

Network Distribution Center Activations

April 30, 2009

- Plan for Change
 - ◆ Network Distribution Centers (NDC)
 - ◆ Extending Surface Reach

- Executing the Change
 - ◆ Mail Preparation
 - ◆ Operational Impacts
 - ◆ Transportation Impacts
 - ◆ Implementation

BMCs of the future... Network Distribution Centers (NDCs)

■ 11 - Tier 1 NDC

- ◆ Distribution of local (turnaround) and destination Standard Mail, Periodicals, and Package Services

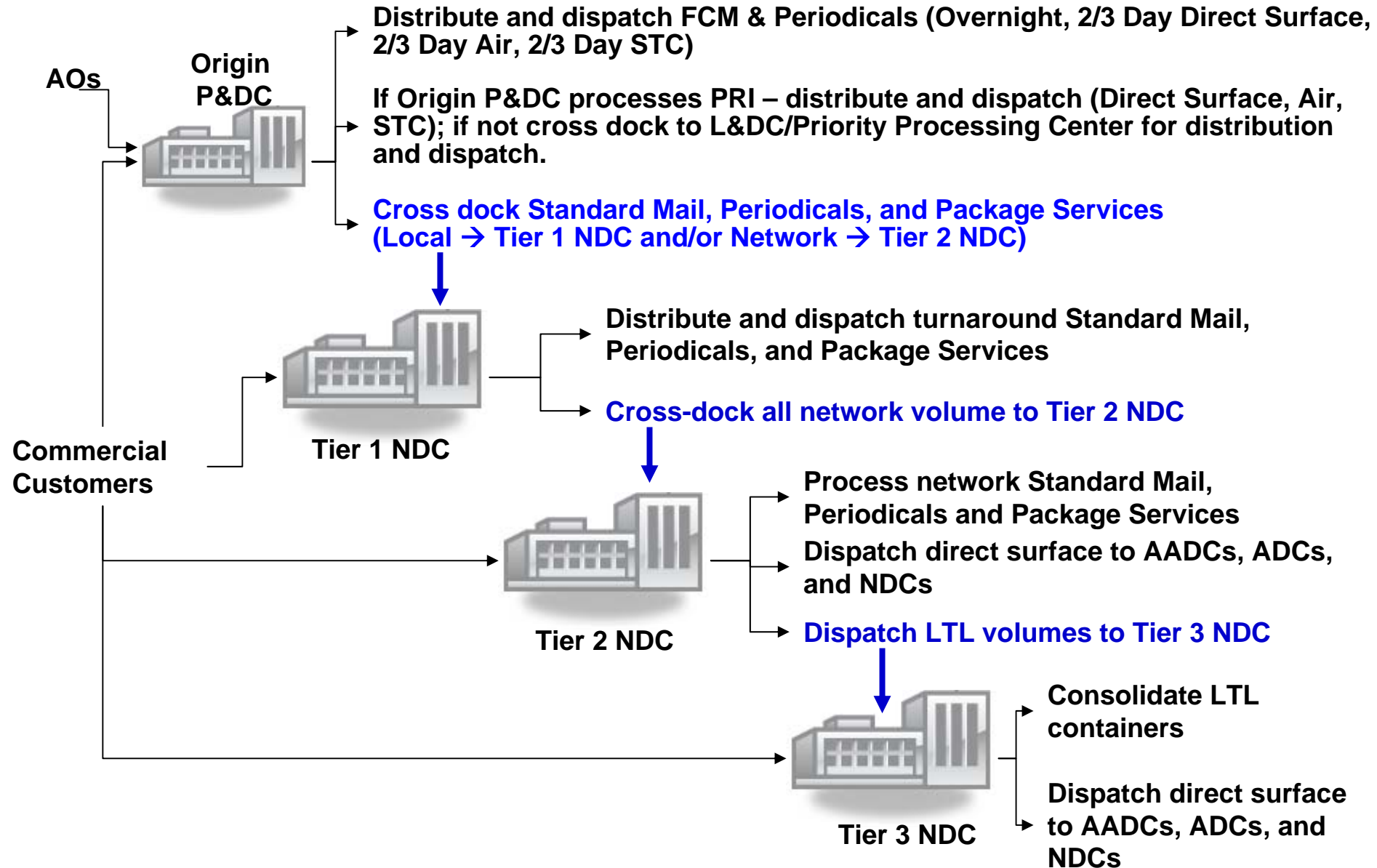
■ 6 - Tier 2 NDC

- ◆ Tier 1 responsibilities
- ◆ Distribution of outgoing Standard Mail, Periodicals, and Package Services to the network
