



## The Future of PC Postage – The Untold Story

PC Postage is one of the fastest growth segments in the mailing industry and is something every type of organization may want to consider to handle at least some or all of their volumes. With advances in technology, as well as changes with the USPS® and private carriers, there can be dramatic postage savings and operational efficiencies that may help to optimize processes. We will define this market space, the growth drivers, technology changes and what we expect to see for the future.

**What is PC Postage?** – This segment is defined as being able to generate letters or packages through your computer without needing a postage meter. For letters and flats you would print the postage either onto sheets of stamps (Ordered through the vendor), directly onto the envelope or with a connected label printer. With packages, the detail is printed on a 4X6 inch label including the destination address, return address and tracking barcode. Most applications are either web-based or have a small application that gets installed on the PC.

**What makes up this space?** - There are four main segments of the PC Postage industry and all of them are growing.

- **Small Business Mailers** – This is the largest segment, primarily designed to process lettermail with the occasional package. Think of a small law firm or office that does not want to go to the post office or have a postage meter.
- **Enterprise Mailers** – If your company has 20 or more locations you may want an easy way to distribute postage. These tools will give you a central dashboard with visibility to all of the mail spends throughout your offices.
- **Single Location Shipper** – Your primary need is to ship packages through the USPS. Most likely you are doing ecommerce, shipping light weight items to residences.
- **API Connected Systems** – There are over 400 third party applications that will do a web connection (API) to one of the PC Postage providers to access their rates, label designs and USPS submission tools. We believe this is the fastest growth area of the PC Postage segment.

**What is the size of this market?** – Based on a Freedom of Information Act request to the USPS, as of September 2015, there were 1,552,317 PC Postage users in the US with an average annual growth rate of 11% (Based on a 5 year average). If we compare this to Postage Meters, there were 1,072,365 users with an average annual decline of 5%.

**What is causing the growth?** – There are many factors that are contributing to the growth that we will describe below.





**USPS Mail Volume By Class (Pieces) - In Millions - From USPS Final Revenue, Pieces, and Weight by Classes of Mail**

Year	2010	2011	2012	2013	2014	2015	% Change from 2010-2015
First-Class Mail®							
Letters	27,437	24,722	22,735	21,452	20,860	19,737	<b>-28.1%</b>
Cards	1,447	1,312	1,157	1,049	923	839	<b>-42.0%</b>
Flats	2,481	2,218	2,048	1,894	1,758	1,669	<b>-32.7%</b>
Presort	46,225	44,269	42,524	41,144	40,193	40,174	<b>-13.1%</b>
<b>Total Pieces</b>	<b>77,590</b>	<b>72,521</b>	<b>68,464</b>	<b>65,539</b>	<b>63,734</b>	<b>62,419</b>	<b>-19.6%</b>

- **Converting from Postage Meters** – We have seen a very similar 5% annual drop in USPS non-presort lettermail categories (Shown above) that we see with postage meters. This is because companies are moving their larger volumes from print to electronic (Email or web presentment) or to in-house or third party production centers. What is left is day-to-day mail which may be better suited for lower cost PC Postage options. We believe that about half of the decline in Postage Meter users is from companies switching to PC Postage where the other half is based on lack of need for a solution due to low volumes.
- **Companies need to add USPS to their shipping rooms** – Based on the reasons below, many companies who used to ship exclusively through one of the private carriers are adding USPS to their mix.
  - **USPS Package Volumes are Growing** – Based on a 15% estimated growth in ecommerce, and better tracking and delivery commitments from the USPS, package volumes for the core PC Postage categories has grown 111% since 2010.

