services, SG
T.E.I., TH
TNT, AU

Alliances
Shanghai Automotive Industry Corporation, CN
Kintetsu World Express, JP
Singapore Post, SG
Korea Post, KR

Consignia

Alliances
Singapore Post, SG

Australia Post

Alliances
AUtrapay, AU
Coles Online, AU
Commonwealth Bank, AU
Corprocure, AU
ninemsn, AU
Royal & Sun Alliance, AU
SmartBuy, AU
Tandy Electronics, AU
Telstra, AU
Transpoint, US
Unysis PSL, AU
Western Power, AU

New Zealand Post

Acquisitions
Couriers Please, NZ
Message Media, NZ

Equity Stake
Datacom NZ, NZ
Dawson Group, NZ
Electronic Commerce Network, NZ
Infolink, NZ
PacStream, AU
Silent One, NZ
TEDIS, AU
Viatx, NZ

Alliances
CheckFree, US
Synergy International, NZ
Whitcoulls & Bennetts, NZ

Spring is making increased use of a number of “extraterritorial offices of exchange” in the United States—offices where foreign postage is applied to outbound international mail acquired in the United States. (For further information on “extraterritorial office of excharge” see Appendix I, Overview of Universal Postal Union.) Most of these offices can be found in Exhibit 3.

TPG is clearly interested in the North American market. Through the acquisition of CTI Logistx in 2000, TPG has established TNT Logistics North America. Calling itself an “innovative leader in global third-party logistics,” TNT Logistics North America offers supply chain and Internet-based solutions as well as operations-centric, back-end fulfillment. It is reported to cover North America by way of two hundred “operations” in the United States, Canada, and Mexico. In the future, further penetration into the U.S. market by TPG should be expected.

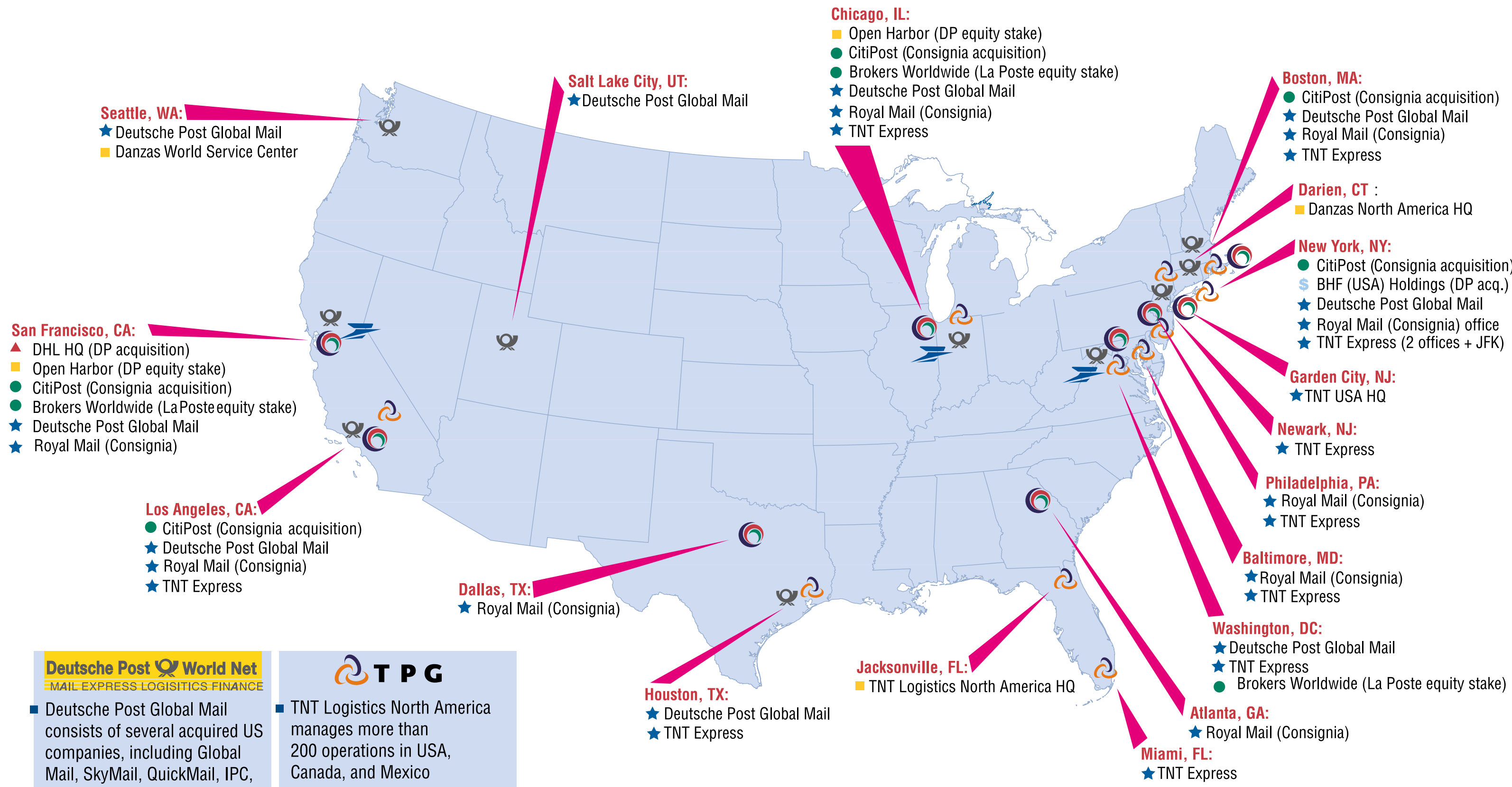
TPG has a history of remail activities. An alliance between TPG and a large mail preparation company such as RR Donnelly or Quad Graphics seems plausible. Similarly, an alliance or merger between TPG and FedEx appears plausible because the two companies appear to complement each other. A UPS–TPG merger is likewise a possibility, especially if the Dutch government loses its right to veto such arrangements (an issue now under investigation by European competition authorities). Still another remote possibility is a TPG purchase of Airborne Express. In 1987, as the single largest shareholder, it was reported that TNT attempted a hostile takeover of Airborne Express, having bought approximately 15 percent of the company. TNT courted Airborne Express for an additional four years, before it divested its shares in 1991.