 - Including, MXD States Outgoing single piece sort
- ◆ STC containerization and dispatch operations – outgoing / incoming Priority Mail, First Class Mail, Periodicals, Standard Mail

■ 4 - Tier 3 NDC

- ◆ Tier 1 and Tier 2 responsibilities
- ◆ Consolidation points for less than truck load volumes from Tier 2 sites

Plan for Change – Network Flow



Plan for Change – Tiers 1, 2, and 3

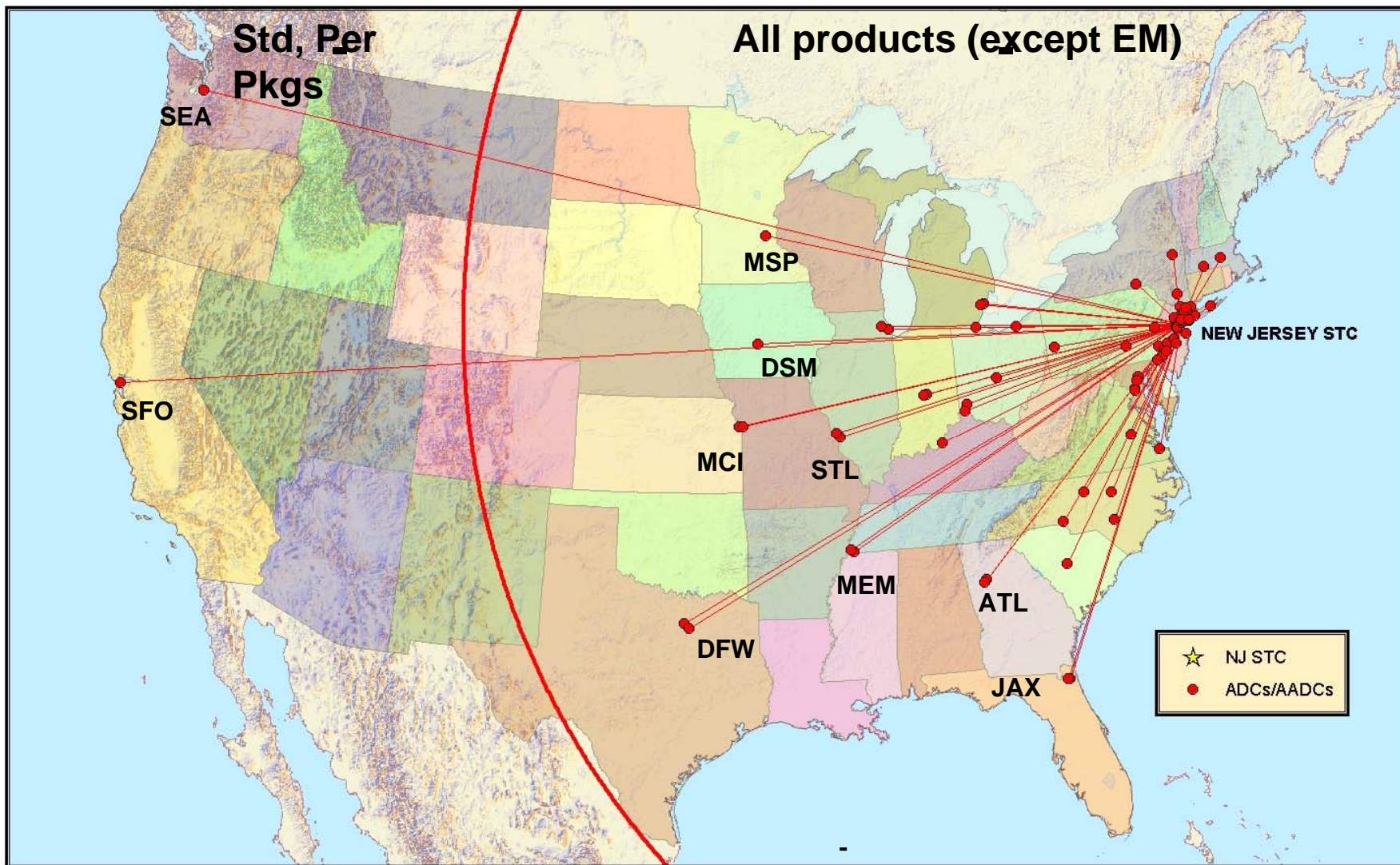
- **Directional dispatch for 4 NDCs (noted by *)**
 - ◆ Reduces backtracking
 - ◆ Improves service
- **Highlighted indicates Phase I sites**
- **ASFs will be Tier 1 NDC for package processing**

