



THE FUTURE OF PACKAGE DELIVERY IS NOW

ONE SILICON VALLEY EXECUTIVE SEES OPPORTUNITY IN USPS' ABILITY TO COMPETE FOR E-COMMERCE DELIVERIES

Tourist Harry Whitehouse, casually strolling through the streets of Manhattan while his wife went shopping in the boutiques, noticed a FedEx driver picking up and dropping off handcart after handcart full of packages that couldn't weigh more than five pounds each. In his mind, he was already back at his company in Silicon Valley, CA, thinking, "That should be our business."

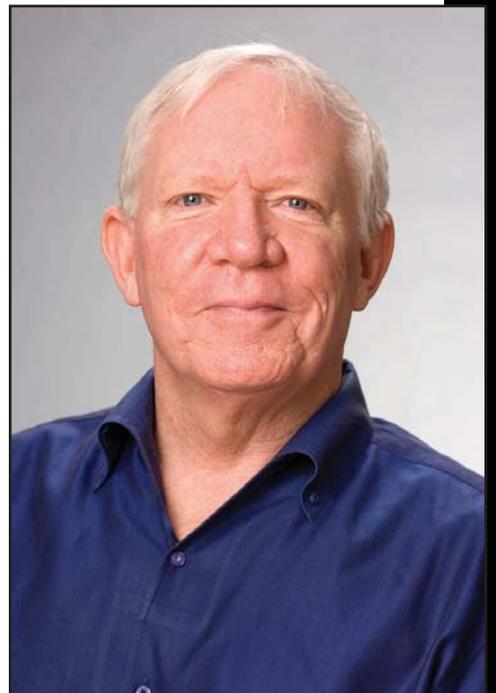
Whitehouse, chief development officer and co-founder of Endicia, a PC-postage company, believes that the Postal Service should be the go-to deliverer for every package under five pounds that is delivered in the United States. "And there's a ton of them," he said in a recent interview with *The Postal Record*. "I see this as the future for the Postal Service."

He's not alone in looking to the parcel delivery markets as an area

of growth for the Postal Service. Through the recession, package delivery has been one of the few bright spots for the Postal Service. In early May, as the USPS announced its latest quarterly statement (*see story, page 6*), revenues related to shipping and packages totaled \$3.5 billion, an increase of more than 13 percent compared to the same period last year, and that the volume increased 9 percent to total 74 million pieces.

"We've long said that the Internet can be a boon for us," NALC President Fredric Rolando said. "All of the goods ordered online have to be delivered by someone. While we're already competing for that business, we need to turn up the heat and compete even harder."

Whitehouse is trying to give letter carriers the tools to do exactly that.





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Endicia Chief Development Officer Harry Whitehouse

The emergence of PC-postage

Whitehouse, a Ph.D. and associate professor at Stanford University, has a long history with the Postal Service and its mission. He worked as a consultant for the Postal Service in the 1980s just as the first personal computers were being introduced. His team wrote software to help USPS automate its facilities department as the USPS introduced the Postnet barcode. Whitehouse's team showed the department how it could use a laser printer to print the new barcode, and couldn't see why it couldn't print the postage, too.

“In 1991, we did a presentation of a live PC-postage system, written in DOS, for all the vice presidents back then, and they said that they were going to look into it,” he said. Nine years later, the Postal Service introduced the option and worked with many early Internet boom companies.

Along with Amine Khechfe and Scott Montgomery, Whitehouse co-founded Endicia in the early 2000s in Silicon Valley. They decided that rather than trying to go after first-class mail business, they'd explore the package delivery side by creating an integrated label. At that time, FedEx and UPS had labels that had the address, the payment indication and a tracking barcode all together on a single label.

“The way a postal customer would do that is that they would have a label with an address on it, go buy a separate delivery confirmation sticker at the retail counter for 55 cents, and then they'd have to apply postage with a postage meter or stamps,” Whitehouse explained. “It took three separate things to essentially assemble what UPS and FedEx did in one fell swoop.”

When Endicia created its label, it was an immediate hit. The company quickly became the No. 1 producer of PC-postage and still provides 65 percent of all PC-postage. While its early customers were the individuals who sold items on eBay and Yahoo, it now provides shipping solutions to some of the best-known companies in the country. More importantly, the firm has seen growth of at least 20 percent in volume each year, even through the worst recession since the Great Depression.

“Last year, we did about \$1.5 billion in postage, which is a pretty good chunk of

the total revenue of the Postal Service,” he said. “It's not what pre-sort mail currently does, but it's growing and it's very profitable.”

Raising awareness

That experience has given Whitehouse a unique perspective on how to grow the postal business. He believes that the Postal Service is in a great position to compete with UPS and FedEx, and that letter carriers need to be on the forefront of selling it. “I want to put the Customer Connect program on steroids,” he said of the NALC-sponsored program of having letter carriers offer leads of businesses they see using private shippers.