Deutsche Post World Net (DP)

German national postal operator, DP, has invested more than $4 billion over the last five years on numerous acquisitions around the world as listed in Exhibit 2, including a 72 percent stake in DHL and a takeover of logistics company, Danzas. DP focuses on four key business areas: mail, express, financial, and logistics. DP is listed on all eight German stock exchanges, including the primary stock exchange in Frankfurt. In 2000, only 34.5 percent of its revenues were derived from its mail business with remaining revenues split evenly between the other three business units. DP has rapidly increased its international revenue share to 29.2 percent. Of that revenue, $1.3 billion or 14.7 percent is derived from the Americas (North and South).

EXHIBIT 3: PRESENCE OF FOREIGN POSTS IN THE UNITED STATES

Selected Acquisitions, Equity Stakes, and Major Offices as of January 2002



Deutsche Post World Net
MAIL EXPRESS LOGISTICS FINANCE

- Deutsche Post Global Mail consists of several acquired US companies, including Global Mail, SkyMail, QuickMail, IPC, International Mail Services, and Yellowstone International
- Danzas has 93 U.S. offices
- Netship (acquisition) has 450 warehouse and shipping centers in the US
- Strategic alliance with IBM
- Alliance with First Data Merchant Services

TPG

- TNT Logistics North America manages more than 200 operations in USA, Canada, and Mexico

LA POSTE

- 40% equity stake in Brokers Worldwide
- Acquired International Newsprint Services of America (INSA)

Consignia

- European delivery alliance with USPS
- CitiPost has subcontracted operations in 155 additional US locations

Source: PricewaterhouseCoopers

Sales Office
Mail
Parcels
Logistics
Financial Services

Consequently, 4.3 percent of its total revenue is derived from the Americas. Its mail business is clearly the most lucrative business unit with a 74.5 percent share of overall profits. DP has experienced an average revenue growth rate of 27 percent from 1996 through 2000 and a 58 percent profit growth rate over the same period—largely due to its significant acquisition activity mentioned earlier.