| Tier 1 | Tier 2 | Tier 3 |
|---------------------|--------------|------------|
| New Jersey | New Jersey | Pittsburgh |
| Philadelphia | New Jersey | Pittsburgh |
| Springfield | New Jersey | Pittsburgh |
| Detroit | Pittsburgh | Pittsburgh |
| Pittsburgh | Pittsburgh | Pittsburgh |
| Chicago * | Pittsburgh | Pittsburgh |
| Cincinnati* | Pittsburgh | Pittsburgh |
| St. Louis* | Pittsburgh | Pittsburgh |
| Washington DC | Greensboro | Memphis |
| Greensboro | Greensboro | Memphis |
| Dallas | Dallas | Memphis |
| Jacksonville | Jacksonville | Memphis |
| Atlanta | Memphis | Memphis |
| Memphis | Memphis | Memphis |
| Des Moines | Des Moines | Des Moines |
| Kansas City | Des Moines | Des Moines |
| Minneapolis/St.Paul | Des Moines | Des Moines |
| Chicago * | Des Moines | Des Moines |
| Cincinnati* | Des Moines | Des Moines |
| St. Louis* | Des Moines | Des Moines |
| Denver | Denver | Denver |
| Los Angeles | Los Angeles | Denver |
| San Francisco* | Los Angeles | Denver |
| San Francisco* | Seattle | Denver |
| Seattle | Seattle | Denver |