Zone 4 Rate Comparison	USPS	Expedited Carrier	Expedited Carrier	Expedited Carrier
Weight	Priority 1-3 Day	Two Day 3:00	Three Day	Ground 1-5 Day
.5 LB	\$2.60	\$17.04	\$11.50	\$7.79
1 LB	\$6.05	\$17.04	\$11.50	\$7.79
5 LB	\$9.01	\$21.63	\$15.55	\$10.21
10 LB	\$10.04	\$31.83	\$22.55	\$11.00
Delivery Time Range and to Zone 4	1-3 Day, 2-3 Day	2 Day	3 Day	1-5 Day, 3 Day
Residential Surcharge	N/A	\$3.35	\$3.35	\$2.90
Delivery Area Surcharge (23,500 Zip Codes Qualify)	N/A	\$2.45-4.00	2.45-4.00	\$3.25
Fuel Surcharge	N/A	4.5%	4.5%	5.3%
Address Corrections	N/A	\$12.35	\$12.35	\$12.35
Saturday Delivery	N/A	\$16	\$16	\$16

- USPS may have lower rates on lightweight shipments going to residences. If you look at the chart above, even if you have a large discount with the private carriers, it may not offset the residential, delivery area and fuel surcharges. Also, this residential





lightweight segment is having the fastest growth through our need to have everything shipped to our homes.

Item Description	Dimensions Inches	Actual Weight LB's	New Private Carrier DIM Weight LB's	USPS	Expedited Carrier	Expedited Carrier	Expedited Carrier
				Priority 1-3 Day	Two Day 3:00	Three Day	Ground 1-5 Day
Headphones	12X8X8	1	5	\$6.05	\$21.63	\$15.55	\$10.21
Womens Hat	14X10X7	2	6	\$6.60	\$23.57	\$17.20	\$10.89
Pocket Book	19X15X5	2	9	\$6.60	\$29.56	\$21.55	\$10.83

- **Dimensional Weighing** – This means if you are shipping something light in a bigger box, the carrier may charge you based on the size of the box vs. the weight of the item. USPS and the expedited carriers all have dimensional weighing policies on items over a cubic foot. The big change occurred in 2015 when the expedited carriers started to assess dimensional rates on all boxes under a cubic foot where the USPS did not follow suit. This could drive smaller items to be pushed to heavier weights making the USPS even more competitive as you can see in the table above.
- **Growth Drivers – Technology Changes** – As what is the case of many sectors, changes in technology make things easier and in this industry it is around how to ship and process USPS packages. These are the main drivers in this space.
  - **Move to the Cloud** – All of the vendors in this space are moving their solutions to being cloud based vs. needing to be installed on a computer. This is easier to implement and maintain.
  - **Low Cost Multi Carrier Tools** – In the past, if you wanted to compare different carrier rates easily, you needed to spend thousands on a system that was complex to install and customized strictly to your application. Now, there are multi-carrier cloud-based offerings starting at around \$30 per month. These will let you ship USPS and the main expedited carriers from one system that can also have simple interface options to your business platform. We predict that this will be the fastest growth segment because of the need to rate shop packages.
  - **USPS Click-N-Ship no longer offering discounts** – USPS has a web tool where you can set up an account and ship boxes without needing to pay a third party for a PC postage solution. In January of 2016, the USPS made a change, no longer offering Commercial rates through the system and would only offer the more expensive retail rates. This is a premium of about 8-32% based on the weight and distance shipped. We expect many larger Click-N-Ship users will move to paid solutions based on the need for these discounts.
- **API Connected Partners are acting like sales reps for the USPS** – There are over 400 organizations with connected API's to the PC Postage providers and this is growing. At the same time, the USPS is aggressively offering Negotiated Service Agreements trying to get these partners to spread the word about what they can offer. Some of these organizations will share





their discounts with the client if they use their tools. This creates an industry that is promoting the USPS shipping story and how the Post Office can help reduce shipping costs.

**What does the future hold?** – We view this space as continuing to grow with very few headwinds. We know there will always be a need for the convenience of being able to mail items from your office, and as letter volumes continue to decline, customers will be looking for the least expensive and most flexible solutions. Shipping volumes are going to continue to grow and the USPS can provide lower costs because they deliver to every address, every day. Finally, the technology will continue to improve making it easier for customers to rate shop their different shipping options in the cloud. All of this is designed to help the consumer reduce costs and have more flexible options for their mail and parcels.

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