

PRESIDENT'S COMMISSION ON THE UNITED STATES
POSTAL SERVICE

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Statement submitted by Richard F. Corrado, Senior Vice
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My name is Rich Corrado, I am the Senior Vice President of Marketing for Airborne Express. My responsibilities include all corporate marketing functions, pricing, new service and product development.

Thank you for the opportunity to speak about a true success story involving public and private sector cooperation, Airborne's best-in-class residential delivery partnership with the United States Postal Service, which we have branded, Airborne@home. In addition to Airborne@home, I will also be speaking about some additional postal hybrid services we have developed with the United States Postal Service. Before I describe the service partnership, I would like to relate some background history.

Airborne kicked off Airborne@home in 1999 on a test basis after extensive development with the USPS. Representatives from the USPS approached Airborne in late 1998 to take advantage of proposed work share discounts that offered mailers incentives to drop packages at Destination Delivery Units or DDUs. A DDU is what we all commonly know as the local Post Office. As it was stated at the time, the proposed incentives were established to provide incentives for mailers to skip over the less efficient sorting processes within the postal network, while allowing the Postal Service to keep the profitable "last mile" delivery to the consignee or residence.

Airborne was approached, as were other large parcel carriers due to our significant infrastructure. Airborne is the third largest express carrier in the United States with a network that includes over 170 aircraft, 15,000 pick up and delivery vehicles, a world class tracking system and a business to business orientation. This proposal was very interesting to Airborne, because it offered a lower cost way for us to enter the residential delivery business. We had tried to compete in that market in the mid-90s, but had since stopped pursuing this business due to the high cost of executing residential deliveries. We decided to work with the USPS to develop the partnership, and over the past two and one half years the

service has grown quickly, and now represents a significant offering in the marketplace.

What is Airborne@home?

Airborne@home is best-in-class residential delivery wherein Airborne acts as an expeditor, picking up large volumes of parcels from large shippers, and then moving them through our air or ground linehaul network, and finally delivering the parcels to the final Destination Delivery Unit (DDU) closest to the consignee. The USPS then delivers the parcel the “last mile” to the residence. Airborne is the mailer of record. We have a number of variations of the service, but our standard offering provides two to four-day, door-to-door final delivery to the residence.

Additionally, we have integrated our world-class tracking system with the USPS’ Delivery Confirmation offering to provide door-to-door tracking throughout the package lifecycle. The service competes from a price point with 1-6 day ground offerings, but offers better speed for the price.

What are the Results?

For Customers:

- Faster than Ground Delivery offerings.
- Less Expensive than Ground Delivery offerings.
- Best-in-class residential delivery through the USPS, as no one does residential delivery better than the Postal Service.

For the United States Postal Service:

- This service skips over the less efficient sorting process in the postal network.
- Allows the USPS to keep the most profitable portion of the transportation, the last mile.
- Airborne has grown this business more at the expense of other competitors (UPS/Fedex) than from other postal product cannibalization.
- Airborne paid the USPS close to \$38,000,000 in postage for Airborne@home services in 2002.

For Airborne:

- Airborne@home is one of Airborne’s fastest growing services

- Airborne@home contributed about \$135,000,000 in top line revenue in 2002.
- Airborne@home grew to almost 27,000,000 packages in 2002.
- Airborne@home allowed Airborne to develop a “gold plated” customer base in the business to consumer segment including: Amazon.com, America Online, KB Toys, and companies as diverse as Nordstrom and LL Bean

This relationship between Airborne Express and the United States Postal Service also led to other new service opportunities leveraging Airborne’s linehaul network to provide solutions to consolidators that are work share providers to mailers. Airborne’s Drop Ship Service is a service that expedites “open and distribute” mail shipments to the USPS sort facilities, specifically SCFs and BMCs. The service provides quick efficient transportation to consolidators that perform preparation and sorting to leverage work share discounts for customers. The Consolidator is the mailer of record.

I would like to compliment the United States Postal Service as a partner. Throughout the last three years we have found them to be responsive, customer focused and surprisingly agile where regulations and procedures already exist. However, where new service developments have involved creating new rates, service descriptions, or new service development, the process has been protracted, and slow, with some efforts not yet coming to fruition. One example is our desire to create a reverse Airborne@home service to handle return parcels from the residence back to the original shipper. Although we had an original pilot test date of June 2002, and then November 2002, we have still not got to the point of testing the service.

In closing: Private sector providers such as ourselves have benefited from the unique delivery services the USPS has and continues to provide. Our Airborne@home service is a perfect example of just how well a public sector provider can supplement the services provides by a private sector company in a competitive market. Airborne@home is an excellent example of the kind of private-public sector partnering the Postal Service should be encouraged to continue to engage in to ensure the cost efficient provision of vital services without unnecessarily compromising the competitive integrity of the marketplace.

The Postal Service plays yet another role in today’s marketplace. It enhances the availability of competitive alternatives that

otherwise would be lacking. With Federal Express' dominance in the air market and UPS' in the ground, this duopoly, without the package service offerings of the USPS and Airborne Express could potentially control the pricing and provision of goods transportation services that are vital to the American economic infrastructure.

Thank you for the opportunity to offer comment.