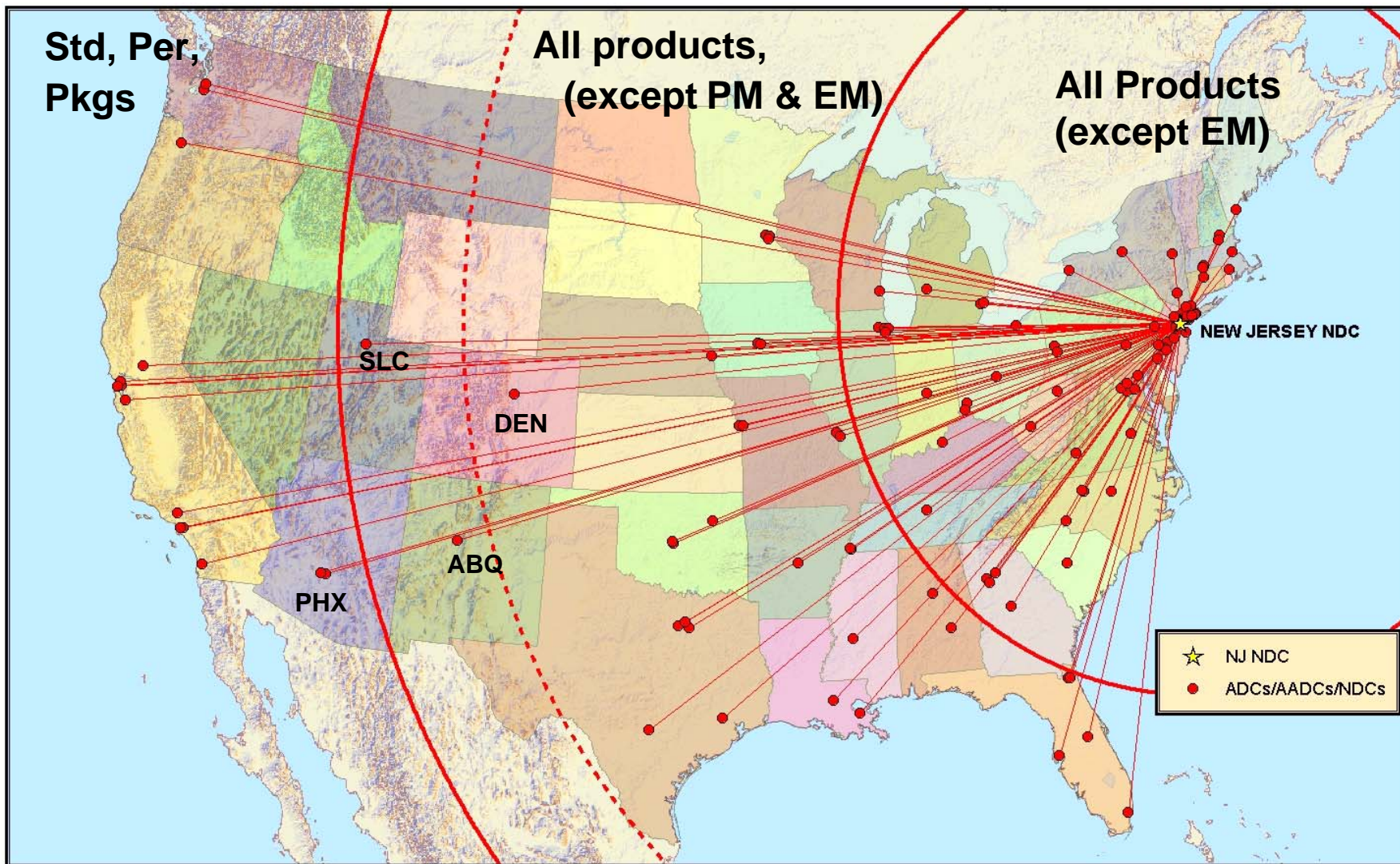
- **Expanded surface reach due to:**
 - ◆ Consolidation of outgoing distribution
 - ◆ Combination of FC and STD mail to improve utilization
 - ◆ Adjust internal operating plan
 - ◆ Building tandem trailer

- **Improved service and efficiency**
 - ◆ Elimination of Destination BMC handling

Plan for Change – Current NJ STC & BMC Surface



Plan for Change – Future NJ NDC Surface



■ Retail & BMEU Separations

- ◆ Streamline the number of separations

- ◆ Sort will be based on

- Product Type
- Originating ZIP Code
- Destination ZIP Code
- Network
 - ▲ Local NDC service area
 - ▲ Network NDC split(s)

- ✦ Multiple splits required for directional dispatch sites

- ◆ Facilitate more efficient and service responsive network movement to downstream processing facilities

■ Mailer Separations

- ◆ Establish customer supplier agreements to mirror required make-ups during implementation
 - Local NDC service area
 - Network NDC split(s)
 - ▲ Multiple splits required for directional dispatch sites
- ◆ Requirements will vary based on origin entry location and destination
- ◆ Separations for mailers not participating will be made at the P&DC or NDC

- **NDCs operate like a P&DCs**
 - ◆ Tight schedules
 - ◆ Distribution lights out period
 - ◆ Multiple classes of mail
 - ◆ Single piece distribution
- **Live loads and unloads at all NDCs**
 - ◆ All vans must go directly to the dock door in order to meet distribution and dispatch plan
- **Tier 2 NDC operating plan changes required to coincide with STC containerization & dispatch plan**
 - ◆ Additional separations for Standard/Periodical letter trays, flat tubs, and sacks
- **Destination ADCs / AADCs will receive mixed product loads from NDCs**