Whitehouse said the Postal Service can compete with the private carriers on price and quality. He points to carriers making more scan events than ever before—averaging 11 scans per delivery—which improves the tracking. With the Postal Service aiming to raise that number to 13 scans—with real-time delivery scanning slated for 2013—that may mean more work for carriers, but someone selling USPS delivery can “look any customer straight in the eye and say that the U.S. Postal Service has as good tracking as, or maybe even better, than UPS or FedEx,” he said.

And while the Postal Accountability and Enhancement Act of 2006 has done a lot of damage to USPS' finances, especially due to the mandated pre-funding of future retiree health benefits, it also gave USPS some flexibility in adjusting rates for larger shippers. Those enhancements allow the Postal Service to offer competitive rates against FedEx and UPS, if someone makes the sales pitch to the shippers.

“What I would hope is that a carrier who sees one of their customers putting a pallet together with UPS or FedEx labels, goes in and says, ‘You've got to check now. For this size package, we can compete,’” Whitehouse said.

“There's so much opportunity out there that it boggles me.”

While the Postal Service will always be the best solution for small mom-and-pop operations, he thinks every company that ships should be shipping at least part of its business through the Postal Service, because it just makes economic sense for the shippers.

“You've got all the people who are currently using UPS and FedEx and don't

realize that the USPS is the best bargain for them for the weight of their package and where it's going," he said, explaining that for packages under five pounds, USPS almost always has the best price. "That's a monstrous market. It includes computer manufacturers. It includes shoe manufacturers. It includes the camera store in New York City that does a tremendous amount of mail order. It includes everybody."

Selling USPS

He has a few suggestions for how carriers can get their feet in the door. As he explained, for shipping to APOs or post office boxes, the Postal Service is the best solution. Once a shipper is using the Postal Service for those shipments, they'll start to compare pricing on other packages, and that's where the Postal Service can compete.

"Once you get it in there, it's all over," he said. "It's like a Trojan horse."

That's especially true once a shipper starts to compare the Postal Service's flat prices to the private carriers' prices and hidden fees. Because UPS and FedEx do not have the Postal Service's universal network, they are designed to go to a limited number of houses and businesses each day. For residential and especially rural delivery, they have to tack on surcharges to make a profit delivering so far afield of their normal delivery routes. Shipments to Alaska and Hawaii are considered international shipments.

But even when a shipper decides to use a private carrier, the Postal Service can find business. Through Parcel Select, the Postal Service is delivering the last mile for many of the private carriers' residential and rural deliveries, and both companies find a way to make a profit. That's another bright spot in the latest quarterly financial report from the Postal Service, which showed Parcel Select Services (which included Parcel Returns) increased by \$114 million against the same quarter in 2011, an increase of 37.3 percent.

Whitehouse also explained that the days of a business using one shipper are quickly becoming extinct, with businesses now becoming as smart about their shipping as online bargain-hunters. Endicia created software to take advantage of this trend. Called Platinum Shipper, it takes the information from a shipper's UPS World Ship software. With

both Platinum Shipper and UPS World Ship software open side by side on the shipper's computer, a shipper can see how much a package shipped through both UPS and USPS would cost, and then has the option to hit print from whichever software they decide to use.

Solutions

There's a saying that in Chinese, the word for "crisis" has another definition, that of "opportunity." NALC President Rolando has said that any solution for the current financial crisis for the Postal Service must include the time and the opportunity to find new ways to make use of the universal delivery network. Whether that means letter carriers reading energy meters or having banks set up shop in post offices nationwide, we don't know yet. But give entrepreneurs the opportunity to take risks with the network, and they'll find innovative solutions.

Whitehouse points to one example of a company already using the network in innovative ways. A national retail chain of shoe stores uses the Postal Service as its distribution network. If a person orders a pair of sneakers online, the website finds the nearest store with the style and size in stock and ships it from that location, reducing the time and distance involved in shipping. The same applies when a person goes into a store and the store is out of stock of the brand or size the customer wants. The store can order the proper pair from a nearby store and have it shipped to the customer's house, often arriving the next day.

Through the postal network, the individual stores have replaced the overhead the company would have had to spend on warehouses. "That kind of network solution works everywhere," Whitehouse said.

And businesses are figuring out these solutions, he added. Because of the downswing in the economy, businesses are looking to save money wherever they can. That can mean plenty of opportunity for the Postal Service, if it can survive the financial crisis. Whitehouse believes it can, and there will be big changes down the road, but ones that can be good for the Postal Service's employees.

"You're going to have to change the name to the National Association of Letter and Parcel Carriers," he said, laughing. ☒

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