DP initially focused on (1) consolidating its European parcel organization and (2) developing its global express/freight services. More recently, DP has stepped up its activities in the U.S. market with acquisitions under the Deutsche Post Global Mail brand such as: Global Mail, Yellowstone International, QuickMail, and SkyMail. Deutsche Post Global Mail—focusing on international mail services, direct mail, press, and merchandise distribution—has established a substantial sales presence in the United States, as depicted in Exhibit 3, and now claims to be the second largest exporter of mail from the United States (after the Postal Service). Moreover, DP's Danzas North America has solid traction in the growing U.S. logistics market with 93 offices spread throughout the United States. Further, through its financial services subsidiary Deutsche Postbank, DP has acquired BHF Holdings, a New York-based bank focusing on corporate financing and commercial real estate loans. With this acquisition DP has obtained a strategic financial platform to support U.S. and worldwide logistics operations.

Consignia

Another global postal operator vying for international postal markets is Consignia, the recently corporatized British postal operator. While Consignia only attained the commercial freedoms it was seeking in 2000—later than it wished, as many prime candidates had already been acquired—its competitive ambitions clearly include the international and global postal markets. Consequently, Consignia has expanded its market reach providing international mail services under the Royal Mail brand in the United States, France, Germany, the Netherlands, Belgium, and Spain. Consignia operates nine sales offices throughout the United States under the Royal Mail brand, all listed in Exhibit 3. In spite of its recent international activity, Consignia's international strategy is strained due to its late arrival on the international scene. Consignia is now playing catch-up in a game with rules set by the likes of TPG and DP. While Consignia has acquired more than a dozen private parcel carriers since 1999, 96.6 percent of its revenues are still derived from its mail business, as are 75.3 percent of its profits. When compared to TPG and DP, Consignia has experienced a relatively modest average revenue growth rate of 6 percent from 1997 through 2001 and a 2 percent profit growth rate over the same period.

FedEx and UPS

The global postal ambitions of UPS and FedEx should not be overlooked. UPS grew its average daily package volume for international operations by 3 percent from 1998 to 1999 and by 14 percent from 1999 to 2000. UPS and FedEx, building on a strong domestic presence, are growing their international business. Both offer their customers much more than package delivery. Aside from their core services, they both offer supply chain solutions such as fulfillment and logistics support, and both have a sophisticated suite of e-business offerings.

UPS in particular has stepped up its presence in the U.S. mail market by expanding its portfolio to include a number of mail-specific services. These new services are marketed as an extension of UPS' strategy to enable global commerce. UPS cites expedited delivery times, production efficiencies, and cost savings as key benefits of these new mail services. Currently, these services are for First-Class Mail and standard mail and include: Hybrid mail – letters are electronically sent, then printed and inserted into the U.S. postal system at the point nearest to the final destination. Flats—UPS has acquired Reno, NV-based RMX in order to offer flats pre-sort services. Presort—a daily mail pick-up service, specifically for small-and medium-sized businesses. UPS Presort was initially piloted in Georgia and has been expanded to include the Dallas/Fort Worth area.

This broader set of services enables UPS to effectively "sweep the mailroom," that is, fulfill demand from business customers for both express and mail services. With a national distribution network already in place, UPS is well positioned to selectively compete for the most profitable segments of the mail market. As such, UPS seems to be well prepared for a potential liberalization of the U.S. mail market.

Implications for the U.S. Postal Service

Global postal market leaders such as DP and TPG are eyeing the U.S. parcel and express markets, threatening the position of the U.S. Postal Service in the two segments that will be increasingly important to the U.S. Postal Service if the First-Class Mail letter business declines.

These global postal market leaders have been supported by their national governments through liberalization, deregulation, and commercial freedoms and, short of antitrust restrictions, are not restrained from any regional or international expansion. Further, major domestic delivery companies, such as UPS, are expanding their services in the U.S. mail market. Indeed, these companies would surely look seriously at commercial prospects arising from deregulation of the U.S. postal markets. DP and TPG are already reaping the benefits of legislative and organizational transformation.

Should these competitors be given broader market access as a result of deregulation, they are already positioned to build a credible threat to the U.S. Postal Service. If the U.S. Postal Service is not given more commercial freedom, it will be unable to respond to today's competitive market, either domestically or globally. It is not a question of *if* this will happen, but *how* and *when* it will happen.