- **Service changes**
 - ◆ To all types of surface transportation
 - BMC, STC, Inter- and Intra-Area HCR and PVS service
 - ◆ Convert existing rail contracts to HCR
- **Utilize Tandem / Triples**
 - ◆ Suppliers provide transport equipment (trailers/dollies)
 - ◆ Suppliers couple / decouple units upon arrival and departure
 - ◆ GPS on all units
- **Day of Week scheduling**
- **Management and training**

Executing the Change – Transportation Impacts

- **Testing new MTE**
 - ◆ 28" containers, triple stacked
 - ◆ 44" containers, double stacked
- **Cubic capacity comparison for one 40 X 48 position**



New MTE

- 94.8 cu ft



Postal Pak

- One high in trailer
- 72 cu ft



Wire Cages (84C)

- Stacked 2 high in open configuration: 82.3 cu ft

- **Phase I Activation occurs during 12 week period**
- **P&DC Implementation beginning May 11**
 - ◆ Low volume P&DCs activated first
 - ◆ On site for a total of 3 weeks
 - Week 1 – Conduct readiness assessment
 - Week 2 – Activation - observe/collect data
 - Week 3 – Assess compliance
- **NDCs & STCs Implementation beginning May 11**
 - ◆ On site for the entire Phase I implementation period plus additional 4-6 weeks, as needed
 - ◆ Establish standardized work processes

Preliminary activation schedule

| Week 1 | Week 2 | Week 3 |
|---|---|--|
| Eastern Maine (ME) P&DF Portland (ME) P&DC Lehigh Valley (PA) P&DC Staten Island (NY) P&DC | Providence (RI) P&DC Springfield (MA) P&DC Delaware (DE) P&DC Stamford (CT) P&DC | Middlesex-Essex (MA) P&DC Burlington (VT) P&DF Williamsport (PA) P&DF Trenton (NJ) P&DC |
| Week 4 | Week 5 | Week 6 |
| Brockton (MA) P&DF Boston (MA) P&DC Westchester (NY) P&DC | Portsmouth (NH) P&DF White River JCT (VT) P&DC South Jersey (NJ) P&DC Mid-Hudson (NY) P&DC | Cape Cod (MA) P&DF Southern CT (CT) P&DC Scranton (PA) P&DF Western Nassau (NY) P&DC |
| Week 7 | Week 8 | Week 9 |
| Binghamton (NY) P&DF Harrisburg (PA) P&DC Brooklyn (NY) P&DC | Lancaster (PA) P&DC Manchester (NH) P&DC NNJ Metro (NJ) P&DC | Central Mass (MA) P&DC Wilkes Barre (PA) P&DC Dominick V Daniels (NJ) P&DC |
| Week 10 | Week 11 | Week 12 |
| Southeastern (PA) P&DC Philadelphia (PA) P&DC Kilmer (NJ) P&DC | Plattsburgh (NY) Albany (NY) P&DC Reading (PA) P&DF Mid-Island (NY) P&DC | Hartford (CT) P&DC Queens (NY) P&DC Morgan Station (NY) P&DC |

■ Managing Success

◆ Track service

- Use Delivery Confirmation barcodes
- Seed mail with PLANET Codes

◆ Measure financial impacts

- Track and monitor total operating expenses
- Isolate non-recurring costs for implementation

◆ Monitor quality

- Exception reporting
- Issue resolution

Preliminary Implementation Schedule - Phases 2 - 5



- **Incremental approach with implementation allows team to react appropriately during ramp-up**
- **Long-term vision**
 - ◆ STC operations will be relocated to Tier 1 NDCs
 - ◆ STC reach will be expanded to bypass destination NDCs
 - ◆ Other process improvement initiatives will be initiated

Questions?